CO-OP CASE STUDY

THE DRIVERS COOPERATIVE

How a hybrid fundraising strategy helped one co-op become the largest worked-owned cooperative in the United States

The Drivers Cooperative is the brainchild of a labor organizer, Erik Forman, a ride-hailing driver, Ken Lewis, and a former Uber operations manager, Alissa Orlando. Together, along with a group of rideshare drivers, they worked to challenge the practices of conventional ride-hailing companies.

The driver-owned cooperative was incorporated in April 2020, just a month after the COVID-19 pandemic shut down cities across the globe.

At the time, unemployment rates were rising across the U.S., the food delivery industry was booming, and—most notably for these entrepreneurs—systematic dysfunction was being exposed at giant ride-hailing companies like Uber and Lyft. With an app called Co-op Ride, the founders sought to build an alternative ride-hailing option focused on social mobility and democratic control.

In this business, drivers would be the rightful stakeholders. As such, The Drivers Cooperative was formed as a worker-owned cooperative corporation (CCO), following the guiding principles of the International Cooperative Alliance. Drivers make up 100% of the current ownership structure. Any New York City Taxi and Limousine Commission-licensed driver or other app-based drivers can join if they are willing to comply with membership duties established in the bylaws. Drivers are entitled to a profit-sharing plan, a vote on major business decisions, an invitation to join the annual general meeting, and the power to elect representatives to the Driver Board and the Board of Directors. The cooperative set a 20% profit sharing for the team (70% drivers, 10% community grants) based on straight hours worked since March 2020 + staff board seats.

However, since drivers are the only shareholders at The Drivers Cooperative (1), they didn't have the means to personally fund millions of dollars in digital infrastructure. Without a sufficient early revenue base to fund operations, the company required outside financing which proved difficult for several reasons. Ultimately, it was a hybrid approach to financing – embracing more traditional avenues like debt with novel approaches like non-equity crowdfunding – that helped the business make early-stage investments that allowed it to build a powerful platform, attract thousands of drivers and consumers, and gain unmatched forward momentum.

Barriers to creating a network effect

For online marketplaces, it's vital to create a network effect, in which the value of a product or service increases when the number of people who use that product or service increases. It's especially crucial when startups such as The Drivers Cooperative are openly competing with well-established, well-funded companies, such as Uber and Lyft that offer short wait times and guaranteed trip request fulfillment (2).

Attracting new users (in this case, new drivers and riders) and building traffic for on-demand platforms require a substantial upfront investment. Non-cooperative startups usually access substantial funds through venture capital and equity-based investments, however, venture capital and the cooperative framework typically don't rub shoulders.

Venture capitalists primarily fund firms focused on value-maximization and financial scalability, betting on high-risk and potentially high-reward projects. They purchase equity or equity-linked stakes from the seed business, hoping it will grow exponentially, disrupt the market, and represent solid returns through a prospective exit.

Since worker-cooperatives usually do not allow investor membership nor have any exit intent, private funds are largely unattainable for them. Cooperative startups also lack the tangible assets and cash flows necessary to back bank loans or other debt options for large sums of money. Thus, cooperatives face daunting barriers to growth due to a widespread lack of access to financial capital.

A first attempt at capitalization

One of The Drivers Cooperative's fundamental pursuits is reducing the racial wealth gap among the drivers workforce and creating affordable transportation options. Therefore, when initially seeking outside investments, they wanted to access values-aligned capital from institutions and philanthropists focused on transformative change. One of their first financing strategies, explained Alissa Orlando, was reaching out to some of the largest foundations in the U.S. to spur initial investments.

Although the future of workers' rights, expansion of equity, and economic opportunity are among the core funding priorities of these philanthropic entities, a cooperative startup was hard to fit in their portfolios. Funders were stuck in existing paradigms and funding structures, able to support a 501(c)3 nonprofit corporation through tax-deductible grant or a equity investment with uncapped returns, but unable to craft a third way that would match cooperatives funding needs and investment terms. Ultimately, they were not convinced by the idea that a cooperative business of dissatisfied drivers and labor advocates could compete with the behemoths already deeply entrenched in the New Yorker gig space. In some ways, the cooperative structure left The Drivers Cooperative wedged between the for-profit and nonprofit dichotomy: an unattractive position for large investment portfolios due to perhaps misaligned investor priorities, levels of risk tolerance, and the lack of charitable status for tax-advantaged grantmaking. The inability to secure grant funding from philanthropic organizations exacerbated the classic "chicken-and-egg dilemma" faced by seed businesses. Investors want to see evidence of traction, but founders can't build that traction without funding.

