[00:00:00] **Eric:** This is Eric Hess with The Encrypted Economy and this week we had Greg Brodsky on the podcast. Greg founded an accelerator known as Start.Co-op and through that he advises a number of shared ownership companies on their journey to become a successful company. His perspectives are very insightful, not just for cooperatives, but for any shared ownership model, including DAO's. DAO's don't have much of a history to go by,

so I think some of the answers on the cooperative side are particularly helpful with regards to understanding them. Now, this is a model we want to foster, particularly when it does allow ownership to be distributed to builders and creators in a non-concentrated way. This is not a political statement. I support all types of models in the encrypted economy, but why not encourage multiple ownership models and understand them? Whatever works.

It also has incredible possibilities for encrypted data sharing. You don't have to listen to too many of my [00:01:00] privacy enhancing technology podcasts to understand why I would be very excited about combining the concept of cooperatives with privacy enhancing technologies like secure multi-party computation.

So I really hope you enjoy this podcast. I intend to do more on cooperatives and a shared ownership model because there's a lot to learn. Separately, this week, I learned that The Encrypted Economy has entered the ranks of being a top rated iTunes podcast in Greece. And we are also well ranked in Estonia, but we did do an episode on them after all Saudi Arabia, Ireland, Netherlands also apparently have some encrypted economy fans as well, but more importantly, we still have to find a way to get The Encrypted Economy boosted.

Because we're having some great episodes here, some great content, and I want to continue to share as much as possible. So anybody has any boosting ideas, and I mean other than the obvious, reach out to me on LinkedIn, or it has underscored legal at Twitter, I look forward to hearing from you now with the hope you [00:02:00] enjoy this podcast with Greg, I certainly enjoyed having him on the show.

Welcome to The Encrypted Economy, a weekly podcast featuring discussions exploring the business laws, regulation, security, and technologies relating to digital assets and data. I am Eric Hess, founder of Hess Legal Counsel. I've spent decades representing regulated exchanges, broker dealers, investment advisors in all matter of FinTech companies for all things, touching electronic trading with a focus on new and developing technologies.

So this is Eric Hess and today we've got Gregg Brodsky founder of Start.Co-op on the podcast. So Start.Coop is a business and I'll let Greg tell the story focused on helping.

Businesses or, or organizations that want to transition to co-op. we had JR Wiener on their team on the podcast a couple of weeks ago, and everybody should listen to it.

And, and we, we talked about some of the fundamental principles, but now we've got Greg who, who can, who can flush it out, tell us on the ground real-world experience. And it was, it was great. I mean, it was great to talk to him. Leading up to this call because he and I were just like, so in sync and he's like, who had all these ideas?

I was just like, oh my God, this is gonna be a great podcast. So Greg, with all that welcome to The Encrypted Economy.

[00:02:51] **Greg\:** Thanks, Eric. It's great to be here.

[00:02:53] **Eric:** Excellent. So, let's start off with your background how you got into the co-op space [00:03:00] and you know, your origin story.

[00:03:02] **Greg\:** Sure. So my name is Greg Brodsky.

I'm the founder and co-director of Start.Coop. We're an accelerator for shared ownership companies. So primarily co-ops, but we'd like to think of shared ownership more broadly as a, as a spectrum. The way I got into it is actually when I was growing up in Manchester, New Hampshire, my father formed a purchasing co-op from the single family for a clothing store.

That was his father's before him and now there's more than 2000 carpet stores around the U.S. all together. When I was about 25 we did the same model for bicycle stores. So there's a group of several hundred bicycle stores that purchased them together. And so this word co-operative is a funny word.

Everyone's heard it, but in some ways it's a horrible word. No one really knows what it means. You know? I mean, look, 76% of people would rather buy from a co-operative, [00:04:00] but 89% of people can't accurately define what it is. Right. And so. the way that we talk about it is that everyone's familiar with traditional ownership.

We're, we're a handful of founders or, or the investors get really rich, why everyone else gets very little, and, and we live in this moment where there's such a massive wealth inequality. You know, where five people on our planet actually control more wealth than the bottom 50% of the population.

Right. Which is mind boggling to think about that five people have more wealth and money and privilege than billions of people on our planet. And so what we find is that there's a lot of people that want to create companies and these are entrepreneurs. That actually shares the wealth generated by their company, that they don't need it just to be them.

but they're not sure exactly how to go around [00:05:00] it. And so this co-operative ownership model provides a really powerful way to say, we want to share wealth. We want to share a voice. We want to share power with our community. I think we're against it. Complicated for people to wrap their heads around is that co-operative ownership is an ownership model.

It's not a business model. And we'll talk more about that, but the fact that it's an ownership model, you can have ownership by employees of your company. you can have ownership. Consumers, if you think about a co-op owned grocery store or REI, those are consumer owned or even credit unions are consumer on co-operatives.

You can have ownership by small business owners. So the groups that my father and I started, our small business owned co-operatives purchasing co-ops ACE hardware is a great example of that. ACE hardware is a co-op owned by 4,000 hardware stores around the us, but not everyone understands. And then if you go up to the top level of [00:06:00] the supply chain, you can even have co-operatives owned by the farmers.

So if you think about Ocean Spray, cranberries, or Land O'Lakes Dairy or Blue Diamond Almonds, those are all co-operative and owned by the farmers. But I think it's a really powerful model, but people get kind of confused and muddled on what it actually means.

