



The FCI Guide to Starting a Food Co-op



This publication has been a cooperative endeavor among all the people striving to build the co-op economy by sharing our knowledge and experience.

The FCI Guide to Starting a Food Co-op

S. Reid, Editor

The FCI Guide to Starting a Food Co-op

Like the co-ops we hope this inspires, this guide has been a work of love and cooperation by many people, some of whom may not ever get as much credit as they deserve.

The first drafts were written by Patricia Cumbie and Rosie Weaver with contributions from past and present Food Co-op Initiative staff (Rosie Weaver, Jake Schlachter, Suzi Carter, Mary Stennes Wilbourn, and Jacqueline Hannah), and members of the CDS Consulting Co-op. Bill Gessner and Marilyn Scholl read our early drafts, commented, and offered many excellent suggestions. The final draft was edited by Stuart Reid, formatted by Nicole Klimek and Melanie Shellito. Special thanks to Karen Zimbelman and everyone who played a role in bringing expert advice to startup food co-ops over the years. Our work is based on your solid foundation.

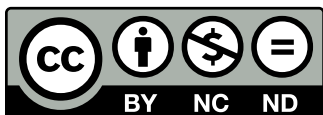
This new guide began as an update to *How to Start a Food Co-op*, and became its own entity with the realization that the Third Wave of food co-op development is facing new challenges, and that our approach to starting food co-ops must continue to evolve and strengthen in order to keep pace. Thanks to the co-ops that have opened over the last 10 years for all we have learned with you.

The first edition of *How to Start a Food Co-op* manual was written by Karen Zimbelman in 2002. Editorial support and additional content for the 2010 edition provided by writer Patricia Cumbie and editor Margaret J. Goldstein.

© 2017 Food Co-op Initiative

Food Co-op Initiative | 2017

Some Rights Reserved



Except where otherwise noted, this work is licensed under
<http://creativecommons.org/licenses/by-sa/3.0/>

Food Co-op Initiative
14314 Featherstone Trail
Savage, MN 55378
844-324-2667
info@fci.coop
www.fci.coop

ISBN-13: 978-1543169775
ISBN-10: 1543169775

In accordance with Federal law and the U.S. Department of Agriculture's policy, this institution is prohibited from discriminating on the basis of race, color, national origin, sex, age, or disability.

To file a complaint of discrimination, write to: USDA, Director, Office of Civil Rights, 1400 Independence Ave. SW Washington D.C. 20250-9410 or call (800) 795-3272 (voice) or (202) 720-6382 (TDD).

Funding for this project was generously provided by the following supporters:

Blooming Prairie Foundation
CDS Consulting Co-op
USDA Rural Cooperative Development Grant
The National Cooperative Bank
National Co+op Grocers
Howard Bowers Fund



If you are reading the printed version of this Guide and want to take advantage of the outside resources mentioned, you can find the working links in the free PDF version on our website. www.fci.coop/Guide.

Table of Contents

Welcome From Food Co-op Initiative	1
Introduction.	3
CHAPTER 1: Orientation to Cooperation	
<i>Why Start a Food Co-op?</i>	<i>5</i>
<i>Co-op Basics</i>	<i>5</i>
<i>What Is a Co-op?.....</i>	<i>6</i>
<i>Co-op Ownership: Values and Principles</i>	<i>6</i>
Cooperative Identity, Values and Principles as Defined by the International Cooperative Alliance	7
<i>The History of American Food Co-ops: The Old and New Waves</i>	<i>8</i>
<i>What Does it Take to Start a Food Co-op?</i>	<i>9</i>
<i>Guiding Principles for Co-op Organizers</i>	<i>9</i>
CHAPTER 2: Overview of Starting a Food Co-op	
<i>Introduction to the Co-op Development Process.</i>	<i>11</i>
The 4 Cornerstones	11
3 Stages of Development	12
<i>Organizations that Support Food Co-op Startups</i>	<i>13</i>
Food Co-op Initiative	13
CDS Consulting Co-op.....	13
National Co+op Grocers Development Cooperative.....	13
Local Cooperative Development Centers	14
<i>Keys to Success.....</i>	<i>14</i>
Using the 4 Cornerstones in 3 Stages Development Model	14
<i>Case Study: Fairbanks Community Co-op Market</i>	<i>17</i>

CHAPTER 3: First Steps

Stage I, Organizing20

 What Do I Do First? 20

Vision: Assessing Common Interests and Needs20

Learn About the World of Co-ops 21

Community Organizing: Create Linkages with Your Community22

 Identify Potential Owners and Advocates22

 Checklist for Holding a Successful Meeting.....23

 Conduct a Community Survey.....24

 Conduct a Preliminary Feasibility Study24

 Choose a Name25

Finalize Vision and Mission Statements.....25

 Keep Your Vision Alive 26

Talent – Convening a Core Group, Developing Leadership26

 Convene a Steering Committee 26

 Set Up Administrative Support27

 Enlist a Graphic or Web Designer27

 Sources of Help For Startups27

 Volunteers 28

 Local Producers 28

 Civic Promoters 28

 Business Development Partners 28

 Fiscal Sponsors..... 29

Capital – Committing Time and Money.....29

 Develop a Preliminary Sources and Uses Budget 29

 Raise Money and Commit Resources for Organizational Costs 30

 Grants 30

 Develop a Member Capitalization Plan.....31

 How to Calculate the Owner Equity Requirement31

 Advantages of Strong Equity Capital32

 Define How and When Equity Will Be Used32

 Recruit Owners.....32

Systems – Creating Structure33

 Incorporate33

 Hold the First Board Meeting33

 How Co-op Governance Works33

 Find Administrative Support35

 Set Up a Bank Account35

Set Up Financial Accountability Systems	35
Create an Effective Organization.....	35
Obtain Training	36
Develop a Contact List	37
Implement Communication Systems	37
Create Membership Materials and Mechanisms	37
Why Timelines?	37
Case Study: Monadnock Food Co-op	39
Simplified Checklist, Stage I.....	41
Decision Point	41

CHAPTER 4: Developing the Co-op

Stage II: Feasibility & Planning	42
Stage 2a Feasibility: Vision	42
Build a Shared Vision	42
Conduct a Full Feasibility Study	42
Develop a Concept Paper.....	44
Build Alignment With Core Group, Owners and Potential Owners Around Vision	44
Share the Vision Through Expanded Communications	45
Organize Within Your Community	46
Talent.....	47
Assess Organizational Capacity	47
Explore Location and Site Options	47
Hiring a Project Manager	48
Getting Ready for Implementation	48
Capital.....	49
Member Loan Plans.....	50
Preferred Shares.....	50
Loan Capital from Financial Institutions	50
Systems.....	51
Develop Governance Leadership	51
Contract for a Professional Market Study.....	51
Update Your Business Plan	52
Simplified Checklist, Stage 2a	54
Decision Point	54
Stage 2b Planning: Vision	55
Continue to Communicate Widely	55

Talent	56
Hire a General Manager	56
Connect with Support Organizations	57
The Evolving Role for the Board of Directors	57
Engage Members	57
Capital	58
Plan and Carry Out a Major Membership Drive to Recruit Owners and Raise More Capital	58
Develop a Plan for a Capital Campaign	59
Implementation of a Capital Campaign	60
Business Plan for Financing	61
Systems	62
Governance Transition	62
Refine Market Analysis	62
Finalize Site and Design Options	62
Store Design	63
Formalize a Store Image: Marketing and Brand Development	63
Owner Benefits at Your Co-Op	64
The Return on Ownership: Patronage Refunds	65
Retail Operations Plan	65
Store Administration	65
Financial Reporting	66
Managing Inventory and Display	66
Customer Service	67
Marketing and Promotions	67
Case Study: Friendly City Food Co-op	68
Simplified Checklist, Stage 2b	70

CHAPTER 5: Developing the Business

Stage III: Implementation	71
Vision	72
Brand Development	72
Developing Communication Strategies	72
Continue to Engage Members and Organize the Community	72
Talent: Preconstruction	73
General Manager and Site Project Manager Roles	73
The Board of Directors' Transition	73

Capital	74
External Capital Commitments	74
Continued Member Equity Drive and Member Loans	75
Systems	75
Implementing the Operations Plan	75
Store Administration	75
Financial Reporting	75
Managing Inventory	76
Store Staffing and Customer Service	76
Marketing and Promotions	77
Simplified Checklist: Stage III	77
Decision Point	77
Case Study — River Valley Market	78
Appendices	
Appendix A: Legal Primer	80
Appendix B: Operational Startup Checklist for General Manager	90
Appendix C: General Manager Position Descriptions	92
Appendix D: Articles of Incorporation Template	96
Glossary	100
Organizations to Contact	102
Further Reading	103
Acknowledgements	104

Welcome from Food Co-op Initiative

New Food Co-ops Start Here

I would like to personally extend to you a greeting from the food co-op community and invite you to learn more about starting a cooperative in your area. This guidebook represents the efforts of many people who have shared their talents and insights, and it epitomizes the accumulation of many years of hands-on experience opening new co-ops and operating established ones. There is a wealth of information available here, and we are pleased to have the opportunity to share it with you.

In early 2004, I was given the opportunity to become the general manager of the Just Food Co-op in Northfield, Minnesota. The co-op was expecting to open in about six months, and I took on both the project management and operational management responsibilities. I don't recommend that for the faint of heart! However, the experience was worth all the hard work, and I learned a lot about the complexity and subtlety of guiding a new business into being. A few years later, when Food Co-op 500 was created, I volunteered as a peer mentor and would later become the first contracted manager for startup support. In 2010 Food Co-op 500 incorporated as a 501c3 nonprofit and changed our name to Food Co-op Initiative.

Leading Food Co-op Initiative in its mission to enable other startup groups to have an effective and efficient startup process is exciting and rewarding work. Starting your new food co-op will also be a transformative and rewarding process that has the potential to positively influence your local economy through access to healthy food and a community-owned enterprise. This guide is one of many resources that have been created to help people and communities succeed.

One of the best things about food co-op development is that on a daily basis I get to meet some of the smartest, most dedicated and enthusiastic people on the planet. People like you: people who feel passionately that cooperation has a lot to offer our local communities and our world. All of us working within food co-op development are ready and waiting to support you, and want to extend to you a warm welcome. We know you will have questions, so feel free to pick up the phone or email us if there is something you need to know. We look forward to being of service and hearing from you about your plans.

In Cooperation,

Stuart Reid
Executive Director
Food Co-op Initiative

Introduction

What if our community had a food co-op?

I wonder if I could start one.

What should I do first?

There has never been a better time to start a food co-op. More and more people see the value in ethical business practices and supporting local economies. Hundreds of towns and cities around the U.S. are actively exploring the possibility of opening cooperatives. There is a tremendous opportunity for startup food co-op groups to seize the moment during a unique time in our country's history.

The purpose of this guide is to provide organizers, board members, and development centers with an interactive introduction to starting a food co-op. That is why this book is loaded with resources and organizations you can contact with your questions. The guide is not meant to be an exhaustive or comprehensive reference document, but an overview of what is important in all stages of your co-op's development. Groups interested in starting a new co-op are strongly encouraged to seek out people in co-op development organizations, and to use the additional resources referenced throughout this guide.

This guide provides an overview of the basic steps and procedures so you can begin with confidence and is provided to any individual or group at no cost thanks to generous support from the co-op community. There are other sources of no-cost information that can help get you started. That is not to say you need to go it alone, quite the opposite. This guide is a portal into the world of starting a food co-op, and encouragement to join a growing movement. If you decide to work through the process of starting a co-op, your group will be assisted by a wide variety of people and groups, including experienced co-op specialists and consultants. When you reach out, the experts can get to know more about you and your group's goals to tailor their assistance to you.

Starting a co-op is a uniquely challenging and immensely rewarding activity. It will require research, careful planning, patience, and uncounted hours of time from you and your members. But the rewards are many. When you invest the time and hard work to start a co-op, you will realize abundant benefits. You will learn about business and cooperation and you will develop new skills. You will learn how to run productive meetings. Your co-op will provide jobs and meet daily needs in your community. Most rewarding of all, you will become a co-owner, with many others, of a dynamic and valuable business that could make a lasting difference and pass on the legacy of cooperation to a new generation.

You are not alone! Many people are working together with you to realize a new vision for a food co-op in your community.

Chapter 1

Orientation to Cooperation

Why Start a Food Co-op?

We are proud to be part of a movement that proves respecting people is good for business. Food co-ops are changing the food system, enhancing local economies, building sustainable agriculture networks, offering healthy food choices, and proving that ordinary people can reap the benefits of a community-owned business. By starting a food co-op, you will be joining other people and communities that are using cooperation to create a vibrant hub for local food and neighborhood development.

Millions of consumers around the globe have joined and started cooperatives for many reasons. Cooperatives fill people's needs for housing, electricity, food, insurance, financial services, and daycare — in fact almost any business may be formed as a co-op. What attracts people to cooperation is that co-ops operate on their behalf with honesty, fairness, and transparency. In the United States, 30,000 co-ops provide two million jobs, and one of every four people is a member of a cooperative. When you start a local food co-op, you are part of a values-driven global movement.

Reasons for starting a food co-op can also be

wide-ranging. People in your community may want a business focused on consumer needs, environmental stewardship, and ethical business practices. You may have limited access to healthy food choices, locally-grown produce, or specialized product lines. Maybe a privately-owned or chain food store recently closed in your neighborhood. You might want a locally-owned store that will benefit the local economy and community more than a chain store would. For all these reasons and more, starting a food co-op could bring great benefits and contribute to a livable community.

Let's get started!

Co-op Basics

Did you know there are over 100 million members of food co-ops in the U.S. alone? When you hear the word "co-op," you might picture a grocery store with friendly people, a warm environment, and fresh produce. However, the cooperative idea is more than a bricks and mortar store. It is built upon the idea that local owners, not far-away investors, control the business and gain the benefits of success.

Check out our video, *A Food Co-op in Your Community*, to learn more about the positive impacts that food co-ops bring. It is an excellent introduction for steering committee members and your community.

A cooperative is a group of people who work together for economic benefit. Cooperatives bring the idea of cooperation — working together — to the business world. The cooperative idea has many applications. For instance, a group of parents might hire a teacher and rent a facility to create a preschool co-op. Individuals and families might pool their savings accounts to create a credit union. Whether cooperation happens through a cooperative or by individual action, the principle is the same. People working together can accomplish more than those working alone.

People are drawn to co-ops by a diverse array of factors, including community building, economic justice, and access to healthy foods to name just a few. Learn as much as you can about cooperatives so you can speak articulately about the benefits and address your community's interests.

A collection of concise articles explaining the many aspects of cooperatives can be found on the Co-op: Stronger Together site at www.strongertogether.coop. Video recordings in the [Co-op Café library](#) include testimonials from community leaders, store managers, and others.

What Is a Co-op?

A cooperative is a business voluntarily owned and controlled by the people who use it — its owners. It is operated primarily for the benefit of its owners to meet their mutual needs. When many people have similar needs — such as the need for more affordable housing or for telecommunications services — cooperatives offer great potential to meet those needs.

Our way of doing business is to be open, fair, and democratic. That is not just marketing speak, either. These concepts are based on a set of seven guidelines called the International Cooperative Principles that serve as the standards for how we operate. These values and principles are common to all co-ops, whether

Looking for a food co-op near you or one getting started? Check out these [food co-op directories](#).

they are in business to offer electricity, insurance, or groceries to their members.

At its core, a co-op is a business. Cooperatives have a different ownership and investment structure than publicly traded corporations, but cooperatives are not nonprofits. Instead, they return their profits to their owners or use them to improve their ability to meet owner needs.

A cooperative has the same needs as any other business. Co-ops need sufficient financing, careful market analysis, strategic and comprehensive planning, and 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 different. Co-ops may resemble other businesses outwardly, but the fact that they are cooperatively owned makes them unique. They are owned by a community, and that is why democracy, fairness and self-help are important values.

There are several basic types of co-ops. **Producer** co-ops provide goods or services to members who make 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 by members for personal consumption. There are also shared service co-ops, purchasing co-ops, and hybrid co-ops that serve more than one group of stakeholders. Food co-ops are typically organized as consumer co-ops. This handbook is written for those who want to start consumer-owned food co-ops.

Co-op Ownership: Values and Principles

Being values-driven is not just something we say to convince people to buy our products or services. Co-ops are based on values like those we subscribe to

individually, including self-responsibility, democracy, equality, and social responsibility (www.ica.coop).

People have been cooperating for millennia, but the consumer cooperative movement gained recognition in the mid-1800s in Rochdale, England. A group of weavers known as the Rochdale Pioneers are credited with establishing the first formal cooperative to have consumer control of commerce, and to have access to quality food and goods at fair prices. The Rochdale Pioneers also developed the Cooperative Principles that are the guiding business standards of all cooperatives today. As times have changed, the principles have been modified slightly, but the basic concepts have remained the same for more than 150 years.

Cooperative Identity, Values and Principles as Defined by the International Cooperative Alliance

Definition

A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations, through a jointly-owned and democratically-controlled enterprise.

