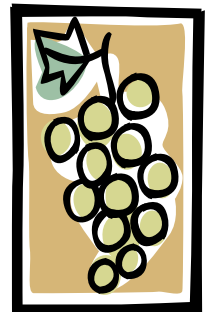
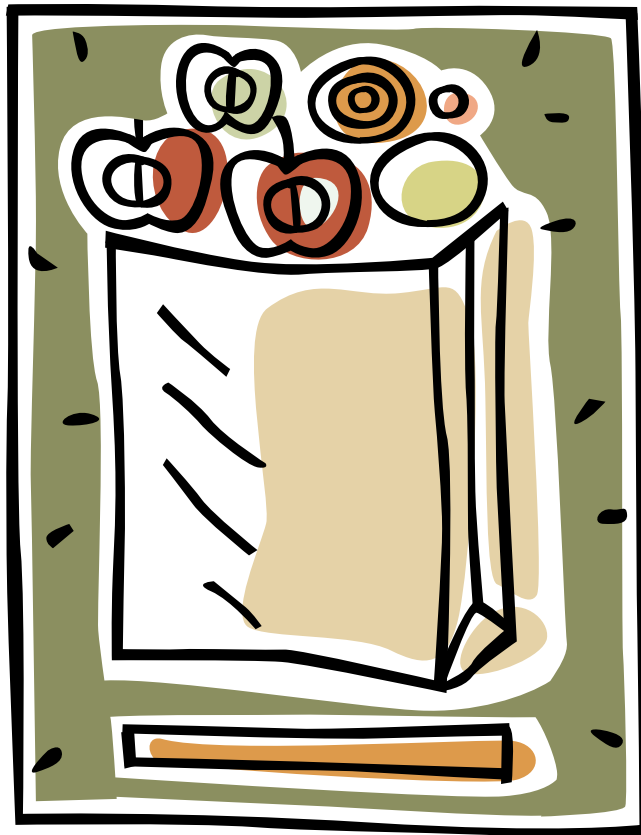
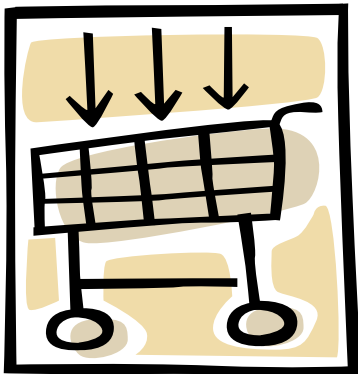


How to Start a



Food Co-op

by the Cooperative Grocers' Information Network

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**NOTE**

This guide is designed to give groups interested in starting a retail food co-op a basic overview of the steps and procedures they will need to follow. It is not an exhaustive or comprehensive reference document. It is intended to highlight the general factors critical to starting a successful co-op and to provide an understanding of the overall process. Readers are strongly encouraged to check additional references besides this guide. Resources are listed throughout the material; direct links to online resources are provided in the online version of this guide and will be updated there on a regular basis.

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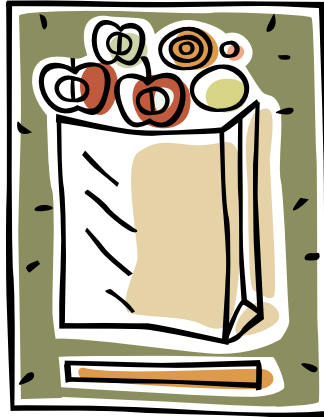


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# How to Start a



# Food Co-op

A guide from the  
Cooperative Grocers' Information Network

© March 2002

**written by Karen Zimbelman**

# table of contents

## I. Introduction

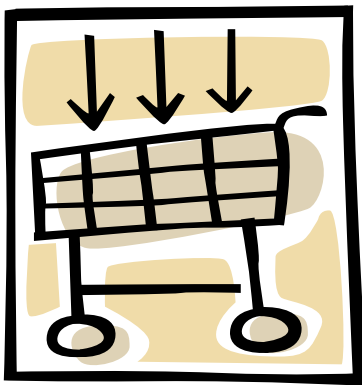
What is a co-op? .....	1
Values and principles common to all co-ops .....	3
What is a food co-op? .....	5
Different types of food co-ops .....	7
Why start a food co-op? .....	8
<b>Case Study: Root River Market Co-op</b> .....	9

## II. From Talk to Food

Nine steps to starting a food co-op .....	11
<b>1. Gather background:</b> Get information, identify needs, convene a core group of interested individuals. ....	13
<b>FYI:</b> <i> Holding successful meetings</i> .....	14
<b>FYI:</b> <i> Guidelines for meeting chairs or facilitators</i> .....	15
<b>2. Organize:</b> Hold a meeting of potential members to discuss needs and options. Select a steering committee to coordinate the group. ....	16
<b>FYI:</b> <i> Responsibilities of the steering committee</i> .....	17
<b>Case Study:</b> <i> Riverwest Co-op</i> .....	18
<b>3. Research feasibility:</b> Survey potential members and conduct market research. Prepare a feasibility study. ....	19
<b>FYI:</b> <i> Key elements of a feasibility study</i> .....	21
<b>Case Study:</b> <i> Boulder Co-op Market</i> .....	22
<b>4. Review findings and vote to incorporate:</b> Prepare and approve articles of incorporation and bylaws. Report on the results of the feasibility study. Elect a board of directors. ....	24
<b>FYI:</b> <i> About incorporating your co-op</i> .....	26
<b>FYI:</b> <i> Basic responsibilities of the co-op board of directors</i> .....	27
<b>Case Study:</b> <i> Oneida Community Market Co-op</i> .....	28

table of contents
-------------------

<b>5. Recruit members:</b> Hold meetings and prepare materials describing the co-op. Establish member investment options and conduct a member equity drive. ....	29
<b>FYI:</b> <i>A primer on consumer co-op membership</i> .....	31
<b>FYI:</b> <i>A recommended membership structure</i> .....	34
<b>FYI:</b> <i>About member loans</i> .....	36
<b>6. Planning and financing:</b> Prepare a detailed business plan and begin researching financing options. Identify possible locations and negotiate lease arrangements. ....	37
<b>FYI:</b> <i>A basic business plan—table of contents</i> .....	39
<b>Case Study:</b> <i>Monroe Street Grocery Co-op</i> .....	40
<b>7. Secure financing:</b> Finalize outside financing sources and terms. ....	42
<b>FYI:</b> <i>Methods of capitalization for cooperatives</i> .....	43
<b>8. Begin operations:</b> Hire a manager, locate fixtures and equipment, finalize layout, establish accounts with suppliers, set up the store. ....	46
<b>FYI:</b> <i>Sample general manager job description</i> .....	47
<b>Case Study:</b> <i>River Valley Cooperative Market</i> .....	48
<b>9. Open the doors!</b> .....	50
<b>Case Study:</b> <i>Midtown Food Co-op</i> .....	51
<b>III. Ensure Your Co-op's Success</b>	
Keys to success .....	53
<b>Case Study:</b> <i>Abundance Co-op Grocery</i> .....	56
Ten maxims for starting out right .....	58
<b>IV. Conclusion and Resources</b>	
Summary .....	60
Glossary of terms .....	61
Resources for further assistance .....	62



## I. Introduction

Cooperation is a simple idea—two or more people join forces to accomplish something they probably couldn't do alone. People work together in thousands of ways each day. For example, parents take turns watching each others' children so they can do errands, work, or have some time alone. Farmers help one another with barn raisings and at harvest time. By combining their efforts, by sharing responsibilities, by joining forces, people are able to accomplish many things.

A cooperative is an organization of people who work together for economic benefit. Cooperatives bring the idea of cooperation—working together—to the business world. The cooperative idea is one with many applications. For instance, to provide their children with high-quality preschool education, a group of parents may work together to hire a teacher and rent a facility. To borrow money at favorable rates, individuals and families may put their savings accounts together to create a credit union. Whether cooperation happens independently or through a business, the principle is the same. People working together can accomplish more than those working alone.

### What is a co-op?

A co-op is an organization that takes the idea of working together and puts it into a business structure. A cooperative is a business voluntarily owned and controlled by the people who use it—its members. It is operated solely for the benefit of its members, to meet their **mutual needs**. When groups of people have similar needs—such as the need for lower prices, more affordable housing, or access to telecommunications services—cooperatives offer great potential to meet those needs.

At its core, a co-op is a business. It is subject to the same needs and demands of any business: co-ops require sufficient financing, careful market analysis, strategic and comprehensive planning, well-trained and competent personnel. Co-ops are not immune to the market and economic forces that cause small businesses to struggle and fail.

But in several important ways, co-ops are also unique and different. Most distinctly, a cooperative business is owned by the people who use its services—the members. Co-ops may resemble other businesses outwardly, but the fact that they are owned by members makes them unique.

Although definitions of co-ops vary, they all contain the following elements:

- Co-ops are owned and controlled by those who use their services (the members).
- Co-ops are democratically governed.
- Co-ops are businesses, not clubs or associations.
- Co-ops adhere to internationally recognized principles.

A simple definition of a co-op:

*A co-op is a member-owned, member-controlled business that operates for the mutual benefit of all members and according to common principles established for cooperatives.*

There are three basic types of co-ops:

- **Producer co-ops** provide goods or services to members who are involved in producing products, such as farmers or artists.
- **Worker co-ops** are owned and controlled on a democratic basis by their employees.
- **Consumer co-ops** provide goods or services used primarily for personal consumption. Food co-ops are typically organized as consumer co-ops.

### for more information

**A Primer about Cooperatives** ..... <http://www.ncba.org/primer.cfm>

Basic information about cooperatives, including descriptions and examples of the three major types of cooperatives, an overview of co-op history, some statistics about cooperatives, and a general overview of how co-ops operate.

**Cooperatives 101: An Introduction** ..... <http://www.rurdev.usda.gov/pub/cir55/cir55rpt.htm>

A more detailed overview about the cooperative form of business.

**Basic Co-op Orientation** ..... <http://www.coop.org/kids>

A website oriented toward kids that explains co-ops in a down-to-earth way that everyone can understand.

**International Cooperative Alliance** ..... <http://www.coop.org>

The International Cooperative Alliance brings together cooperatives from over 100 countries. The ICA's web pages provide general information about cooperatives around the world.

**National Cooperative Business Association** ..... <http://www.ncba.org>

The National Cooperative Business Association's website provides a wealth of basic information about cooperatives in the United States.



## Values and principles common to all co-ops

Co-ops worldwide share a common creed. All co-ops share a fundamental respect for all human beings and believe that people can improve themselves economically and socially through mutual help. This basic philosophy has been developed into a list of seven principles that serve as guidelines for how cooperatives do business.

The principles were originally developed in the mid-1800s by groups struggling to provide unadulterated, quality food at fair prices when the market offered them very few options. As times have changed, the principles have been modified slightly, but the basic concepts have remained the same for over 150 years.

Recently, the International Cooperative Alliance (ICA) reviewed the cooperative principles and reformulated them. The “Statement on the Cooperative Identity,” approved by ICA members in September 1995, defines the standards by which all co-ops should operate.

The “Statement on the Cooperative Identity” begins with a values statement that describes the beliefs common to all cooperatives:

*Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.*

In addition to their common values, all co-ops share seven basic principles. These principles outline a democratic structure that can be adapted to businesses providing many different kinds of services and products. Two of the seven principles describe who owns a co-op, two describe how decisions are made, and three list specific ways that co-ops put their beliefs into action.

The seven co-op principles are:

### Ownership

#### 1. Open and voluntary membership

Co-ops do not limit, for any social, political, or religious reasons, who may join and become a co-owner of the co-op. Co-ops are open to anyone who can make use of their services and is willing to accept the responsibilities involved.

#### 2. Member economic participation

This principle combines many concepts, all based on the idea that co-ops—and their money—are owned and controlled by their members. Concepts covered:

- Members provide the basic capital (money) to start and operate the co-op.
- If co-ops pay dividends to their member-owners, the rate must be limited.
- Surplus, or profit, resulting from the operations of the co-op belongs to the members, and they control how it will be distributed.
- If a co-op’s surplus is returned to members, it will be distributed in proportion to the amount of business each member has conducted with the cooperative.

## Decision making

### 3. Democratic member control

All co-op members have equal voting and decision-making power in the governance of the business, on the basis of one vote per membership.

### 4. Autonomy and independence

Cooperatives are independent self-help organizations controlled by their members. They limit the influence of outside agencies or business partners to ensure their independence.

## Special practices

### 5. Education, training, and information

Co-ops have an obligation and need to educate members about co-ops. This mandate also encompasses educating the general public, young people, and community leaders about the nature and benefits of cooperation.

### 6. Concern for community

While member needs are their primary concern, cooperatives also work for the sustainable development of their communities.

### 7. Cooperation among cooperatives

To bring the theory of working together full circle, co-ops recognize the vital importance of working with other co-ops—locally, regionally, nationally, and internationally. Through these efforts, co-ops try to help each other—to strengthen their economic positions and to contribute to the co-op movement. This principle of “cooperation among co-ops” extends the idea of working together to the organizational level.

## for more information

**About the Co-op Principles** ..... <http://www.ncba.org/values.cfm>

The actual text of the principles, as approved by the International Cooperative Alliance in 1995.

**Co-op Principles** ..... <http://www.coop.org/ica/info/enprinciples.html>

A complete presentation of the “Statement on the Cooperative Identity,” as approved by the International Cooperative Alliance in 1995.

**Tutorial about Cooperatives**

..... <http://www.mbrservices.com/coopknowledge/co-opprinciples.index.htm>

An online tutorial about cooperatives and the co-op principles.

## What is a food co-op?

In simplest terms, a food co-op is a co-op that buys food and household items for its members. The co-op helps members obtain access to products of desired quality at the best possible price. Food co-ops offer consumers a retail environment free of coercive sales influences and with full disclosure of product qualities and value.

Food co-ops typically operate out of retail facilities. Most are open to anyone who wishes to shop there, though they may provide special services, prices, or benefits to members only. Food co-ops may also offer a wide range of products and services aside from groceries, including pharmacies, dry cleaning, travel services, cooking and nutrition classes, housewares, food service and catering, gas stations, etc.

### ■ Hanover, New Hampshire

In the mid-1930s in Hanover, New Hampshire—as in all communities across the United States—times were hard. Families struggled to make ends meet. Spending \$8 or \$9 per week on groceries was considered excessive and beyond the means of most families. Fresh fruit and vegetables were of poor quality or expensive luxuries. In 1935, 17 residents of this small, remote community gathered in the high school to discuss the idea of starting a consumer co-op. The co-op could help them reduce their grocery costs and would purchase products that were otherwise unavailable. In January 1936, the group formally established the Hanover Consumers' Club. The club started by buying fresh citrus direct from Florida. Any savings were shared among all group members. Before long, the group also negotiated discounts for members on bread, table wine, canned vegetables, gasoline, and fuel oil. Members shared information on where to get good values for services such as haircuts, tailoring, and skate sharpening. The club was successful and quickly outgrew its space in a basement garage. One year after it started, the co-op moved into a retail location; its first-year sales were \$11,400. Today the Hanover Co-op operates two supermarkets, a full-service gas station, and a convenience store. It employs over 300 people and serves 20,000 member households (31,000 members). In 2001, total sales reached more than \$42 million.