[00:06:19] **Eric:** Excellent. So, with that definition, let's maybe move into the accelerator.

What is the role of the accelerator? What, what functions do you do as sort of a template for the way people should be thinking about the co-op and building a co-op.

[00:06:39] **Greg\:** Right. Well, so we're getting all these inquiries of people who want to create these forms at companies. And the question is if co-ops are so great, why aren't there more?

Right. And so we found that there's, there are three reasons. One is this misperception problem. The understanding the second problem is sort of entrepreneurial support problem. There's a lot of supports for people who want to create [00:07:00] Delaware C Corp. There's a ton of ecosystem support for people who want to do Silicon Valley tech startups, but there's not a lot for co-op entrepreneurs.

And the final reason is financing. Maybe we'll talk about that, but we really designed to start a club to be an entrepreneurial support system for each year's best co-op entrepreneurs. And so we got several hundred inquiries a year. We choose the top seven or eight companies. And we put them through a fairly rigorous 16 week program where we provide MBA level curriculum investment, mentorship, one-on-one coaching, and then connections to preferred service providers and discounts.

And really our goal is to wrap around them a suite of services that make them feel supported. That de-risk. And put them into community with other club entrepreneurs, trying to solve the same problems and we've had some pretty amazing success stories. would it be all right if I share a few of those?

[00:07:59] **Eric:** [00:08:00] Yeah, absolutely.

[00:08:01] **Greg\:** Right on. So yeah, just to give you a sense of a few of our grads Ampled is a grad from our 2020 cohort. They're a platform co-op owned by workers and musicians, and their goal was to create an artists-owned alternative to Patreon. And they're now up to over 600 artists and they're currently looking at, can they use tokens to better manage the governance rights of the co-op, but they're really interesting.

They've been really building in public and bringing a level of transparency and community accountability and that's amazing. Carefully is a platform co-op which is owned by parents and work. That makes it easier for parents to build trusted care networks, to provide mutual aid and really redefining what care is for the digital age.

So they're tackling a whole different space. Owned by parents. And then a Driver's co-op is probably our best known co-op out of our last class. They're a [00:09:00] New York city based ride hailing platform owned by the drivers themselves. So this was covered in New York times when it launched. they now have over 3,800 drivers who are owners of the platform.

And their model is really interesting because they're actually priced about 5% below Uber and Lyft. But because they don't have all the overhead of those platforms and all the residual debt they actually share up to 30% more in net earnings with drivers on every ride. So it's a fascinating platform.

And, and so I think what's unique about those three groups and really every company that we work with. They're community of owners are each really different. Musicians, parents, drivers. but what they're all interested in, what we talk about in the accelerators what is shared ownership mean?

How do you scale and what does the technology and operational support you need to bring your co-op to? [00:10:00]

[00:10:00] **Eric:** And, and out of your recent grads, because of course we're, we're on the encrypted economy podcast, which ones are probably more tuned to the digital economy.

[00:10:13] **Greg\:** Yeah. I think Ampled and Carefully are very much a hundred percent digital platforms.

there's this whole notion of what is a platform co-op and so we don't just work with platform co-ops. We talk about platform co-ops is, is owned by some combination of either their users and or their workers. And so it could be it could be. And so we really become a home for people in, in the U S and Canada to scale platform co-operatives, where tech is really at the center of what they're trying to do.

And what we love about technology cost platform co-ops is that tech allows scale in a whole different way. We can have parents or musicians all over the country, [00:11:00] joining these platforms. Scale is really what the accelerator's about.

[00:11:06] **Eric:** And so and I think I'd love to double click a little bit more on Ampled because oftentimes the music industry and what goes on there is just becomes a template for other things.

Tech is like, it gets off and adopted at the, at the music industry level and then gets replicated. But in terms of your applicants, have you had co-operatives come to you with a with, I guess ownership distributed among developers?

[00:11:32] **Greg:** We have, yeah, we've, we've gotten several tech worker co-ops we've, we've gotten probably like every application you can think of.

We've had we've had a wide variety and you know; I think people are trying to figure out a more ethical version of what the tech landscape looks like. Right? Like there was this notion in the beginning, I think when tech was getting going that some attack was. more equitable, it was [00:12:00] fairer.

It was more of a meritocracy. And I think as we've gotten into eras that we're recreating the same power dynamics and wealth discrepancies that exist in the rest of the economy. In fact, in some ways, because tech has moved so fast I think the wealth and the power has become even more concentrated there than any other.

and so we're, we're getting a lot of people to say, well, maybe we want to be a worker. Co-op in fact, there's a whole Slack channel, devoted to worker co-ops in the game development space. People are trying to rethink notions of, of work and what is equitable. And also if they have the choice.

Like if, if they don't have to work for Uber and Lyft anymore what do they want their work-life balance to be? So we've got a starve, upline issues, class where the lead is actually a programmer at Uber. The CTO for drivers co-op, [00:13:00] used to work for Google and Facebook. And so we're seeing a small, but consistent tie to people from the tech community who are.

Maybe this is a better alternative and we're really trying to actively engage with them on how to rebuild the space.