Values

Cooperatives are based on the values of **self-help, self-responsibility, democracy, equality, equity, and solidarity**. In the tradition of their founders, co-operative

members believe in the ethical values of honesty, openness, social responsibility, and caring for others.

Principles

The cooperative principles are guidelines by which cooperatives put their values into practice.

- 1. Voluntary and Open Membership**—Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership without gender, social, racial, political or religious discrimination.
- 2. Democratic Member Control**—Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights (one member, one vote) and cooperatives at other levels are also organized in a democratic manner.
- 3. Member Economic Participation**—Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members make an equity payment to join the co-op. This equity helps provide the capital needed to start and run the co-op. It pays no interest or dividends and is not a speculative investment. Members allocate surpluses (profits) for any or all of the following purposes: strengthening their



The outdoor adventure retailer **REI** (Recreational Equipment, Inc.) is the largest consumer co-op in America with 4.4 million members. Their size allows them to act on their ideals in places all across the country. This has a big impact. In addition to adhering to the stated co-op values, they take them one step further by actively protecting the environment. That is what co-ops do: they strive to go above and beyond to do what is right. At REI, how they operate their stores, the products they carry, and the millions of dollars they have donated to safeguard forests, lakes and prairies, all contribute to the end goal of preserving natural spaces and keeping the earth a better place for everyone.

cooperative, possibly by setting aside reserves; rebates to members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4. **Autonomy and Independence**—Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.
5. **Education, Training and Information**—Cooperatives provide education and training for their members, elected representatives, managers, and employees, so

they can contribute effectively to the development of their cooperatives. They inform the general public—particularly young people and opinion leaders — about the nature and benefits of cooperation.

6. **Cooperation among Cooperatives**—Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional, and international structures.
7. **Concern for Community**—Cooperatives work for the sustainable development of their communities through policies approved by their members.

The History of American Food Co-ops: The Old and New Waves

Food co-ops in the United States have a long history and have formed in three distinctive waves. The Great Depression of the 1930s triggered the first wave. During this decade, families across the United States struggled to make ends meet. Many food co-ops were launched in this period.

The story of the Hanover Co-op, which is still operating today, is typical. In the small town of Hanover, New Hampshire, families struggled to set aside just \$8 or \$9 per week for groceries. What fresh fruit and vegetables they could get were of poor quality and expensive. In 1935, 17 local residents gathered in the town high school to discuss the idea of starting a consumer co-op. The co-op could help them reduce their grocery costs and buy products that were otherwise unavailable.

In January 1936, the group formally established the Hanover Consumers' Club. Negotiating for discounts with suppliers, the club began buying fresh citrus directly from Florida. Before long, the group was also buying bread, wine, canned vegetables, gasoline, and fuel oil. 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.

This story repeated itself in other U.S. towns, including Berkeley and Palo Alto, California; Eau Claire, Wisconsin; Hyde Park (a Chicago

Who are Co-op Owners?

At a food co-op, any shopper can become a member-owner by joining the co-op, which usually involves making a one-time equity investment, also known as co-op membership or shares. This is not a fee, but an investment in ownership stock of the co-op. When you join the co-op, you are pooling your resources with others in your community to provide a strong financial foundation to insure the success of your co-op.

In this guide, we use the terms *owner*, *member*, and *owner-member* to describe the people who join the co-op by buying shares or making an equity investment. Member is the traditional term used throughout the English-speaking co-op world, but owner and owner-member or member-owner are being used by many food co-ops to emphasize the true relationship between the people who join and the co-op. Any of these terms is acceptable, but (unlike us!) it is best to decide on one and use it consistently.

neighborhood); and Greenbelt, Maryland. Although most of the old wave stores have closed, a few, including the co-ops in Hanover and Eau Claire, continue to operate to this day. You can visit their websites: www.coopfoodstore.com (Hanover) and www.megacoop.com (Eau Claire).

In the late 1960's and 1970's, a new wave of consumer co-ops began. Born out of the ideals and philosophies of the 1960's counterculture, many of these stores were opened by young and idealistic people. They set up co-ops to reflect their ideals about equality and justice, and to provide unadulterated food. Most of the new co-ops sold only whole, unrefined, and bulk foods. Their operating practices were diverse and experimental. Some stores had limited hours; others were open seven days a week. Some were run by volunteers; others by fully paid staff. Some had various forms of worker self-management; others had more traditional management structures. Some paid year-end patronage refunds; others gave members discounts at the cash register.

These co-ops were pioneers in what came to be known as the natural foods industry. But not all were successful. Some failed because of their experimental structures and operating systems. Most were unable to escape the same problems that had troubled earlier co-ops — insufficient capital, inadequate membership support, an inability to improve operations as the grocery industry changed, a stronger commitment to idealism than to economic success, lack of adequate support from wholesalers, and resistance to consolidation. But the new wave co-ops that survived are strong and flourishing.

Interest in starting food co-ops has again burgeoned in recent years. More and more people want the benefits that a food co-op can deliver. People want to contribute to a strong community economy and to local and organic agriculture. They want to patronize ethical businesses, build a more cohesive community, and obtain fairly priced, high-quality foods. It is an exciting time for food cooperatives today.

Today, starting a food co-op is a much more involved endeavor than it was in the 1930s or the

1960s. A successful food co-op is often a multi-million dollar operation that meets a community's need for high-quality food, convenience, product selection, and service. To be economically sustainable, a new food co-op startup group will participate in community organizing, careful business planning, and raising the capital needed to open their store. Fortunately, the food co-ops in development today are much more prepared for success because of the assistance of development organizations formed to assist them. (see Chapter 2 [page 13](#) for a list of organizations that provide support for food co-op startups)

What Does it Take to Start a Food Co-op?

Starting a co-op is just as complex and time-consuming as starting any business, and will require thorough and careful business planning. New co-op development progresses through the following steps:

- Gather background information
- Assess community interest
- Incorporate
- Organize within the community
- Recruit owners
- Research feasibility
- Create a formal business plan
- Plan for financing
- Select a site
- Secure financing
- Prepare for opening
- Begin operations

Some steps, such as recruiting owners, will continue up to and beyond opening the store.

Guiding Principles for Co-op Organizers

This process is often complex and time consuming — be patient! Allow plenty of time for people to meet and discuss ideas. Community building takes time, and it will create deeper and more widespread support for your co-op.

Use resources and organizations that have

experience and expertise in food co-ops, including professional food co-op consultants, co-op development centers, and other local co-ops. Consultants familiar with the special laws and financial regulations applying to co-ops can provide invaluable experience and assistance. Be sure the lawyers, business planners, financial advisers, and development consultants you hire know what a consumer co-op is and are familiar with the unique aspects of co-op operations.

A new co-op has a better chance of succeeding and surviving if it begins with successful community organizing and solid business planning. Your vision and mission are very important, but without a realistic and feasible business plan, you will not have any resources to support them.



Not sure about the lingo? We have explanations throughout the guide regarding different cooperative terms, and for quick explanations of unfamiliar terms see our **Glossary** on page 100 of this guide.



READING IS GREAT,
now call us to chat!

Food Co-op Initiative: 844-324-2667

CHAPTER 2

Overview of Starting a Food Co-op

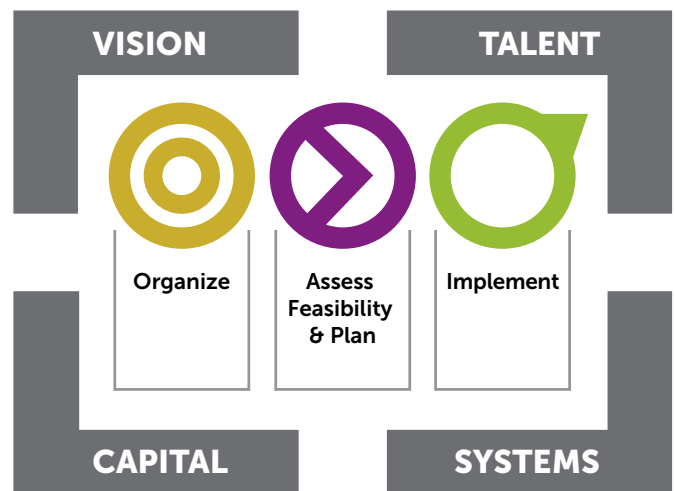
Introduction to the Co-op Development Process

Starting a food co-op involves building community support, and locating the necessary resources and capital. When it comes to any startup project, people have a lot of questions. How do you manage community outreach? What is a good group decision-making process? How much money do we need to raise? When should we incorporate?

The **4 Cornerstones in 3 Stages** development model was created by the consultants of Cooperative Development Services to demonstrate the critical components every startup needs to consider throughout the various stages in their development. The 4 cornerstones and their 3 stages comprise a structure for developing a cooperative retail food business, a process that includes recognition of necessary support systems and decision points. Startup groups that have used this model generally open their stores more quickly and with greater success.

The 4 Cornerstones in 3 Stages development model is based upon the cornerstones of vision, talent, capital, and systems that support the three stages of food co-op development: organizing, feasibility & planning, and implementation. The 4 cornerstones comprise the attributes of a successful start-up that must be nurtured throughout the 3 stages.

FOOD CO-OP DEVELOPMENT MODEL



FOUR CORNERSTONES IN THREE STAGES

The 4 Cornerstones

Vision is the articulation of the hopes and dreams of the founding group, and will be refined as the group moves through the stages of development. The cornerstone of a shared vision exhibits these qualities:

- It reflects core values and purpose that are held in common by the group members.
- It recognizes stakeholders besides potential owners, such as lenders, community and economic

development organizations, suppliers, staff, and other cooperatives in the community and industry.

- It captures the ultimate goals that the co-op is aiming for, and an effective and collaborative process to achieve them.

Talent includes the people who are invested in the success of the emerging co-op. This includes those who champion the project — people with passion, drive, and a commitment to building a work group. As the project becomes more advanced, talent will include the board of directors, paid staff to support the board's work, facility project manager, and general manager. External talent is also important and includes attorneys, professional consultants, designers, architects, etc. Members of the board and steering committee will provide leadership and accountability throughout the development process.

Capital is the financial resources necessary to sustain the cooperative in all stages of development. Capital includes both cash and donated services, coming from owner-members or the broader community. The contributions of owners help leverage capital from other sources. Capital is needed to cover organizing expenses for all the development stages and for all the costs of opening a store, including renovation, equipment, inventory, etc. Working capital will be needed to sustain the new co-op after it opens.

Systems are the organized and integrated procedures used to accomplish the co-op's work. They are ongoing with a commitment to continuous improvement. Systems become more complex as the organization proceeds through the development stages. Systems include legal, governance, planning and assessment, communication, marketing, finance and accounting, and operations.

3 Stages of Development

Stage I: Organizing

Organizing commences when one or more people start with an idea to organize a retail food co-op. The organizing stage includes convening a core group, assessing common interest and needs, creating a

shared vision, incorporation, building leadership and accountability systems, creating community excitement and support, committing time and money, coordinating initial market research and preliminary feasibility work, developing a membership program, launching a membership campaign, and reaching the Stage I target for membership. The co-op is born and functioning as a member-owned organization!

Stage II: Feasibility & Planning

There are two aspects of Stage II. The **2a Feasibility** component comprises in-depth assessments of market potential, financial feasibility, organizational commitment and capacity, and preliminary design feasibility.

The **2b Planning** component begins once the probability of feasibility has been determined through a thorough assessment. Planning includes many components, including pro forma financial budgets, the formal business plan, capital campaign planning, initial contacts with external lenders, general manager search, and site selection.

The feasibility & planning stage ends when a site has been secured through lease or purchase, with contingencies (e.g., contingent upon obtaining full financing) or with an option agreement.

This is a major decision point for the co-op.

Stage III: Implementation

Implementation begins when the site has been secured (with contingencies) and when there is sufficient capacity in all the cornerstones — vision, talent, capital, and systems — to launch the business operation. Implementation is when all the work you have done so far comes to fruition. It has several components (sub-stages):

3a. Pre-Construction involves site and facility design, development bids (for construction and equipment) and financing (both internal and external). The pre-construction phase ends with a “no turning back” decision point before the close of financing and removal of contingencies. This is the final decision point.

3b. Construction and Renovation entails overseeing construction, equipment acquisition, building business

relationships, developing merchandising plans, and determining opening orders, store and product promotions, and staffing plans.

3c. Preparation for Opening involves building organizational and operational capacity, and implementing staffing, marketing, and membership program plans.

3d. Sustaining Operations beyond the store opening and the grand opening, includes preparing for the first year and beyond.

Organizations That Support Food Co-op Startups

Long before co-op doors open, the organizing and feasibility stages demand an enormous commitment from founding committee members. Not only do you need to learn how to be an effective decision-making body, you also have to lead the organizing activities of the co-op during its developmental stages.

The food co-op sector has learned many important lessons about how to assist startup groups to be more efficient and effective. One of the most important insights is that when startup groups get professional advice early on in their process, they are much more likely to open their co-ops sooner and with greater financial stability. Expertise promotes best-practices, saving groups time and money.

Throughout the process of establishing a new food co-op, you will have access to the following organizations that are dedicated to helping startup groups. As you move along the continuum of development, each organization can offer critical support to your startup. Do not hesitate to contact them with your questions.

Food Co-op Initiative

Food Co-op Initiative is there to help right from the start, and our services are offered at no cost. It is a fantastic way to get plugged into the resources you need. Food Co-op Initiative (FCI) was created in 2006 as the Food Co-op 500 program to provide resources and support for communities that want to start new food co-ops. Our mission is to increase the number, success and sustainability of new food cooperatives delivering access to healthy food in diverse

communities across this country. FCI offers free support, referrals, and training materials to help you create a successful co-op.

In addition to being the first organization most startup groups will interface with, FCI works with co-op groups all the way through opening. FCI does not charge for information and services, working to encourage development by being accessible to anyone. FCI is a 501(c)3 nonprofit development center whose activities are funded by major grants and donations from food co-ops and individuals.

www.fci.coop

CDS Consulting Co-op

Since 1992, CDS Consulting Co-op (CDS CC) consultants have been working to support the creation and development of food co-ops. Services are offered on a fee-for-service basis to all food co-op groups along the continuums of co-op size and organizational development.

As part of its food co-op development work, CDS CC codified the stages of expansion and growth for startups through the 4 Cornerstones in 3 Stages development model, based on their experience working with and monitoring hundreds of food co-ops. CDS Consulting Co-op members have provided services to hundreds of cooperatives of all sizes and are active in supporting the growing wave of new food co-ops. Their specialized databases allow them to identify best practices and make recommendations based on analysis of comprehensive data. www.cdsconsulting.coop

National Co+op Grocers Development Cooperative

The National Co+op Grocers (NCG) formed as a secondary cooperative in 1999 to provide support to its member retail food co-ops as a virtual chain. The NCG Development Cooperative (NCG DC) was incorporated in 2008 after its members asked NCG to find ways to assist them with expansion and new store development. Startups that meet their criteria for viability and projected sales volume may be able to contract with NCG DC for comprehensive support during implementation and post-opening.

The Development Cooperative assists co-ops with financing, real estate negotiations, opening the new store, and monitoring operations and profitability for up to two years after opening. The Development Cooperative usually works with stores after they have done some financial projections and a market study and site selection activities with CDS CC.

www.ncg.coop/ncg-development-co-op

Local Cooperative Development Centers

There are cooperative development centers in many states, some of which have expertise in food co-op development. Often they are good sources of information about their state's statutes and regional economic development funds. They may provide consultation, referrals, training, and other services. Visit the CooperationWorks! website to find out about centers in your area. www.cooperationworks.coop

Keys to Success

We want you to succeed beyond your wildest dreams, which is why we want you to be well prepared for starting a new co-op. Before you start any formal organizing for your co-op, consider what has worked best for others. This will enable your group to work through the startup process much more easily and efficiently.

The startups that fail or have problems after they open have often adopted a do-it-yourself approach, have weak business planning, or open storefronts long before they have the capital, community, and knowledge they need to succeed. We would rather see groups not take that gamble. Before startups approach anyone for

money or ask them to take on the risks of investing in a co-op, they need to set a strong foundation for their activities. This will include:

- Training in leadership and organization
- Conveying clearly the startup co-op's plans and goals to the community at-large
- Keeping good records (meeting minutes, contact lists, and any financial contributions)
- Assembling data that supports the co-op's plans and direction

Startup groups that systematically work on leveraging support for their projects have the best chance of meeting their goals. As with any new business, a number of factors enhance a co-op's chance to succeed. Paying careful attention to these items as you plan will help your startup co-op become an established food co-op.

Using the 4 Cornerstones in 3 Stages Development Model

Experts in food co-op development have identified best practices for Vision, Talent, Capital and Systems. This guide will continue to use that framework throughout the organizing, planning and implementation chapters to emphasize the importance of these cornerstones throughout the co-op development process.

I. Vision

Vision is the articulation of the hopes and dreams of the founding group, and will be refined as the group moves through the stages of development.