### ■ St. Peter, Minnesota

Typical of many “new wave” co-ops, St. Peter Food Co-op was influenced in its early years by the social and cultural forces of the 1960s and 1970s. Interest in natural foods was growing, but there were few sources in St. Peter for these products. A group of residents decided to set up a co-op to meet the need for natural foods. For months, volunteers collected financial contributions from members, built shelves, located used equipment, and got things ready for a new store. When the co-op opened its doors in July 1979, its membership had grown to 60. The co-op's early inventory consisted mostly of bulk foods, including beans, grains, flours, dried fruits and nuts, whole-grain baked goods, and occasionally local produce. For the first two years, member volunteers took care of ordering, receiving, stocking, bagging, cashiering, record keeping, and everything else. Today St. Peter Food Co-op operates a thriving store and deli in the heart of the city. Its 800 members enjoy a wide range of products, and the co-op employs a staff of 40. In 2001, sales totaled around \$1,200,000.

■ **Sacramento, California**

In the early 1970s, a number of buying clubs in the Sacramento area helped people gain access to natural foods. The club that eventually became the Sacramento Natural Foods Co-op was formed in 1972. The group met once a month to place bulk orders from a wholesaler and met again a week later to split the purchases among themselves. In September 1973, the group incorporated as a consumer co-op. The co-op began retail operations at 16th and P Streets and quickly expanded into neighboring space. As the co-op grew in popularity and sales volume, it soon became obvious that a new location would be needed. In 1975 the co-op moved to a site with 6,100 square feet of retail, storage, and office facilities. Sales and membership continued to grow, until the co-op once again relocated in May 1989. The co-op now operates out of a 17,000-square-foot facility. It employs 130 staff members to serve almost 7,000 members. Annual sales are approaching \$15 million.

Although there are no precise statistics, approximately 300 food co-ops operate in the United States. The majority of these co-ops sell primarily natural foods. However, some co-ops offer a full line of groceries, sometimes combined with natural foods. The total annual sales volume of food co-ops in the United States is estimated at \$700 to \$750 million.

**for more information**

**About Food Co-ops** ..... <http://www.ncba.org/food.cfm>

All about U.S. food co-ops, including links and background of general interest.

**Cooperative Grocers' Information Network** ..... <http://www.cgin.org>

CGIN is a nonprofit association of North American food co-ops. The website provides general information, resources, and links for food co-ops, as well as a library of materials for members only. CGIN also operates a listserv open to anyone interested in food co-ops.

**Cooperative Grocer** ..... <http://www.cooperativegrocer.com>

Cooperative Grocer magazine is published every other month. Articles cover operations, relocation, expansion, and other topics related to food co-ops. The magazine also conducts an annual operations survey. The website offers an index of all back issues and articles, many of which are also available online.

**University of California Center for Co-ops** ..... <http://www.cooperatives.ucdavis.edu/what/food.html>

An overview of information about food co-ops, focused on the West Coast.

**Directories of Food Co-ops**

■ **Cooperative Grocer** ..... <http://www.cooperativegrocer.com/coopdir.html>

■ **CGIN** ..... <http://www.cgin.org/links.html>

■ **NCBA** ..... <http://www.ncba.org/food/cfm>

## Different types of food co-ops

Most consumer food co-ops fall into two categories: conventional and direct charge. (Note that “conventional” does not refer to product line in this instance.) All the co-ops profiled in the previous section are conventional co-ops, and this manual is designed for groups interested in starting conventional co-ops. Some sections may apply to direct charge co-ops, but membership, operations, and financial practices are very different for conventional and direct charge co-ops. (Note that there are very few direct charge co-ops in the United States. They are much more common in Canada.) Those interested in starting a worker co-op or retail store may also find some applicable material, but this manual is not intended for those groups either.

### Features of a typical conventional consumer co-op:

- The store is open to member and non-member shoppers.
- Shoppers may join the co-op as member-owners.
- Prices are set to cover all costs and should be competitive with the market.
- Members are required to make an equity investment to join the co-op. Most commonly, that investment is a fixed amount, and once the member has paid, no further investments are needed. Equity is refunded to members upon termination of membership. For more information, see “A Primer on Consumer Co-op Membership.”
- Members will receive special benefits; some co-ops may establish specific requirements (e.g., working in the store) for members to receive these benefits.

### Features of a direct charge food co-op:

- The store is open only to members.
- Those interested in joining the co-op will be required to make an equity investment.
- All members are required to pay a weekly fee (the “direct charge”) to cover the co-op’s fixed costs (overhead, administration, supplies, facilities, etc.). All members are assessed an equal share of the direct charge.
- With fixed costs covered, the co-op marks up items only to cover variable expenses, resulting in very low (in comparison to market) prices to members.

## Why start a food co-op?

Individuals start food co-ops for a wide variety of reasons. It's important to clearly identify why a co-op would be a good idea for your group. Food co-ops are especially valuable to consumers when:

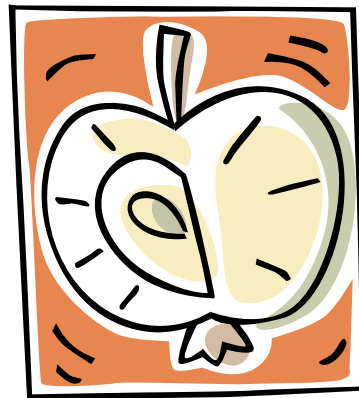
- access to a unique or specialized product line is restricted
- privately owned or chain food stores are closing
- a locally owned store could better serve consumers' needs than a chain store
- existing stores offer few choices, high prices, or poor service
- a locally owned store would help keep money within the community

Starting a food co-op will take a lot of work. But the rewards are many. Be very sure that your needs are clearly defined so that your co-op has the best chance of being successful.

### for more information

**Reasons for Starting a Co-op** ..... <http://www.wisc.edu/uwcc/icic/def-hist/def/five.html>

Describes five good reasons for starting a co-op





## a case study

### Root River Market Co-op

The small rural community of Houston, Minnesota, population 1,100, was confronted with a dilemma when the town's only grocery store closed in October 1998. With the store's closure, the community was left without local access to basic goods. The nearest full-service grocery store was 12 miles away—a very difficult commute for senior citizens with limited mobility and transportation options. The need for a full-service grocery store in Houston was urgent. In addition to convenience, residents wanted to patronize a locally owned store and to invest their money in their own community, rather than nearby towns.

The town owned the 7,200-square-foot building that had housed the closed grocery store. While other businesses were interested in renting the building, the city council felt it was important that it remain a grocery store. And since the store's closure had been caused by personal reasons, not a lack of business, the prospects of a successful store at the site seemed good.

Concerned citizens began looking for a new proprietor for the store. They approached a community member who had experience in the grocery business, but he declined, citing the large financial risk involved with running the store alone. Several citizens realized that if they created a cooperative (a concept familiar to many in the rural area), the whole community could share the financial risk. They approached the same community member again, asking if he'd be interesting in managing a cooperatively owned store. He was excited about the idea. They formed an official planning group and began formal steps to organize the co-op, naming it Root River Market Cooperative (RRMC). They elected a board of directors, and the first shares were sold to members on July 1, 1999.

Larry Connery, RRMC's treasurer, said, "During the initial phases of the development of the co-op, we were lucky to have a good manager and diversified board with familiarity with grocery, business, and finances. We worked well together and had a common goal. We all had different talents, and if we made a mistake we admitted it. We also addressed community concerns, dispelling rumors that got started about the co-op as soon as possible."

Initially, some community members had worried that the co-op would be an exclusive store and would carry just a limited line of products. Others had heard that food co-ops carried only organic or natural foods. Many people wanted assurance that the co-op would supply a full line of groceries, just as the old store had. The board addressed these issues directly and made it clear that as a member-owned store, the co-op would be guided by its customers. They stressed that the co-op would be a full-service grocery and would serve the needs of its members and the entire community as well as possible.

Getting the word out about the co-op wasn't difficult. People began to hear about the store quickly, and local newspapers, radio stations, and television stations were soon calling the organizers for more information. Members set up a booth at the annual town Hoe Down festival and talked with visitors about the co-op and its mission.

The organizers worked on logistics throughout the following year. They consulted with a cooperative development specialist and worked with a co-op wholesaler on startup details. In May 1999, with money obtained through a loan, the co-op hired a general manager, who coordinated the details of selecting product, acquiring equipment, and making repairs to the facility in preparation for opening the store.

Funding for the co-op was secured from a variety of sources. Members loaned and donated \$150,000. This amount enabled the co-op to obtain a \$200,000 loan from the Northcountry Cooperative Development Fund, a participation loan that also involved the National Cooperative Bank. In total, the cost to get the store started and open was \$400,000.

Root River Market Cooperative opened its store on November 6, 2000. About a year later, the co-op's membership stands at 408 households, each investing \$100 in membership shares. The co-op continues to be a community effort, with all members and shoppers committed to making it a success and to keeping a full-service grocery store alive and well in their town.

**Root River Market — at a glance**

- Date of first co-op meeting ..... July 1999
- Number of initial organizers ..... 9
- Date incorporated ..... October 1999
- Size of store ..... 7,200 square feet (total)/5,200 square feet (retail)
- Required member investment ..... \$100 (individual or household)
- Date store opened ..... November 6, 2000
- Number of paid staff ..... 15
- Total sales ..... \$20,000 in first week  
\$23,000 per week after one year
- Number of members ..... 408

Information compiled November 2001



## II. From Talk to Food

### Nine steps to starting a food co-op

Every co-op starts with an idea. One or two people see a need and envision a way to meet that need. Whether that need is for members to receive better prices, to gain access to new products, or to obtain specific services, the need must be clear.

Starting a co-op is just as complex and time consuming as starting any business. To be done properly, it can't be rushed. Most experts estimate that starting a co-op typically takes at least two years. As with any new business, starting a co-op will involve thorough and careful business planning.

Responsibility for starting a co-op and seeing it through rests mostly with a leadership group. That group will serve as the spark to keep the new co-op going and to help guide it to success. Careful planning, thorough work, and patience will provide the co-op with a strong foundation and increase the likelihood of success.

All new co-ops will need to take the following steps, although the order may vary slightly, especially when the co-op decides to incorporate and begin recruiting members. And keep in mind that some of the work identified in these steps, such as member recruitment, is ongoing.

### Steps in Organizing a Food Co-op

1. Gather background: get information, identify needs, convene a core group of interested individuals
2. Organize: Hold a meeting of potential members to discuss needs and options. Select a steering committee to coordinate the group.
3. Research feasibility: Survey potential members and conduct market research. Prepare a feasibility study.
4. Review findings and incorporate: Prepare and approve articles of incorporation and bylaws. Report on the results of the feasibility study. Elect a board of directors. Begin initial member fund-raising.
5. Recruit members: Hold meetings and prepare materials describing the co-op. Establish member investment options and conduct a member equity drive.
6. Planning and financing: Prepare a detailed business plan and research financing options. Identify possible locations and negotiate lease arrangements.
7. Secure financing: Finalize outside financing sources and terms.
8. Begin operations: Hire a manager, locate store fixtures and equipment, finalize layout, establish accounts with suppliers, and set up the store.
9. Open the doors!

for more information

**Overview of the Steps to Start a Co-op** ..... <http://www.ncba.org/getstart.cfm>

A summary of the steps outlined in a book called How to Organize a Cooperative.

**How to Organize a Cooperative** ..... <http://www.rurdev.usda.gov/rbs/pub/cir7.cir7.pdf>

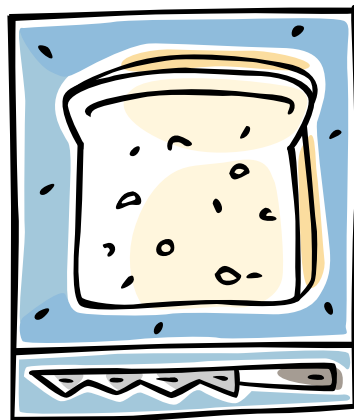
A general overview of how to organize a cooperative. Developed for all co-ops, but with primary applicability to agricultural cooperatives; written by the U.S. Department of Agriculture.

**How to Organize a Cooperative** ..... <http://www.wisc.edu/uwcc/manual/cover.html>

The University of Wisconsin Center for Cooperatives and Cooperative Development Services created this detailed resource covering all aspects of starting a new co-op.

**How to Start a Co-op** ..... <http://www.ncb.org>

Click on “How to Start a Co-op” for an overview and links to other resources.



## Step 1. Gather Information

*Collect information and assess interest, identify common needs, and convene a core group of interested individuals*

**Goal:** To gather basic information about food co-ops and to assemble a leadership group to research feasibility and prepare the groundwork for starting a co-op

### What to do:

- Gather basic information about cooperatives and how to organize a food co-op. Review it carefully so that you have a basic idea of what lies ahead.
- Gather information about misconceptions about co-ops as well, so you can be prepared for some of the fallacies you may encounter in future steps.
- Discuss how a co-op could meet your needs with friends, neighbors, and other community members.
- Hold meetings to assess interest in the new food co-op and to tell potential members how a co-op might work.
- Gather information about local and regional resources that may be helpful to your group, especially people who can advise your group, make presentations at meetings, and provide technical assistance at various stages.
- Collect basic information about operating a food co-op in your community—e.g., the cost of retail space, health codes that might apply to your business, the potential market in your area.
- Contact other food co-ops in your local area or region. See what help they may be able to provide. Ask whether one of their members can serve as a resource to your group, explaining how co-ops operate or how to get organized.

### Keep in mind:

This step will primarily involve a core group of individuals. The information and background you gather will be used in the next step, when you will publicize and try to gather/assess further interest in the community.

Avoid a common pitfall of new co-op groups: trying to locate a potential site too early in the planning process.

Your group must be prepared to make a reasonable offer or commit to a long-term lease on a facility. To do that, you will first need to develop a membership base, establish feasibility, and secure a base level of financing.

### Key Decision:

*Do we have sufficient information about how co-ops operate? Does it seem like a co-op would meet our needs?*

Does the information you've collected support the idea enough to justify further research? Does the co-op business structure fit your group's needs?

## for more information

### Anatomy of Great Meetings

..... [http://www.3m.com/meetingnetwork/readingroom/meetingguide\\_anatomy.html](http://www.3m.com/meetingnetwork/readingroom/meetingguide_anatomy.html)

Suggestions for organizing and holding productive and interesting meetings.



## Holding Successful Meetings

### *Some General Guidelines*

#### **Before the Meeting**

- Choose a time and location that will be convenient for everyone involved. Make sure all individuals know the time and location.
- Publicize the event widely. Put up signs on local bulletin boards, especially places potential members are likely to go. Send press releases about the meeting to local media; include the name of a contact person. Encourage word-of-mouth promotion.
- Be well prepared. Do your homework on the issues to be discussed. Clearly define the goals of the meeting.
- Choose a facilitator and note taker in advance. (Groups that meet regularly may consider rotating the facilitator to give more people a chance to develop facilitating skills.)
- Prepare a written agenda and distribute it ahead of time if possible. For informational meetings (to determine whether there is interest in the co-op), prepare a handout with the names and phone numbers of the core group.

#### **Sample basic agenda**

*Introductions and agenda review*  
*Background and reports*  
*Discussion and decisions*  
*Set the next meeting date/time*  
*Adjourn*

- Assign times for each agenda item. Make sure the meeting's goals are realistic for the time allotted. In general, it's best to limit meetings to two hours.