[00:13:13] **Greg:** recently we're talking to a really interesting manga subscription platform, which is worker owned. and that's called, Azuki A Z U K I and their goal is to create a subscription platform for all the manga that's coming out of Asia.

and so they they're really interesting company and they're really innovating what can be done.

[00:13:36] **Eric:** and what's manga? is that the Japanese,

[00:13:38] **Greg:** Yeah, it's like the cartoon books and you know,

Eric: That's interesting.

Greg: Yeah. So it's really, and I think this is where people want to say, well, aren't, co-ops a sector.

Aren't you guys just food or agriculture or isn't adjust REI. And this is where I really have to like push back on people. [00:14:00] No, it's, it's an ownership model. Like what in the world does manga have to do with REI have to do with Ocean Spray cranberry juice. And these are completely different business models.

I think this is sort of the challenge of our accelerators. You know, we throw people together that are working in very different industries and we're not the expert in any industry, but I think where we tie people togethers], this focus on tack on governance. On financing options in order to scale their vision.

[00:14:27] **Eric:** And so maybe going back to Ampled for a little bit, and if I'm a musician and I'm contributing how does the model actually work as a contributor? Like what's contributed, how is it monetized? How is it shared back with the participants?

[00:14:46] **Greg:** Yeah, well, I really enjoyed the podcast you did with the Jr Weiner team last week. So one of the core concepts I learned from Jason, who's the principal over there, is that it's useful to think of ownership as a bundle of rights. And I think the two main rights are [00:15:00] usually some sort of financial. And then some sort of decision-making or power.

Right. and so each one's a little different. We actually just published this; this open source tool called the ownership model of canvas to help teams really dissect. How do we think about ownership in our community? with Ampled in particular they have a patronage split between their workers and the musicians.

And I know you guys had a long thing last week on patronage . I don't want to open up that whole can of worms, but patronage is really just, how do we track the activity and reward people proportional to that in our co-op right? So sometimes there's this myth that in a co-op everyone's getting. an equal amount that is this communist socialist thing.

and that's almost never the case. The rewards are directly proportional to activity. So for example, they happen to have two shared classes. One is a worker class where their contributions are based on how many hours they [00:16:00] put into developing the platform. And they have somewhere between 20 and 30 people now helping to develop the platform.

And then for the artists. it's based on how much volume they do through the platform. So their platform is about a Patreon like support. And so if someone gets you know, more activity through P through Ampled, then they would get more of the profit share at the end of the year. and so that's how the financial rights work.

And then in terms of the governance or the voice rights, each share class always gets to elect at least one director, usually more to the board, and so there's a representation that happens for a chair, and then if there's big topics it's brought to the whole membership, so people can chime in and say we own this thing.

We care about it. Give us a say in where you're going. And so when it comes to matters of strategic importance, whether it's taken on outside financing or we want to do the shift over, over here the [00:17:00] members get to be brought into that discussion and say maybe that's not right.

[00:17:05] **Eric:** Excellent. Excellent. And so in the context of Ampled are there any of these other graduates of the program? Article 58 in Colorado has this concept of an equity investor. in a co-op have any of the co-ops that you've worked with had an equity investor.

[00:17:32] **Greg\:** Yeah, I would say the majority of people approaching us are really interested in how to bring outside financing into their co-op.

Um it's not why we formed the accelerator, but it's probably the most common topic that we get asked about now. And so we actually published a fairly robust two-part blog series on that. If you Google "How to invest in co-ops" we put in some of our best thinking. You know, the reality is most businesses need some outside [00:18:00] funding.

that if your group either has enough financial capacity in the group itself, or your business model does not lead to need a lot of financing to get going. That's awesome. But more and more, we see that because the competition is so robust, and people are competing against established companies and VC back company.

That they often need to bring in outside investment. So that can be a debt. And there's a handful of loan funds that work specifically with co-ops and other shared ownership companies. but it can also be preferred outside investors. And so we talk a lot about that and, and you can have outside investors in a co-op, they can be their own share class.

the two main limitations are. it needs to always be the minority of financial benefit. And then you receive the minority of governance rights, and there's a lot of ways you can design within that, but there's a lot of people who actually would love to invest in [00:19:00] co-operatives. I think that there, we talked to a lot of people who feel this huge gap between.

What their values are and where their money is invested in the economy. and, and on the entrepreneur side, every single one of our grads wants to raise money to, to speed up their vision and to scale it out. And so we actually spun off a small equity fund called the Akaroa economy fund last year, and we're up to now 30 investors in it.

And really the goal is to facilitate those conversations between the investors and the entrepreneurs and to sort of address. The capital that wants to come into the shared ownership space. because I think a lot of people are interested in it, but they're not sure how to do it. And so we had a worker owned company in Maine who had outside investors, and we had a user owned company in Texas who had outside investors that the investors don't know about each other.

Right. And so what the fund is doing [00:20:00] is facilitating the ability for people to learn about more of these kinds of investments.

[00:20:05] **Eric:** Excellent. And so now dropping down into the applicants, where is the fit good and where is the fit not so good? In other words, maybe it's as simple as this, like when you're looking at an application for the accelerator fund, what are the criteria.

[00:20:24] **Greg:** Yeah. So our criteria are on our website. I won't read it for, because I'm sure you have a lot of people who are not a great fit for the accelerator, but I think it's useful to think about a co-operative as a social business. And what I would say is that you really need the social side and the business side.