Communicate with Your Community — A compelling vision is key to your success. It is vision that will attract

.Coop

You might have noticed that the URL suffix for all of the co-op organizations listed here is **.coop** not **.com**. The .coop domain name was launched in 2002 to represent co-ops from all sectors and unite the global cooperative movement online by demonstrating to users the unique identity of cooperatives. You can secure a .coop domain name for your co-op if your co-op is legally incorporated. Startups have six months after registering to fulfill the criteria. To register your co-op go to www.nic.coop/preverification.

members, inspire volunteers, and guide the ultimate form of your co-op. While vision is something that originates within the leadership group, a shared vision is created by the community through many conversations. It should be rooted in an understanding of the cooperative differences. What makes your co-op a unique value to the community? Getting the message out about this core difference will help groups leverage the powerful dynamic of people coming together to meet their needs with the co-op business values of fairness and democracy.

Vision is created through the merger of the co-op values with the concerns and ideas of community members. It is your job as a co-op leader to steward this vision. Tell the story of your vision at community meetings and board meetings. Hang it on the wall in some form. Use it as inspiration and let it guide your decision making.

II. Talent

Be Accountable — Talent starts with your internal leadership. What strengths and skills do you bring to the board/steering committee? What are you doing to develop and foster these strengths? The startup co-op's

board and/or steering committee have a big responsibility to the community. You are trusted with members' money and relied upon to make the co-op vision a reality. As volunteers, it can be difficult to maintain accountability among your leadership and working groups. Be thoughtful and have clear expectations.

Get Expert Assistance — A retail food co-op may resemble a typical grocery store on the outside, but the organizational and business needs of cooperatives are different. It is critical that startup groups work with professionals experienced in co-op development. While it may be tempting to save money by accepting pro bono work or taking advice from in-house experts, it may be counterproductive unless they truly understand the unique world of food co-ops. Using co-op specialists can prevent costly mistakes and unnecessary diversions. Co-op advisers are recommended for legal and financial matters, market analysis, strategic planning concerns, store design and leadership training.

Errors made by inexperienced advisors have contributed to more than one co-op failure. A poor market study can lead a co-op to base its financial plans

More Free or Low-Cost Ways to Get Connected

- Keep in touch with people from **other startup co-ops**; learn from their errors and accomplishments.
- Sign up for the **Food Co-op Initiative mailing list** and follow us on Facebook.
- Join the **Cooperative Grocer Network (CGN)**. The Cooperative Grocer Network (CGN) was launched in 1997 as a forum for food cooperatives to network and share information. The site has evolved to include web-based discussion groups (including a forum for startups), a co-op directory, a job board, and an online resource library. Membership is open to food co-op retailers and individuals and groups working within the food co-op sector. CGN also publishes the bimonthly magazine, Cooperative Grocer, the food co-ops' trade magazine. The CGN library includes the magazine archives, which are also accessible to non-members.
- Read and subscribe to **Cooperative Grocer magazine** www.cooperativegrocer.coop and other industry publications. Get a group subscription so that all of your core leaders receive their own copy!
- Attend the annual **Up & Coming** food conference for new co-ops. This two-day event is designed to provide startups and recently opened co-ops with in-depth training and great networking opportunities. www.upandcoming.coop.

on unachievable sales levels. While it may cost \$10,000–\$20,000 to contract support for an effective capitalization campaign, expert support can mean the difference between a long, unproductive effort and an efficient endeavor that brings in one to two million dollars. That is some return on investment! Using qualified professionals also takes some of the pressure off of the board and results in greater credibility. The cost of professional support may seem high, but the cost of errors is far higher.

FYI: See “Organizations that Support Food Co-op Startups” on [page 13](#) for how to connect with people who can help.

III. Capital

Determine the Need for Capital — It is easy to underestimate the costs of a start-up. Creating a Sources & Uses budget will give you a picture of anticipated expenses and sources of income throughout your project. To begin with, you can use standard benchmarks to approximate your budget. Over time, you can update and revise as you get confirmation on your assumptions. Your financial needs will depend on up-front costs for organizing expenses, purchasing or leasing a site, construction, and remodeling. You will also need capital for overhead, equipment, and inventory. Your business plan and sound financial advice will help guide your budgeting.

FYI: “[Quick Start Sources & Uses](#)” will help first time users create this essential startup budget.

Food co-op start-ups typically raise 50–60% of their necessary capital from owners through equity and loans. The rest comes from fundraising, commercial lenders, and other sources.

You will need enough working capital to keep the business afloat until you have positive cash flow, typically 12–24 months. Make contingency plans to raise additional capital after opening should the co-op

fall short. In the first year or so, the co-op has higher expenses related to getting started, new systems to learn, and inexperienced staff. Your financial results will not be as good as they will once everything has settled down and is running smoothly.

IV. Systems

Adopt an Effective Process for Decision-Making and Accountability — From inspiration to implementation, startup groups will be engaged in the process of making decisions on behalf of a whole community of people. Deciding early on how startup committees and boards will work together and how the groups will be accountable to their tasks will set the tone for the whole project. It is never too early to discuss how decisions will be made and how conflict, when it arises, will be dealt with by the group. Continue to improve your process as you go forward. Focus on continuous improvement.

Plan for the Future — Your food co-op will need formal planning to realize long-term success. At the start-up stage, your plans should be based on realistic assumptions. Since it is easy to become emotionally involved in co-op decision making, founding committees and boards should work hard to retain their objectivity during planning stages. Important planning activities include:

- **A preliminary feasibility study.** A study such as this is often done internally in Stage I and is a compilation of what your leadership group is learning through their research and initial contacts with outside expertise. It will give you an overview of start-up issues and help you decide whether a co-op might be successful in your marketplace. At the early stage, it will likely NOT give you any definite ‘go or no-go’ indicators, but it can help with learning and focus. Don’t get too attached to the outcome of it. It is only the beginning of a process. Feasibility work is an on-going process that takes time and study.
- **A market study.** The market study will give you information about your target market, sales

potential, competition, and the market feasibility of your proposed venture. It will also provide an analysis of locations and sites.

- **A Sources & Uses budget.** The Sources & Uses budget breaks down all the costs of starting the co-op and outlines where you expect to get the capital to cover those costs. Breaking this budget down by development stage will give you more information to plan your capital needs.
- **Pro forma financial statements** (also referred to simply as pro formas) will assess financial feasibility. This is a financial model that includes the co-op's estimated operating budgets for the first 10 years, along with balance sheet, cash flow and debt service schedule.
- **A business plan.** If the market study and the financial pro forma show that the concept is solid and feasible, create a business plan to further develop your business concept. The plan will help you secure loans and other investments, and ensure that your organizing team are on the same page.

Choose the Right Location and Site — Finding the best location and site for your co-op will take time and research. Remember that the “perfect” site does not exist. There are always tradeoffs, including cost, availability, parking, and visibility. Choosing a site

is one of the biggest decisions a start-up co-op will make. Getting expert market research on a site and location is your best insurance that you are opening in the right place and the right size for your sales potential. Always conduct solid research before making a commitment to any location or site. Seek professional assistance in the site search and negotiation process.

Hire Good Project and Store Management — Hiring a development manager during the planning stage, and a project manager for the implementation stage, will ease the burden on the board and volunteers and can have dramatic impact on the success of the project. A general manager should be hired well before opening to make the transition to operations smooth and efficient. A project manager is the person who oversees the construction project of building the new store, and the general manager will be the person who hires staff, prepares the co-op for opening, and manages the day-to-day operations after it is open. Look for managers who are experienced in retail projects and grocery store management, ideally with food co-op background. Give your project and store managers plenty of time to plan and get systems up and running. Hiring the right people will pay for itself in efficiency and profitability. Making good hires will fuel the momentum of your project.

Case Study — Fairbanks Co-op Market Grocery & Deli

Fairbanks Co-op Market Grocery & Deli

Fairbanks, Alaska

www.coopmarket.org

There had never been a food co-op in Alaska before, and when the Fairbanks Co-op Market Grocery & Deli (known locally as the “Co-op Market”) opened its doors in 2013, it was a long-anticipated and heralded event not only for the community, but for cooperators in the lower 48 states. A food co-op in Alaska was breaking new ground in many ways and everyone was excited.

The startup group formed in 2006, in part because a Fairbanks resident wanted access to natural foods for health reasons. He had shopped at food co-ops in the lower 48 and believed that a food co-op could be



a great thing for Fairbanks, especially because a major grocery store had closed downtown in 2000. That meant that everyone living in town now had to drive 10 to 15 miles to the nearest grocery store.

That was one inconvenience of note, but for anyone living in Alaska, access to fresh foods, much less anything locally grown or organic, is not something you take for granted. The growing season is short, and almost all of the state's food supply arrives by barge in a shipping container. People in the lower 48 may grumble that fresh produce is expensive in the winter, but in Alaska, it is practically nonexistent. The startup group in Fairbanks was very motivated to provide a market for local goods; there was a profound need for what a food co-op could offer and what healthful foods could do for their community.

Mary Christensen is the general manager of the co-op in Fairbanks (a locally-sourced general manager,



she jokes). She explained why it is so important that their community have a food co-op. Food security is very important in Alaska. If there is ever a natural disaster or national catastrophe that cuts the state off from supply lines, people fear they could be left without food very rapidly.

While sustainable local agricultural systems are important everywhere in the United States, in Alaska it is critical. And yet, to date, there hasn't been an easy route to creating

one there. That is where the Co-op Market is truly breaking new ground, building a way for local agriculture to gain a foothold in the state. "It is so important to everybody involved that we can support local producers, and have a place to shop where people have thought about the product line. We want to have meat from non-feedlot sources, wild-caught fish from Alaska, and other foods without additives or high fructose corn syrup," Christensen said. She said that there is a hot springs in the state where more local produce could be grown year round, and once there is a steady market established (like the co-op), that would be a strong step toward more locally-sourced fresh foods.

Although Alaska and the Fairbanks Co-op Market Grocery & Deli are far from the nearest food co-op, the co-op worked very hard to keep itself from being too isolated. A grant from Food Co-op Initiative helped Christensen and other co-op owners attend the Consumer Cooperative Managers Association conference and the startup conference, **Up and Coming, Up and Running**. They also worked with a board consultant from the Cooperative Board Leadership Development program through the CDS Consulting Co-op (CDS CC), and gained expertise from operational and expansion consultants.

Christensen and her group toured numerous established food co-ops to find out more about their operations. "CDS CC has been there every step of the way in the last two years, especially helping with member loans and bank loan negotiations," Christensen said. She also said that using experts right away is important, something she wished she had known from the get-go. Before their startup group knew how to organize, they sold \$10 memberships. "We spent many hours trying to straighten that out," she said, when they realized they would need a lot more than that to finance a viable store (their project budget

was \$1.9 million). “I’d advise people to do their research on starting a co-op.”

Like nearly every startup group, their financing was a mix of member-owner equity and loans. They also obtained grants and loans from the USDA, University of Fairbanks Alaska, Golden Valley Rural Electric Co-op, LEAF, and National Cooperative Bank. No commercial lender in their area was willing to take the risk.

Since the co-op opened, it has grown by leaps and bounds due to the pent-up demand for natural and local foods in their community. Their first year sales were more than 35% over what they had projected. “People are crazy about us,” Christensen said. She credits good marketing and outreach for their current success. “We were sending people emails twice a month for four years and adding to a list that kept growing.” Now that they are open for business, they’ve been getting a great response from the local media, a relationship that they’ve cultivated over the years.

To fellow startup groups, Christensen said, “All those things took time. You have to understand that you’ll be sustaining an effort with hundreds of volunteers.”

Fairbanks Food Co-op at a Glance

Year incorporated:	2007
Year opened:	2013
Number of members at opening:	1,600
Number of members in 2014:	3,300
Member equity investment:	\$200
Cost of total project:	\$1.9 million
Member loans:	\$589,400
Member equity:	\$286,000
Financing:	\$907,000
Retail square feet:	4,200
Projected first-year sales:	\$2.1 million
Actual first-year sales:	\$2.855 million
Sales in fiscal year 2015	\$3.2 million

CHAPTER 3

First Steps

Stage I—Organizing

What Do I Do First?

Congratulations on beginning your adventure in organizing a new co-op! It's exhilarating, and while it can be challenging, it will also be a transformative process both for you and for your community.

The best first step in starting a co-op is getting a broad view of the landscape ahead of you. Learn about co-ops, learn about your community's needs and vision, and learn about the organizing process.

During the organizing stage you will form a

leadership team, create a shared vision, build community support, find out what your resources are and how to best utilize them, and evaluate the feasibility of a retail co-op in your area. The organizing stage is the longest part of the startup process, often taking two to three years to complete. As with any project, however, building a strong foundation is worth the time and effort.

One point of note: while tasks related to Vision, Talent, Capital, and Systems are presented separately, in practice all four are happening at once.

Vision: Assessing Common Interests and Needs

Although grocery co-ops may offer similar services, they exist to meet diverse needs.

- The Renaissance Co-op in Greensboro, North Carolina, will bring a full-service grocery store to a low-income community that had been abandoned by other grocers. Affordability and access to healthy options are priorities, and for Renaissance, this means a more traditional grocery inventory.
- The East Aurora Cooperative Market will open a full-service grocery in East Aurora, New York, featuring fresh, seasonal, local foods.
- The South Philly Food Co-op's mission is, "To open a member-owned, cooperative grocery store that makes good food available at a fair price to all residents of South Philadelphia, while empowering the local community through sustainable practices, food-centric education, outreach, and community building."
- For too long, downtown Barre, Vermont, has lacked a grocery store. The organizers of the Granite City Grocery decided, "If we want a healthy community, we need to invest in healthy options that are affordable and accessible." Fresh meats, produce and affordable, healthy packaged foods have not been available within walking distance to most downtown residents.
- Other co-ops put a high priority on creating meaningful jobs and markets for local farmers and producers. The common thread is the ability of a

community-owned business to meet the needs of the community instead of focusing on investor return.

What are the needs of *your* community, and how can a co-op meet them?

FYI: This Co-op Self-Assessment survey from the Ontario Cooperative Association can provide insights for new co-op organizers that will help in creating your plans and vision. Note that the statistics on co-op survival are for Quebec — the failure rate in the U.S. has been much lower.

Form a Small Group

You've got a great idea, now you need help. Start by finding a few people who share your excitement and form an initial exploratory group. For this small group, tasks will include researching the development process, making valuable connections with other food co-ops and food co-op support organizations, and talking to people throughout your community, especially community leaders.

It can be tempting to establish a formal steering committee or board of directors right away to legitimize your project; however, we recommend that you wait until you can recruit the best people for the job. An initial exploratory group requires only a limited duration commitment, and it should be easy to find interested people to help. Working together on the early research, you'll get a better sense for the qualities people might bring to future leadership roles.

Begin One-on-One Conversations

These one-on-ones will help you better understand your community's interests, discuss and test your vision, and scout for future leaders. Conversations might include sharing your vision so far and discussion

of opportunities and challenges in your community. Do as much listening as possible and take notes. Always ask, "Who else should I talk to?" and then follow up with those people! By the time your team has met with a couple dozen people, you'll have a great list of potential steering committees members and can choose your "dream team" from there.

Learn About the World of Co-ops

A well-grounded understanding of cooperatives will help you communicate what a co-op can offer and what its limitations might be. In addition to the resources listed in Chapter 1, you may also wish to invite a co-op expert to answer questions about the cooperative business model.

Visiting other co-ops is a great way to get inspired. Call the co-op's general manager and find out if someone can give you a store tour. Take notes on what you love about their store and what you would like to see. Tour as many co-ops as are accessible to you and notice what is different about each of them. Take pictures to share and refer back to.

Learn More about Your Community's Needs and Vision

What gaps could a cooperative grocery store fill? As mentioned above, one-on-one meetings with community leaders will lay the appropriate foundation, and during this time you should also be discussing your vision with those closest to you. By now you've likely stirred a grassroots buzz. This is a good time to hold a public meeting to gauge broader community interest in the idea of a food co-op. For this meeting to be successful, effective outreach and follow up are critical. This means you'll need a blend of personal invitations and mass advertisement. Here are a few ideas:



Reading is great, now call us to chat!

Food Co-op Initiative: 844-324-2667

- Choose an accessible and welcoming location at a time that is good for your community. Where is the center of community activity? Check community event calendars first to ensure your meeting will not conflict with other popular community events. Consider having the meeting turn into a casual social afterwards, to allow for relationship building.
- Invite those closest to you. Relationships are the best way to get individuals to show up. Face-to-face invitations or a personal phone call and/or email will be the most effective way to reach those in your inner circles (friends, family, and coworkers).
- Personally invite people you see as community leaders, especially the ones you've already met with one-on-one and who support your vision. They will be more likely to attend because of the personal connection you've had with them.
- Make the event inclusive and welcoming by inviting the general public. Use simple posters, a notice in the newspaper, public service announcements on the radio, and postings on social media. (Appropriate audiences include economic development officials, environmental groups, farmers markets, PTA's, university staff/professors, etc.) Begin advertising at least three weeks before the event. Busy, productive people need to get your event on their calendar ahead of time.
- Collect email addresses via a sign up form as people come in. Include a check box for people interested in volunteering. This will help you to develop your first contact list and allows you to follow up with people by email.
- Use name tags. This lets newcomers feel welcome and helps everyone get to know each other.
- Use an agenda (and let everyone see it). Stimulate discussion of what the community needs and how a co-op grocery might meet those needs. Keep notes! Outside facilitation is a great way to help you design group discussions and activities that encourage participation. Facilitators also allow you and the exploratory team to be full participants in the meeting and really listen to what community members have to share.