#### **At the Meeting**

- Make sure the meeting is friendly and welcoming. Serve refreshments. Meet in a pleasant place. At community meetings, have someone greet people as they show up and ask them to sign in.
- Start the meeting on time. Review the purpose and goals of the meeting. Have all participants introduce themselves to the group.
- Arrange for someone to take minutes. The minutes should clearly record when and where the meeting took place, what the group discussed and decided, and what issues were considered in making decisions.
- Post the agenda or hand out copies to everyone. Review the whole agenda, explaining items as needed. Ask for additions to the agenda and then ask for approval. Set the ending time for the meeting, if it is not already fixed.
- Choose a skilled facilitator who can ensure that your meeting will be effective, productive, and inclusive. End the meeting on time.

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## Guidelines For Meeting Chairs or Facilitators

*Facilitators are not authority figures or resource people. The role of the facilitator is to make sure the group accomplishes its goals in a democratic fashion. It is generally best for the facilitator to remain neutral in specific discussions.*

- Call the meeting to order on time. Review the agenda and the goal of the meeting. If appropriate and if time allows, ask participants to introduce themselves.
- Introduce each agenda item and call on those making presentations. Go through the entire agenda item by item.
- Keep the discussion on the topic but encourage participants to express themselves. Encourage the expression of various points of view. Call attention to disagreements. When handled openly, different opinions can yield creative solutions. Ask people to speak for themselves and to be specific. Steer them away from statements such as “Some people think . . .” and “What he is trying to say is . . .”
- Make sure the discussion doesn’t get stuck on a specific item. If the group doesn’t have enough information, cut off discussion and choose someone to follow up with more information or a recommendation at a future meeting. If discussion wanders off the topic, remind the group of the agenda item and the objective for the discussion.
- Make sure that everyone has a chance to speak and that one or two people don’t monopolize the discussion. Occasionally, check in with those who are being quiet and ask their opinions. Encourage open discussion that allows for disagreement but doesn’t tolerate personal attacks.
- Handle any voting needed. Before a vote is taken, clearly state the motion or proposal. Call for a show of hands. If the vote is close, ask someone to verify the vote by counting hands or ballots.
- If the meeting is taking longer than anticipated, decide as a group how to proceed—to either extend the meeting or reschedule some agenda items for the next meeting.
- Conclude the meeting on a note of achievement. Remind participants of actions taken, decisions made, and follow-up needed. Ask participants to evaluate the meeting. Even simple suggestions about what went well and what could be improved will enhance your next meeting.
- Schedule the next meeting and remind participants of its date, time, and location.
- End the meeting on time or as close to on time as possible.

### Preventing Disruptive Behavior

- Get general agreement on the agenda before beginning the meeting.
- Set ground rules for behavior (no interruptions, everyone gets a chance to participate, speakers will be concise, follow time limits, etc.)
- If someone’s comments are off track, remind everyone of the goals of the meeting: “That’s an interesting point, but today we’re discussing . . .”
- If someone dominates the discussion, explain the importance of full group participation and call on others for comments.
- Take short breaks, if needed, to relieve tension.
- For problems or issues that can’t be resolved on the spot, set up committees rather than using the full group’s time.

—portions adapted from “Facilitating Meetings” by Gayle Haberman (unpublished handout)

## Step 2. Organize

*Hold a meeting of potential members to discuss needs and options. Select a steering committee to coordinate the group.*

**Goal:** To assess whether there is enough interest in a co-op to justify further research and planning

### What to do:

- Hold an informational meeting for people who may be interested in a co-op. Publicize the time and purpose of the meeting as widely as possible—through your local paper, word of mouth, radio, employment office, etc. Make the meeting time, date, and location as convenient as possible.
- Plan a clear program for the meeting and select a meeting chair.
- Have someone explain the community's basic need and discuss how a co-op might meet that need. Distribute one or two simple handouts summarizing the basic idea of the co-op. Include the names and phone numbers of core group members.
- Consider inviting guests who can provide support or more detailed background information, such as directors or managers of area co-ops, business leaders or educators familiar with co-ops, or elected officials.
- Allow plenty of discussion time so that people can ask questions and express their views. Be as clear and specific as possible. Be realistic about what the co-op can and can't do—especially in its early stages.
- Ask for participants to indicate their interest in the co-op by a show of hands.
- If there is interest, elect a steering committee.
- Spend some time carefully discussing the purpose or mission of the new co-op. Write a mission statement. Be sure it is clear and concise.

### Keep in mind:

Many new food co-ops find it valuable to start a buying club at this stage. If the co-op will be focusing on a specific product line, the club can access that line immediately and establish a track record with key suppliers. The club can also develop a core membership base and sometimes a small financing base.

Make sure that common needs are defined broadly enough to ensure success; a narrow focus can be very limiting. Conversely, trying to accomplish too much can prevent the focus needed for business success.

### Key Decision: *Is there sufficient interest in a co-op?*

Is there a clear need for a food co-op in your community? Is there sufficient interest among potential shoppers and community members? Are people willing to work together to meet their common needs?

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## Responsibilities of the Steering Committee

*for a startup co-op*

### Overall Responsibility

The steering committee will coordinate all tasks needed to move the co-op from its early stages through the establishment of more formal structures. Depending on the group's time and resources, the committee may do the following tasks itself, or it may contract with outside consultants for professional assistance.

### Specific Responsibilities (of the committee as a whole)

- Coordinate all research and information gathering
- Survey potential members
- Establish a membership structure and recruit members
- Oversee collection of market research and studies to determine the co-op's feasibility
- Ensure completion of a feasibility study, including financial projections
- Explore options for financing and pursue initial inquiries with financing agencies
- Report on the committee's progress to members and coordinate membership meetings as needed
- If initial research shows that a co-op is feasible, oversee preparation of a business plan
- Handle public relations, including inquiries from the media and publicity about the co-op's accomplishments and progress

### Suggested Subcommittees

- **Planning Committee:** Conducts the feasibility study, researches locations, handles real estate negotiations, coordinates operational planning (research on equipment, local regulations, suppliers, etc.), coordinates preparation of a business plan
- **Finance Committee:** Develops financial projections, researches funding options, coordinates a campaign for member loans
- **Membership Committee:** Researches membership structures, prepares membership administration paperwork, coordinates recruitment of new members, organizes membership communications (newsletters, websites, etc.) and meetings, surveys members, plans outreach to the community

a case study

## Riverwest Co-op

In the Riverwest neighborhood of inner-city Milwaukee, a group of people held a general community meeting in the fall of 1998. The neighborhood had gradually been deteriorating. Organizers proposed starting a natural foods co-op as a way to help revitalize the area and to bring healthy food to their neighborhood. Those in attendance voiced strong support for a co-op. Inspired by this interest, eight organizers formed a steering committee. They began meeting once a week to develop plans for the co-op.

In the early stages, each committee member took on a specific task, such as researching locations, researching bylaws, recruiting members, finding distributors, and learning more about the role of a co-op board of directors. The committee began holding festive community fund-raisers during holidays. As word spread about the new co-op, interest grew. But the challenges were many. In the words of Sarah Ditzenberger, a member of the co-op’s board of directors, “This community really wanted a co-op in the neighborhood. But it took a strong commitment from everyone to build something without a lot of money.” After two years of planning, the store was still not opened, so organizers formed a buying club to keep interested members connected and to give them access to natural foods.

The total cost to get the co-op started was about \$67,000, and due to some very fortunate circumstances, the co-op had to raise very little of it. A member purchased the building for \$50,000 and paid for the rent, utilities, and renovations needed to get the co-op started (\$15,000). All appliances and labor were donated. The co-op had to raise only enough money to purchase its initial inventory—\$2,000.

The store opened on November 3, 2001. At that point, the buying club was discontinued, and all of its members automatically became members of the co-op store. Currently, Riverwest Co-op is run solely by member-workers who volunteer their time—all members work at least four hours a month. At this point, the co-op has 150 members and is open only a limited number of hours each week.

### **Riverwest Co-op** — at a glance

- Date of first co-op meeting ..... Fall 1998
- Number of initial organizers ..... 8–10
- Date incorporated ..... November 2000
- Size of store (projected) ..... 1,175 square feet (total)
- Required member investment ..... \$100 share, with option to pay in monthly installments
- Store opening date ..... November 3, 2001
- Number of paid staff ..... 0
- Total sales ..... \$600/week in the first month
- Number of members ..... 150

Information compiled November 2001



## Step 3. Research Feasibility

*Survey potential members and conduct market research. Prepare a feasibility study.*

**Goal:** To assess whether the proposed co-op is likely to be successful and beneficial to its members

**What to do:**

Conduct initial research on the need for a co-op, potential membership and volume of business, facilities, operating costs, capitalization and sources, and other issues.

**1. Survey potential members.** This survey is the basis for all of your work from here on; be as thorough as possible and take the time needed to do a good job. Identify common needs and the co-op's potential for sales. Survey potential members by phone or face-to-face. If possible, consider hiring professionals to assist with survey design and compilation. A poorly designed survey or misleading presentation of data can be ruinous for a new co-op group.

**2. Collect and compile information.** This step involves a lot of work. If the group is doing the work itself, consider dividing the tasks and assigning them to individuals or subcommittees. Tasks might include:

- Meeting with other co-ops in the area or similar types of co-ops in other areas
- Learning about similar businesses and how they operate
- Identifying possible sources of funding, such as grants and loans
- Getting help from outside experts and consultants with experience in starting new businesses and new co-ops
- Researching potential sources for assistance: local suppliers, local universities or business programs, economic development agencies, chambers of commerce, related groups

**3. Assess feasibility.** A feasibility study should address four areas:

- The feasibility and capacity of the market area
- The internal readiness of the group to carry out the project
- Basic financial needs and potential
- The feasibility of the proposed design and project specifics

**4. Preparing the feasibility report:** The committee will need to compile the information it has collected. (For a list of areas to address in your feasibility study, see the outline that follows.) Outside experts and consultants will be invaluable in helping prepare this information. Depending on the conclusions of your feasibility study, you may wish to hold another community meeting to report on the results of the study and to make a group decision about how to proceed.

**Keep in mind:**

You may want or need to gather financial support from potential members at this stage. You might ask potential members to invest \$100 to show their commitment, with the promise that the co-op will return \$80 to \$90 if the feasibility study shows that the co-op will not be successful or if the organizing drive falls short. Be sure to keep good records and return the money as promised if necessary.

Asking members to commit to buying a certain amount per month from the co-op can be a valuable indicator—much more useful than industry standards in projecting potential sales. You'll know that your members will actually use the co-op if and when it opens.

**Key Decision:** *Is there sufficient interest in and market for a co-op?*

Does the feasibility study indicate that a co-op could succeed? Do the initial financial projections make sense and justify starting a new co-op?

**for more information**

**Feasibility Study for a New Co-op** ..... [http://www.wisc.edu/uwcc/manual/chap\\_5.html](http://www.wisc.edu/uwcc/manual/chap_5.html)

A detailed overview of feasibility studies, what they cover, major components, how to prepare a study, and how to do market analysis.

**Excerpts from Sample Co-op Feasibility Studies** ..... [http://www.wisc.edu/uwcc.manual/app\\_f.html](http://www.wisc.edu/uwcc.manual/app_f.html)

**Five Components of a Feasibility Study** ..... [http://www.rurdev.usda.gov/pa/BI\\_feasibility.study.htm](http://www.rurdev.usda.gov/pa/BI_feasibility.study.htm)

An outline of the five components of a well-developed feasibility study.

**Guidelines for Conducting Surveys** ..... [http://www.wisc.edu/uwcc/manual/app\\_e.html](http://www.wisc.edu/uwcc/manual/app_e.html)

A comprehensive overview on how to design and conduct a survey.

**Assessing Project Feasibility** ..... <http://www.wisc.edu/uwcc/info/coopgro/pre2001/assess.html>

How to assess the feasibility of an expansion or relocation project—primarily geared toward existing food co-ops.

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## Key Elements of a Feasibility Study

A feasibility study will need to cover all of the following areas:

### Common needs

- What are the potential members' common needs?
- What products and services will the co-op provide?

### Market potential and strategy

- What market capacity exists in the co-op's area of operation?
- What kind of competition will the co-op face?
- How will the co-op distinguish itself in the market? How will it be different from competitor stores?
- What are the financial benefits to the members of the co-op?

### Operations

- How would such a co-op work?
- Who are the co-op's primary suppliers?
- What services will the co-op offer?

### Financial needs and sources

- How much money will be needed to get started? What will this money be used for?
- What are the approximate costs of operating such a co-op?
- Will the co-op's operations justify and cover the costs, including debt service?
- How much money could come from members initially and how much from other sources?  
In the long run, how much will members have to contribute to the base capital of the co-op and how will the money be collected?
- What are the options and costs for obtaining outside financing?

### Startup needs

- What will it take to get the co-op started, in terms of lead time, availability of facilities, seasonal production cycles, etc.?
- What management skills will be needed?
- What facilities will be needed; what will they cost and are they available?

## a case study

### Boulder Cooperative Market

In Boulder, Colorado, a vegetarian natural foods store called the Crystal Market closed on November 1, 1999. The closing left the community without a locally owned source for natural foods. Concerned patrons decided to form a co-op, the Boulder Cooperative Market, to take over operations in the same location. But the property owner wanted a new tenant in just a month, and that wasn't enough time for the co-op to recruit members, raise money, obtain financing, and take over the facility. Though the organizers lost the chance to take over that store, they collected the names of about 1,000 people interested in forming a co-op. A core group decided to pursue the idea.

During the next two years, a steering committee focused on developing a feasibility study, building membership, writing a business plan, finding a location, and raising money. After making offers on three locations of 5,000 square feet or smaller, the committee found a 12,000-square-foot site in their preferred area for less than half the rent of many other locations. While the site needed lots of work, the group had many enthusiastic volunteers ready to pitch in. The co-op's market research indicated that offering a wide selection of products would make the store more competitive and would help get greater volume discounts from distributors.

The initial organizing group was made up of around 40 people. Organizers borrowed office space and set up a campaign to recruit members by telephone. They called residents who had indicated support for the co-op at various community events, and they purchased the local Green Party's list of registered voters. In total, they contacted around 3,000 people. More than 400 became members. They followed up this work with newspaper and radio publicity and a website. Two local papers each donated \$10,000 in advertising space, and natural foods stores put up the group's posters. Over the next eight months, the co-op's membership increased to 800.

One of the group's biggest challenges was to maintain the support of members and to sustain enthusiasm for the project throughout the long process of organizing. Steve Phillips, a co-op board member and its managing coordinator, noted: "First, you need to keep up your communications to members. Second, you keep finding new people who want to help. Some of those who dropped out since the beginning will come back when things get closer to being real."

Phillips also noted the importance of doing thorough research before making too many decisions: "When you begin organizing a co-op, do extensive research on membership structure, bylaws, how to build community support, financing options, and an assessment of the project's feasibility. Get the word out about the co-op in every way as soon as possible. Attending co-op conferences and talking with other co-op managers has also been very beneficial for me."

A market analysis commissioned by BCM concluded that it would need at least 1,000 members who would purchase approximately \$100 per month from the co-op. In addition, the co-op planned to get 30 percent of its sales from non-members. The market study projected that the co-op could break even at sales of \$200 per square foot and that it had the potential to achieve sales of close to \$400 per square foot.