Right. And so it, occasionally you get people who think that just being shared ownership is a business, and it's not right. Like I said, it's an ownership model. It's not how the company generates revenue. and who, who benefits from ownership is really a different question. [00:21:00] And so we sometimes have to coach people.

You still need a business model like we've gotten inquiries to say I've, I've these, I have this failing business. We're going to make it a co-op isn't that going to solve all the problems can't you just wave the magic wand. And unfortunately it doesn't work that way. Um and I would say on the flip side the social matters also you know, if it's just you as a sole founder it's not a co-op you need all these three people to be a group.

and so you have to also have that social skill of being a facilitator and an organizer and the ability to bring people together. And so occasionally we get people, these amazing ideas we had a guy applied to this year's cohort and said, well, I want to create user owned version of Google basically.

Right. And we're like, well, that sounds incredible. Wouldn't that be great? You know, if we had something actually owned by the community and I said, well, how many people have you talked to about it? Is it [00:22:00] well, no, just right now, it's just me, but can you give me money? And I said, well, no, you need to prove that you can actually get people into this thing.

And so I think it is a different form of leadership. but we really are looking for people can do the business side and the social.

[00:22:19] **Eric:** It's interesting because I see a lot of parallels in that with DAO's which we're, we're, we're talking more about your experience on the ground, but DAO's are just another form of shared ownership decentralized management structures, but sometimes for DAO's for a lot of these you know, I'll just say blockchain enabled technologies or de-fi, or what have you community is everything.

Right. It's I mean, obviously you need the technology, it needs to work. You need not to get, you need to have security. There are fundamentals you need to have, but, but if you think of it as a three-legged stool one is like [00:23:00] research and development. Um, another one is the ability to market.

And the other one is just the, the organization the fundamental organization supporting it. But that marketing component, that community aspect of it is so critical. If you can't draw that community in, then you know, it's going to be very hard to make it. And in, and with a lot more things going on online telegram groups and discord channels and all these different ways of sort of collecting people with common interest.

There's a lot of power in that, but, but you know, in a, in a model like this, I lost my balance. You see that and a model like this it is so critical to find that ability to draw on that community and to continue to incentivize that community to, to engage. So people's interests Wayne too, which is another [00:24:00] risk like, Ooh, it's really exciting.

We're all in you see that a lot with a lot of these. Protocols like defy. It's like everybody rushes in because there's like basically a sale they're getting higher yield, but then can it be sustained if somebody else offering another yield is somebody else forty-one everybody moves over there.

So these are our risks that are not just unique to co-ops or DAO's, but they're, they're sort of across the whole, you know what I call the encrypted ecosystem as well as.

[00:24:30] **Greg\:** Yeah. I mean, w you know, when I'm not listening to your podcast one of my other favorite ones is Seth Godin and, and I, to concept, he talks a lot about.

Minimum viable audience. Like how do you really find your audience and build it out? And the barrier to entry is so much lower. Whether you're creating DAO or co-op or a new community, the tools are better than I ever have been. You know, theoretically you can reach everyone.

But the challenge of that [00:25:00] that I think Seth talks about really well. That everyone else can now enter the market as well. And so it's a very, very crowded marketplace. And so your ability to really have a clear, concise message to really make it compelling for your community and to your point, to get them to show back over and over and over and to keep participating is actually really hard.

and, and those kinds of soft skills matter in today's economy how do you make it worth their time? How do you make it valuable to? in, in one of the modules we do in our lean co-op course, we talk about how ownership can be the secret sauce. but we've all owned things that we don't care about anymore.

You know, think about some piece of technology, a hat, or some subscription to something, or a car you couldn't wait to get rid of. Right. You know, yes, you want to own it, but is it valuable to you and why is it valuable to you? And I think our best entrepreneurs are constantly thinking about how I keep upping the value to my [00:26:00] community.

[00:26:01] **Eric:** Yeah, for sure. And, and does that sort of tie failure or just not working? Maybe you could share a little bit about that.

[00:26:10] **Greg\:** Yeah. Well, I mean, I think sometimes people get caught up in this notion of decentralized governance.

And I know this comes up a lot in the DAO community. and I've talked to Nathan Schneider about this, who I believe was already on your podcast or will be soon. and occasionally we get people who think that there's, you can just have a leaderless, uh co-op or leaderless DAO. and, and I, I sorta love that idea. I wish you could just kinda like set up or just have it be like a part-time job. And we've certainly talked to founders who want that to be the case. In the real world, I've never seen those work. What we see is that the [00:27:00] communities need managers.

They need leaders, they need entrepreneurs. Frankly, more often than not, they need employees. Because everyone's got time commitments, and I think it's a, it's a v very different form of leadership. You know, it's not sort of top down hierarchical leadership, the way that we've all been taught about you know, having leaders or having managers in the organization, it's really kind of a bottom up servant leadership where the goal is to facilitate the group where, where, where the entrepreneur's job or the employee's job is.

To organize to, to gather the energy and really kind of holding the space or building the container for the community to operate in. but that does take some real time and energy. And I would say our best entrepreneurs are the ones who keep building that.