- Utilize our resources. Request a copy of Food Co-op Initiative's [A Food Co-op in Your Community](#) DVD and download our [Community Presentation slides](#) and edit them to fit your community.
- Share your vision.
- Thank people (at least) three times. Thank them when you start your meeting, thank them at the end of the meeting, and then send a thank you note to everyone on the email list. See our blog post on great [thank you notes](#).

FYI: Are you thinking about hosting your first community meeting? Or would you like assistance connecting with a food co-op in your area? Give Food Co-op Initiative a call at 844-324-2667. We are here to help you get things started. info@fci.coop.

Community Organizing: Create Linkages with Your Community

Identify Potential Owners and Advocates

A co-op exists to serve its member-owners. Who will your owners be, and what are their needs? Start by identifying the groups you want to reach: natural food shoppers, people seeking community, supporters of the co-op model, local producers and their customers, people with special diets, and others. These are people you'll want to invite to your public meetings. Find ways to interact with as many of these individuals in advance as you can.

Identify community leaders — people in positions of authority and trust. These individuals and groups can provide credibility, guidance, insight, and support to your project. Look for recognized voices in your community and business leaders. Contact the chamber of commerce, politicians and the politically connected, and organizations with social missions. Let them know you are considering starting a food co-op and ask them for their advice. Before your conversation ends, ask: "Who else should I talk with?"

Checklist for Holding a Successful Meeting

Before the Meeting

- ☐ Choose a time that does not conflict with other major meetings.
- ☐ Find a location that is accessible, has adequate parking, and is large enough to accommodate the anticipated participants.
- ☐ Publicize the meeting to make sure that all participants know the time and location, using social media, posters, displays at public events, and media announcements.
- ☐ Clearly define the goals of the meeting and prepare a written agenda.
- ☐ Arrange for a facilitator and note taker.
- ☐ Coordinate childcare, especially if you are expecting a large group.
- ☐ Distribute the agenda ahead of time if possible.
- ☐ Assign time limits for each agenda item.
- ☐ Limit the meeting to two hours.
- ☐ Arrange for any necessary tables, chairs, microphones, projectors or other technology ahead of time.

At the Meeting

- ☐ Serve refreshments. Locally produced products are a great option.
- ☐ Have someone greet people as they arrive and ask them to sign in.
- ☐ Collect e-mail addresses and other contact information.
- ☐ Start the meeting on time.

- ☐ Have all speakers introduce themselves.
- ☐ Post the agenda or hand out a copy to everyone.
- ☐ Review the purpose and goals of the meeting.
- ☐ End the meeting on time.

The Facilitator's Job

- ☐ Review the agenda and goals of the meeting. Get general agreement on the agenda.
- ☐ Introduce each agenda item and call on those making presentations.
- ☐ Keep discussions on topic. If comments are off track, restate the goals of the meeting ("That is an interesting point, but today we're discussing...").
- ☐ Make sure everyone has a chance to speak and that one or two people don't monopolize the discussion. If someone dominates the discussion, explain the importance of full group participation and call on others for comments.
- ☐ Conclude the meeting on a note of achievement. Remind participants of the actions taken and decisions made.
- ☐ Review any follow-up or commitments for the next meeting.
- ☐ Remind participants of the next meeting time, date, and location if there is one.
- ☐ Conduct a 3–5 minute evaluation of the meeting at the conclusion, inviting assessment of what went well (with the meeting) and what could be done better. This is an effective way to conclude a meeting, allowing participants to voice what they liked or might wish for next time.

“Targeting” (through one-on-one conversations) is the most effective way to create linkages and build relationships. But we can’t talk to everyone! To supplement your live discussions, you can “broadcast” and engage people by creating a Facebook page. It’s free, easy, and a great way to share information and build community online. Post, share and comment regularly to keep it interesting. Equally important is regular email contact with your newly forming list. Use a free service like Mail Chimp to manage sign up forms and create professional looking emails. Be sure to send an email inviting everyone to “Like” your Facebook page, and plan to send emails at least once a month updating your list on the co-op’s progress.

FYI: For more comprehensive resources on community-building we recommend the book, *Building Powerful Community Organizations* by Michael Jacoby Brown. Available from [Amazon](#) and other booksellers.

Conduct a Community Survey

Community surveys can serve several purposes. Primarily, they collect data about the level of interest and support for a new food co-op, and the needs and wants of the people you plan to serve. They are also a way to make people in your community aware of your co-op organizing effort. You can collect data on how people view the local competition, specific goods and services that are desired, how people prefer to get information, etc. Furthermore, the survey can provide organizers’ contact information for potential owners and volunteers. Surveys shape the way people think about your project, so put careful thought into what kinds of questions to ask. Use the questions to guide the types of issues people associate with the co-op.

FYI: Conducting a Community or Member Survey will help you get started surveying people. Get started with our [sample survey](#).

Conduct a Preliminary Feasibility Study

A full feasibility study can be relatively expensive and most co-op organizing groups struggle to build up funds during the early stages of development. Because of this, a less formal preliminary feasibility study conducted by the organizing group is recommended as a first step. This should be conducted as early as possible after you begin the organizing process. The more detailed formal study is usually begun when member-owner equity is building and vision for the co-op is both clear and broadly supported.

The early/preliminary feasibility study is undertaken to justify the effort and expense of pursuing further development and to assure early supporters that there is a good chance of future success. However, the results of this work are not fully conclusive and cannot be substituted for the full study. This informal study will attempt to answer these questions:

- Do we have a vision that resonates in our community?
- Is there enough potential demand for the co-op’s goods and services for the co-op to be sustainable?
- Do we have the people with time, skills, and talent to see this project through to completion?
- Will we be able to raise enough capital through owners and lenders to finance our co-op?
- Are there appropriate vendors, growers, and distributors who are willing to sell to us?
- Are there suitable locations for a retail grocery store available at affordable costs?

The organizing stage feasibility study is inherently more subjective than the formal study you will need later. You will not be able to answer all the questions, but you will learn through the process. Keep it simple and don’t try to do too much. Much of the information can be collected by surveying the community and taking an impartial look at the local market.

An organizing stage preliminary feasibility study can also be a tool for building support and information networks. Here are some ways to approach it:

- Conduct a community survey

- Talk to established co-ops about what made them successful
- Research co-op development support options
- Meet with local commercial lenders to discuss your ideas and get feedback
- Introduce yourselves to cooperative lending funds and get their input
- Identify people and organizations with compatible missions that could become key supporters
- Talk to local realtors about business property availability and costs
- Tour all the local grocery stores and potential competitors, noting their strengths and weaknesses

FYI: See also the [Food Co-op Feasibility FAQ](#) and [Checklist](#) from the Food Co-op Initiative.

Choose a Name

You may have already chosen a temporary name for your project. Many co-ops start out with the name of their town or area (for example Hudson Grocery Cooperative) and make a final choice later after considering strategic and branding implications. Of course, there may be nothing wrong with sticking with your town name, and many co-ops do. Some things to keep in mind when choosing a name:

- Clearly communicate who you are. Names like Smithville Food Cooperative or Fresh Food Cooperative tell consumers who they are and what they offer.
- Keep your name unique. Do research to be sure you are not going to be in conflict with a national chain or create confusion. For example, there are currently six co-ops named “People’s.”
- Keep it flexible. Naming your store Organics Only will limit the kinds of products you can carry in the future or imply such limits. Naming it Healing Foods might discourage some more mainstream customers from shopping.

Sample Mission Statement from the Terre Foods Co-op startup in Terre Haute, Indiana



The mission of the Terre Foods Co-op is to provide the Terre Haute community access to organic and natural foods and products at fair value. Priority will be given to locally grown foods and handmade products. As a member-owned market, we are committed to serving the needs of the community while using ethical and sustainable business practices. We want to encourage the development of a local food system in cooperation with small farmers and businesses in order to sustain and invigorate our regional economy.

- Studies show that consumers trust cooperatives more than other businesses once they understand what it means to be a co-op. Take advantage of that trust and the strength of the cooperative community by including “Co-op” or “Cooperative” in your name.

Finalize Vision and Mission Statements

Throughout its development, from the first public meeting to its most recent, the co-op has been in the process of developing a shared vision. Your customer survey and preliminary feasibility work will help align your vision to the needs of your community. When you have agreement on your co-op's role in the community, how it will meet owners' needs and expectations, and the scope of services, you are ready to draft a formal vision statement. The vision statement will be the reference point for your future plans and decisions. It will help everyone you work with understand what you are trying to achieve.

When writing a mission statement, keep a few tips in mind. Include others in the process of sharing drafts and getting feedback, but empower a committee to draw up a final draft for the board or steering committee to approve. You will want your mission statement to be concise and accurately reflect the intentions of the co-op. This is a long-term reflection on the co-op's purpose, and you will want to include specific and plausible goals.

FYI: Good advice on crafting an effective mission statement is available [here](#).

Keep Your Vision Alive

One way organizers avoid burn out is to keep their vision front and center; both their group vision and their individual inspirations for participating. When

you feel the co-op's energy flagging, it is time for a fresh dose of inspiration. Attending a co-op event, whether regional or national, is worth the time and expense. You will learn a great deal, meet new mentors and peers, and go home reinvigorated to do what needs to be done.

You can find out about regional training events by signing up for the FCI mailing list.

FYI: The **Up & Coming** national conference is focused on the organizing process for new food co-ops and training for recently opened co-ops. The 2-1/2 day event is held in the upper Midwest in early spring (www.upandcoming.coop). The annual **CCMA** conference — Consumer Cooperative Management Association — is a gathering of food cooperators and their allies held every year in June (www.ccma.coop).

Talent – Convening a Core Group, Developing Leadership

In the organizing stage, you will convene a core group, develop leadership, and identify the many resources around you. The core group, often referred to as the steering committee (or the founding team or the leadership group), acts on behalf of the future owners until the co-op is incorporated and a board of directors is formally elected.

Convene a Steering Committee

Once your exploratory group has seen evidence of community interest, they should form a formal steering committee that will begin the process of making plans and building support. This will be a group of people (9 to 12 members is typical) who are able to commit to organizing the co-op, and are willing to be accountable to each other. The group will also be charged with finding resources and developing relationships with important allies. Keeping the momentum going to

build support for the food co-op will be critical work for this group.

At first, your steering committee will probably be you and a small group of enthusiastic people. A steering committee needs talented, connected, committed people; however, so start thinking beyond your circle of friends. Set up meetings with people who could be beneficial to a committee, and ask them who else they think you should talk with. Choose people for your committee carefully, and take time to find the right people rather than just filling seats with enthusiastic bodies.

FYI: Here are [Tips for Forming Your First Steering Committee](#) that can give you suggestions on how to choose people to be part of an effective team.

Set up Administrative Support

In order to spread the word about the emerging co-op, the steering committee will need an accurate contact list, a phone line, an email and website address, social media accounts, and individuals who can set up and maintain them. Someone will need to keep track of reports, decisions, and minutes on behalf of the group, and someone must keep track of money and expenses.

Enlist a Graphic or Web Designer

You will need a professional designer to create effective brochures, publications, and presentations. Your graphics are a major part of the image you project and should be well thought out and high quality. This, and other professional services, may be donated by people who share your enthusiasm for the new co-op.

Sources of Help for Startups

You are going to need help. Hands-on help, advisory help, cheerleaders — you will need them all. Here is where to look:

- Review the list of Food Co-op Startup Resources and how to contact them in Chapter 2.
- Food Co-op Initiative is the *only* nationwide organization devoted exclusively to helping new co-ops get started. Our services are free, and only a phone call away.
- Identify your nearest food co-op neighbors and ask for their support. Knowing what you need will make it easier for them to help you. Staff or board members may be willing to become mentors. At this stage, a mentor may be able to provide contacts for

Plan a Movie Night

If you are not able attend a co-op conference, try gathering a group to watch an on-topic movie. You can inspire your community and discover new reasons to continue the work of building a co-op. Here is a list of suggested films:

American Meat — A pro-farmer documentary about a grass-roots revolution in sustainable farming—starring Joel Salatin and his Polyface Farms.

Food for Change — Focuses on the food co-op movement in the U.S., including the way they are strengthening communities and helping the local economy.

Food, Inc. — Critique of America's industrialized food production system featuring authors Michael Pollan and Eric Schlosser.

Forks Over Knives — Examines whether degenerative diseases can be controlled or reversed by diets free of animal-based and processed foods.

Future of Food — The potential consequences of genetically modified foods (GMOs) on our future.

Fresh — Consumer choice and local food production are creating social and economic change, featuring urban farm activist Will Allen and farmer Joel Salatin.

King Corn — Two friends in the heartland learn about where their food comes from.

Seeds of Freedom — Charts the story of seed, including the impact the industrial agricultural system and genetically modified seeds have on communities around the world.

The Real Dirt on Farmer John — Flamboyant farmer John Peterson transforms a dying family farm into a thriving CSA (Community Supported Agriculture) farm.

What's on Your Plate? — Follows two 11-year-olds from New York City as they discover where their food comes from and learn more about sustainable food practices, including co-ops.

legal and accounting services, offer a speaker for your community meeting, share bylaws, and more.

- **Regional food co-op associations or local Cooperative Development Centers.**
- **Local (non-food) co-ops** — One of the co-op principles is cooperation among co-ops. Get in touch with your local credit union, agricultural co-op, rural electric co-op, and any other cooperatives in your area. Let them know about your project and ask for their support. What support should you ask for? You could ask to have an information table at their next meeting, have them include your brochures or announcements with their mailings, or let them know you need sponsors for your upcoming events. Leaders of other cooperatives can also be excellent resources when you need connections within the community.

Volunteers

Volunteers are the heart and soul of any startup effort, but how do you find them? Volumes have been written on this topic, but here are a few top methods:

- **Constantly grow your email/telephone list.** Wherever you go, whomever you meet, if the topic of the co-op comes up, request their email address so you can keep them informed. Email them promptly to acknowledge the meeting, and continue to send regular updates. A healthy email list will be invaluable throughout the organizing process.
- **Use online tools.** People are looking for volunteer opportunities through sites like [VolunteerMatch.com](https://www.volunteermatch.com) and their local United Way website. Listing long- and short-term volunteer opportunities on these sites will gain you a lot of exposure.
- **Make specific asks.** Whether in person, via email, or online, “I need nine people to carry boxes for our table at the farmer’s market for half an hour,” will always get a better response than, “We need help Sunday! Please come out!” Make sure you tell volunteers when you need them, for how long, what they will be doing, and why.

- **Be a good volunteer steward.** Thank your volunteers. Ask them if there are other tasks they would like to take on and how you can improve their volunteer experience. By honoring volunteer expertise, you allow volunteers a sense of ownership for the task and the larger project of starting a co-op.

Some volunteers will help with a single task, and that is okay. Others may continue to be involved throughout the co-op’s development. By making sure volunteers feel like they are making a difference and appreciated, they are more likely to keep coming back.

Local Producers

Farmers and producers of value added products (such as soap, cheese, beauty aids, etc.) can be incredible allies. They are some of the people with the most to gain from a co-op opening. At the same time, they may be wary of investing a lot of energy in something that may not succeed. Build trust by helping them gain exposure to your owner-members. Feature their stories (and how the co-op will help them grow) in your communications and be sure they are invited to showcase their products at co-op events.

Civic Promoters

If your town has a Main Street organization, a Chamber of Commerce, or other business associations, be sure to engage them. Arrange a presentation to the Rotary Club and other civic organizations. Get to know the decision makers and those who influence decision makers. If you are hoping to locate in a certain area of town, talk to local business owners about how a co-op nearby could attract more customers and business for everyone.

Business Development Partners

It is never too early to begin talking to your local lending institutions. Because credit unions are cooperatives, they can be a deep and fruitful connection, even if they are not a primary lender down the road. Loan officers at banks and credit unions will help advise you in your business planning process so you can be as loan-worthy as possible in the long term. Other

important business connections might include:

- Local commercial real estate brokers
- Local developers
- Economic development office(s)
- Community development office(s)
- Elected representatives, from city council to state senators
- USDA Rural Development director's office

Fiscal Sponsors

A fiscal sponsor is a charitable non-profit organization that agrees to act as a conduit for donations to be used by your group. This allows you to solicit tax-deductible, charitable donations for purposes that align with the mission of the fiscal sponsor. Look for a group focused on healthy food access, farm security, or

another food-related mission. For example, several cooperative development centers (registered 501c3 nonprofits) have fiscally sponsored food co-ops whose needs align with their mission. Typically, they retain 5% to cover administrative costs, and dispense the donated money to the co-op to pay for legal costs, site exploration, community outreach, and similar expenses. Keep in mind that grants and charitable donations do not tend to be a major source of income for co-ops. There is not a lot of foundation money earmarked for opening retail stores. We don't encourage reliance on charitable donations. It is rarely a significant source of income and can create confusion about what kind of organization you are creating (a for-profit food co-op).

A co-op provides the opportunity for community members to make equity investments in an organization that will provide a multitude of social benefits. This is a stronger message than requests for donations.

