

CASE STUDY

Co-operative Energy



Main business

Gas and Electricity Retailer

Annual turnover

£45m (2012–3). Turnover was £7m in 2011–2
Anticipated turnover £150m (2013–4)

Number of employees

170

Web address

www.cooperativeenergy.coop

This case study demonstrates the business case for co-operatives in the following key areas

- ✓ Consumer trust
- ✓ Business growth
- ✓ Financial resilience

Co-operative Energy supplies electricity and gas to around 150,000 customers across Britain. From a standing start in 2010 it has grown rapidly, as a better-value and ethical alternative to the much-criticised 'Big Six' energy suppliers. From 20,000 members at the start of 2012, the aim is to grow to 200,000 by the end of 2013 and then to 1 million within five years.

Co-operative Energy is a subsidiary of Midcounties Co-operative, one of the largest independent co-operatives operating convenience stores, pharmacies, post offices and funeral care throughout the Midlands along with The Co-operative Childcare, a chain of over fifty children's nurseries across England.

Co-operative Energy offers just one straightforward standard tariff and pledges to keep its rate below the standard tariffs offered by the 'Big Six' suppliers. Unlike other suppliers, existing customers and new customers are all on the same tariff. Co-operative Energy pledges to beat its major competitors in sourcing renewable energy. In 2012, 44% of the energy was from renewable (non-nuclear) sources.

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"Our co-operative structure is very attractive to customers. It sometimes feels like energy suppliers put their shareholders first and their customers last. The great thing about a co-operative is that no-one other than the members have their finger in the pie," says Ramsay Dunning, General Manager.



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Financing

Co-operative Energy's start-up costs and working capital were provided by the parent co-operative, Midcounties. The business anticipates a profit of £6m this year, which will enable it to repay fully to the parent co-operative the funds supplied.

Structure and governance

Co-operative Energy is separately constituted from its parent, with its own subsidiary executive Board. This answers to the Midcounties' main Board which is elected by the society's 245,000 members. Most of Co-operative Energy's customers are members of Midcounties or another co-operative participating in the national Co-operative brand. The Board has established four key values for the society, those of Democracy, Openness, Equality and Social Responsibility.

The challenges

- Co-operative Energy operates in an industry where prices are volatile, and where energy is forward-purchased on the basis of anticipated needs. This requires careful estimation.
- Co-operative Energy's extremely rapid growth is itself a challenge. There is a need to ensure its administration, and especially its customer service systems are strong. Co-operative Energy's pledge on price means it is difficult to manage the rate at which new customers join.

- There are strategic decisions to be taken as to whether to move into new areas of business. Each new business service has its own opportunity cost.

The benefits

- Co-operative Energy, freed from the need to deliver shareholder profits, can focus entirely on delivering low prices and high quality customer service. The high level of complaints and dissatisfaction with the 'Big Six' energy companies suggests that customers often come a poor second to the needs of investors.
- Most utility businesses have low-margins, with customers buying on cost grounds. Co-operative Energy rewards customers with a share of the profit, through a members' dividend. This encourages and rewards customer loyalty.
- Co-operative Energy has demonstrated that traditional consumer co-operative societies can successfully move into new areas of business. Their customers can become actively involved in the business they patronise.
- Co-operative Energy has been able to help small renewable energy generating businesses, including co-operatives, through buying their energy.
- Most of the staff employed by Co-operative Energy are in posts newly created as a result of the venture.

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