[00:27:52] **Eric:** In terms of being a visionary in terms of being a motivator or as you noted in terms of constantly thinking about, "Hey, how do I [00:28:00] make this more valuable to the participants so that they continue to stay engaged?" You know, the pressure may be, it may actually be a harder nut to crack for a leader than in a traditional business.

Like you really have to be a visionary. You have to be somebody who's constantly thinking about how to ensure that engagement. And if you finally get that, get that match to ignite, then maybe, maybe that, that community that builds can also sort of carry the weight and sort of bring itself forward as well.

But you kind of have to get that. You have to spark that fire. Yeah.

[00:28:38] **Greg\:** You do have to spark the fire. And I think there's actually some unlearning that has to happen on both sides from, from the leadership side and also from the community side. You know, I, I, I've already talked about the leadership side, but I think from the community side people are so used to just being customers and there's actually a mild learning that has to happen to say, no, you're, you're a part of the community and we actually want your voice.

[00:29:00] and so in the co-operative world, we talk about this notion of you know, democratic management of how you include voice at a deeper level. but it takes some real time and, and it takes some real. Trusted developed within the community. One of the nice co-op truisms that I've heard is, "We move at the speed of trust."

It's so easy to just say, well, I'm just going to go build a thing and people show up there, show up, but you almost have to slow down a little more intentionally to build that community with more trust. But then over time, what you find is that these communities that are built this way actually have more survivability.

They have more power; they have more loyalty. and so even during the. You know, recent downturn due to COVID. we saw a lot of data that co-operative owned companies had less employee turnover. They went out of business less often because there was that notion of trusted community kind of baked into the post.

[00:29:55] **Eric:** That's really interesting. and so this touches on some of the things [00:30:00] that we had raised in our back and forth before the call, which is the myths or the truisms of the, of co-operatives. I think we had listed some of them and some of them we've already covered, but I think in terms of that community and building that community, two of the points and maybe we'll, we'll sort of reverse the order on the list, but one of them goes to the tragedy of the commons or the end the free riding problem in the context of a user base, maybe we, you can share, share some stories or some thoughts on that.

[00:30:39] **Greg\:** Sure. So the tragedy of the commons is such a big topic right now, and I would say when I'm not thinking about shared ownership, I'm thinking about the tragedy of the climate that's happening. and so I don't pretend to have the answer to that, but it is something that keeps me up at night is sort of the white walkers coming for all of us while we're all.[00:31:00]

Piddling about here but I would say in, in general crops can also have that, that question. How do you avoid the tragedy of commons? How do you avoid the free rider problem?

And, and any of your listeners can, can Google those scenarios to understand it. But the concern is that someone's going to come along.

Someone's going to benefit from the common resources. Or in a co-operative, maybe the services or the profit share of the in a year and some may not participate. So to me, there's a few ways that you can solve that problem. First of all, number one is actually building an ownership versus just passing through.

And this is one of the reasons that I like co-operative ownership or shared ownership or distributed ownership, whatever you want to call it. Right. That when you actually have a Sheriff's. You might care a little more deeply. Uh I saw the Green Bay Packers just reopened their shares to the public and [00:32:00] they're not quite a co-operative.

I think they're kind of an interesting use case where you can't, you can't run for the board. There's not really a profit share, but they're close, it's owned by the community, and you have some rights as a Green Bay Packer share owner, but certainly if I bought a share.

You know, even though I'm a Patriots fan here in new England, I might care more about them than the Denver Broncos. Right. rather than just passing through it. So I think number one is actually like giving people a stake in whatever it is. I think that number two is the creation of better incentives.

Now, usually those are financial incentives, but they don't have to be. But how do you actually change the incentives to create the behavior you want? You know, I, as a very Republican boss of mine, used to say behavior always follows incentives. and so I, I think you really have to be smart about what is the behavior we want and how do we align incentives around that?

Cause end in the day, people are going to revert to the lowest common denominator. [00:33:00] and I think the third answer would be, can you develop some collective action that creates some social pressure. That when we're on our own, we are going to revert to. Our own selfish individual needs and wants.

But if you can create some sense of momentum that other people are, are standing up for this thing, other people are getting involved. You know, we are social creatures and people are like, oh, well shit, someone else is doing it. Maybe I should as well. And it creates some, some momentum. and I think that there's an interesting to bring it back to climate for a second.

Um one of the real tensions right now well, why should I sacrifice. Like, should I sacrifice if no one else sacrificing or why should I spend extra time or energy on this thing? But when you feel like everyone else is pitching a little bit, you're like, okay, well I can, I can do my part too.

Everyone else is doing it. So there's sort of a question of fairness and kind of [00:34:00] positive collective social pressure. Th that we have to create that gets one to, to, to take action. So anyway, so that's how we think about it, and I think, yeah, and I think the free rider problem really comes back to changing the incentives.

[00:34:20] **Eric:** Interesting. Yeah, we, yeah, I'm going to circle back to a prior episode. We did with Jenil Thakker where we talked about social token models, but more specifically all along the way, the social graph, which is this notion that your reputation can follow you into these forums. You know, as you sort of form these, these communities there's a way to sort of assess what somebody has done, the contributions that they've made to the community that goes beyond just maybe just like four stars, but like their actual reputation.

Like when you think about people moving between different communities, like with a wallet, their personal wallet of who they are. That while it can [00:35:00] include their contributions, that while it can include reputational components for whatever they value that wallet could actually have metrics in it that maybe they're the ones who are encouraging, but actually are almost.