Capital – Committing Time and Money

Develop a Preliminary Sources and Uses Budget

A sources & uses budget (S&U) helps you to understand how much it will cost to start your co-op, and where the money will come from. When broken down to align with your development timeline, it will also clarify when money will be coming in and when you will need it. There will be some expenses right from the start, including printing flyers, refreshments for meetings, and web site development. As you progress, you will be faced with greater expenses, such as legal fees, professional consulting (including a market study, financial pro forma, and store design), training and conferences, and marketing. However, most of your budget will be for the implementation stage when you have a site and are preparing to open.

CDS Consulting Co-op and Food Co-op Initiative have developed sources and uses budget templates to

make it easy for you to get started. This spreadsheet is made to be filled out with best-guesses and refined over time. Typical costs are shown and automatically adjust based on the square footage of the store you plan. Most organizing groups are comfortable working with this template, but it is wise to have your work reviewed by a co-op financial consultant, especially if your assumptions differ significantly from the guidelines.

The S&U tells you what you need financially to open a food co-op, but says very little about its potential for success. For that you need an operating budget that projects your operating income, assets, and cash flow over time (known as "pro formas"). These will come later and should be done by professional co-op financial experts due to their complexity and to ensure that your projections are credible to potential lenders.

FYI: Quick Start Sources & Uses will help you create this essential startup budget.

Raise Money and Commit Resources for Organizational Costs

In order to pay for early organizing expenses, the steering committee will have to initiate fundraising activities on behalf of the co-op. Typically, the founding organizers will make contributions to cover some early expenses. Although it is possible to record these expenditures for later reimbursement once fundraising is underway, it is not a sustainable or appropriate option to have the founders fully finance your co-op's organizing effort.

At first you may only need to raise \$1,000 to cover expenses, and then later, another \$10,000 to \$100,000 to pay a project manager, and for market studies and other professional services as you reach important milestones in your co-op's development. Eventually you will set a goal for the total capital needed to open your co-op. How much will that be? As of September 2015, average costs to open a new store in a leased site are running \$300 per square foot (and up) for the total space occupied. For example, a 10,000 ft² store with 6,500 ft² retail space would require a budget of \$3 million. It may sound daunting, but if you keep working at it by engaging the community and following best practices, you will be able to raise the capital you need.

An essential part of funding your early organizing work is the equity you collect from new member-owners. However, until the organization is incorporated, memberships cannot be sold and the founding group will have to find other sources of income. There are many options, for example:

- Approach strong supporters of the co-op's mission (food justice groups, local producers, etc.) for financial assistance
- Collect donations at public meetings
- Organize fundraising events where you can spread the word about your plans while raising money
- Find out if your community offers any economic development funds for new businesses
- Crowdfunding may be an option, but it is generally more successful when you have built a large enough group of followers to spread the word.

There are many other ways to raise money; be innovative and keep it fun... but make sure the effort needed is justified by the returns.

Grants

Securing grant money can make a difference to startups, and some grant programs are specifically geared toward activities involving research and development. For food co-ops, options include the following:



The **Food Co-op Initiative Seed Grants** were created to provide early development capital to co-op organizing groups that wish to partner with us in their endeavor. In addition to the grant award, we commit to regular follow-up and assistance with your team. Grants are available up to \$10,000 when funds are available.

FCI depends on the generosity of other organizations to support this grant program and only a limited number of awards can be offered. The grant money must be matched in equal dollars by the newly forming co-op. These matching funds are usually raised through membership equity and other community sources. Go to www.foodcoopinitiative.coop/resources/loans on the FCI website for information on the next application round.

- Community development groups
- USDA grants (most are targeted for rural communities)
- Local civic organizations
- Food Co-op Initiative Seed Grants

Many grant programs come and go, so get the most current information. Check with Food Co-op Initiative for national programs and with local government offices to find out what is available in your area.

Develop a Member Capitalization Plan

All businesses need capital to finance their startup, and this is typically provided by the owners or investors seeking a high return. In a cooperative, the member-owners of the association are responsible for providing this essential financial foundation. Equity, also known as owner or member shares, is one important way owners of the co-op show their commitment to the cooperative. People typically understand this equity or membership share as the dollar amount they pay to become an owner or “join the co-op.” For the co-op, equity represents the base capital for the business. Some co-ops prefer to refer to “owners” or “member-owners” rather than simply “members.” What makes consumer food co-ops unique is that they are owned and controlled by people in the communities they serve. Costco has “members,” but they are actually just paying an annual fee for the privilege of shopping and have no say in the business.

How to Calculate the Owner Equity Requirement

In order to plan your owner equity requirement, you need to consider your co-op’s capital needs during startup, as well as its future needs. How much of that money does the co-op need from its owners?

To finance your new store you need capital from your owners. There are two types of capital: debt and equity. Debt comes in the form of loans with defined interest and repayment schedules. Equity comes from membership shares, and sometimes from additional member investments through non-voting or preferred

A word about new member equity vs. fees

Using the word “fee” or “annual fee” to describe equity is inaccurate. A fee is typically a recurring payment and is taxable income to the co-op. Instead, any of the following terms may be applied: investment share; capital certificate; fair share; stock certificate; share certificate; share purchase requirement; owner share requirement; membership share; equity share requirement. The official term is usually the one used in your by-laws and may be defined in state statutes. Once you choose one, use it consistently in all communications.

Similarly, avoid the term “life-time membership.” Owners tend to believe that this means their equity requirement will never change. However, the co-op may need to increase the equity share requirement at some point in the future.

shares. Equity investments are long-term and repaid only with the approval of the board of directors. They may pay modest dividends when the co-op is profitable. You will need both debt and equity to finance your co-op. Member loans and preferred shares are regulated by federal and state securities laws. Requirements vary from state to state, so it is essential that you obtain qualified legal advice before commencing.

In order to figure out how much it should “cost” to become an owner — the required owner investment — you will need to calculate the overall amount of capital owners will need to contribute in the form of common shares. That amount can be estimated by working with the preliminary numbers in your Sources & Uses budget. In addition to this mathematical calculation, you will also need to consider the willingness and ability of people in your community to invest.

Food co-op experience over the last 40 years has

been instructive in this regard. Many co-ops that formed in the 1970's and 80's began by charging small annual fees rather than requiring equity investments. Often combined with liberal discounts at the register, this led to severe financial problems. It became painfully clear that the co-ops' founders had not understood the vital importance of member equity. Even when equity is adequately determined, the amount required may still change over the years as the co-op's needs and goals evolve. Many food co-ops today are increasing member equity requirements to adequately finance their businesses.

FYI: See the *Member Equity Toolbox*, *Structuring Capital to Meet Present and Future Needs* [at this link](#) for more information on setting member equity and promoting it.

Best Practices for Membership Development in Food Co-ops, which can be found [here](#), can also provide advice and assistance for determining owner benefits.

Advantages of Strong Equity Capital

Consider the advantages to the co-op of strong equity dollars when you are determining what your capital goal should be. When the equity required from co-op owners is at the right level to address the needs of the co-op, it can become a sizable fund. It is interest-free money for the co-op, and is a nontaxable source of funding. Therefore, it increases the asset level of the co-op, and can be used as leverage for bank loans. With the approval of the board of directors, shares can be repurchased when an owner leaves the co-op.

When capital comes from the people who will use the business, the interests of speculative investors no longer control business decisions.

Define How and When Equity Will be Used

Most groups use owner equity to fund important projects such as market studies and financial projections. Others set aside member dollars until later in the project when success is more assured. At the Monadnock Co-op in Monadnock, New Hampshire, in order to minimize risk, they spent no more than one-third of their equity until they reached a goal of recruiting 500 owners. After reaching 500 owners they were comfortable spending up to half of the equity they raised. This is not a typical approach, but it can work if a group has reasons to be more risk-averse. Be aware that reserving membership equity in this way can significantly slow your progress toward opening day. You can read more about the Monadnock Co-op and their owner equity goals in the case study at the end of this chapter.

Recruit Owners

Before you can progress from the Organizing Stage to the Feasibility & Planning Stage, you will need to recruit up to 300 owners. This will provide the equity you need for expenses during the Feasibility & Planning Stage, and ensure you have the community support to move forward. Building ownership is a large topic, and we address it in detail [in this webinar](#).

Systems – Creating Structure

Systems are the organized, integrated, coordinated, and independent methods through which groups are organized legally and otherwise, and are necessary to the function of the founding cooperative group.

Get started right by creating good systems. In order for people to work well together and to have accountability for getting work done, they need systems that empower their work and keep them focused on tasks.

Incorporate

After your founding group has assessed whether there is enough interest to justify further research and planning of the cooperative, it will be time to make the cooperative a legal entity. Incorporation provides some protection for your board from legal action. It allows you to set up a bank account. And since it establishes the basis for membership (ownership) it must be done before beginning a membership drive. In order to incorporate, you will need to file Articles of Incorporation with the Secretary of State of the state in which you are organizing, and identify an interim board of directors. The process is relatively simple and inexpensive in most states. A template for articles of incorporation can be found in the Legal Primer on [page 96](#), Appendix D. You should have a lawyer familiar with your state's cooperative statutes review your articles to make sure that incorporation is compliant with federal and state laws.

Bylaws can be viewed as the contract between the board and the membership concerning how the organization will be run. Bylaws are usually not required by law; however, without bylaws there might be no basis for membership. Most startups should be able to approve bylaws when they incorporate, allowing their attorney to review both in context to each other.

Options to consider in your by-laws can be found in the [Legal Primer appendix](#). And you can download the [Fresh Start By-Laws Template](#) from the CDS Consulting Co-op. These have been carefully crafted and reviewed by attorneys; however your co-op may wish to modify them to fit your needs or your state's

statutes. If you obtain bylaws from another co-op, be sure to ask the organization how well their bylaws serve them. Basing your structures on outdated, legally inadequate, or convoluted bylaws is not in your co-op's best interest. Since every state has its own statutes for incorporating a cooperative, an attorney should review your legal documents regardless of where you got them.

More detailed information about articles of incorporation and bylaws is available in the [Legal Primer](#).

Hold the First Board Meeting

After the co-op is a legal entity, your initial board will consist of the people whose names you listed on your articles of incorporation. This is usually a self-selected group since the co-op had no members to elect a board prior to incorporation. Your first elected board will be seated after your first board election by the members, usually in conjunction with your annual membership meeting. At the co-op's first official board meeting you will elect officers — president, vice president, secretary, and treasurer. The board will also probably select a bank or financial institution and arrange for bookkeeping and handling of the co-op's finances. The board may also set up committees or work groups, if they have not already, for some of the preliminary feasibility work, developing a business plan, financing and real estate negotiations, and member-owner recruitment.

How Co-op Governance Works

The co-op's members elect from the membership a governing body to ensure the co-op's success. In the corporate world, the board of directors is responsible for a corporation's actions and for ensuring that the business is managed soundly. The co-op world is no different. However, cooperatives are democratic organizations set up for the benefit of their members. The co-op board of directors determines the direction of the co-op and oversees the affairs of the co-op on behalf of the owners. However, the board does not

manage the operations of the co-op's store once it is open. The board will hire and monitor a general manager to carry out the co-op's day-to-day operations.

Directors have three primary responsibilities:

1. To act as trustees on behalf of the owners.

Directors do this by carefully monitoring the co-op's financial status, hiring auditors to review financial records, reporting on the status of the co-op to owners regularly, and making sure the co-op follows its bylaws, policies, and appropriate regulations.

2. To ensure sound management of the co-op.

Directors are responsible for hiring and supervising the co-op's manager. Supervision includes reviewing management reports, monitoring key indicators (such as sales trends, profitability, inventory turnover, and other financial ratios), and evaluating the general manager's performance.

3. To set long-range goals and plan for the co-op's future. Directors do this by listening to the needs and suggestions of members, consulting with the general manager, holding strategic planning sessions, approving yearly and long-range plans, setting performance goals and developing/perpetuating the governance system.

The board is accountable to the owners. It hires management, and management is accountable to the board. In some cases, directors may wish to contract with consultants or have volunteers do some work on

their behalf. Effective boards avoid micromanagement. When overseeing management and store operations they focus their discussions and decision-making on two things:

- Clearly defining results to be achieved by management or others responsible for a project.
- Setting limits needed to guide management's performance.

These same responsibilities apply before the store is open when the co-op hires staff or contracts for support.

Most boards meet semi-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 directors understand and can fulfill their responsibilities. Boards that stay focused on providing overall direction and monitoring the co-op's performance play a key role in the success of every co-op.

Some startups create a founding team to take on many of the original steering committee's organizing activities after the first board election. While the new directors become familiar with governance and their legal responsibilities, the founding team can continue much of the hands-on work of preparing to open the store. The board will empower and monitor the work of the founding team and committees much as it would a general manager.



READING IS GREAT,
now call us to chat!

Food Co-op Initiative: 844-324-2667

Find Administrative Support

You will find that the demands of keeping member records, bookkeeping, mailings, minutes and legal records at this stage are easily a part-time job, if not more. It is difficult to rely on volunteers indefinitely for these jobs because good record-keeping is required to comply with legal and accounting regulations. Not only that, a good administrative person can have a big impact on efficiency by providing the necessary structure for the storage and flow of pertinent information. People in leadership positions are freed up to give their energies to areas that need more attention, or use their best talents, as the organization grows. If you do not have a person in your organization who has the knowledge and time to do this well, consider hiring or contracting with a professional.

Set up a Bank Account

Once the co-op is incorporated, it will need a checking and savings account for co-op funds. Most banks will not open business accounts until you have incorporated and received your Employer Identification Number (EIN.) Set up an accounting system for the co-op that can keep track of member equity, loans, donations, and other funds.

Set up Financial Accountability Systems

The board needs to assign check-writing responsibility and oversight, create auditable tracking systems, and designate spending authority and budgets. It is never too early to begin using proper financial record keeping and cash control. While you may start with a ledger or spread sheet, most groups quickly graduate to an accounting software like QuickBooks or Peachtree. These sophisticated tools let you track a lot of data about each transaction. For example, who did it come from? What was it for? How much more is owed? Remember that once the organization is incorporated, income must be reported to the IRS.

For an overview of financial issues a startup should be aware of, [see our webinar](#), Taxes and Accounting for Startups..

Create an Effective Organization

Keep meetings organized by choosing a decision-making model for your group. A relaxed version of Robert's Rules of Order is often used. The model you choose should allow the group to move quickly through decisions and provide a process for discussing disagreements. People need to discuss and agree on the role and responsibilities of each committee. Set policy for how decision-making will occur and create systems of reporting and accountability.

Set up work groups, task forces, or committees with leaders that have clear responsibilities and accountability. Some committees will only be needed for a short time (e.g. bylaws) and are well-suited to people who have specific skills or interests and may not want to make a long-term commitment. For members who want to contribute but not commit to a formal committee, there will always be opportunities to help with projects and events that do not require a major time commitment. Committee involvement and special projects are a great way to put new volunteers to work in a way that feels productive but not daunting.

Typical committees may include:

- **Legal**—Drafts articles and by-laws for attorney review, researches legal requirements and options for raising capital.
- **Finance**—Analyzes financial needs, develops preliminary Sources and Uses budget, works with consultants to draft pro forma financial projections.
- **Membership**—Researches membership structures. Works with outreach and marketing committees to create membership materials. Promotes ownership in the co-op. Responsible for achieving membership growth targets.
- **Policy**—Responsible for creating board policies and systems of accountability.
- **Outreach and Education**—Educates the community about the value of co-ops. Conducts community meetings and tabling events (for example, hosting a table at the farmers' market) to gather insight on community needs and promote the co-op. May also organize fundraising activities.

Software for managing contact information

As you organize, there will be more and more information to keep track of. Choosing systems that can grow with you will save time and effort down the road. It's perfectly possible to start out with a simple spreadsheet program, such as Excel or Google Sheets to track your early email contacts. However, you will fairly quickly want to add an email service such as Mail Chimp or Constant Contact. These help you manage and automate new contacts and 'unsubscribe' to your mailing list, and let you send out professional-looking messages. As your project progresses, you will want to track who you talked with, who has become a member, who might be a potential board member, and other more sophisticated information. For this, you may want to invest in Customer Relationship Management² software, known as a CRM. Many CRMs can integrate membership sign up, newsletter management, and lots of custom data on each constituent. One CRM many co-ops are using is Nationbuilder, but there are other options available. Keep in mind that while powerful, there is a cost both in program subscription and time to set up and learn the system. [This webinar](#) from Food Co-op Initiative discusses how one co-op uses a CRM program.

² CRM's are not just for businesses with traditional "Customers." Many are intended for non-profits, advocacy groups, and other applications. The "C" in CRM could mean *community* or *constituency* for you.

- **Recruitment**—Identifies and recruits possible committee members and volunteers.
- **Leadership Development**—Responsible for identifying training needs and opportunities.
- **Marketing**—Responsible for such tasks as website development, graphic design, social media, advertising, and brochure creation.
- **Member Capital Campaign**—Plans and executes the co-op's member loan and/or preferred share campaign.
- **Site Selection**—Researches potential sites for the new co-op and works with professional market researcher to determine suitability. May also be responsible for negotiating lease or purchase agreements.
- **Hiring Committee**—Responsible for hiring the co-op's project manager and general manager.