Before opening its doors, BCM made some changes to its initial membership system. Originally, it had planned to give members a 5 percent discount on all purchases. However, after researching this idea in more detail and discussing it with other co-ops, organizers realized that it might not be feasible, especially in a competitive market such as Boulder. Instead, they created a program with five major benefits for members:

1. A 5 percent discount one day each month
2. Member-only specials on selected items
3. Annual patronage refunds based on profits earned by the co-op and distributed to members after the end of the year
4. Substantial discounts on full case or bag purchases
5. Reduced or free registration for classes and co-op events

Communication was an important part in the organizing process. Quarterly newsletters updated members on the co-op's progress. A website also offered news and information. Once the co-op opens, projected for May 2002, monthly newsletters will be sent to all members.

The projected total cost to open the co-op now stands at \$700,000. Potential funding will come from member investments and loans, donations, a city grant, and lenders. The co-op is currently negotiating financing with the Northcountry Cooperative Development Fund, as well as with suppliers. A number of food manufacturers have offered to contribute enough product to stock the co-op's shelves one time, as long as the co-op agrees to carry the products for one year.

Steve Phillips's advice to those organizing a new co-op: "Keep your ego out of the process. Focus on the co-op as a community project. Be patient in working with people. Look to your heart for spiritual guidance. You cannot forget the business side, but there is a lot more to this than business."

### ***Boulder Co-op Market*** — at a glance

■ Date of first co-op meeting .....	November 1, 1999
■ Number of initial organizers .....	40
■ Date incorporated .....	April 2000
■ Size of store (projected) .....	11,800 square feet (total)/8,500 square feet (retail)
■ Required member investment .....	\$250 individuals; \$350 households
■ Planned store opening .....	May 2002
■ Number of paid staff (projected) .....	20–25
■ Total sales (projected) .....	\$26,000/week for first month \$42,000/week after one year
■ Number of members .....	760
■ Website .....	<a href="http://www.bouldercoop.com">http://www.bouldercoop.com</a>

Information compiled November 2001

## Step 4. Review Findings and Incorporate

*Hold a meeting of potential members to report findings. Vote on whether or not to proceed. If the vote is positive, vote to incorporate the co-op.*

**Goal:** To present the report and findings of the steering committee. To decide whether or not the co-op makes sense and to gain the commitment of members to proceed. To formally begin the co-op and to accept the articles and bylaws (basic rules).

### What to do:

This step will probably require more than one membership meeting. Be sure to plan meetings carefully.

### Publicize meetings

- Mail out notices to everyone who has ever indicated an interest in the co-op.
- Encourage all interested members to bring other potential members to the meeting.
- Prepare posters and public service announcements (for local radio stations, television stations, and newspapers) to publicize the meeting.
- Contact as many potential members by phone as possible.

### When presenting the feasibility study

- Distribute a written agenda and copies of the steering committee's summary and recommendations.
- Have several copies of the full feasibility study or business plan available at the meeting.
- After the steering committee's report, allow members to discuss it point by point. It may be necessary to hold two meetings to cover the entire report.
- After sufficient discussion, hold a vote of all potential members on whether to proceed with the co-op.
- If members vote to incorporate, a resolution should state that the steering committee is responsible for preparing legal documents for the co-op.
- Members may also request that further research be done, or that changes be made to the steering committee report.

### When preparing and approving articles of incorporation and bylaws

- Whether or not the co-op decides to incorporate, it is important to prepare basic rules that spell out who will be members, how much capital members must contribute, what the decision-making body is and how it will be selected, how decisions will be made, and how these rules can be changed. If the group has decided to incorporate, these rules will be included in the co-op's articles of incorporation and bylaws.
- Seek professional help as much as possible, especially from those familiar with co-op structure and systems.
- Send each member copies of the proposed articles of incorporation and bylaws.
- Allow plenty of time for members to discuss and understand the articles and bylaws.
- Hold a meeting for approval of the articles and bylaws. They must be accepted by a majority vote of the co-op's members.
- File the articles and bylaws with the appropriate state agency.
- Hold an election to choose the co-op's first board of directors. Plan the first board meeting.

**At the board's first meeting**

- Elect officers: president, vice president, secretary, and treasurer.
- Approve a membership application, select a bank or financial institution, arrange for bookkeeping and other financial operations, clarify how other responsibilities will be fulfilled.
- Organize committees to pursue development of a business plan, financing and real estate negotiations, member recruitment, and preparation for operations.

**Key Decision:** *Are members prepared to start a co-op?*

Are potential members convinced that the co-op makes sense? Are they willing to make a commitment to support it? If so, does the steering committee have the authority to prepare organizing documents (such as articles of incorporation, bylaws, and membership agreements)? Do the articles and bylaws reflect the kind of business and cooperative members want to be a part of? Who will serve as the co-op's board of directors?

**for more information**

**Co-op Incorporation** ..... <http://www.wisc.edu/uwcc/info/articles.html>

Description of the incorporation process and an outline for articles of incorporation for a cooperative.

**Legal Issues for Co-ops** ..... [http://www.wisc.edu/uwcc/manual/chap\\_8.html](http://www.wisc.edu/uwcc/manual/chap_8.html)

An overview of the legal issues and structures appropriate to cooperatives, including background on articles of incorporation and bylaws. Includes a section on board legal responsibilities.

**Legal Resources for Co-ops** ..... [http://www.wisc.edu/uwcc/info/i\\_pages.legal.html](http://www.wisc.edu/uwcc/info/i_pages.legal.html)

Listing of links to legal information and resources specifically for cooperatives.

**Incorporation Basics** ..... <http://www.theincorporating.com.links.htm>

An overview of the incorporation process as well as links to state offices handling incorporation.

**Advantages of Incorporating** ..... [http://www.corporate.com/inc\\_adv.cfm](http://www.corporate.com/inc_adv.cfm)

A summary of the advantages of incorporating a business.

**The Board Toolkit** ..... <http://www.mapnp.org/library/boards/boards.htm>

A comprehensive overview of board responsibilities and guidelines for effective board operations (not particularly oriented toward cooperative boards).

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## About Incorporating Your Co-op

*Some factors to consider*

To incorporate a business means to establish it—the corporation—as a separate entity, independent and distinct from any of the individuals involved. In some states, co-ops can incorporate under specific cooperative statutes. Co-ops can also incorporate under other statutes (such as for-profit or nonprofit codes) or under cooperative statutes in other states.

### Advantages of incorporation

- Liability is limited. When a business is incorporated, the individuals involved are generally no longer directly liable for the actions of the business. This generally means that a co-op's members will not be liable for any actions or debts held by the co-op.
- The co-op's structure is clearly documented. To incorporate, your co-op will be required to prepare articles of incorporation and, generally, bylaws. These documents spell out the rights and responsibilities of members, as well as specific procedures for decision making. Having clear, written procedures will make co-op operations easier, especially if you have to deal with problem situations.
- A board of directors is established. All states require that someone be accountable for the actions of a corporation. That someone is the board of directors. Every corporation is required to have one.
- Increased credibility for your co-op. An incorporated business has better credibility with potential members, suppliers, bankers, and other outside business associates.
- Access to capital. Very few, if any, lenders will loan money to unincorporated groups.

The main disadvantage of incorporation is cost. You will need to hire an attorney to prepare and review your articles of incorporation and bylaws—don't take another co-op's materials and adopt them without a thorough legal review. Incorporation also takes time and effort. But if you're serious about starting a co-op, the time and money spent will be good investments. Incorporation will increase your co-op's credibility and clarify how your group will make decisions. If you proceed with incorporation, be sure to consult an attorney familiar with cooperative law.



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## Basic Responsibilities of the Co-op Board of Directors

The board of directors is responsible for the co-op's actions and for ensuring that the business is managed in a sound fashion. The board is an elected body that oversees the co-op on behalf of the owners (the members). The board's authority extends only to decisions made by the board as a whole; individual board members have no authority outside of a board meeting, except as delegated by the whole board. Generally, only members in good standing may serve as directors of a cooperative.

Every state incorporation statute defines the basic roles and responsibilities of a board of directors. Most commonly, statutes state that a director is required to act "in good faith, in a manner he (or she) reasonably believes to be in the best interests of the corporation, and with such care as an ordinarily prudent person in a like position would use under similar circumstances." All directors are required to meet this standard.

Directors have three primary responsibilities:

- 1. Act as trustees on behalf of the members.** Directors do this by carefully monitoring the co-op's financial status, hiring auditors to review financial records, regularly reporting on the status of the co-op to members, and making sure that the co-op follows its bylaws, policies, and appropriate regulations.
- 2. Ensure sound management of the co-op.** Directors are responsible for hiring and supervising the co-op's management. Supervising management involves reviewing management reports, monitoring key indicators (inventory turnover, sales trends, other financial ratios), and evaluating management performance.
- 3. Set long-range goals and plan for the co-op's future.** Directors do this by discussing strategic planning, approving yearly and long-range plans, and setting performance goals.

The board is accountable to the members. Management is hired by and is accountable to the board. Effective boards fulfill their responsibilities and avoid micro-management by focusing their discussions and decision making on two things: clearly defining the results to be achieved by management or others responsible for a project; setting limits to guide performance, including details about what is considered acceptable. Examples of effective directives:

- "Management shall present an annual capital and operating budget to the board, complete with assumptions and support material, in time for approval before the new fiscal year begins."
- "The Membership Committee shall research options for new member benefits and present a recommendation to the board at its November meeting."

Most boards meet monthly or at other regular intervals. Boards elect officers—president, vice president, secretary, and treasurer—to organize and coordinate their work. Effective boards get regular training to make sure that directors understand and can fulfill their responsibilities. Boards that stay focused on providing overall direction and monitoring the co-op's general performance play a key role in the success of every co-op.

a case study

## Oneida Community Market Cooperative

In 1998 the only grocery store on the Oneida Nation, 10 miles west of Green Bay, Wisconsin, closed its doors when the owner died. After the closing, community members began to explore their options for opening another local store. The idea of forming a co-op came out of a community needs assessment. An overwhelming majority of those surveyed favored a cooperative grocery store.

In January 2000, two residents took on the responsibility of researching the co-op structure. They ordered books and tapes from the U.S. Department of Agriculture’s co-op development program and began to educate themselves and the community about co-ops. They obtained copies of two market studies done for the area by grocery chains, most recently in November 2000. During the months that followed, the organizers presented their findings at every general community meeting. These reports generated community interest, and soon 50 people had signed up to help organize the co-op. The first steering committee meeting was held in March 2000.

Local media followed the progress of the co-op and provided plenty of free publicity for the group. A local television station, newspapers, tribal radio, and the Oneida Nation newsletter all featured stories on the co-op.

The projected total cost of the co-op was \$800,000. The organizers sought funding from a USDA Rural Development grant, Oneida Nation tribal funds, the Administration for Native Americans (an agency of the Department of Health and Human Services), member investments, and a local lender. A 10,000-square-foot building was identified as a potential site. Organizers planned to use 8,000 square feet for the co-op and 2,000 square feet for a small business incubator project. Members decided to create a full-service grocery store, named the Oneida Community Market Cooperative, that would specialize in locally grown organic and natural foods.

The co-op’s board of directors was elected in September 2001. Using grant money, the board hired a general manager in December. The co-op expects to employ 11 people. Bill VerVoort, a cofounder and board member, offered the following advice to those interested in starting a co-op: “It will probably take longer than you think, but in time it is well worth it.”

### Oneida Community Market Co-op — at a glance

- Date of first co-op meeting ..... May 2000
- Number of initial organizers ..... 2
- Date incorporated ..... July 2001
- Size of store ..... 10,000 square feet (total)/8,000 square feet (retail)
- Required member investment ..... to be determined
- Planned store opening ..... May 2002
- Total membership ..... 50
- Total sales(projected) ..... \$26,000/week on opening  
\$37,000/week after one year
- Number of staff (projected) ..... 11
- Website ..... <http://www.oneidanation.org>

Information compiled November 2001

## Step 5. Recruit Members

*Hold meetings and prepare materials describing the co-op for new members. Establish member investment options and conduct a member equity drive.*

**Goal:** To secure the written and financial commitments of members

### What to do:

Set goals for how many members, how much equity, and how much in member loans the co-op needs to obtain by a certain deadline. Create an action plan to achieve those goals. Consider creating visual aids to show progress—in a newsletter, at an office, or on a website.

### For the membership system

- Research consumer co-op membership structures.
- Create a proposal covering all aspects of the co-op's membership system. Be sure to address member equity requirements, types of memberships, minimum payment to join and payment options, additional fees, share repurchase (refund) options and limitations, member benefits.
- Once the board (or steering committee) has approved a membership structure, prepare a simple, clear brochure explaining the co-op's membership system. Consider setting up a website or web page with membership information. Prepare a membership application and other administrative materials. If possible, have these materials reviewed by an expert or an attorney to make sure that proper representations are made and that terminology is used accurately and legally.
- Establish goals for member recruitment and investment. Develop a method to track progress on those goals. Report back to the board on progress and share successes with co-op members and volunteers.
- Set up record-keeping systems to track memberships and member benefits.
- Develop a plan for member recruitment. Identify events and opportunities where you can get the word out about the co-op; mail brochures and information to those who have indicated an interest in the co-op; use networks of existing co-op members and supporters; send information to the local newspaper, radio stations, and other media outlets.

### For a member loan program

- Research member loan programs used by other co-ops and get sample materials from those co-ops.
- Determine how much the co-op will need in member loans. Based on that information, set limits such as the minimum size or term of the loans. Set interest rates for loans.
- Create materials for member loans: a brochure or background information; a promissory note
- Publicize the co-op's member loan program among members.
- Have an attorney knowledgeable in co-op and securities law review your member loan program and materials. State laws differ, and you need to make sure that your program is legal and won't cause the co-op problems in the future.

**Keep in mind:**

The membership system is the foundation of your co-op. Carefully research membership issues and learn from the best practices and mistakes of other, similar co-ops. Set up a system that will work for your co-op as a whole and for your members individually. By doing your homework and thoroughly researching options, you will avoid the need to change your membership system in the future. And be sure to learn which words to use and which ones to avoid. Members join by making an investment, not paying a fee; avoid the term “lifetime members,” in case the co-op needs to change its membership requirements in the future.

**Key Decision:** *Do we have a sufficient membership commitment to the co-op?*

Can we get sufficient financing from members to leverage further funding and to keep debt costs within reason?

**for more information**

***We Own It: Building Financial Security the Co-op Way***

— available from *Cooperative Grocer* magazine

***The Ownership Toolbox: A Tool for Building Strong Co-op Membership Programs***

— available from *Cooperative Grocer* magazine

***Financing Information for Co-ops* ..... [http://www.wisc.edu/uwcc.manual/chap\\_7.html](http://www.wisc.edu/uwcc.manual/chap_7.html)**

An overview of financing options for co-ops. See especially the sections on member equity.

***Steps for Conducting a Membership Drive***

..... <http://www.cooperativegrocer.com/cg1996.stepsmembership.shtml>

Seven steps for conducting a successful food co-op membership drive.

***Designing a Website* ..... <http://www.mbrservices.com/commtools.comm.htm>**

Practical advice on how to design and what to include on a website, as well as how to develop and produce a newsletter for co-op members. Also includes information about marketing strategies.

***Conducting Member Loan Campaigns* ..... <http://www.cooperativegrocer.com/memberloan.html>**

A detailed overview of planning and conducting a member loan campaign for food co-ops.

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## A Primer on Consumer Co-op Membership

All businesses need equity (also called capital); a co-op is no different. This base capital is the financial foundation upon which a business is built. It allows the company to purchase inventory, acquire equipment, finance operations, and minimize outside debt. In any business, the base capital is provided by the owners. In a co-op, members are the source of this financial foundation.