Badges. I mean, maybe we get back into trophies, like all the trophies, like if you have a kid these days, like every single sport they do, they come home. It's like, we came in last place, we got a trophy, and I got the trophy because I went to the game and you know, like you have all, these are like, what am I gonna do with all these medals and trophies?

And it was great. It's a way of encouraging people. And, and in many ways I think that social. Can be meaningful and motivating people, because if you, if you join a community and you're not participating, number one, there's sort of a, I don't know, I'm not going to call it name and shame, but there's that component where we're, you're in this community, but you're not holding up your end and maybe you could be booted, but also if you, if you don't, aren't an active member or you're not making a positive contribution, it may or may not necessarily be a demerit.

But it could also [00:36:00] be you know, as you move into communities, people can say, well, what contribution did you make if he was in this community and why isn't there some evidence of that contribution or that positive impact. So that can apply across social impact that it can apply across contributions.

I don't know. What, what do you think of that type of model? Do you think that's something that's going to become more important, particularly in the context of a shared ownership model?

[00:36:22] **Greg:** Yeah, I think there's a lot of power in that. And when I first got into the co-operative space, I thought, and I met many entrepreneurs who think that the most important thing is just how many members of the community you can get.

That that's the metric by which we judge people. but the risk can be that you can have a very thin layer of connection between you and that community. And so this is why I kind of love the, the minimum viable audience concept of Seth. This is that. You know, it is that engagement that actually matters.

Right? And that sometimes you're better off with a smaller committee of people who are actually involved. And I think the DAO's the distributed [00:37:00] economy, it's very easy for people to just be a little bit involved. To set up a profile, but to remain fairly anonymous, to not show up maybe they attend to a call.

Maybe they don't they probably don't have their video on. and, and how do you actually draw people out and pull them in and kind of a, a positive way. and, and I, I think you're right having sort of leaderboards are showing what different people are doing and it can be asynchronous for sure, but getting to people to show up as hard because you know, the number one thing we're all dealing with.

As lack of time. And there's so many fascinating stimulating things going on in our economy, that the battle for someone's attention is, is very, very real. And so that participation is really what you live and die by. Whether it's a DAO, whether it's a co-op, whether it's just a membership community but it's, it's hard to get people to.

[00:37:56] **Eric:** Yeah, for sure. And I guess sort of that feeds into another one of the [00:38:00] myths, which is, or the problem, which is the founder incentive problem. So obviously if a founder thinks into it upfront, maybe there's different ways they can structure it where they are incentivized so that, you know you know, their interest is maintained, but what have you seen and, and examples of, of where the founder actually, maybe it was very egalitarian, but to their own detriment versus what more thoughtful ways of saying, okay, how do I balance the perception of the community of my incentive versus the need for me to be incented and to build a sustainable model?

[00:38:40] **Greg\:** Well, I've talked about the fact that the leadership is really important that you do, you can't take out the role of the entrepreneur and the leader in getting news organizations going.

And so. I probably talked to four or five entrepreneurs a week or considering some sort of shared ownership company. And frankly, they're going to put in maybe hundreds of [00:39:00] thousands of hours before this thing is profitable sometimes before they can actually be paid. Because I think with any startup, there's a lot of time and effort that's based on faith.

That you're building something and you're, you hope that it pays off, but you don't know none of us know and there's no guarantee. and so the question becomes is. You know, should they be rewarded in exactly the same way as someone who comes on a year or two years or three years later? and there's a, a well-known worker co-operative.

I won't say which one it is, but a fairly sizable. Revenue in the us. and I know one of the, the original founders there and he worked there for over 20 years, and he walked away, and he didn't get anything additional first time. Right. and to me that feels a little bit unfair. And I think if we want to grow the economy, you have to design ways for these founders.

And also the early stage employees that come with. To receive proportional rewards [00:40:00] going back data. It needs to be proportional. and there are ways to solve for that. So that's something that's probably fairly unique about our curriculum is that I haven't seen anywhere else is actually designing those incentives.

So if you go back to the idea that your ownership model is something you can design, just like we design you know, our wardrobe and our hairstyles and our website. And our logos and our user interface you can design ownership and there's no reason that you can't build in either founder shares, which would be a unique share class set aside for the founders and early employees of the company might be five or 10% of the shares.

 you can also set up an investor share class that we talked about for preferred outside shareholders, and you can actually give the investor shares to the founders. And that's a nice solution because now you're in founders are incentivized in the same way as your investors. And so the incentives are aligned.

And [00:41:00] you can even set up a separate management company that pays the founders or the early employees. And that's a solution we've seen sometimes. but you know, between those three models, usually we come up with a solution. So the founders do feel rewarded for their time and effort. And it's, it's a funny thing because the people come to us, obviously they believe in a democratic system or else they wouldn't be doing it, but they're also like, well, what about me?

Right? Like, I've got to save for retirement. And so sometimes we have. Pull it out of them a little bit and say how do you want to be paid for this thing? Cause you've been working on for the last two years. and, and there should be some outsized reward for it. And so and you know, and then obviously we can do it via salaries and bonuses, but we can get even more creative than that.