Some of these work groups and committees can be combined. It is important to clarify the roles of each group, their independent authority and their budget or spending limits. Ownership, Outreach and Education, and Marketing committees may have overlapping responsibilities, so clarity and communication are especially important. Committees are not independent fiefdoms! Everyone should be working together to achieve a common vision of a successful new food co-op.

Don't forget: HAVE FUN!

FYI: Information on How to Use Committees to Help the Board do Board Work can be found [here](#).

CBLD Startup Policy Template can be found [here](#).

Obtain Training

The best boards devote resources to building their leadership. Whether it is a one-day visit from a consultant, an ongoing governance training and support program, or watching webinars from the Food Co-op Initiative library, training will improve your knowledge, group cohesion, and effectiveness. For board training resources, view the list of Food Co-op Startup Resources in Chapter 2.

Develop a Contact List

As interest in the co-op effort grows, the group will need a system for keeping track of contacts, volunteers, potential owners, and others. This should include phone numbers, email addresses, and the person's primary interest in the co-op. Keep track of all inquiries, attendees at public meetings, and anyone else who wants to be on the co-op's mailing list. A basic Excel spreadsheet is usually a good option for getting started. Create good procedures to ensure that all updates are recorded.

Implement Communication Systems

Coordinating communications will help your co-op succeed by enhancing your ability to engage with the community. Both internal and external communication systems need to be implemented. Consider all the ways people might choose to connect with the co-op. Online, set up a website, newsletter sign up, Facebook account, and other social media. Create an official co-op email address and phone number. For those potential owners who are less internet savvy, create flyers and notify the newspapers of upcoming meetings and events.

Internal communications are equally important. Consider setting up an email group or list serve, shared calendar, and an online system for sharing files. Dropbox and Google Drive have both been used effectively. Minutes must be recorded and retained. A shared online repository makes it easy for steering committee or board members to look back at important decisions. For maximum versatility and functionality, you might consider investing in a customer relationship management system (CRM) or project management software.

Create Membership Materials and Mechanisms

The nuts and bolts of creating a member-owner program were discussed in the Capital section of this chapter, but from a systems perspective, it's important to think about how someone joins the co-op. You want to make it as easy as possible. It's a good idea to create both paper-based and online joining options. Think

Answering the question *"when will the store be open?"*

"When will the store be open?" is a question that echoes in the ears of every food co-op organizer. If only there were an easy answer! It all depends on accomplishing a multitude of tasks. "We have to have this many members, and find a site, and find a general manager, and, and, and..." Why not capture all these details in a simple-to-share timeline? Maria Sourbeer of South Philly Co-op tells us, "Having a timeline gives people something tangible to look at. It helps them understand why they need to become owners now rather than waiting until the store opens."

through how money will be accepted, who will record the equity, and how the new owner will be acknowledged.

A brochure that explains the vision of the co-op and the benefits of ownership is something the co-op can use at every event you hold or attend. A downloadable brochure template, ready to be edited by your designer, can be found [here](#).

Why Timelines?

Timelines serve a variety of functions during co-op development. In addition to being a great tool for communicating with the public, timelines create internal accountability, help coordinate volunteer efforts, and serve as a roadmap for the project. Without a timeline, groups tend to get lost, do tasks out of sequence, and lose perspective on the development process. As Bill Gessner of CDS Consulting Cooperative has said, "Start your timeline today, even if you don't have all the information. You can always revise it tomorrow."

South Philly Co-op started with an in-depth timeline development process led by CDS Consulting

Cooperative, generating a multipage document. “We pared it down to a snapshot to share publicly,” says Maria. “It’s something we use at every member meeting, when meeting with potential financiers, and to keep track of milestones.”

Avoid Specific Dates

One thing you’ll notice about the timelines shown: they do not have specific dates. As always in co-op development, we don’t want to make promises we can’t keep. A timeline is a dynamic tool, rather than a fixed schedule. Be sure to use time ranges rather than deadlines. (You will want to have a more detailed internal timeline with dates to keep people accountable.) Maria notes, “Our timeline links accomplishments tightly with the number of members. We have to remind people that the timeline is about goals, and many other factors are involved.”

Some specific tips for timelines include:

- Create a one-page timeline to use as an overview. A more detailed version can be created for internal use.
- Use the Three Stages and sub-stages to organize tasks
- Focus on completion date ranges, rather than start dates
- Remember that within each stage, many things happen at the same time. Not all timeline items are sequential.
- Revise your timeline regularly to reflect changes and progress
- Use an editable graphic, rather than text alone. Here are samples of timelines and a downloadable template for creating your own timeline.

Samples of timelines can be found [here](#), and a timeline template can be found [here](#).



Case Study — Monadnock Food Co-op

Monadnock Community Market Co-op
Keene, New Hampshire
www.monadnockfood.coop



The Monadnock Community Market Co-op startup was active for four years before opening its doors. Joe Marks, president of the co-op's board, mentioned that one of the challenges to startup groups is how many people you need to reach to generate support for the project. "You need hundreds of people," Marks said. In the first year of the co-op's organizing process, Marks said they began to hire consultants and made plans to hire staff because they knew they could not do it all themselves. In addition to recruiting owners, every startup needs to raise capital and find a location. "A project of our size couldn't be done exclusively with volunteers," he said.

"The key thing we did, once we sold memberships, was to spend a percent of that equity on hiring people to help us reach our goals," Marks said. He also said the decision was not easy— should they be conservative or take risks with the money? Ultimately, they decided that their co-op would not happen without taking the risk. To minimize risk, they spent only one-third of their equity until they reached a goal of recruiting 500 owners. After reaching 500 owners they were comfortable spending up to half of the equity they raised.

"The risk goes down when you hit your membership goals," he said. With the money they raised, the co-op hired CDS CC consultants (a "critical decision," Marks said) to help their board with planning and development. In addition, they hired a project manager ("an absolute life saver," according to Marks). Among her many tasks was to apply for grants to pay for their feasibility study.

Because of their investment in expertise early on, their co-op is poised for success. The co-op's general manager, Michael Faber, said that "we followed the textbook on how to organize our startup." The co-op received a Seed Grant from Food Co-op Initiative that helped financially, and also helped connect them to the larger co-op support world and access technical assistance from FCI's Executive Director, Stuart Reid.

The support they received from nearby, established food co-ops was vitally important throughout the organizing process. From moral support, to donating food for volunteer training events and the annual meeting, to sharing best practices and lessons learned, to letting Monadnock organizers sit in on Board meetings, to figuring out meat and seafood programs — visiting and learning from neighboring food co-ops was instrumental to their progress and success.

"We used the CDS Consulting Co-op a lot for the organizing and planning stages, as well as a feasibility and market study," said Faber, who also believes doing these things helped them transition to working under contract with the National Co+op Grocers' Development Co+operative (NCG DC). The

"The key thing we did, once we created memberships, was to spend a percent of that equity on hiring people to help us reach our goals,"

— Joe Marks, board president

Development Co+operative provided extensive technical support during the co-op’s final implementation stage and ongoing support for operations.

Faber said that while the retail food co-ops of today come with a larger price tag and require more community organizing for financing, startup groups need to give serious consideration to opening their co-op at the right scale and size. “You could mistakenly jeopardize the co-op’s success by scaling down because it won’t meet the needs of the community.” Getting a professional co-op market study is critical to understanding what the community’s marketplace can support.

Monadnock Food Co-op got a huge financial boost when, in addition to financing the construction, the Monadnock Economic Development Corporation also financed the fixtures and equipment, using a combination of Community Development Block Grant funds and borrowed funds.

Board president Marks also has specific advice for startup co-ops. “There’s no point in trying to start a co-op if you are trying to save your members’ money. You need those visionary people who are not worried about getting their money back.” He also felt like the money they spent helped them realize their dreams. “I would not be as positive about these decisions if we didn’t have good results. We have so much confidence in the CDS CC and the NCG’s expertise.”

Monadnock Co-op at a Glance

Year incorporated:	2010
Year opened:	2013
Number of members at opening:	1,200
Number of members in 2016:	2,600
Member equity investment:	\$200
Cost of total project:	\$1.6 million
Member loans:	\$1 million
Member equity:	\$200,000
Financing (vendor credit):	\$200,000
Retail square feet:	7,800
First-year sales:	\$6 million
Sales in Fiscal Year 2016:	\$9.9 million



For a more detailed timeline of the Monadnock startup process, see <http://monadnockfood.coop/history-and-plans/>

Simplified Checklist, Stage I

- ☐ Visit FoodCoopInitiative.coop and review our startup resources
- ☐ Research and understand the cooperative model
- ☐ Assess interests and needs in your community
- ☐ Form a core group or steering committee
- ☐ Hold a community meeting
- ☐ Develop mission statement
- ☐ Choose a name
- ☐ Raise money to cover incorporation costs
- ☐ Establish the initial board of directors
- ☐ Incorporate and adopt bylaws
- ☐ Create effective systems for communication and meetings, and continuously improve them
- ☐ Set up a bank account
- ☐ Set up administrative support
- ☐ Create contact list and find volunteers
- ☐ Develop preliminary Sources & Uses budget
- ☐ Develop a budget for Stage I
- ☐ Create a membership program
- ☐ Identify and recruit potential member-owners
- ☐ Conduct community survey
- ☐ Launch intensive member recruitment campaign
- ☐ Perform preliminary feasibility study
- ☐ Develop a budget for Stage 2a and 2b
- ☐ Achieve initial membership goal/threshold

Decision Point

Are your cornerstones — **Vision, Talent, Capital, and Systems** — solid and strong enough to support a successful organizing effort?

You have invested significant time, energy, and financial resources to get this far. This is a good time to take stock. Are you ready and willing to move forward? Once your organization is formed (with at least 15–20 members actively engaged in either the board of directors and/or work groups), you are legally incorporated, you have recruited approximately 300 members (depending on potential store size), have functional and effective systems in place for communication and meetings, and made a positive assessment of preliminary feasibility, you are ready for Stage 2a: Feasibility and 2b: Planning.

CHAPTER 4

Developing the Co-op

Stage II: Feasibility and Planning

Planning for the successful opening of a startup involves a systematic approach to determining market feasibility, financial feasibility, and design feasibility; raising capital, and creating an organizational infrastructure that can support a successful retail food co-op.

Stage II is divided into two sub-stages. **2a: Feasibility**, and **2b: Planning**. In Feasibility, a full assessment is made of market feasibility, financial viability, and organizational capacity. In Planning, a business plan for financing and operations is created, a general manager may be hired, and a preliminary store design is created. Both sub-stages of Stage II are completed when a site has been selected and an agreement to lease or buy has been negotiated to secure the site (contingent upon obtaining full financing for the project).

Stage II typically lasts 6–12 months and typically

requires a budget of \$50,000–\$60,000. Member-owner equity will be used and put at risk. Additional sources of funds may include fundraisers, donations and grants. These funds will be used for project management, consulting, market analysis, financial pro forma, preliminary design, training, legal fees, hiring expenses, accounting fees, promotion, fundraising expenses, and rent for office space and/or meeting space.

It is never too early to identify ways that your group's process can be strengthened by refining and developing key systems that can help the group build capacity. The Feasibility and Planning stage is when the co-op begins to make a major investment of time and money in the cooperative. Professionals within the co-op sector will assist you with your project, and they will help you save time and money in the long run.

Stage 2a Feasibility: Vision

Build a Shared Vision

The process of formally determining feasibility is important to the overall goal of opening a food co-op, including minimizing risk, as well as a tool for continuing to build commitment from owners and lenders.

The process of building a shared vision is ongoing in your leadership group and throughout your base of

members. Assessing feasibility is a systematic way to begin to 'test' your vision. Is it feasible? Is it achievable?

Conduct a Full Feasibility Study

Even when everything indicates a good outcome, events beyond your control can cause a good project to fail — for example, a strong new competitor in the

market, political or economic crises, etc. When you have collected all of the information in your feasibility study, evaluated it and made plans accordingly, you will also have the basis for your business plan.

The key components in a full feasibility study include:

- A formal market study
- A community survey
- Supplier and vendor assessment
- Evaluation of available leadership and management talent, both for organizing and operations
- Financial budgets and projections, i.e., a financial pro forma
- Availability of capital and willingness of members and lenders to invest
- Preliminary design feasibility, once a preferred site has been determined

These are some of the questions you will be trying to answer:

Market Potential and Strategy

- What market capacity exists in the area?
- 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 competitors' stores?
- Will the co-op benefit owners financially? Or are owners more interested in other attributes of the co-op?

Operations

- How will the co-op be managed and staffed?
- What product lines and service departments are needed?
- Who are the primary suppliers for the co-op?
- What services will the co-op offer?

Sources of Supply

- Are the kinds of goods and services you wish to offer available to you?
- Can you meet suppliers' minimum order requirements?

- Can local growers and producers provide you with adequate quantities and variety?
- What support services are offered by potential vendors and distributors?

Sources & Uses of capital

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

Start-up Needs

- How much time will it take to start the co-op?
- What management skills will be needed?
- What kind of site will be needed? What will it cost and are there options available?

For more detailed information, see the [Food Co-op Feasibility FAQ and Checklist](#) from Food Co-op Initiative.

A full **feasibility study** includes all the components that must be evaluated to predict the likelihood that a new food co-op will be successful. A **market study** is one piece of the feasibility study. Usually conducted by an experienced professional, the market study researches demographic information, competitors, geographic barriers, demand for the co-op's proposed goods and services, and the impact of any sites under consideration.

By analyzing this data, the marketing consultant can project the future sales volume of the co-op and make site recommendations. Accurate sales projections and site analysis are absolutely critical to your business planning. This is not a place to try to save money — go with the best.

As important as they are, a strong sales forecast and great site are not enough to ensure feasibility. Your costs to start the business, operating expenses, store management, store design, and many other factors will also impact success and are essential parts of the feasibility study and business plan.

Pro Forma Financial Budgets are used to assess financial feasibility of the proposed project. These are 5–10 year financial projections for the co-op’s performance once it opens. They should include a detailed income statement, balance sheet, and cash flow statement. This budget is very complex to create and requires a lot of data about retail food co-op income and expenses. You will need to have completed your site negotiations (for lease and operating costs) and operational plans (for inventory allocation, margin plans, labor budgets, etc.) before you can finalize the pro forma, but you can develop the initial drafts early on in the planning process. We recommend that you contract with a financial consultant to ensure the integrity of this budget.

Do not be surprised to discover that your projections show losses for the first 2–3 years — this is typical of all new businesses. However, you do need to be able to maintain positive cash balances during this time and achieve profitability in a reasonable time. If the pro forma budgets do not indicate feasibility, you will have to adjust your plans and possibly reconsider whether or not a co-op is possible.

It is unlikely that a feasibility study that covers all the components of feasibility will be provided as one ‘study’ by outside expertise, or by the leaders within the organization. Feasibility work is a process that involves both internal and external participants. Certain segments of the feasibility study will be provided by consultants (market study, financial pro forma, etc.), but it is essential that the leaders of the co-op become engaged in the systematic process of assessing feasibility, assessing the strengths and weaknesses of each component, and assessing overall feasibility.

FYI: Find out more about feasibility studies with the [Feasibility FAQs and Checklists](#).

You can also view a helpful webinar, *Evaluating Feasibility and Planning for Success*, by going to [this link](#).

Develop a Concept Paper

Once your formal feasibility study determines a likelihood of success, describe what you hope to accomplish and why. You can do this by developing a concept paper or “white paper” that you share with potential supporters or funders. This is usually a 2–5 page document created to get everyone on the same page and to describe the intent, vision, and scope of the project to potential funders. The concept paper will include your mission, what need your project will meet, describe the project’s goals and objectives, methodology or activities, and a timeline (and maybe the project budget). A concept paper can also serve as the core of the business plan and the foundation for a full funding proposal.

Build Alignment with Core Group, Owners and Potential Owners Around Vision

Alignment is when people come together, agree on a vision for the future, and then work together to make it happen. Within a food co-op startup, the question is often what will get more and more people to support the vision? How do we demonstrate to them the benefit and value the co-op will bring to people and their community? How will we as a group make it happen? Startups are particularly challenged in building alignment around their vision because there is not an actual bricks-and-mortar store. You have to help people see the future potential. Do this by sharing with people consistent messages and constantly communicating the co-op’s purpose and vision.

Share the Vision Through Expanded Communications

The relationship that your co-op develops with its owners, community, and potential shoppers will largely occur through communication channels ranging from public relations and membership recruitment brochures, to neighborhood meetings. Every point of contact is a way to solidify your relationship and continually share the co-op's vision with a wide range of people. During Stage 2a, you will further develop your messages about the co-op and focus in on your intended audience. As part of the communications plan development, be sure to create messages about the co-op that are authentic, coherent, and clearly demonstrate your future plans. Determine your key messages and prioritize them so that they can be effectively communicated in multiple channels. Some of these messages will change as your co-op progresses.