Co-ops use member investments to purchase equipment, expand inventory, make improvements and renovations to facilities, pay off debt, pay deposits to suppliers, reduce accounts payable or pay suppliers early to get discounts, and research new services or business opportunities. Member equity gives the co-op base capital. On this foundation, the co-op can then finance its asset base. Member equity also provides a leveraging base for financing additional capital, called debt.

### Types of capital and features of member equity

For all businesses, there are two basic types of capital: equity (capital provided by the business and/or its owners) and debt (capital provided by outside sources). Let's look at the most common sources of capital for retail cooperatives (see also "Methods of Capitalization for Cooperatives"):

**Equity financing**—capital provided by the business and/or its owners

- Net operating surplus (also known as profit)
- Membership dues or fees
- Membership shares or investments (also known as member equity)

**Debt financing**—capital provided by outside sources

- Outside loans—including capital leases, lines of credit, mortgages, and other debt financing
- Member loans

Member shares, or equity, are investments made by members as the owners of the co-op. These shares form the base capital of the co-op. As such, these shares are also the capital invested at most risk. When established properly, member shares will not be a taxable source of funds for the co-op and will help establish a sense of ownership among members. Shares are refundable to members upon termination.

Without member capital (or with insufficient member capital), a co-op is forced to seek all of its financing from outside sources, such as banks, suppliers, and other creditors. Such financing has disadvantages. Supplier credit is limited and can lead to increased prices on goods. Bank financing is expensive and almost always comes with some restrictions. Bankers are also reluctant to lend money to co-ops that have inadequate financing by their member/owners. Loans might be available, but only at high interest rates. If the co-op has an adequate capital base, bankers will be more willing to make loans at reasonable cost and without imposing constraints on the co-op's operations or goals.

Co-op members provide capital by purchasing shares (just like stock in a publicly traded corporation). Typically, the board of directors sets a required number of shares that members must purchase. The money invested this way is used to finance inventory, purchase equipment, make improvements, etc. Making this investment gives each member the rights and responsibilities of an owner.

### Goals and requirements

The goal of a co-op membership program should be threefold:

- To provide an adequate capital base for the co-op's current and future financial needs
- To create a sense of ownership among the co-op's members
- To clarify and solidify the co-op's structure and operations as a cooperative — consistent with state law and cooperative principles

A successful member capital system should meet the following requirements:

- Costs and benefits to individual members and to the co-op as a whole are balanced between both parties and financially advantageous for each.
- Membership administration is simple, and records are easy to maintain.
- The required member investment is great enough, when combined with other sources of equity, to provide for the co-op's financial viability.
- The membership system is not overly complex or sophisticated; it can be easily understood by new and prospective members without lengthy or exhaustive explanations.
- Any fees required for special administrative functions (replacing lost cards, terminating a membership) will be nominal.
- The plan is designed to ensure exemption from securities laws and taxation (be sure to consult with a knowledgeable attorney about this issue).
- The system is fundamentally an equitable one that reinforces the concept of members' ownership of the co-op.
- The system is designed to accommodate the variety of basic circumstances presented by the co-op's current and prospective members.

### Financial targets

Ensuring that the co-op has an adequate capital base is key to its long-term survival, especially for the co-op to grow and expand. The following two ratios can provide some guidelines for financial planning.

- **Member-share ratio: total member investment divided by total assets**

This ratio shows how much of a co-op's assets are financed by member investments. A benchmark for the member-share ratio is 20 to 30 percent.

- **Member-equity ratio: total equity divided by total assets**

This ratio shows how much of a co-op's assets are financed by the co-op's total equity (retained earnings and member investments). A benchmark member-equity ratio for an existing business is 40 to 60 percent. For startups, experts recommend that 30 to 50 percent of the asset base be provided by the co-op—i.e., from members through equity or loans or from donations, grants, or in-kind contributions.

### **Overall guidelines for a member equity system**

- Shares must be clearly defined as the property of the members. If the co-op allows more than one individual per membership, their shares must be clearly defined as joint (non-dividable) property. The co-op should avoid becoming an arbiter in property disputes.
- The co-op must issue evidence of a member's investment and holding in the co-op. Generally, membership cards are sufficient. Some states require co-ops to issue member certificates.
- The co-op should set one reasonable investment requirement for all members—not different levels of investment for individuals, households, seniors, low-income members, etc. Membership requirements and benefits should not be changed often, as members find such change very unsettling. Avoid referring to “lifetime memberships,” since the co-op might sometime need to change its required member investment. Be realistic about the co-op's future capital needs. Set the share requirement to meet the co-op's needs for at least 10 years.
- Create several simple payment options for members. Don't require full payment upon joining, unless you have no other way to finance a startup. Consider charging an annual processing fee (\$3–\$5) for members who make payments over time. The fee will cover administrative costs and will encourage members to pay in full upon joining.
- It's reasonable to assess fees for keeping track of memberships. Options include an application fee or a fee for processing a request for termination of membership.
- Member shares should be fully redeemable (refundable) upon termination of membership (the co-op will repurchase a member's shares). However, repurchase of shares should be contingent upon replacement capital. For example, the co-op might total new share investment each month and process repurchase requests up to that amount. This system will help the co-op avoid heavy seasonal outflows of capital. For a startup, it's common to state that the co-op will be unable to repurchase shares until at least two years after operations begin.
- Member shares represent an investment in the co-op, like stock in a corporation. However, when established correctly, member shares are not subject to securities regulations. Make sure that a lawyer familiar with co-op securities law reviews your bylaws and membership documents.
- Keep the membership system simple, so members will be able to understand it and staff will be able to accurately explain it. Keep administrative systems simple as well.
- A new member should be eligible for all member benefits (including voting) as soon as the membership application has been processed and approved.

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## A Recommended Membership Structure

**Member share requirement: \$200.** This share shall be a refundable investment. The required share investment will be the same for individual and household members. The \$200 investment will be made up of ten \$20 shares.

**Joining:** To join the co-op, members will be required to complete an application and pay at least \$25. Of the initial payment, \$20 will be applied to the member's \$200 share investment, and \$5 will be a processing fee. Members who make the full \$200 investment at the time of joining will not pay a processing fee. Maintaining active membership status will require no additional fees.

**Legal status:** The co-op's bylaws, membership application, brochures, and other materials should clearly define memberships as property. Up to two adults may be named on a membership, and they shall hold that membership as "joint tenants"—that is, the membership shall be non-dividable property. Membership cards will be issued to all members as evidence of their investment in the co-op—one card for each adult named on the membership.

**Payment options:** There will be four payment options:

- Purchase the full share requirement up front (at the time of joining)
- Purchase at least one share (\$20) per month
- Purchase at least one share (\$20) per quarter
- Purchase at least one share (\$20) per year (the low-income payment option). This option will not be specifically described in membership materials, except for a note that "a low-income payment option is available by request." There will be no eligibility screening for the low-income option; anyone who requests this option will be allowed to take it.

Members may make investments ahead of schedule, at any time with no penalty.

**Eligibility:** Individuals and organizations will both be eligible to be co-op members.

**Fees:** There shall be no fee for making an address or name change (adding or deleting a name from a membership within the limits of securities regulations). A \$5 fee will be charged for replacing a membership card, requesting repurchase of shares upon termination of membership, or reactivating a membership.

**Repurchase:** Members' shares will be repurchased only when the co-op has received replacement capital. The co-op will total all repurchase requests at the end of each month and compare that figure to total new investments for the month. If new investments equal or exceed the repurchase total, the co-op will send checks to the terminating members. If not, the co-op will process repurchase requests in the order received, up to the total of equity received. In addition, there will be no repurchase of shares until the co-op has completed one full year of store operations.



**Primary financial benefit:** The co-op will provide members with either a point-of-sale discount of 2 percent on all purchases or a patronage refund issued after the completion of the fiscal year.

Advantages of a 2 percent member discount

- It is equitable, per the co-op principle requiring benefits to accrue to members proportionate to their use of the co-op.
- It allows the co-op to be competitive by setting prices at market levels.
- It is an immediate benefit—often appreciated by members.
- It is simple—there is no record-keeping required as there is with the patronage refund, and the co-op doesn't need to meet complex tax laws, also required with the patronage refund.
- It will be understandable to all members and will provide them with immediate rewards for joining.

The member discount has a disadvantage, however. Since the benefit is distributed at the time of purchase, it is given whether or not the co-op can afford it. Co-ops that offer a member discount need to have astute management. Any discount over 2 percent is inadvisable and will likely lead to inflated prices to cover the cost of the discount.

#### Advantages of a patronage refund

- It is equitable, per the co-op principle requiring benefits to accrue to members proportionate to their use of the co-op.
- It allows the co-op to be competitive in the market.
- It allows the co-op to know whether or not it has made a profit before distributing a financial benefit to members.
- It can be distributed partially in cash and partially in equity, limiting the cash drain on the co-op.

A disadvantage is that a patronage refund system requires the co-op to accurately track total purchases by all members or requires members to track their own purchases. Additionally, patronage refunds are subject to specific requirements and procedures as documented in U.S. tax law (Subchapter T). These regulations address such issues as notification to members, what is distributable income or profit, methods of distribution, the need for backup withholding, and other matters. When distributing patronage refunds, co-ops may also need to issue form 1099-PATR to all members. A further disadvantage is that patronage refunds can be complex and are not always easily understood by members.

#### Other typical benefits

- The privilege to write checks for \$50 over the amount of purchase
- A 10 to 15 percent discount on special case orders
- A monthly newsletter
- Reduced fees on classes and workshops sponsored by the co-op
- Eligibility for membership at a local credit union
- Discounts at participating stores
- A vote in all co-op elections
- The opportunity to serve on the co-op's board of directors or committees

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## About Member Loans

Member loans to the co-op can provide a good source of financing at reasonable interest rates. At the same time, they offer members a constructive way to financially support the co-op while also earning a decent interest rate.

### Guidelines for a member loan program

- Make it clear that only current members can make loans to the co-op.
- Establish a minimum loan amount that makes the paperwork and cost to the co-op worthwhile. Suggested minimum: \$5,000.
- Establish interest rates that are workable for the co-op but also attractive to members. Consider rates equivalent to term CD or mutual fund rates. These will still be lower than commercial loan rates.
- Give members the opportunity to loan money to the co-op at various terms—with longer-term loans earning higher interest rates. Startup co-ops should avoid member loans of less than five years, except as “bridge” financing until other financing can be arranged.
- It’s best to pay interest each year on the anniversary of the loan. Do not repay principal until the term of the loan has expired. Initially, the co-op may wish to suspend interest payments (to have interest accrue only) until after one complete year of operation.
- Keep track of loan expiration dates and set up a schedule for future loan repayments. Make sure that many loans won’t all be coming due at the same time, which can cause serious cash-flow problems.
- Make it clear in member loan materials that member loans are unsecured and that they are subordinated debt. This means that there is no collateral (e.g. equipment) securing the debt. Make it clear, in addition, that if the co-op has to repay all creditors, bankers and other suppliers will get paid before member lenders.
- Have an attorney familiar with co-op securities issues review all member loan materials, including the brochure, offering memorandum, and promissory note.
- When possible, set up a fund for future repayment of loans.

### Materials needed for a member loan program

- A simple brochure or offering memorandum providing background, including terms and conditions, on member loans
- A cover letter to send to prospective member lenders
- A form to be used as a promissory note
- A record-keeping system to track loans, interest rates, interest payments, and terms

## Step 6. Planning and Financing

*Prepare a detailed business plan and research financing options. Identify possible locations and negotiate lease arrangements.*

**Goal:** To prepare a specific and detailed business plan

### What to do:

At this stage, it is vital for your group to invest time and money in a detailed and thorough business plan.

### Preparing a business plan

- A business plan should cover all aspects of the co-op's operations: who is involved, who the customers are, what the co-op will sell, how it will operate, how it will be capitalized, and what the costs of operation will be. The plan should include a market study that justifies projections.
- A business plan needs to be very detailed and specific about every facet of the co-op's potential business and operations.
- Preparing a business plan is a good exercise for anyone involved in a new business, even if things don't work out exactly as planned. The discipline of documenting your ideas and assumptions, projecting financial and operational figures, and pulling all of these elements together into one complete plan is invaluable.
- The assistance of consultants and resource people with experience in business startups and preparing business plans will be essential.
- Economic development programs and grants can be useful both for startup funding and for help with developing a business plan.

### When the business plan is prepared

- The steering committee or board of directors should prepare a report that summarizes the business plan.
- Conclude the report with the board or committee's recommendation to proceed or not to proceed with the co-op.
- The report should be made available to all members, and a summary should be presented at a membership meeting.

### Keep in mind:

Deli, bakery, and juice bar operations are highly appealing and generally viewed as desirable features of a new co-op. However, food production requires specialized equipment, facilities, and expertise. Consider leasing these facilities to other operators, at least initially, in your new co-op.

**Key Decision:** *Does the co-op make sense from a business perspective?*

Are the co-op's plans and ideas justified by market studies and reasonable sales projections? Does a business plan prove the co-op's viability?

**for more information**

**Writing a Co-op Business Plan** ..... [http://www.wisc.edu/uwcc/manual/chap\\_6.html](http://www.wisc.edu/uwcc/manual/chap_6.html)

An overview of a co-op business plan, including a detailed outline.

**Business Planning Guide** ..... <http://www.ctcnet.org/ch9.htm>

A detailed overview and step-by-step guide to writing a thorough business plan.

**Tutorial on Co-op Finances** ..... <http://www.mbrservices.com/coopknowledge/financial/index.html>

An online tutorial on reading and understanding co-op financial statements. Includes a glossary of terms used in co-op finances.

**Evaluating Your Business Idea** ..... <http://www.umsl.edu/~smallbus/evaluate.htm>

A tool that prompts you to answer questions that can help you analyze your business plan.

**Guide to Starting a New Business** ..... <http://www.bec.com.au/start.htm>

A series of checklists and worksheets to guide the process of starting a new business.

**Online Resources for Business Plans** ..... <http://web.mit.edu/entforum/www>

Click on "The Business Plan" to find an extensive list of online business plan resources.

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## A Basic Business Plan

### Table of Contents

- 1. Introduction and summary:** Name, address, and phone number of business; names (and phone numbers) of key personnel (management and board of directors or steering committee); summary of business plan findings
- 2. Business description**
  - Statement of purpose for the co-op; who are the members; summary of legal form; goods and/or services to be offered by the co-op
  - Industry overview; current status and prospects in the industry; new products and developments; trends influencing the industry
- 3. Market research and plan**
  - Potential customers; market size and trends; competition analysis; estimated sales and projected market share
  - Overall marketing strategy; pricing; sales tactics; service policies; advertising and promotional plans
- 4. Management and development plan**
  - Ownership: description of ownership structure; required membership investment; projected membership size; member benefits and financial analysis of those benefits that have a financial impact
  - Management: board of directors; key personnel and organizational chart; training needs; supporting professional services; staff needs and costs
  - Organizational development: steps in developing the business; obstacles and risks; development schedule; projected costs
- 5. Operating plan:** Location and facilities description; key suppliers and vendors; specific operational needs; equipment; basic system for staffing; analysis of critical risks
- 6. Financial plan:** Projections for profit and loss, cash flow, and balance sheet; break-even analysis; proposed financing (sources of financing); sources and uses of startup costs
- 7. Community benefits:** Economic; human development; community development
- 8. Supporting documents:** Resumes of leadership group; letters of reference and support from key partners; copies of membership applications and brochures; publicity generated by the co-op thus far

## a case study

### Monroe Street Grocery Co-op

Monroe Street Grocery Co-op (MSGC) in Madison, Wisconsin, began organizing in January 2001 after a neighborhood grocery store, Ken Kopp's, announced its closing. The store was up for sale, and a chain drugstore was poised to purchase the building. However, residents wanted to maintain a grocery store in the area to preserve local business, support neighborhood vitality, and avoid driving long distances to shop for food.