Overcoming this dilemma for cooperatives, in particular, means finding partners and funders that understand the cooperative values and framework. The Drivers Cooperative received grant funding from the Emergent Fund and the Workers Lab. The Emergent Fund, based in Washington DC, provided a $5k grant to The Drivers Cooperative as part of their mission to provide resources to grassroots organizations in impacted communities. The Workers Lab, a community of investors and supporters dedicated to funding transformative systems to benefit workers, including tech solutions for gig workers, gave The Drivers Cooperative a $25k grant.

Though these were indeed small and important wins, the grants alone could not catalyze the type of growth that The Drivers Cooperative needed in order to build a viable ridehailing business.

After some time trying to raise funds from philanthropy with only little success, The Drivers Cooperative turned its attention instead to cooperative-minded partners to raise a portion of the additional money needed to get the business off the ground. Success in this effort came in the form of a handful of loans and revenue-based financing commitments:

- **Shared Capital Cooperative**, a national loan fund and federally certified Community Development Financial Institution (CDFI), focused on economic democracy, provided a $200k term loan over two years with a six-month interest-only period.

- **LEAF (Local Enterprise Assistance Fund)**, a Boston-based fund connected to the ICA Group, centered on worker-owned firms and other community-based businesses, lent $10k over two years with interest-only, then a balloon repayment of principal.

- **Lower East Side People's Federal Credit Union**, a non-profit financial cooperative in NYC that promotes economic opportunity to underserved communities, added $40k via a term loan over five years. Moreover, Erik Forman explained that, "the LES People's Federal Credit Union adopted us as a partner organization, which allowed our members to escape predatory financing for their vehicles by becoming credit union members."

- **Start.coop**, a national startup accelerator focused on early-seed cooperative growth provided mentorship and technical assistance for business growth while their sister organization, The Equitable Economy Fund provided $10k through their revenue-based investment model.

Ultimately, the amount raised through these financing arrangements—over $300,000—was also not enough to fully fund the operations and technology behind an on-demand platform business. Moreover, the loan-based financing posed challenges of its own as The Driver's Cooperative was still in its early days without enough revenue to pay back loans out of profits.

Still, the network built through the initial investment opportunities was fundamental to building traction and reinforcing the venture's earnestness, paying for technology, marketing materials, and team members' time. The Drivers Cooperative founders grew the business' validation by connecting with other cooperative-enthusiasts and strengthening relationships they already built within their communities. These bonds led them to garner visibility that laid the groundwork for a lucrative crowdfunding campaign.

Pivoting strategies: how media and networking matter to crowdfunding

Once it was clear that philanthropy was too risk-averse and there was only so much that could be raised from cooperative support organizations, The Drivers Cooperative pivoted its capitalization strategy towards crowdfunding (3).

To prepare for the crowdfunding campaign, the co-founders focused their efforts on a marketing strategy for broad reach while still allocating some time and attention to institutional coop investors (e.g., Equitable Economies Fund, Working World, Kachuwa Impact Fund) and angel investors alike (primarily from the blockchain world). The strategy involved tailoring their outreach to a narrow audience, knowing they needed a small percentage of the market to make serious money by appealing to the impact narrative and emphasizing the fundamentals of the business model.

Launching a successful crowdfunding campaign meant reaching as many values-driven people as possible. The Driver's Cooperative needed to share their vision of building an equitable alternative to the hostile and extractive competitors in the rideshare space and tell a compelling David and Goliath-like story to a wide audience, including not only potential investors but also potential drivers and rideshare customers. To achieve this, the founders built relationships with prominent journalists, mostly through engagement on Twitter and leveraging Erik Forman's network, built over his long career as a labor organizer. They were able to spread their idea through articles, podcasts, and social media.

On May 28, 2021, the New York Times published the article "A Worker-Owned Cooperative Tries to Compete with Uber and Lyft." The Times report offered a 360-degree coverage of the cooperative journey, including the dissatisfaction of Uber and Lyft drivers and how The Drivers Cooperative was designed to solve driver pains by sharing ownership and control among drivers, taking a smaller commission through the platform, and charging lower fares to riders. A couple of days later, The Drivers Cooperative launched its app, Co-op Ride, and started offering rides in New York City. An article in one of the most prominent American newspapers put The Drivers Cooperative in the spotlight, leveraging its ability to reach potential sponsors.