Many people in your intended audience go to websites for information, a significant number of people use social media, and others read newspapers or magazines. Promoting your co-op will probably involve a lot of in-person events as well as electronic media. Make plans for distributing a newsletter, creating a website, posting info on social media, creating a membership brochure, and participating in community events. If you wait for people to notice your group, it may not happen. Communication is how you connect people to your great idea.

Social media

Build up your media connections and expand your public relations by actively using social media, which is often informal and fast-paced. Networks are built through communities of shared interest, and an effective way to take advantage of that is to actively seek connections and ask followers to share information. By keeping your social media pages active, you can attract the interest of a wider audience and gain more “followers,” “friends,” and important allies in your outreach goals. Local bloggers and podcasters online are also a great resource for expanding networks of shared interests — there is a world of people passionate

Location and Site

‘Location’ and ‘site’ are not interchangeable terms. A **location** is the geographic place in your town that aligns your business with the right population and demographic profile. **Site** refers to the physical attributes of a specific building or property.

about the same things you are and willing to share what they learn from you.

Public relations

Cultivate your relationship to the local media, be it newspapers, radio, or TV. Choose someone in your founding group to be a media contact, someone who is friendly, outgoing, and comfortable talking with the press. Contact reporters through press releases and follow up phone calls when you have news to share. Offer to meet reporters for lunch or coffee to give them an update about the co-op's project. Invite them to community events and offer them tours when you have a site. Share with them your enthusiasm for the new food co-op. Be aware that it may take some effort to build relationships, but if you continue to be professional, courteous, and stay in contact when you have news, you will gain the visibility you seek.

Newsletter

Most food co-ops are built on informed choice, and educated consumers are empowered to make informed choices. Owners and potential customers are educated about your co-op when you share information. While this can occur in any media channel, newsletters can act as a clearing house for transmitting news and consumer education which is more content-rich. People who are educated and informed will develop a loyalty to you and will want to support the goal of a new co-op in their community. Printed newsletters have the benefit of being a tangible expression of the co-op, especially before it is open, but they can be expensive to produce. Many startup groups enjoy just as much success getting the word out by distributing

electronic or e-newsletters on a regular basis. They are easily forwarded, and can be easily produced. Even if you have nothing “new” to report, continue to send out regularly timed newsletters. It is another way to keep your co-op and its plans top of mind.

Website

You need a website. Any organization or business without one is easily dismissed as unimportant. Even a simple website should contain information about your group, how to join the co-op, access to newsletter issues, and ways to contact the co-op for more information. Include an online signup to collect email addresses so you can send people your newsletter and co-op updates. Whatever content format you choose, be sure to allow for potential expansion of information as your co-op startup grows, and remember to update regularly! It is worth investing in a great website, whether you recruit a talented volunteer or hire a professional to design it for you.

Membership brochure

One of the most important organizing activities is recruiting members. The number of members you have signed up demonstrates the depth of support in your community. Members also play a significant role in capitalizing the co-op. The co-op’s membership brochure should convey welcome and accessibility. It should be easy to understand and it should include an easy way for people to join. The brochure can create an entry point for people to understand the co-op and enhance their desire to participate.

FYI: Here is a downloadable [Membership Brochure Template](#) to lend you a hand with creating a new membership brochure.

Organize Within Your Community

In order to expand the co-op’s influence, and build that shared vision, it is important to continually communicate with individuals and groups through meetings and events. Give people an opportunity to ask questions about the project. Tell your personal story — great

storytellers are able to inspire others and build a sense of shared purpose. People love personal stories and it is a great tool for networking. Whenever you speak or present to groups about the co-op idea, bring a collage or use photos of other co-ops to demonstrate what the co-op could look like. Talk about the benefits of having a food co-op in your community. Providing visual materials and showing how the co-op could benefit people will give people an opportunity to learn more about it and pique their curiosity to learn more.

See [Chapter 3](#) in this guide for more information about practical ways to set up meetings and events. Organizing the community by inviting them to be part of the co-op, educating people about it, and asking them to be involved, takes some work and creativity. Yet the events that bring people together are the fun part of starting a co-op. You are building a community of people where one may not have existed — one focused on cooperation and sustainability — and the excitement that food co-op startups generate is often palpable.

Some of the most successful startup events are informal neighborhood meetings where people gather for food tastings or local beverages. In addition to partnering with other businesses for speakers or resources, a mutually-sponsored event is also a fantastic way to bring people together. Some startup groups have invited well-known people from their area to come and talk about food issues or why having a co-op in the community will fulfill a need. Gatherings could simply be to bring people together to talk about what matters to them where they live.

At each meeting or event you host, be sure to share the vision by:

- Educating the community about co-ops (making the co-op principles and values visible)
- Demonstrating where the co-op is in the planning process, and what has been accomplished to date
- Asking people for input or be open to answering questions
- Filling out a survey
- Encouraging participants to join the co-op or volunteer and spread the word.

- Get everyone's email and contact info to be included on the mailing list for newsletters and announcements
- Be ready to sign up new owners, but understand the

main goal is building awareness and trust

- HAVE FUN!

Talent

As the cooperative begins to develop organizationally and financially, and feasibility studies show a strong possibility of success, your group will need to examine its personnel needs. You may need to hire administrative assistance and a project manager.

Before this point, the co-op has probably been using the services of volunteers to do outreach, fundraising, and organizational development tasks. Because of their dedication and efforts, the co-op's plans appear to be viable. Yet in order for the food co-op's vision to be realized, it will need to hire people who are accountable to the founding group for specialized tasks. The startup cannot run exclusively on volunteer talent or rely on it forever if it plans to continue to build toward opening a food co-op storefront. It is time at this stage for the founding group to address building its capacity.

Assess Organizational Capacity

A new food co-op usually takes three or more years of organizing and development before it will open for business. Since the owners of the store are its future patrons, there is no expectation that they have experience in starting or running a grocery business. When you assemble a steering committee, organizing team and/or board of directors to oversee development, you depend on a group of volunteers with varied backgrounds, experience, and interpersonal skills. Some of these people will donate hundreds or even thousands of hours of their time to make your co-op a reality. Here are some of the questions you should ask:

- Is the co-op board active and committed?
- Are there policies and communication systems in place for ensuring empowerment and accountability?
- Have appropriate work groups or committees been established?

- Are all working groups, including the board, achieving their goals?
- Are all the working groups unified and cohesive in their efforts?
- If not, where are the weaknesses? What are the strengths of each group?

During this stage it is important to understand and acknowledge how well the people involved are working together. Good relationships set the tone for a positive future, and a strong foundation will provide acceleration and impetus for the co-op's development. Based on the results of this assessment, you may need to recruit more help or hire consultants to fill in the gaps in your organization's capacity. Without the right people to enable the co-op to take on ever larger challenges, the founding group can sink into disorganization as the co-op's needs become too much for volunteers to handle. Hiring people at this stage to carry out administrative or technical tasks can help control costs and bring efficiencies to your project.

FYI: Download these useful resources for effective board leadership, developed by CDS Consulting:

[Effective Boards and Teams: Structure and Accountability](#), and
[Effective Boards and Teams II: Teamwork, Process, and Decision-making](#)

Explore Location and Site Options

At this point the board may start to seriously research the local real estate market, and may consider working with a developer. Some key questions to address include whether the co-op will lease or buy, remodel, or

build from the ground up. Identifying a desirable location and considering preliminary design and feasibility is part of this process. Commission a professional location and site analyst with expertise in food co-op development to research the best place in your area for a retail co-op. The site selection process also takes into consideration plans for implementation.

- Use the results of your feasibility and market study to learn about needs and shopping patterns of your prospective customers.
- Rely on one or two people to handle site search and real estate negotiations.
- Explore options for leasing, owning, building new, or remodeling a site.
- Negotiate a lease or purchase agreement; use outside expertise to assist with or lead the process
- Seek assistance from a professional store designer with retail grocery and natural foods experience.
- Create an initial site plan and store design.
- Get preliminary approval from the city for the plans.
- Begin the bidding selection process for an architect and building contractors.
- Hire a project manager to oversee implementation after a site has been secured.

Real estate transactions and negotiations require confidentiality until the site is secured (with contingencies) at the end of Stage II. Without confidentiality, competitors could learn about or compete for the site. The deal might fall through. The involvement of too many people might affect the co-op's ability to negotiate effectively; conveying too much excitement might raise the price. Appropriate confidentiality will protect the co-op from potential liability.

Hiring a Project Manager

Organizing, Feasibility & planning

Starting a co-op requires a lot of coordination and thousands of work hours. Most founding teams find it increasingly difficult to keep everything moving forward as the development process gets more

advanced. Hiring a project manager is a big step, but having someone whose primary responsibility is to the co-op will ensure that work moves forward. How can you afford to pay someone? Usually through the steady influx of member equity, although some co-ops have gotten grant support.

A project manager for the Organizing and Feasibility & Planning stages can lead membership recruitment and community outreach, keep records, coordinate volunteers and special events, edit newsletters, maintain websites and social media, or whatever you need done (and your project manager can handle!)

Hiring a project manager demands a lot of responsibility from the board — to hire the right person, to maintain funds for payroll, and to entrust someone with all of the details of the venture you have nurtured up to this point. The board will need to create a job description, and a list of skills and attributes that they want to see in a project manager. A startup involves a tremendous amount of time, commitment and trust. Find someone who fully supports your vision, has a strong track record, and has the skill to carry it out. In most cases a project manager will be an employee rather than a contractor, which means the co-op needs to be prepared to comply with state and federal employment statutes, including minimum wage, taxes, and workers compensation insurance. You will also need a set of policies defining how the board will manage their new employee. The good news is, this will help you be more prepared when it is time to hire your general manager.

Getting Ready for Implementation

If you anticipate that you will soon have a location secured for your cooperative, it is time to seek out a project manager with a specific skill set. You may choose to retain a project manager to work with membership, outreach, and capital campaigns, but that person may not be best suited for this new role. The role of the implementation stage project manager is to coordinate all of the Stage III activities and execute a work plan based on the co-op's budget that brings the storefront to completion. The project manager is hired

FYI:

These links to project manager job descriptions can be used to assist you in creating your own:

[Construction Project Manager Job Description](#) and [Business Planning Project Manager](#)

See the [Stage II section of the CBLD Startup Policy Template](#) from CDS Consulting for sample board policies relating to hiring and supervising a manager.

by the board and reports to them until the co-op hires a general manager to manage the co-op's operations.

A good project manager will have the ability to create a plan based on the co-op's vision, and decide the best course of action for reaching those goals. This person will have to guide the construction phase of the project from concept to completion, have good time-management and budgetary skills, and effective communication abilities. A project manager does not just manage the construction timeline, but maintains relationships with vendors, as well as the co-op's board and community at large. Having a project manager in place is one of the last steps of the Planning Stage before moving on to the Implementation Stage.

In general, the project manager will be responsible for these development tasks:

- Planning the project, including the budget, timeline and funding.
- Getting proposals from contractors and architects.
- Overseeing construction plans and building.
- Coordinating equipment and initial inventory deliveries.
- Communicating with the board, owners, and the community about the project's progress.

Depending on the skills and experience of your project manager, you may need additional technical assistance. Food co-op consultants experienced in cooperative finance, retailing, and membership development are available, and can help ensure that you reach your development goals and have viable plans.

Capital

One of the vital activities for a startup is raising funds to support and launch the endeavor. This is often an ongoing activity with ever-increasing goals as the co-op progresses through its stages. It can also be particularly challenging because the market forces that impact people and their investing ability can be volatile. Raising money rarely happens quickly, and "angel" investors are few and far between. Lending institutions are wary of retail startups without storefronts, and yet to build a viable storefront your co-op needs financing.

One of the strengths of the cooperative model is that it allows a large number of people to contribute at different levels, through their member equity (when joining the co-op) and member loans or preferred shares (investing). Cooperatives can use equity to fund the startup process, buy inventory, finance operations, and

pay for the facility. Without such owner capital, the co-op would need to look to creditors for financing. Nearly all outside financing will come with restrictions and may come with high interest rates and fees. Startups in particular are considered risky endeavors by most outside financial institutions. Therefore, it is critical to amass a high level of ownership capital to provide the co-op with a strong equity base.

When the co-op needs additional financing, owner equity levels help demonstrate strong support for the co-op, and can convince reluctant bankers and others to fund the co-op. It is truly a community effort to build a food co-op startup, and while it may take time to raise the necessary funds, the co-ops that do best raise a significant portion of their capital from owners who support the vision.

FYI: Other sources of capital, including federal grants, economic development funds, and one-time opportunities tend to have limited availability. A little research can turn up unexpected opportunities. FCI regularly updates information about programs we are aware of through our e-news. Sign up at: www.foodcoopinitiative.coop/contact

Member Loan Plans

In order to raise significant amounts of capital quickly, member loans have become the method of choice for food co-ops. Startups have raised significant capital through member loan programs. Successful member loan campaigns are producing debt financing in the \$300,000 to \$1.5 million range.

Member loans represent commitment and engagement in the co-op on behalf of its owners. While not provided by all owners, member loans are nevertheless

a very strong indicator of owner buy-in and support for the proposed co-op. Such investment illustrates that owners value the co-op's services and are willing to lend a sizable amount of money to the co-op, even when clearly understanding the risks involved. Member loans typically range from \$1,000 to over \$50,000. Average size loans can range from \$3,000 to \$10,000.

Member loans are a critical ingredient in the cooperative's financing. In addition to the capital they provide, member loans help leverage institutional loans. Financial institutions will be impressed by a co-op's ability to raise member loans, and often view both member loans and member equity favorably, since both types of owner investment are subordinate to bank loans.

Preferred Shares

Another way to build capital is through preferred shares. Preferred shares are equity investments by co-op members above and beyond their required membership equity. These shares have no voting rights, preserving the one member, one vote governance principle. Minimum purchases of preferred shares are often set at \$500 or \$1,000 and they may yield dividends. Owners may earn more on their money than they would keeping their money in a bank and the co-op pays less than they would borrowing from a bank. A preferred shares campaign can run concurrently with a member loan campaign, or the co-op may decide to do either member loans or preferred shares.

Both member loans and preferred shares are subject to state and federal securities law. In most states, co-ops can take advantage of exemptions that minimize the regulatory burden. However, it is essential that you obtain qualified legal advice before planning a capital campaign and to review your loan or share documents.

For more detailed information about member loan campaigns, see the [Food Co-op Initiative Capital Campaign Workbook](#).

Loan Capital from Financial Institutions

Securing outside financing will probably be needed to reach the full funding necessary to finance the co-op

Potential Lenders

In addition to local lenders, cooperatives can potentially secure loans from the following organizations:

Cooperative Fund of New England

www.cooperativefund.org
800-818-7833
cfne@coopfund.coop

Local Enterprise Assistance Fund

www.leaffund.org
617-232-1551
leaf@leaffund.org

National Cooperative Bank

www.ncb.coop
800-766-2622

Shared Capital

www.sharedcapital.coop
612-767-2100
info@sharedcapital.coop

FYI: The CDS Consulting Co-op offers the Co-op Board Leadership Development (CBLD) program to provide training and support for food co-op boards. You can find out more at www.cdsconsulting.coop/cooperative_governance/

The [CBLD 101 Reader](#) addresses board roles and responsibility, principles of Policy Governance, and more.

Carver Governance Design, Inc. is the official website of the Policy Governance model developed by John Carver. Many co-ops use Carver policy governance structures to improve their effectiveness. www.carvergovernance.com. You can also find a concise summary [here](#).

startup. Most banks and credit unions have little idea how a cooperative works. It helps to start talking to potential lenders early in your planning stage. Make sure the people you approach understand the cooperative ownership structure. It is worth taking the time to educate them about the co-op business model and your plans. Bankers can also provide guidance to

help you be better positioned when you do ask for a loan. In order to approach owners and financial institutions for loans and capital investments, you will need a business plan that includes pro forma financial statements, and a sources and uses development budget with key assumptions for the business. Designate one or two people to negotiate with commercial lenders.

Systems

Develop Governance Leadership

At this stage, the co-op will have its bylaws and articles of incorporation in place, and a seated board of directors. It may have even gone through an election cycle or two. The goal of the board during the Feasibility Stage is to prepare itself for the eventual governance of an operating retail food co-op. This entails transitioning from a hands-on working group to empowering others (a project manager or general manager) to make operational decisions on behalf of the co-op.

Cooperative governance is the act of steering cooperatively-owned enterprises toward economic, social, and cultural success. It consists of answering key questions, defining roles and responsibilities, and establishing processes for setting expectations and ensuring accountability. Being able to work together, function democratically, strategize effectively, and keep accountability and empowerment flowing are attributes of an effective board.

There are numerous tools available to support co-op boards so they can work together well and prepare the co-op for the future. Many established food co-op

boards find that by using these guides and services, they have been able to achieve their goals.