[00:41:45] **Eric:** And so w in that kind of model what kind of conflicts does that potentially create with the users? I mean, the notion of the shared owners. You know, everybody has their own conception. Like you started off the [00:42:00] podcast by saying nobody really knows what a co-operative is. We all kind of know what it is.

It's like, well, it was a bunch of people working together and see central avenue. Right. But we don't we're informed by like Yeah, my college had a food co-op that was like a lot of granola and stuff like that. That was my perception of a co-op. Right. And if you live on the agrarian side, you'd probably think more farming, it's all shaped by a specific experience.

And so everybody has sort of their own unique experience. Whereas you could say with corporations, LLCs or things like that, peel may be uneducated. But there's probably a more consistent understanding of what that is. I am a worker. I get paid. Oh, I have a stock option. Oh, that means at some point maybe I get something, but I'm not asking a lot of questions.

Right. I'm just like, oh great. I make money. I hope it moons. Right. Co-op. I get convinced to join us like shared ownership. Oh, great. That means I get I get paid for what I do is that, is there, [00:43:00] does that dialogue, does that messaging take on a different importance when the founder is taking in that founder, incentivization structure, even a management team, or some group that gets more than others.

Everybody understands. I work with. You know, I'll get back more, but maybe that whole founder incentive model what's the deal, what's the delicate balance that you, that needs to be achieved there? Or am I overstating it?

[00:43:28] **Greg\:** No, I think there is a delicate balance. And I think go back to go back to your, the top of your question.

Um co-operatives are organizations and companies owned by and operate for the benefits of their users. And so each community's a little different, but they're generally. Private for-profit companies sometimes Linda in last week's chat talked about how people can work cooperatively and have it not actually been a company.

Right. And so sometimes people will say we're just a group of people that we're [00:44:00] co-operative. And I put that in quotes, but what we work with. Companies owned by their members. That's really our definition of it. and there, they're, they're not nonprofits are not owned by anyone.

These are private companies, but they exist to serve the members. and so to the specifics of your question about how do you balance the founder rewards versus the rewards for everyone else? Uh it is it is challenging. And what I would say is that most of the co-ops I've been in.

people see the work done by the founders and done by the leadership to create the opportunity in the first place. And I think that's really how I think about someone's got to kind of set the tables. Everyone else can eat. Right. And there should be some reward for that. And, and, and you might have different rewards for different communities.

So in some ways a bonus plan and some of them might be founder shares and some of them might be investor shares. I think there's a lot of different solutions depending on the community you're talking about. [00:45:00] you can have kind of sweeteners for different patronage formulas that we could talk about.

But I think the way you find that balance is through the accountability structure. So even though co-operatives can have. Uh they can have hierarchal leadership really depends on the co-op. they're always accountable back to their users. So let's just imagine for a second that you know, a founder team said, well we want to take 20% of all the profits.

And the rest of you is just like, well, that's, that's too much. Right. And that's a little bit of a negotiation. the people who the leadership team is accountable to are the board and the board are voted on by and elected from the membership writ large. And so that, that built in accountability loop that kind of full circle accountability is part of what I love about the model.

So the only way they could get that approved is if the members actually say it's okay, and then maybe it's not all members. It might just be the board, but some representative from [00:46:00] that committee has to actually sign up.

[00:46:02] **Eric:** Right. Right. And, and you, you mentioned maybe drilling down a little bit into sweeteners for patronage.

So you know, w what are some examples of those?

[00:46:14] **Greg\:** yeah, so this, this term patronage, I know it can get confusing, but let's, let's call it a kind of the, the way we share profits at the end of the year, if there's a surplus profits in the organization, if you know, every year let's just say if there was a profit in.

The board could decide to reinvest it right. Or they could decide to share it back out with the membership is the easiest way to think about it. but what's interesting is that patronage formula can be based on anything the co-op decides is, is meaningful activity of have how the members are involved or almost anything, but you can get fairly creative on it.

and so and I'll give you a small example. So if it's a worker. Um the traditional formula is just, well, how many hours did you put in? [00:47:00] To building the company. That's one example, but you could say, well, there's a sweetener for longevity. We're going to have a multiplier based on how many total years you've been here, or we're going to take the 50% hours this year and 50% how many total hours you've worked for the company. Or there's a tech worker co-op that we started a case study. And they said, well, it's going to be half of your hours this year, but half is going to be what your salary is, which I thought was a fascinating formula because. We know, it's really hard to get high quality tech workers, and we want to overvalue our best paid employees because we know it took a little bit of a haircut to work for us versus Google or Uber or someone else.

And so we're actually going to build our patrons for them, partly around their compensation levels. Cause we, we think we need to reward them a little bit more so you can get fairly creative. and if it's a platform co-op, you might. Look if you [00:48:00] contribute more to building out the platform then you get a higher reward, as well.

So again, the idea is how do you make it proportional to the activity to, to create the behavior you want.

[00:48:10] **Eric:** Okay. And does that, do those models have impacts on taxation? Or am I asking the wrong guy? He's like, I might just click on that last one there, Eric.

[00:48:24] **Greg\:** yeah. Well, I always, I always have to just so I don't get in trouble with all the good folks at JR Wiener or in other law firms in the U.S I was asked to do hashtag not legal advice when I talk about this stuff but as Linda and team, so eloquently explained last week you know, generally what happens in a co-operative, one of the nice benefits.