Widespread resistance to the chain caused the company to withdraw its offer in early February. The property owner agreed to accept new offers until mid-March, asking for development proposals that would enjoy neighborhood support. The property was expensive, and purchasing it, as well as establishing a profitable business there, seemed beyond the community's ability. Thus organizers began planning for a new co-op that could lease the property from a developer. To establish credibility, MSGC was incorporated on February 26, 2001. A member drive was initiated, even as plans for the co-op were just being developed.

Founders realized that as a startup business in an expensive store, the co-op would need to be very well capitalized. They needed to raise significant capital quickly and show potential funders that the co-op had solid community support. A membership system was set up, with a \$200 share investment required of each member. Given the co-op's need for funds, members had to make the full investment at the time of joining. By the mid-March deadline, the co-op had over 200 members and \$40,000 in equity. Two developers included the co-op in their bids for the property.

In early April, MSGC learned that the building had been sold to an out-of-town buyer who was willing to lease it to the co-op for \$18 per square foot—50 to 200 percent more than the rent paid by any other local grocery store. The co-op had to reevaluate its business plan in preparation for negotiations with the new owner.

In May organizers held a membership meeting and voted on bylaws for the co-op. At that time, with a membership of over 400, the co-op's first nine-member board of directors was elected. The board established membership, financing, marketing, and operations committees, which began meeting monthly. The board also hired a consultant to provide an initial set of financial projections. These documents, which included detailed expense estimates beyond the board's expertise, indicated the difficulty of the project and the critical importance of reliably projecting expected sales.

MSGC received a planning grant from the Wisconsin Department of Commerce to hire a reputable market research firm to prepare an in-depth market analysis. The board also began to prepare a business plan and to pursue lease negotiations.

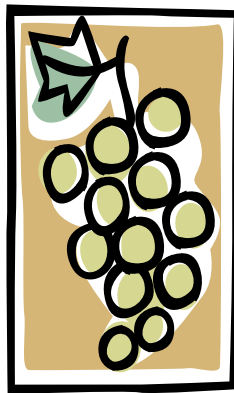
Currently, the total projected cost to start up Monroe Street Grocery Co-op is \$1.7 million, including significant leasehold improvements. The co-op is hoping to raise \$1 million from membership investment and loans, which it believes it can do once the site is secured. In addition, the co-op hopes to obtain grant funding, especially from local groups and a foundation for neighborhood vitality. Completing the funding package will be financing from the local utility company to fund energy efficient equipment, as well as loans from the Northcountry Cooperative Development Fund and a local commercial lender.

MSGC plans to hire over 30 full-time employees, including a general manager, several department heads, and a member service employee. The co-op is expecting to pay 21 percent of its sales in wages. Sales at the end of one year of operation are projected at almost \$5.5 million.

**Monroe Street Grocery Co-op — at a glance**

- Date of first co-op meeting ..... February 2001
- Number of initial organizers ..... 5
- Date incorporated ..... February 2001
- Size of store (projected) ..... 10,500 square feet (total)/ 9,500 square feet (retail)
- Required member investment ..... \$200 per adult
- Planned store opening (projected) ..... July 2002 or later
- Current membership ..... 500
- Total sales ..... (projected) \$103,000/week after one year
- Number of staff (projected) ..... 30
- Website ..... <http://www.monroestcoop.com>

Information compiled November 2001



## Step 7. Secure Financing

*Finalize outside financing sources and terms*

**Goal:** To obtain the funding necessary to finance the co-op's startup and early stages

### What to do:

- Begin with capital from members. Calculate how much money this will give the co-op in base financing.
- Research alternatives, such as special startup financing, economic development money for job creation and revitalization, and member loans.
- Contact local business or economic development agencies about the services and support they may be able to provide to a new business.
- Have just one or two people conduct all negotiations with commercial lenders. Have those people report to the board as negotiations proceed. (Your business plan will be a critical element of your loan application.)
- Make sure that potential lenders understand the cooperative ownership structure. Individual guarantees should be avoided (with sufficient member financing and a clear explanation, they should not be required).
- Vendor financing will be an important part of your capital base. Find out what potential suppliers can offer your group in terms of credit terms, special help with opening orders, and technical assistance.

**Key Decision:** *Can the co-op raise the money needed to start up operations?*

Are the terms of loans and other credit acceptable to the co-op, and do projections show the co-op's ability to repay such financing, even in less-than-ideal scenarios?

### for more information

#### Potential Funders

**Northcountry Cooperative Development Fund** ..... <http://www.ncdf.org>

**Cooperative Fund of New England** ..... <http://www.cooperativefund.org>

**National Community Capital Association** ..... <http://www.communitycapital.org>

**USDA Grants** ..... <http://www.rurdev.usda.gov/rbs/>

Click on "Cooperative Programs," then "Special Initiatives," to review a list of available grants and background on qualifications and application criteria.

Check also commerce or business development websites for your state or region.



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## Methods of Capitalization for Cooperatives

**Membership Shares and Investments:** Member shares are money that members invest to become owners of the co-op. Shares are refundable upon termination of membership and are the base capital of the co-op—the capital invested at most risk.

### Advantages

- Increases asset and leveraging base of the co-op
- Has no tax consequences; nontaxable source of funds
- Relatively easy to implement
- Members can withdraw their money when they leave the co-op
- Interest-free money for the co-op
- Shares can be targeted for specific use
- Common co-op practice; will be familiar to some new members
- Can provide sizeable basis of funds
- Provides members with direct ownership

### Disadvantages

- Requires some member education and explanation
- Requires careful legal work to make sure shares are not subject to securities laws
- Requires significant administration and record keeping
- Members can lose money if the co-op is poorly managed
- Difficult to predict when members will want to repurchase shares

**Member Buying Deposits:** Buying deposits are made proportionate to the member's average volume of purchases.

### Advantages

- Increases asset and leveraging base of co-op
- Has no tax consequences; nontaxable source of funds
- Members can withdraw their money when they leave the co-op
- Interest-free money for the co-op
- Deposits can be targeted for specific use
- Members capitalize the co-op proportionate to their use (less frequent users don't subsidize frequent users)
- Can provide a sizeable basis of funds
- Provides members with direct ownership

### Disadvantages

- Difficult to implement for retailers (although practical and common for distributors and wholesalers); requires regular adjustments and recalculations
- Requires some member education and explanation
- Requires careful legal work to make sure deposits are not subject to securities laws
- When members' purchases increase, their capital requirement goes up

**Membership Fees Or Dues:** Nonrefundable fees paid to join the co-op—usually nominal amounts paid yearly (sometimes only once).

**Advantages**

- Adds to co-op's sources of cash
- Easy to distinguish members from nonmembers

**Disadvantages**

- Taxable income to the co-op
- Non-investment; doesn't provide capital base for leveraging
- Members have no tangible ownership in the co-op
- Fees can hide operational problems and subsidize unprofitable operations

**Member Loans:** Fixed amounts of money provided by co-op members only, at set interest rates over a fixed period of time.

**Advantages**

- Loans tend to be long term
- Predictable terms and conditions
- Money generally targeted for specific uses
- Funds obtained immediately (all at once)
- Banks tend to classify member loans as equity (not liabilities) since they are subordinated to other debt
- Lower interest than bank debt

**Disadvantages**

- Interest makes loans more expensive than shares
- Can compromise the equitable nature of co-ops if too much financing is provided by a small number of members (even though member lenders do not get additional votes)
- Increased administrative requirements (promissory notes, etc.)
- Tend to be smaller than bank loans
- Require careful legal work to conform with securities laws

**Loans from Banks or Financial Institutions:** Typically, a fixed amount of money is loaned at a predetermined interest rate over a set period of time.

**Advantages**

- Loans tend to be long term
- Predictable terms and conditions
- Funds generally targeted for specific uses
- Funds obtained immediately (all at once)

**Disadvantages**

- Interest makes commercial loans more expensive than shares and member loans
- Members might forfeit some control to the bank or financial institution
- Sometimes lead to additional costs—e.g., a full audit
- Loss of control during financial problems (bank can call the loan if co-op is in default)

**Net Operating Surplus:** The difference between sales and operating expenses equals the co-op's net surplus (or profit).

**Advantages**

- No administrative program needed (assuming profitable operations)
- No administrative costs
- No explanation to members required
- Usually ongoing

**Disadvantages**

- Net operating surplus is taxed by state and federal agencies
- Unpredictable, especially during inflationary and growth times
- Members have no tangible ownership in co-op
- Puts the co-op at a leveraging disadvantage—banks don't like being in the riskiest position
- Requires years of profitable operations; not available to startup businesses

**Other Potential and Important Sources of Capitalization**

- supplier or vendor credit
- grants, most typically for business planning or startup
- grassroots fundraising



## Step 8. Begin Operations

*Hire a manager, acquire fixtures and equipment, finalize layout, establish accounts with suppliers, set up the store.*

**Goal:** To prepare for the startup of the co-op's operations

### What to do:

The business plan should be your guide on what to do at this stage.

### When hiring a manager

- Identify the skills you expect your first manager to have.
- Prepare a clear job description. It should establish that the manager reports to the board, the manager's goals and priorities, how his or her performance will be measured, and what compensation will be offered. Set goals and responsibilities for the manager in the first year, including communications with members, researching facilities and equipment, working on marketing or sales efforts, and making arrangements to begin the co-op's operations.
- Advertise the position as widely as possible, including on CGIN's jobs web page: <http://www.cgin.org/jobsavail.html>. Note that trade magazines often require a lot of advance notice for position listings; local papers and employment offices often list jobs very quickly. Depending on the skills and experience needed, you may consider engaging a search firm. Use as many local contacts as you can think of—economic development agencies, chambers of commerce, businesspeople, other co-ops, etc.—to publicize your position.
- Carefully screen all applicants. Check references and job experience in detail.
- Give preference to candidates with experience in retail operations or the grocery industry.
- Remember that the right manager for a startup may not be the right manager in the long term.
- Design an interview process that allows input from all interested parties, but keep interviewers and interviews to a minimum. Focus questions on the skills and experience a candidate has; ask questions about how they have handled situations, not how they would handle a theoretical situation.

### Keep in mind:

This stage can be tricky and somewhat traumatic for a startup co-op. While the board and members have been heavily involved in making operational decisions to this point, once a manager is hired, a new role for the board must be crafted and followed. The board will no longer be involved in operational decisions; its continued involvement in operations will undermine the experience and authority of the manager you hire.

### Other preparations

- Contact other food co-ops in your region to find used or refurbished equipment that might work in your new store. Other co-ops can also give advice about and contact information for vendors and suppliers. Contact equipment suppliers; look for used or refurbished equipment through local auctions and business closures.
- Consult a grocery professional about your store layout and have a professional negotiate your lease.
- Get in touch with suppliers and distributors. Negotiate credit terms, the opening order, and ordering procedures. Many distributors can provide support in product placement and setting inventory. Brokers and manufacturers can also provide assistance—especially specials for opening inventory. Keep in mind that these businesses should not dictate product placement, however.

**Key decision:** *Is the co-op ready to begin operations?*

Do we have the expertise, experience, and resources to start operations?

fyi

## Sample general manager job description

**Accountability:** The general manager is hired and supervised by the co-op's board of directors. The general manager serves at the board's discretion.

**General responsibility:** To oversee the management of the co-op's affairs.

### Specific responsibilities:

#### **Board and member relations**

- Work with the board to prepare for and ensure productive, effective board meetings.
- Present clear and timely reports to the board and proposals for board consideration. Follow up on board concerns and research issues in a timely and effective fashion.
- Keep all directors informed about matters at and between board meetings.
- Establish systems and procedures to keep members informed about the co-op's status, needs, and activities.
- Monitor key indicators in the membership area and ensure new member recruitment.

#### **Financial**

- Ensure adequate financial records and internal controls to provide timely and accurate financial statements.
- Ensure that the co-op's assets are adequately safeguarded from loss.
- Prepare all budgets and financial projections.
- Perform in-depth financial analysis and promptly address financial problems.
- Plan for the co-op's financial future, including use of member equity, financing needs, future profitability, etc.

#### **Marketing**

- Prepare comprehensive marketing plans, including regular analysis of the co-op's competition and market potential.
- Ensure that the co-op is effectively presented to customers and its local market.
- Use the marketing function to build long-term stability for the company.
- Monitor and work to improve customer and member service levels.

#### **Operations**

- Efficiently and effectively organize the co-op's operations to maximize profitability.
- Identify and address operational problems in a timely fashion.
- Plan for the co-op's ongoing operational needs, including technology, facilities, and equipment.

#### **Human resources**

- Establish personnel policies and procedures that are effective and support the co-op's values.
- Ensure adequate employee training, evaluation, safety, and personnel systems.
- Monitor "key indicators" in the personnel area and plan for improvement as needed.

#### **Planning and leadership**

- Work with the board to ensure adequate planning for the co-op's future
- Provide leadership by communicating well, maintaining good business relationships, and representing the co-op in a positive light.

## a case study

### River Valley Cooperative Market

Starting a co-op often takes more time than organizers imagine, and the story of the River Valley Co-op in Northampton, Massachusetts, proves that quite clearly. The co-op was more than four years in the planning.

Organizing began in 1998, with a variety of interested parties. Farmers and producer co-ops involved in sustainable agriculture wanted to increase the visibility of their products. Community members wanted a conveniently located store that offered one-stop shopping for natural foods and fresh, local products. The idea of a consumer-owned store was also appealing. A group of about 10 people, some involved with other area co-ops, began talking about establishing a food co-op to create a connection between producers and consumers.

Fifteen years earlier, Northampton had had a small co-op, but it never adapted to changing market conditions—it didn't expand its product line or services to fit the changing lifestyle of members and shoppers. When a large Bread and Circus store (privately owned) opened in a neighboring community, the co-op lost sales and soon closed. The residents discussing the possibilities for a new co-op were aware of the lessons learned from the former co-op.

In June 1999, the Northampton Community Cooperative Market, doing business as River Valley Cooperative Market, was incorporated. Members elected nine directors and began selling member shares. The board organized an Outreach Committee of about 35 member volunteers. They worked to recruit more members via an information table at the local farmer's market, informational brochures, community dances and raffles, presentations at local organizations and buying clubs, and press releases to area media.

With funding from a state Food and Agriculture Department grant, the co-op completed a study in November, establishing feasibility for the proposed co-op store. The board obtained additional grant funding to hire a local consulting firm to develop a business plan, including a market analysis. The grant also allowed the directors to hire a part-time project manager to assist them and to prepare detailed financial projections. With these steps in place, the co-op solidified its plans for a full-service natural foods supermarket specializing in local products and perishables (produce, meat, seafood, prepared foods, and a hearth bakery).

A site search committee looked for a strategic location for the store. Committee members set up timelines, established goals, and identified criteria for a desirable location. They analyzed various sites, including professional market research on selected locations. After choosing a site, they began lease negotiations. Announcement of the proposed location represented a big accomplishment and reenergized all volunteers and members.