Erik Forman explained that The New York Times triggered a more prominent media presence, giving the cooperative's story visibility to other media outlets. The Drivers Cooperative expanded its media presence through multiple formats, including newsletters, podcasts, and social media, building the audience engagement necessary to execute an eminent crowdfunding campaign.

Following The New York Times article, The Drivers Cooperative also received social media publicity from New York-based representative Alexandria Ocasio-Cortez. And right before the crowdfunding campaign began, in July 2021, Bloomberg—a renowned business and markets news outlet— published the article "Driver-Owned Uber Alternative Looks to Crowdfund $1 Million." The publication's vast visibility and the article's precise timing boosted the cooperative's ability to exceed its internal crowdfunding goal of $1,070,000, ultimately raising $1,661,096. As of April 2022, the campaign is ongoing with its next milestone goal of $2,500,00.

Challenges of Crowdfunding

Crowdfunding is an internet-driven capitalization phenomenon for seed businesses whose products or services are still under development. Crowdfunding platforms attract potential enthusiasts who can choose which innovations they want to fund. Therefore, financing lies in the hands of a crowd of individuals rather than a few wealthy investors. This funding approach follows the maxim "little strokes fell great oaks," since the primary focus is targeting the volume of sponsorships rather than a few significant contributions. Most of the people who contributed to The Drivers Cooperative's campaign, known as non-equity sponsors (4), invested a minimum of $100 under a revenue-share agreement of 2.5% of quarterly revenues up to 2.5x the investment amount. There were also a few "whales," says Alissa Orlando, who contributed larger amounts such as $100k and $250k.

Alissa Orlando underlines that the challenge with crowdfunding campaigns is that, unlike the established norm of doing a new fundraising round every 18 months in venture, there is a limit to how often you can go back to your audience for more funds without paying returns. With this early capital in their account, The Drivers Cooperative was able to invest in their people and technology and figure out a business model to spur further growth.

Lessons Learned

Financial innovations are constantly being envisioned to address the needs that emerge in the business ecosystem. While modern financial structures respond to some of the challenges faced by early-stage businesses, they have yet to adequately address the needs of cooperatives.

The complex financing landscape forced The Drivers Cooperative to get creative and knit together multiple different financing strategies in order to overcome startup and growth constraints. Indeed it was the need to survive and thrive, despite the capital constraints, that became the driving force behind their creativity and adaptability. Early closed doors from institutional philanthropy served to propel the cooperative towards a dynamic mix of traditional cooperative financing from loan funds and novel revenue-share crowdfunding, previously extremely rare among platform cooperatives and other cooperatives with ambitions of scale. As of the time of writing, The Drivers Cooperative has become an early success story, both in the transportation industry and in the cooperative movement: with over 4,000 drivers on the Co-op Ride app, The Driver’s Cooperative is one of the largest worker-owned cooperatives in the country.

Annex I: Pivoting the business model

Right after the Co-op Ride app launched on May 30, 2021, in the wake of The New York Times article, approximately 40,000 riders downloaded the app. The volume of rides requested by users exceeded expectations and reflected the marketing campaign's effectiveness. However, the cooperative could only fulfill one out of every five rides requested. Although drivers grew from 2,500 drivers to nearly 4,000, there weren't enough of them to fulfill the solicited rides.

According to Alissa Orlando, it takes money, not simply time, to trigger network effects and balance the ratio between drivers and riders. "Basically, you need to pay a driver an hourly wage to stay online so that someone is available to take the trip request. You start this in a small area until your hourly guarantees cost the company little or nothing. Then you expand to a new area and so on and so forth."

Therefore, The Drivers Cooperative opted to temporarily pivot its business approach from on-demand rides to pre-scheduled travels focused on medical transportation. To do so, they partnered with government agencies and advocacy organizations, especially those focused on accessible transportation for people with a disability. This temporary adjustment helped grow a steady stream ofrevenue from high volume contracts, which will help The Driver's Cooperative to invest more in its consumer-facing services and compete with Uber, Lyft and other ride-hailing platforms.

David Alexis, current director of community partnerships at The Drivers Cooperative, pointed out that, as of January 2022, the number of daily rides grew from 80 to almost 650. The projection is that the business could break even by 1,500 rides a day. Achieving this no-loss point is expected to happen before its anniversary in May 2022, anchoring its revenue and allowing the co-op to build towards profitability and its long-term sustainability.