Dividends shared to the patron members. The members were talking about avoid double taxation. So they're not taxed at the corporate level. They're taxed at individual level. Right.

So it shouldn't really change the taxation, [00:49:00] too much. Profits that go to that are not based on member activity would be taxed at the normal corporate level.

but it shouldn't really again, non-lawyer, but it shouldn't really change the taxes too much what I'm saying.

[00:49:15] **Eric:** Excellent. and so, and that's consistent with last week. I just thought we might want to just pause on that and focus on a little bit. we talked initially about the fact that co-ops are an ownership model, not a business model. And so what do you see in terms of like, how does that myth manifest itself in the people that come to you? Like, we talked a little bit about the guy who came in and said, I want to build a co-operative Google. but that, that was something different, he didn't have the community. Didn't have it started, but how do you see that manifesting in, in people that, that come to start a co-op?

[00:49:58] **Greg\:** Yeah, well, there's a lot of people that kind of [00:50:00] get together of the communities that, well, we want to be a co-op right. And they start from that point of view, and they might get to the business model last, and we think that's backwards and that's, that's kind of a problem.

So you know, in, in our free online lean co-op class we start with the customer problem first. Like just like any other lean startup Eric Rees or Steve blank you almost gotta start. What is the problem you're trying to solve? What is the solution? What is the business model that, where you can monetize that solution?

And then what is the ownership model? We actually put the ownership model last and that might sound a little counter-intuitive, but I think it's, it's, it's easy to talk yourself into a business model once you have everyone together. And so we got a lot of pitches of people there. We're just going to get all these people together and it's going to be great but like it's not sustainable because there's no revenue coming in.

And so we have to be a little bit careful because sometimes people, [00:51:00] you know, when we use terms like revenue and business model and profitability, people can say, well, that's not co-operative, Greg. I don't know. You're getting a little too businessy on me. but you know, so we have to reframe it as you know, is your business model sustainable?

Is it built for the long-term? How are you going to have the revenue to reinvest in, in your platform? How are you going to have the revenue that to share back props with your community? But you, you do have to have both aspects of it for your company system survive. And I would say even for a DAO you know, we, we have to talk to a number of distributed online communities.

And aside from coming together to own the thing what, what is the rest of the model that people are doing together. Like how is it not just you know, fancy airline miles and that's probably a horrible distillation of, of some of what's going on, but it's, it's very easy to sort of You know, it's, it's, it's very easy to sort of say we're [00:52:00] coming together to this thing and it seems really cool, but what, what is the actual business associated with it?

And you don't have to, but if you want it to be sustainable, I think it's useful to think about that.

[00:52:08] **Eric:** Great. For sure. one last thing I wanted to sort of touch on is, is social impact and, and are asked the question, are co-operatives inherently a social good?

[00:52:24] **Greg\:** Well, I'm going to bust one other myth on my way to busting that myth.

So I wanted to mention the fact that sometimes people think co-ops are really small and co-ops are always social purpose. And I would say no on both fronts. Uh there's been great data at the national co-op bank that the nation's hundred largest co-operative businesses post a collective $230 billion in revenue each year. So some of these are massive companies. And the reason I bring up that myth first is that if you think about large [00:53:00] agricultural co-op or a credit union or a rural electric, I don't think that shared ownership in and of itself is always the social good. I think it often can be, I would argue that wealth creation and distributed voice are, are often a better form of corporation.

and that sharing the wealth of entrepreneurship is generally better than the wealth consolidation that's happened and sort of the misalignment of incentives that happens in traditional corporations, but that being quadroon doesn't automatically create social impact. It really matters kind of who the owners are and, and how it's governed.

This is where governance matters and sort of what the mission of it is. Look, you can have a co-op of rich, white tech bros making more money and that's not necessarily making the world a better place or certainly there are agricultural co-ops where its [00:54:00] going to a very small group of people.

So I think you really got to think about who the owners are and what are the benefits of ownership. and that's one of the things we've been trying to do with the ownership model canvas that we recently published, which is helping people think through. How do we want to design our ownership and who are we trying to benefit?

But I mean, I would say they tend to be more social impact, but they're not by default. And certainly when we talk about questions of you know, racism and, and inclusivity and diversity you know, you really have to design for that at the beginning or else you can just recreate it, existing social structure.

[00:54:42] **Eric:** Great. So before we break anything that we haven't touched on that you think you'd like to raise?

[00:54:50] **Greg\:** Well, I think we're, we're just excited about this conversions of the sharing economy of co-operatives, of DAO's, and where it's going, and so [00:55:00] we're really trying to start a community of leaders that are trying to find a solution to these problems. I think we're all building new, new toolkits for the new economy. and so we're trying to bring in mentors, entrepreneurs, coaches, faculty, investors, who want to build out these tools together. And so that's why I'm excited about the work that you're doing and some of your other guests.

Where is all this going? Right. And I don't think any of us know, but I think we get the sense that there's a huge opportunity and that really, this is kind of a, a unique moment for the, for shared ownership, frankly. So yeah, we just want to keep empowering people and keep building the tools.

[00:55:38] **Eric:** Well, great. This was, it was fantastic having you on. Greg, thanks so much.

[00:55:43] **Greg\:** Thanks for having me.