Meanwhile, the board reached out to area businesses, explaining the co-op's goals and its commitment to keeping resources within the community. As a result of this exchange, co-op organizers and local business owners formed a new business association. The board also reached out to members, holding frequent membership meetings and distributing press releases and newsletters about the co-op's progress.

Though the opening of the store was still a year away, the board followed the advice of consultants and hired a general manager in July 2001. They chose Rochelle Prunty, an experienced co-op manager. She will be responsible for managing and coordinating all aspects of the co-op's startup.

The total projected startup cost for RVCM is \$3 million. Financing is expected to come from the following sources: 28 percent from member investments and loans, 44 percent from banks or commercial loans, 28 percent from vendor or manufacturer credit. Prunty advises, "It's important to plan for sufficient funding to ensure knowledgeable, professional assistance with the development of your plans. Saving money by avoiding these expenses in your startup may be much more costly to your co-op down the road. Building a solid, well-studied foundation is essential."

### **River Valley Cooperative Market — at a glance**

- *Date of first co-op meeting* ..... November 1998
- *Number of initial organizers* ..... 10
- *Date incorporated* ..... June 1999
- *Size of store (projected)* ..... 18,000 square feet (total)/13,000 square feet (retail)
- *Required member investment* ..... \$150 share, with the option to pay \$25 per month
- *Planned store opening (projected)* ..... May 2002
- *Current membership* ..... 950
- *Total sales (projected)* ..... \$97,600/week in first month  
\$128,000/week after one year
- *Number of staff (projected)* ..... 65–70
- *Website* ..... <http://www.rivervalleymarket.com>

*Information compiled November 2001*

## Step 9. Open the doors!

Once the co-op has incorporated or approved its basic rules, it is ready to begin operations. As soon as management and staff have been hired, their first tasks will be to begin implementation of the co-op's business plan. Don't forget to publicize the co-op's early accomplishments to help create a positive image of the co-op in the community. Celebrate your first sale!

Most stores have two grand openings. The first—the “soft” opening—is when you begin operations. This opening allows you to test your systems and operations thoroughly, generally with the most forgiving audience—your committed members. A few weeks or a month later, you can throw a big, heavily publicized grand opening, complete with festivities and special events.

Don't forget the crucial role of members in the success of every co-op. Keep in close communication with them—especially if it takes a while to get the store operating at full capacity. Let members know what is happening in the store and when they can expect the kinks to be worked out. Perhaps most importantly, make sure the staff is well trained and prepared to promote co-op membership, in addition to handling their operational responsibilities. There is nothing like a successful and welcoming store to encourage new memberships. And investment from new members will be a welcome boost to the co-op's early cash flow.

Once operations have begun and you have some operating history (about six to nine months), hold a planning retreat for management and the board to discuss how things are going and where to go next. Focus your planning discussions on the next year. This is also a good time to review the “keys to success” (see Part III) and to strategize on what the co-op needs to do to be successful. Don't forget training for the board and management—continuous education is critical to keeping the co-op's leaders up to speed. Also consider taking a member survey at this point—to make sure that the co-op is actually meeting needs and to gauge members' satisfaction.

Be prepared for the rough road that many stores face in their first year or so of operations. Opening a new store requires you to keep many balls in the air at one time. No matter how well you plan and train, some of them will inevitably come down faster or slower than you predicted. Don't allow yourself to be caught off guard when you encounter initial stumbling blocks. Be prepared to adapt to and overcome them as they appear.

Eventually, after the first couple of years of operations, extend the co-op's planning horizon to three or five years. Your co-op's ongoing success depends on constant attention to business basics and keeping in contact with members.



a case study

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## Midtown Food Co-op

In mid-April 2001, a national chain bought out Memphis's local natural foods store, as well as another natural foods store in the region. One of the stores was closed, leaving a number of area farmers without a market for their produce and neighborhood residents with a long drive to a store that offered natural foods, bulk items, and locally grown produce.

Desiring a new source for these items, residents decided to form a co-op. Though their reasons were varied, all the organizers shared an ideological focus: concerns about the social and environmental impact of corporate agriculture and corporate ownership, interest in health issues and specialized diets, and concerns over agricultural methods and food industry politics.

Once the interest and need for the co-op was established, a core group held potluck dinners each week for six weeks. They researched and discussed bylaws, possible store sites, incorporation, the role of the board, and potential vendors and distributors. By mid-June 2001, a space for the co-op had been located and a lease was signed.

In June and July, the organizers took on the laborious tasks needed to prepare the store for opening. By that point, the core group had grown to over 30 people. For the next two months, members gathered in work parties to tackle site preparation tasks. Plumbing, construction, and electrical work were donated by community members. The co-op purchased \$10,000 worth of bulk bins and kitchen equipment from Ozark Natural Foods Co-op, a retail co-op in Fayetteville, Arkansas, at a very low price. The co-op wholesaler that services the area, Ozark Co-op Warehouse, was also very helpful to the group. It provided background on co-ops, free shipping for the used equipment, and help with planning and stocking the initial inventory. In the words of Elizabeth Sachs, a cofounder, "The co-op world is encouraging because people share information and help. Once our needs were known and we made contact with other co-ops, they were very willing to support us."

Even in this short timeline, the co-op's organizers developed a business plan. They concluded that with 1,000 square feet of selling space, the co-op would need to sell \$25 per square foot per month, or about \$6,000 a week. To meet this goal, the co-op needed 350 members, and each member would have to spend an average of \$20 a week at the co-op.

Financing came from three sources. Member investments provided base capital of \$10,000. In addition, the co-op secured a \$10,000 long-term loan through the Ben and Jerry's Hot Fudge Venture Fund. Finally, a local bank loaned the group \$20,000.

Midtown Food Co-op opened its doors in early August 2001—after just four months of planning, potlucks, and hard work. By opening day, the co-op had 400 members. All the activity at the store caught the attention of local media agencies. Before long, newspapers and radio stations were calling for information about the business. Local newspapers featured many articles about the co-op's development.

MFC relies heavily on members for volunteer labor. Currently, it has not yet found a general manager; three paid staff members are responsible for coordinating all operational tasks and member workers. Jonathan Harrison, chair of the board and a cofounder, notes that the current system puts a lot of pressure on the board and gets directors involved with operational-level decisions. He looks forward to hiring a general manager and offers this advice to new co-ops: “Find a perfect manager right away.”

Midtown makes frequent communications with members via e-mail and a biweekly newsletter. It also maintains a website, which is updated weekly with co-op news, working member schedules, membership details, links, and educational materials. The website has been valuable in attracting new members from other areas of the city. Weekly ads in local newspapers have also helped spread the word about the co-op.

Just three months after opening day, the co-op’s membership stood at 750—higher than projected, although sales per member were lower than expected. Elizabeth Sachs explains, “This [membership number] appears encouraging and it is, but the commitment of each member is what determines the co-op’s success.”

### **Midtown Food Co-op — at a glance**

- Date of first co-op meeting ..... mid-April 2001
- Number of initial organizers ..... 5
- Date incorporated ..... mid-May 2001
- Size of store ..... 2,000 square feet (total)/1,000 square feet (retail)
- Required member investment ..... \$200, payable at a rate of \$25 per year for individuals and \$40 per year for households or families
- Store opened ..... August 4, 2001
- Current membership ..... 750
- Total sales (actual) ..... \$11,500/week in first month
- Total sales (projected) ..... \$12,000/week after one year
- Total number of staff ..... 3
- Website ..... <http://www.midtownfoods.org>

Information compiled November 2001

### III. Ensuring Your Co-op's Success

#### Keys to success

As with any business, your co-op's success depends on a number of factors. Paying careful attention to these factors will help your co-op survive the tough first years and grow to be a vibrant organization that can meet members' needs. Keep the following "keys to success" in mind to identify weaknesses and to set priorities for improvements:

#### **A good membership base, including a commitment by members to use the co-op**

Members are the foundation upon which a co-op is built. Without a sufficient membership base, the co-op will flounder. Without a commitment by members to use the co-op, it will not survive. If members aren't willing to commit to the co-op, why should it exist?

- **To assess your co-op's membership base:** *What percentage of members' weekly food purchases are made at the co-op? What percentage of new shoppers join the co-op? What percentage of sales comes from members?*

#### **A clear purpose and focus**

Many businesses struggle because owners aren't clear about what they want to accomplish. This lack of focus and clarity can be even greater for co-ops, since they are owned by many people. Be clear from the beginning about what your co-op is trying to accomplish. When new opportunities arise, consider them carefully. Pursue them only with member approval and if they do not detract from the co-op's core activities. When a co-op's purpose is clear and understood by everyone involved, it will be much easier to evaluate new opportunities.

- **To assess whether your co-op has a clear purpose:** *Can all members and potential members clearly and succinctly explain what the co-op does and what it is trying to do?*

#### **An adequate financial base—from members and external sources**

New businesses need money to get started—to finance planning and development efforts, to start operations, to pay employees and other business costs until the store begins collecting money from customers. As owners of a co-op, members need to contribute to the base capital of the business. Member equity should be great enough to enable the co-op to obtain additional financing from banks or other lending institutions.

- **To assess your co-op's financial base:**

*Calculate the co-op's member-share and member-equity ratios (see "A Primer on Consumer Co-op Membership"). Project the co-op's balance sheet for the next three to five years and calculate projected ratios. Do they near the benchmarks provided? Does the co-op's capital base provide an adequate cushion in case of unexpected interruptions or problems (e.g., if the co-op were unable to operate for a week or two)?*

*Calculate your debt-to-equity ratio: Divide total debt (liabilities) by total equity (member investment, donations, grants, and profit). A good ratio for a startup co-op is between zero and two—in other words, up to two dollars of debt for every dollar of equity.*

### Sound operating practices from the beginning

While a co-op may sound like a good idea, conducting a feasibility study early on will help you determine whether it really is a good idea. A feasibility study will assess market capacity and establish general financial and operational parameters for your co-op. Don't base a feasibility study on overly optimistic assumptions. Once the co-op is operating, good management is required to control costs, monitor finances, and ensure ongoing solvency. As with any business, the income of the co-op (money coming in) must be more than the expenses (money going out).

- **To assess your operating plans:** *Have an experienced business person review your plans and test your assumptions. If possible, compare your feasibility study or plans with those of a similar business—look for areas you may have overlooked. Do your financial projections seem realistic, and do they prove the co-op's viability? Are your sales assumptions tested and based on market data? Does your manager have the skills needed to implement your plans?*

### Good communications and leadership

Communication is critical to all co-ops. Good communication keeps members, lenders, outside advisors, directors, managers, staff members, competitors, and community members informed about the co-op's goals and accomplishments. Managers and directors must be good leaders. They need to be well qualified and should pursue ongoing training to ensure the co-op's success.

- **To assess the quality of communications and leadership:**

*Review informational materials provided to members. Make sure they report thoroughly on the co-op's progress, products, and operations. Solicit member comments and feedback—through checkout-line surveys, websites, telephone polls, and focus groups. Continually monitor the co-op's public image.*

*Develop and follow a training plan for management and the board of directors. Do they understand their jobs? Do they work to improve areas of weakness? Are they open to new ideas and suggestions for improvement? Is the co-op able to follow through on ideas and plans with a minimum of organizational trauma?*

### Avoid isolation

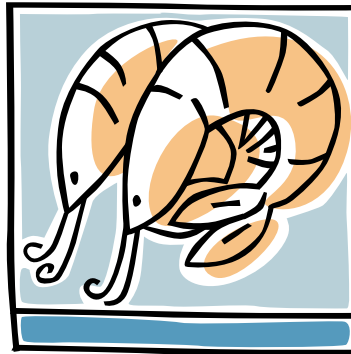
Each co-op is unique, but it can avoid mistakes by learning from other co-ops. Keep in touch with other co-ops; learn from their errors and accomplishments. Ask another co-op manager to conduct a simple audit of your store or to offer advice to staff—especially in problem areas. Join CGIN to access sample job descriptions, newsletter articles, membership materials, business plans, etc. Join the CGIN listserv to communicate with other food co-ops. Join other regional co-op or industry associations. Attend the annual Consumer Cooperative Management Association (CCMA) conference. Read *Cooperative Grocer* and other industry publications. Bring in outside expertise—business planners, co-op development specialists, consultants, operational experts, attorneys, etc. These advisors can help with training, legal and financial matters, industry issues, and strategic planning.

- **To assess this area:** *Are you in touch with other food co-ops? Do you share operational information and data with them? Have you identified outside sources of information—colleagues, books, resource people, conferences, etc.—that can help you learn and make improvements to your co-op?*

### for more information

**Factors in Co-op Success** ..... <http://www.ncba.org/success.cfm>  
A list of reasons why co-ops succeed and fail.

**Guidelines for Co-op Success** ..... [http://www.wisc.edu/uwcc/manual/chap\\_9.html](http://www.wisc.edu/uwcc/manual/chap_9.html)  
Guidelines for new co-ops—things to do and pitfalls to avoid.



## a case study

### Abundance Cooperative Market

The Genesee Co-op Foodstore (GCF) operated in Rochester, New York, for 25 years, also providing financial support for a local nonprofit association. The owner claimed the store was a co-op because the nonprofit had a board of directors, and the food store had working members who received a discount in exchange for their labor. However, GCF had no membership structure, and shoppers had no way to join or vote in matters about the store. In fact, a single owner made all decisions regarding the store's operations. In reality, the store was not a co-op, in spite of its name.

In October 1998, the owner decided to put the store up for sale. Four department managers saw an opportunity to convert the store into a true co-op and began negotiations with the owner. They raised \$145,000 from new members, who were willing to invest \$100 shares. While the organizers allowed members to purchase as many shares as they wished, they limited voting to one vote per membership. In July 1999, the group incorporated as the Abundance Cooperative Market (ACM).

After one year of negotiations with the co-op, the owner of GCF decided not to sell the store. Employees arrived at work one day to discover that he had changed the locks and hired a new general manager. The four managers who were organizing ACM quit immediately. As word got around town that the co-op was not going to be able to buy the store, workers resigned from their volunteer and paid staff positions at GCF and joined the effort to organize ACM. Six months later, in March 2000, the Genesee Co-op Foodstore went out of business.

In the meantime, shortly after the managers quit, ACM organizers started a buying club and rented a small storefront to house the club's operations. Pat Manix, a cofounder of ACM and president of the board of directors said, "The buying club was a true lifesaver for the co-op. Working together to participate in the club kept the momentum going among the members and provided us with a convenient and familiar meeting space." After 16 months, the buying club had also generated \$10,000, which contributed to the co-op's financing base. Other contributions gave the co-op a total of \$160,000 for startup costs.

In December 2000, the co-op rented a 5,600-square-foot renovated warehouse space and hired a project manager. The space needed a lot of additional work, and renovations proved to be costly and time consuming. Luckily, members donated many specialized jobs, such as carpentry, electrical work, and architectural work. The co-op was able to purchase used equipment, and the store's initial inventory was provided free by area distributors.

Abundance Co-op Market opened in early April 2001. The group was able to open the store without taking on any debt, but this meant that the co-op had no financial cushion. Pat Manix realized that new co-ops need to have cash ready for operational and marketing costs for a certain period of time after opening day. As she said, "We overlooked the costs for marketing and found out the hard way that it is just as important as other steps. You have to remember to figure in the cost to get people there. From our experience, placing small ads in newspapers just didn't cut it."