Annex II: Economies of scale

Within New York City, the potential for scaling The Drivers Cooperative is massive, and it can grow the business and reach profitability without needing to aggressively out-compete the large ride hailing companies. In addition, The Drivers Cooperative hopes to see the Co-op Ride app broadly used outside of New York City. However, it does not plan to follow in the footsteps of its competitors and expand by setting up operations in each new geography. Their strategy for scale outside of NYC relies on federalization. The cooperative seeks to share the technology platform infrastructure with other driver-owned entities worldwide under a branding agreement while maintaining worker cooperatives' local autonomy.

As part of its scaling strategy, Erik Forman explained that newly formed The Drivers Cooperative Academy, which honors ICA's 5th Principle of "Education, Training and Information", has offered free training for ride-hailing and taxi workers and provided the tools they need to build their independent cooperatives. The educational program includes information on how to create a platform worker cooperative for drivers, conduct industry analysis, analyze and work within policy and regulations, governance, financing, and other practical themes.

Endnotes

(1) The management team and staff are not eligible for an ownership stake but are part of the profit-sharing plan with rights to elect representation on the Board of Directors. Erik Forman explained that, under the current bylaws, the cooperative staff (i.e., non-driver workers) are not shareholders; though future amendments may bring them into the ownership structure.

(2) The broad challenge for platform cooperatives is how to execute a business plan that can leverage positive network effects while facing increased tech monopolization and concentration of corporate power. According to McCann & Yazici, "platforms are subject to network effects in ways that traditional businesses are not. See "Disrupting together: The challenges (and opportunities) for platform co-operatives" New Economics Foundation (2018) available at neweconomics.org/2018/07/disrupting-together (last visited 27 January 2022).

(3) It is important to note that The Drivers Cooperative had turned to crowdfunding once before, raising $25k in an early crowdfunding campaign on ioby.

(4) Non-equity sponsors mean that the individuals who donated to the crowdfunding campaign did not become shareholders, keeping ownership exclusive to drivers.

References & Additional Resources

Bloomberg, "Driver-Owned Uber Alternative Looks to Crowdfund $1 Million" (July 2021) available at www.bloomberg.com/news/articles/2021-07-14/driver-owned-uber-alternative-looks-to-crowdfund-1-million

Erik Forman, "Top Dead Center: The Drivers Cooperative, Capitalism, and The Next REvolution, Institute for Digital Cooperative Economy (ICDE), Platform Cooperative Consortium, available at ia802503.us.archive.org/11/items/erik-forman/Erik%20Forman%20%28Mar%2013%29.pdf

Fast Company: "How the Drivers Cooperative built a worker-owned alternative to Uber and Lyft: The inside story of a union organizer, black car driver, and former Uber executive who came together to build a new ride-hailing platform that gives profit and control to drivers" (July 2021), available at www.fastcompany.com/90651242/how-the-drivers-cooperative-built-a-worker-owned-alternative-to-uber-and-lyft

ioby fundraising platform: "Help NYC drivers launch a platform cooperative," available at https://ioby.org/project/help-nyc-drivers-launch-platform-cooperative

McCann & Yazici, "Disrupting together: The challenges (and opportunities) for platform co-operatives" *New Economics Foundation* (2018) available at https://neweconomics.org/2018/07/disrupting-together

Ownership Matters Newsletter: "Building Worker-Centered Platform Ridesharing: A Conversation with The Drivers Cooperative's Erik Forman" (January 2022), available at https://ownershipmatters.net/newsletter-item/building-worker-centered-platform-ridesharing-erik-forman-the-drivers-cooperative/#continue-reading

The Drivers Cooperative website: https://drivers.coop

The New York Times: "A Worker-Owned Cooperative Tries to Compete With Uber and Lyft" (May 2021), available at www.nytimes.com/2021/05/28/technology/nyc-uber-lyft-the-drivers-cooperative.html

WeFunder crowdfunding platform: "Invest in the Drivers Cooperative: A ride-hailing platform owned by workers, not billionaire founders and venture capital," available at https://wefunder.com/driverscoop/buzz

Published by Start.coop, September 2022

Author: Júlia Martins Rodrigues

Editor: Christina Sturdivant Sani

This case study is based on interviews with current members of The Drivers Cooperative, internal business records, and publicly available documents for the benefit of Start.coop accelerator participants and the broader co-op community. Thanks to Erik Forman, Alissa Orlando, and David Alexis for their insightful interviews.