Once ACM leaders realized their oversight in not budgeting for marketing, they found a creative way to get the word out inexpensively. They printed postcards on bright colored card stock with a map to the co-op on one side and details about the store on the other. They kept piles of the cards at cash registers and asked members to distribute them in their neighborhoods and mail them to friends. They also placed the cards in the entryways of other stores and handed them out at a local parade. They distributed 5,000 cards in seven months. In Manix's words, "The cards are the most effective and cheapest marketing tool we've used." Later, ACM secured a line of credit from a local bank. It also invested in other forms of advertising and conducted a door-to-door new-member campaign.

The co-op has also formed a partnership with a local Community Supported Agriculture (CSA) farm, which delivers produce to its shareholders from a garage behind the store. The board had initial concerns about CSA taking produce business from the co-op, but in the end the partnership has proved to be mutually beneficial. The co-op has seen increased business from CSA members on pickup days.

Another lesson learned was the importance of comparison shopping at local stores before opening day. As Pat Manix says, "Prices can be overlooked, especially if a distributor does the initial pricing. It's extremely important to make sure that on opening day your prices are comparable or even a bit lower than other stores." That first impression is a lasting one to grocery shoppers.

### ***Abundance Cooperative Market*** — at a glance

■ Date of first co-op meeting .....	October 1998
■ Number of initial organizers .....	4
■ Date incorporated .....	July 1999
■ Size of store .....	5,600 square feet (total)/5,000 square feet (retail)
■ Required member investment .....	\$100
■ Store opened .....	April 3, 2001
■ Current membership .....	560
■ Total sales .....	\$11,481/week in first month \$50,218/week after one year
■ Number of paid staff .....	13

Information compiled November 2001

## Ten maxims for starting out right

### 1. Be realistic as you plan your new co-op

Allow plenty of time for people to meet and discuss ideas. Remember that a co-op is owned by a group of people, and leaders will need to be open to new ideas from all members. Group decision making tends to be slow, but it has the benefit of being more considered. Most new co-ops take two years to get started.

### 2. Use all available resources

Local economic development agencies can provide invaluable support with market research, feasibility studies, business plans, and financial projections. Although your group may be different from others the agencies have worked with, basic principles apply to all types of businesses—including your new co-op. But be on the lookout for resources specific to starting co-ops: state and federal agencies, county extension offices, university personnel and programs, other local co-ops. Most co-ops are extremely willing to provide assistance to new co-op groups.

### 3. Keep in mind the keys to a successful co-op

It's unnecessary for your group to repeat mistakes made by other co-ops. Be mindful of lessons from past co-op successes and failures. They are important lessons, and paying attention to them can be the key to your own co-op's success.

### 4. Learn as much as you can about co-ops and the unique ways that they operate

Many professionals you may work with, such as attorneys, accountants, and business planners, may not be very familiar with co-ops. Many unique and somewhat obscure laws regulate co-ops, and very few professionals have much occasion to work with these laws. Whenever possible, hire professionals familiar with co-ops. When that's not possible or practical, make sure that someone familiar with co-op law reviews the work done for your group.

### 5. Plan carefully and don't rush your new co-op

Business fundamentals are just as important for co-ops as for any business. These fundamentals include conducting thorough market research, preparing a business plan, securing adequate financing, and creating a solid organizational structure consistent with the business's purpose.

### 6. Start relatively small

A new co-op has a better chance of succeeding and surviving if it begins by successfully operating a store. Deli, bakery, and juice bar operations, while appealing, require additional and specialized expertise. Be careful about spreading your limited management talent too thin until you have experience and a successful track record to build on.



## 7. Research options for obtaining financing and assistance

You will need some initial money to conduct research and prepare your co-op's business plan. Some economic development offices and other agencies have small amounts of money to assist groups with startup financing, or they may be able to help you find such financing. Startup financing is often a loan, which gets repaid if the plan proves viable and the business gets started. In some cases, grants may also be available.

Technical assistance is also available to new businesses from a wide variety of sources. Many states have minority and small business development offices that provide consulting and assistance on marketing and planning issues. Many chambers of commerce have resources for local groups or can help you locate resources. Two federal agencies, the Small Business Administration and the Small Business Development Centers, have many resources for new businesses and can help with bookkeeping, licensing, and business plans. The business departments of local community colleges and universities can also be good sources of assistance. Finally, local and regional co-op associations can help you locate needed resources and provide invaluable support.

## 8. Pay attention to business fundamentals

Every successful co-op must have sufficient capital (including adequate financing to carry the co-op through business startup). Business expertise, from the very beginning, is also vital to a co-op's success. Studies have shown that the two main reasons for new co-op failure are insufficient capital and lack of business expertise.

## 9. Listen to members and shoppers at every opportunity

Use every available opportunity to get feedback from members and shoppers. What items do they want to buy? What do they like about shopping at the co-op? What would they like to see changed? It's certain that you won't be able to make all the changes suggested. But a successful co-op requires two-way communication between management and members. This communication will lead to valuable operational improvements as well as increased member understanding of the co-op. At the same time, be wary of a vocal minority that may want to dictate policy or restrict the co-op's operations based on their own personal views. Remember that most co-op members "vote with their dollars" every day in the store.

## 10. Get outside assistance; use the services of experts

Advisors can provide invaluable experience and help to your new group. Your new co-op has a much better chance of succeeding if you get assistance from those familiar with co-op law and finance. Be sure that the lawyers, business planners, financial advisors, and development consultants you use know what a co-op is and are familiar with the unique aspects of co-op operations.

### for more information

#### *What We Can Learn from Other Co-ops' Mistakes*

..... [http://www.wisc.edu/uwcc/info/coopdev/learn\\_others.html](http://www.wisc.edu/uwcc/info/coopdev/learn_others.html)

## V. Conclusion And Resources

Starting a co-op is a challenging and immensely rewarding activity. It will require research, careful planning, patience, and uncounted hours of work from you and many of your members. The co-op may not turn out exactly as it was originally conceptualized. It will inevitably take longer than you wish it would to get started.

But for groups that invest the time and hard work to start a co-op, there are abundant benefits. You will learn about business and develop new skills. You will learn how to run productive meetings. You will become the co-owner, with others, of a dynamic and valuable business. Most of all, you will have a vibrant business providing jobs and meeting daily needs in your community. Good luck!

### for more information

**Resource Organizations for New Co-ops** ..... [http://www.wisc.edu/uwcc/manual/app\\_a.html](http://www.wisc.edu/uwcc/manual/app_a.html)

A list of resource organizations for co-ops, mostly oriented to rural and agricultural co-ops.

**Cooperative Development Centers** ..... <http://www.ncba.org/econcenters.cfm>

A list of cooperative development centers across the United States.

**Services Available from USDA** ..... <http://www.rurdev.usda/gov/rbs/coops.csdir.htm>

A guide to the cooperative services offered through the USDA's Rural Cooperative Business Services division.



## Glossary of terms

**articles of incorporation**—the founding legal documents of a corporation. When articles of incorporation are filed with and approved by the appropriate state agency, the corporation begins its own distinct existence, subject to the laws and regulations affecting that type of corporation. Articles of incorporation should set forth the name of the cooperative, the cooperative’s duration and address, the purpose of the co-op, the membership structure, membership share requirements, and what happens to the co-op’s assets upon dissolution.

**bylaws**—rules that describe how the co-op will conduct its affairs. Bylaws need to be more specific than articles of incorporation, but should not be too specific. Bylaws should specify procedures for approving members, distributing net income, paying back members’ capital, and voting, along with the number and responsibilities of directors, and other matters.

**board of directors**—the elected body responsible for the actions of a corporation

**capital**—money used in a business, whether supplied by owners or borrowed. Capital typically refers to money contributed to a business by the owners or stockholders. In accounting, capital is the remaining assets of a business after all debts and amounts owed to others have been deducted.

**corporation**—a legal entity created under state corporate laws. Once established, a corporation has its own legal powers, rights, and liabilities, distinct from those of its owners or managers.

**dividends**—amounts paid to business owners based on their investment. Typically, dividends represent a share of profits, paid to shareholders proportionate to the shares held. Cooperatives sometimes pay dividends to encourage member investment.

**equity**—the ownership interest in a business. Equity is made up of investments by owners (members) and the cumulative profit of the business. Equity is most easily calculated by subtracting all liabilities (amounts owed) from all assets (amounts and property owned).

**incorporate**—to establish a business as a legal entity. Incorporation typically entails filing articles of incorporation and bylaws with the state to conform to a corporate statute.

**net savings**—total income (sales) less total expenses; also called profit or net income

**patronage rebate or patronage refund**—distribution of profits made by a co-op to its members, proportionate to members’ use of or purchases from the co-op; also called patronage dividends

**securities laws**—laws that govern how businesses can take investments from potential owners

**shares or membership shares**—investment units sold to co-op members. Shares are like stock in a traditional business, but because of special rules for co-ops, membership shares are not subject to the same regulations that govern stock (as long as certain conditions are met). For that reason, most co-ops prefer to use the term “share” in reference to member investments.

**steering committee**—an organizing group responsible for researching and planning a new co-op.

# resources

**Cooperative Grocers' Information Network (CGIN)** ..... <http://www.cgin.org>  
P.O. Box 399  
Arcata, CA 95518  
707/445-4849  
[info@cgin.org](mailto:info@cgin.org)

**Cooperative Grocer magazine** ..... <http://www.cooperativegrocer.com>  
P.O. Box 597  
Athens, OH 45701  
800/878-7333  
[dave@cooperativegrocer.com](mailto:dave@cooperativegrocer.com)

**National Cooperative Business Association** ..... <http://www.ncba.org>  
1401 New York Avenue, NW; Suite 1100  
202/638-6222  
[jstevenson@ncba.org](mailto:jstevenson@ncba.org)  
Catalog of books and other materials ..... <http://www.ncba.org/catalog>  
List of U.S. co-op development centers ..... <http://www.ncba.org/econcenters.cfm>

**University of Wisconsin Center for Co-ops** ..... <http://www.wisc.edu/uwcc>  
230 Taylor Hall  
427 Lorch Street  
Madison, WI 53706  
608/262-3981

**National Cooperative Bank** ..... <http://www.ncb.com>  
**NCB Development Corporation** ..... <http://www.ncbdc.com>  
1725 Eye Street, NW, Suite 600  
Washington, DC 20006  
800/955-9622  
202/336-7700

**Baldwin, Van.** *Cooperative Incorporation Sourcebook: Start up Materials for Cooperatives Incorporating Under the California Consumer Cooperative Corporation Law.* Center for Cooperatives, University of California, 1994. Basic explanations of the steps to incorporation, with sample documents

**Chapman, Harold, Doug Holland, and Sean Kenny, editors.** *The Contemporary Director.* Co-operative College of Canada, 1986. A handbook for elected officials of cooperatives, credit unions, and other organizations

## Key groups and online resources

## Written Resources

## Written Resources

**Colter, Carolee.** *Hiring a General Manager: A Toolbox for Boards of Directors of Natural Foods Cooperatives.* Northcountry Co-op Development Fund, 1997. A detailed manual on how to successfully hire a co-op general manager

**Colter, Carolee, with Marilyn Scholl and Karen Zimbelman.** *A Relationship of Respect: Evaluating Your General Manager.* Northcountry Co-op Development Fund, 1999. A comprehensive guide to handling all aspects of the general manager evaluation process, including several sample evaluation forms

**Courteau, Mary.** *Financial Management: A Toolbox for Directors and Managers of Natural Food Co-ops.* Northcountry Co-op Development Fund, 1997. An overview of how to read financial statements and an introduction to financial tools for directors and management

**Garoyan, Leon, and Paul Mohn.** *The Board of Directors of Cooperatives.* University of California Cooperative Extension, 1976. A basic reference book for co-op boards of directors

**Gessner, Bill.** *The Expansion Toolbox: Expansions and Relocations for Directors and Managers of Natural Food Cooperatives.* Northcountry Co-op Development Fund, 2000. A hands-on guide to expansion, including financing, planning, store layout, and preparation for opening

**Gutknecht, Dave, and Karen Zimbelman, editors.** *Challenges to the Cooperative Board of Directors.* Cooperative Grocer, 1996. A collection of 10 articles for co-op boards about their role and handling key functions

**Hill, Patricia, Mary Jean McGrath, and Elena Reyes.** *Cooperative Bibliography.* University Center for Cooperatives, University of Wisconsin-Extension, 1981. An annotated and exhaustive guide to works in English on cooperatives and cooperation

**McLanahan, Jack, and Connie McLanahan, editors.** *Cooperative/Credit Union Dictionary and Reference.* Cooperative Alumni Association, 1990. An excellent reference on all aspects of cooperative activity

**National Cooperative Bank.** *How to Organize a Cooperative.* National Cooperative Bank, 1992 (brochure and booklet). An adaptation of *How to Start a Cooperative*, published by the USDA; tailored for different types of co-ops

**National Cooperative Bank.** *Draft Articles and Bylaws.* National Cooperative Bank, 1994. A guide to recommended language for co-op articles of incorporation and bylaws

## Written Resources

**National Society of Accountants for Cooperatives.** *NSAC Resource Guide*. National Association of Accountants for Cooperatives, 1994. A listing of resources specifically addressing financing, accounting, taxation, and legal issues applicable to cooperatives

**Rasmussen, Eric.** *Financial Management in Co-operative Enterprises*. Co-operative College of Canada, 1975. A comprehensive overview of financing in cooperatives, including basics and details about feasibility studies, rate of return and break-even analyses, and cash management

**Roy, Ewell Paul.** *Cooperatives: Development, Principles and Management*. Interstate Printers and Publishers, 1981. A university textbook that comprehensively reviews the theory, history, and practices of co-ops of all types

**Schaars, Marvin A.** *Cooperatives, Principles and Practices*. University of Wisconsin, Madison, 1980 (revised). An overview of cooperative structure and operational applications, mostly oriented toward agricultural and marketing co-ops

**Swanson, Walden, and Mary Myers.** *Business Planning for Cooperatives*. Cooperative Development Services, 1991. A detailed guide to preparing a business plan for a cooperative

**USDA/RBCDS Cooperative Services.** *How to Start a Cooperative*. Cooperative Information Report 7, revised 1990. Basic steps and issues involved in starting a co-op, primarily oriented toward agricultural and marketing groups

**USDA/RBCDS Cooperative Services.** *Organizing and Conducting Cooperatives' Annual Meetings*. Cooperative Information Report 21. Revised 1983. A guide to preparing and holding an annual meeting

**USDA/RBCDS Cooperative Services.** *How to Start a Co-op*. A video that reviews guidelines for and the steps involved in starting a co-op—geared toward marketing co-ops

**Wilson, Rob, and Rob Okun.** *We Own It: Building Financial Security the Co-op Way*. Northeast Cooperatives, 1996. An overview of co-op financial structures, including a case study of a co-op that had to change its member equity structure

**Zimbelman, Karen, and Marilyn Scholl.** *The Ownership Workbook: A Tool for Building Strong Co-op Membership Programs*. Northcountry Co-op Development Fund, 1999. An overview of all aspects of the co-op membership system—from recruitment to joining to meetings to termination—including case examples of innovative and successful programs from co-ops around the country

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### **CGIN board members** as of January 2002

Dan Foley, President ..... Wedge Community Co-op  
 David Fowle ..... Wild Oats Co-op  
 Gail Graham ..... Mississippi Market Co-op  
 Patrice Jennings ..... GreenStar Co-op Market  
 Pam Mehnert, Treasurer ..... Outpost Natural Foods  
 John Mullé ..... La Montañita Co-op  
 Rochelle Prunty, Secretary ..... River Valley Market Co-op

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