Contract for a Professional Market Study

A professional market study conducted by an analyst experienced in grocery and natural foods will insure that your co-op gets the information it needs to assess its future sales potential. It can be an expensive undertaking, and many groups choose to do market analysis only on potential preferred sites. Commit to a retail space only after thoroughly researching the market, and testing your ideas and assumptions. A market study is part of the co-op's due diligence, and can demonstrate to owners and lenders the strength of the co-op's plans. The market study will:

- Analyze potential market size and trade area
- Provide demographic information of target markets
- Assess competition and its strengths and weaknesses
- Show where potential customers are located
- Determine your retail co-op's prime location and rate it against standard criteria

- Assess the suitability of specific sites the co-op may be considering
- Project sales potential for the initial years of the co-op

The professional market study is an essential part of your business plan. It is important that you use the services of a qualified analyst who understands the retail grocery industry, and has knowledge and understanding of food cooperatives. University business programs, community economic development surveys, and similar options are NOT acceptable substitutes.

FYI: [Here's an informative webinar](#) on market research and site analysis.

Update Your Business Plan

A potential lender or equity investor is going to want to see the co-op's plans organized in a credible and professional presentation. The business plan provides data that demonstrate the co-op's potential as a retail establishment. The document should clearly convey the co-op's understanding of the business opportunity. This is no time for hyperbole. It should offer lenders a solid plan demonstrating the co-op's likelihood for success.

Invest time thinking about and crafting the business plan, which may be between 20–40 pages long. In most of the description areas 2–3 pages will suffice, but the text needs to hit on the key points, and offer data to support them. Include summaries of projected budgets in the financial plans. The business plan should be professional, concise, and easy for the reader to understand. The business plan contains the following elements:

- **An executive summary and cover letter** tells the reader exactly what you want (for example, a commercial bank loan) for the kind of business you intend to launch. The summary is a short overview (one page) that describes the business and how much capital is needed, as well as information about its current status. Include your incorporation date, whether you have found a site, raised money, organized owner and community support, and done any market studies or feasibility research. The cover letter is a short and concise letter to a lender that describes exactly what the co-op is seeking, the co-op's timeline, references the enclosed plan, and invites comments and questions, etc.
- **A general description of the cooperative ownership model** is very important to educate lenders and other community partners about the co-op business model. In this section, explain how a retail consumer-owned business is organized and governed.

What is a market study and how is it different from a feasibility study?

This can be confusing, since the terms are sometimes used interchangeably. A feasibility study includes all the components that must be evaluated to predict the likelihood that a new food co-op will be successful. A market study is one piece of the feasibility study done by an experienced professional. The market study researches demographic information, competitors, geographic barriers, demand for the co-op's proposed goods and services, and the impact of any sites under consideration.

By analyzing this data, the market analyst can project the future sales volume of the co-op and make site recommendations. It is important to note that a strong sales forecast and great site are not enough to ensure feasibility. Your costs to start the business, operating expenses, debt service, store management and many other factors will also impact success and are essential parts of the feasibility study and business plan.

- **Bios of key personnel**, both board and management (if hired,) will help provide lenders with a context for the cooperative, and give them confidence in the co-op's professionalism. Keep bios short and relay background information most relevant to their role in the co-op.
- The **products and services section** of the business plan will describe what the co-op will offer shoppers and how it will differentiate the co-op from the competition. Provide an overview of the food industry that the co-op will be operating in, including present and future trends. It should include data that identifies who your potential customers are and a description of your key suppliers.
- A **summary of the market study** includes key information from your professional market analysis. Most studies include an executive summary which can be adapted for your business plan. It will inform the reader about your potential sales, projected market share, and target market, and demonstrate the co-op's growth potential.
- The **marketing plan** will address how you plan to position your business in the community, and will answer strategic questions about how the co-op will promote its products and how it will be perceived by customers in the marketplace. A tactical promotions plan would include information about how the co-op will be advertised in order to build customer loyalty and sales growth.
- The **operations plan** will give an overview of the co-op's organizational structure and its operating capital requirements. This part of the document should include an organization chart and address how marketing, human resources, administration, and staffing will be established.
- A **Sources and Uses budget (S&U)** describes all of the uses of funds that will occur prior to opening. It should also include a 15% overrun allowance, a budget for post-opening support (consulting, training, etc.) and working capital to cover negative cash flow in the first year of operations. The second part of the S&U budget lists all of the sources of

capital you plan to raise to fund the Uses. The assumptions you used to come up with your estimates should be documented.

Accompanying the Sources and Uses budget should be a description of how you will conduct your capital campaign (or have already), including the demonstrated support of the community through membership and investment. Any special financing, such as development loans or large grants, should be explained. For a recorded presentation about the Sources & Uses budget, go [here](#). And here is a [Sources & Uses Budget template](#) that you can use.

- **Pro Forma Financial Statements** will document your assumptions about how the co-op will be financially successful. Summary statements are often used in the business plan so that key numbers and trends can be quickly reviewed. If you do this, include a note offering complete pro forma statements on request.
- **Appendices of supporting documents** are also important in a business plan. Include material that bolsters your professional image, such as brochures, maps, letters of support, newsletters, and media mentions of the co-op effort.

Simplified Checklist, Stage 2a: Feasibility

- ☐ Develop a concept paper describing what you hope to accomplish and why
- ☐ Distribute a member newsletter on a regular schedule
- ☐ Share information through a web site
- ☐ Participate in community events
- ☐ Conduct surveys
- ☐ Identify areas of weakness, recruit help or hire consultants
- ☐ Research local real estate market
- ☐ Contract for a market study
- ☐ Continue fundraising
- ☐ Conduct a thorough process of assessing feasibility, including market feasibility, financial feasibility, and organizational capacity/readiness
- ☐ Make plans to include preliminary design and design feasibility depending on how advanced you are in identifying your preferred site
- ☐ Assess your accounting system and upgrade as needed
- ☐ Research suppliers and their account requirements
- ☐ Develop/revise your budget and checklist for Stage 2b

Decision Point

If the market study and financial feasibility are positive, and the organizational development and readiness are in place with 450 owners (or 45% of target membership at opening), the co-op is ready to move forward into **Stage 2b: Planning**.



READING IS GREAT,
now call us to chat!

Food Co-op Initiative: 844-324-2667

Stage 2b Planning: Vision

After the co-op has determined feasibility by evaluating market feasibility, financial feasibility, and organizational readiness/capacity, it is time to start doing the planning work that will help lead to opening a new food co-op.

The planning work will be focused on:

- Updating your business plan
- Preliminary contacts with lenders, architects and contractors, and other external stakeholders/partners
- Planning the capital campaign and being prepared to launch at the beginning of Stage 3a
- Active site search
- Design feasibility assessment and preliminary store design of your preferred site
- Preparing for lease negotiations

Continue to communicate regularly with your members and community, and ensure that the co-op has the internal readiness it needs to move on to the implementation stage. This stage can move very quickly, especially if the co-op is readily able to secure its preferred site (with contingencies), or it can be extended unduly because of the challenge of securing a suitable site.

Continue to Communicate Widely

At this stage of the planning process, the co-op will need to make significant outreach efforts to engage the community. You are laying the groundwork for attracting future shoppers and owners to the co-op, and setting the stage for your capital campaign. Your ability to tell your story and draw people in will affect how successful your co-op is upon opening. Even if the number of people who have joined the co-op is significant, you will still need to continue to aggressively communicate with all your stakeholders. This includes people in the neighborhood of a proposed site, like-minded organizations, and the media.

Establish and nurture connections within your local business community, including the Chamber of Commerce, local business associations, and with civic

Networks of Support

National Co-op Grocers is a member services cooperative that provides a wide variety of benefits to its member food co-ops, including a national promotional program and contracts with distributors and service providers for preferential pricing. NCG offers two ways for interested co-ops to affiliate and participate in their programs and services: as members and as associate co-ops. These two levels offer different benefits and access, and also carry different requirements. Startups in Stage III are encouraged to educate themselves on NCG membership options. <https://www.ncg.coop/participating-ncg>

The Neighboring Food Co-op Association includes over 35 food co-ops and start-up initiatives across New England. The members of the NFCA are working together to measure economic and social impact, conduct education, outreach and sourcing activities that benefit their members, and partner with likeminded organizations to advance shared goals. www.nfca.coop

The Philadelphia Area Cooperative Alliance (PACA) is a co-op whose members are worker co-ops, food co-ops, housing co-ops, artist co-ops, credit unions, energy co-ops, and school co-ops in the Philadelphia region. PACA is a 501(c)3 nonprofit dedicated to growing the cooperative economy and building a movement for economic justice. <https://philadelphia.coop/>

The Mid-Atlantic Food Co-op Alliance (MAFCA) exists for the mutual benefit of its members and the greater community in which we live. Their purpose is to grow the cooperative economy, provide education about co-ops, and build a sustainable and equitable system of healthy, local food production, distribution, and consumption. <http://mafca.coop/>

CoMinnesota is an expanding community of Minnesota cooperators from all sectors who are working together to create and promote activities that tell the story of how cooperative enterprises build a better world. <http://cominnesota.coop/>

leaders. Identify these groups and individuals and make plans to meet with them in person at their meetings or during networking events. Getting to know the people in the business community and making connections with them will go a long way in establishing your

credentials, getting the word out, and finding supportive business partners. The business community is also potentially part of your customer base, and communicating your enthusiasm to that constituency is a positive step toward building your co-op.

Talent

During the planning stage, the board of the co-op should prepare for hiring and supervising people to do specialized jobs. You may already have a qualified project manager in place, and begun a search for a general manager to run the co-op. Typically you should allow at least 6 months for the recruitment and hiring of a general manager, including time for planning and preparation. In order to have a general manager on the job the recommended 12 months before opening, you need to begin the process up to 18 months in advance. Depending on your situation and resources, you may be able to hire a general manager at the end of Stage 2b or during Stage 3a. But it is very possible that you may not be able to make a long-term commitment to a general manager until you reach the end of Stage 3a when you have all your financing in place, and you know that the store will be a go.

Hire a General Manager

The right GM can make a huge difference in your co-op's success. Take the time to do a thorough search and appraisal. Before you begin you need to identify the skills and attributes you want in your manager. These will usually include being an exceptional communicator, having a good understanding of financials, retail

grocery store experience, and knowledge of co-ops. Attracting a qualified general manager also requires that the co-op presents itself as a desirable opportunity. Be prepared to offer an attractive employment package. Candidates will want to know how well the board functions, the plans in place for the co-op's success, and information about your community (especially if she will be relocating). Once you have determined these things, you can take the following steps:

- Select two or three people to conduct the general manager search. Too many participants is counter-productive. Include someone with human resources or hiring experience if possible. You may wish to consider hiring a consultant to help you prepare for hiring and to screen candidates.
- Familiarize yourselves with the laws governing employment and hiring practices!
- Write a job description for the general manager. Establish that the manager reports to the board, define the limits of authority and performance expectations, describe how his or her performance will be measured and what compensation will be offered. If your co-op will be using Carver Policy Governance, those policies should be integrated into the job description. [See [Appendix C](#) in this guide for a sample job description.]

FYI: For more detailed information about hiring a general manager, see [Hiring a General Manager: A Toolbox for Boards of Directors of Natural Foods Cooperatives](#) available through CGN.

For more information about the transition from project to open store, see [Chapter 5](#) of this guide. And for more information about the board's transition to governing and to managing the general manager, see the [Governance Toolbox](#) available through CGN.

More excellent resource material is also available in the [CBLD Library](#).

- Advertise the position as widely as possible. The Cooperative Grocers Network offers a web page and magazine ads with [job openings for co-ops](#). This is where most experienced co-op managers and staff will be looking.
- Advertise in trade magazines, local papers, and through your website and social media networks. Use economic development agencies, chambers of commerce, businesspeople, and other local co-ops to publicize the position. Where you advertise will affect the number of applicants you get who meet your expectations.
- Carefully screen all applicants. Check references and job experience in detail. Consider background checks.
- Ideal candidates would have management-level experience at a successful food co-op, but it is not always possible to recruit someone like that. You may need to consider people with management experience in retail grocery, and carefully assess their understanding of cooperatives and your mission. Professional support is available to help new managers improve their skills if they have areas of weakness.
- Design a thorough interview process that gives you the opportunity to assess both skills and personality, but minimizes the number of interviews and interviewers that a candidate must face. Preliminary interviews are often done by phone or internet video conference. Finalists should be interviewed in person and given the opportunity to see your community. Focus interview questions on the skills and experience a candidate has. Ask questions about how candidates have handled similar situations, not how they would theoretically handle a situation.
- If none of the candidates meet your expectations, it is better to start a second round than accept second best.

Connect with Support Organizations

This is a good time to establish contact with the National Co-op Grocers (NCG) and regional co-op networks. These organizations are focused on the retail success of food co-ops and getting their support will

ensure that your project is stronger. Their perspective is invaluable, as they can serve as advisors and mentors that help contribute to your successful opening.

The Evolving Role for the Board of Directors

At this juncture the board should be preparing for the transition from “hands on,” to a governing body that will direct and empower the general manager to take care of the co-op’s day to day operations. Before hiring a general manager to operate the co-op, the board will need to:

- Clarify the responsibilities of the board and the general manager in written policies.
- Prepare themselves to let go of the operational details and decisions, and focus on their role as representatives of the owners and long-range planners.

This stage can be tricky and somewhat traumatic. While the board has been heavily involved in operational decisions to this point, their focus will change once a manager is hired. Allowing the board to remain involved in operational decisions will undermine the authority of the new manager. The board must adjust to a new governance role. Consultants who specialize in board training and development can make this transition much easier.

Engage Members

Continue to include membership growth as a part of your planning process and regularly revisit how you are communicating your messages to the community. The easiest way to get people engaged with the co-op is to ask them to help spread the word. One key to getting people to join and be involved is to tell them that you want them to join — don’t assume they know! Show them how they and the community will benefit from their decision to join. Use the skills of your owners at this stage to promote the co-op. Their continued ambassadorship “talking it up” will help the co-op achieve its goals of getting more people to join and raising its visibility.

Stage 2b is the time to plan the capital campaign and prepare to seek external financing. Your co-op has been raising money throughout its development, but now you will need to raise a significant percentage of the total budget to open your store. Organizing membership drives and planning a member capital campaign (member loans and/or preferred shares) will ready you to launch your internal capital campaign as soon as you have secured a site (contingent on financing) and moved into Stage III. You will also be ready to formally approach financial institutions for loans for your project.

Major Membership Drive to Recruit Owners and Raise More Capital

Part of your capital strategy will include planning your co-op's next membership drive. Raising equity for your co-op is serious business; it is the capital base from which your co-op derives its ability to grow into the future. The more members you have, the more member loans are possible and the more you can demonstrate community support to outside lenders.

Successful membership drives involve planning and co-op education for new owner recruitment. Your challenge is to educate yourself and potential owners. This can be accomplished a number of ways:

Create a team of committed, trained recruiters

Some people are simply more successful at signing up members than others. These are the people you need to recruit for this campaign. Spend time to plan together, share ideas that have worked, and lay out your plans and goals. Be specific — "50 members by the end of the month" is more effective than, "we need 1,000 members before we open." Use short-term goals to create a sense of urgency.

Provide training as needed, including the correct way to handle membership inquiries and how to make joining as easy as possible. Prospective members often won't follow through if it is a hassle. Evaluate your procedures for signing up new owners. If it takes longer

than a few minutes, it is too long. Membership must be easy to explain, so provide your team with ideas and opportunities to practice. Watch for procedural barriers to becoming an owner, such as having only certain people trained to do it, or requiring too much paperwork or too many steps. Offer multiple options by including sign up information and forms on your website as well as printed copies you can carry with you. Joining the co-op should be easy. And if you live in a multi-lingual community, you can make it easier for everyone by preparing your materials (and volunteers!) in the common languages used.

You must have a compelling reason for your membership drive in order to generate excitement for it. And you do— every new member brings the co-op closer to opening and without peoples' commitment, it will not happen. Your co-op's progress and updates should be enthusiastically communicated via in-person events and meetings, the co-op's newsletter, handouts, and website.

Bring in the money with the members

Set up multiple payment options. Cash and checks are easy, but adding Paypal or credit card readers that attach to your cell phone is not much harder, and makes it easy for you to close the deal on the spot. Carry membership enrollment forms with you all the time, everywhere you go!

Even if your co-op has a payment plan for new owner-members, push for fully paid memberships so you will have that capital now, when you need it. You will raise more money, create a much stronger equity base for the co-op, and eliminate the administrative costs of managing a payment plan.

Give free perks to new members

Sometimes you have to entice prospective owners to get them to the commitment stage. Offer them something for joining the co-op: a free shopping bag, t-shirt, or a coffee mug with your co-op's name on it also helps promote the co-op.

Prepare support materials

Make sure you have a fully stocked membership kit with adequate signage, banners, and brochures you need for events. Prospective owners will feel the excitement of your project and want to be part of the co-op. Create another recruitment kit for volunteers to use when hosting house parties or social gatherings.

Be persistent

After all you've done, you still need to gently remind, inspire, and cajole people into joining the co-op. Many people will need to be approached multiple times before they are ready to commit. Dangle the goodies, and publicly thank and praise everyone's efforts.

Once you've administered a successful membership drive, you will discover that the investment in training and effort was worth it. You will have the tools for bringing in more new member equity on a continuing basis even after the drive is over.

FYI: For more information about membership drives, see "[Preparing to Sell Memberships](#)" in the Member Equity Toolbox and the Membership Toolkit and the webinar [Marketing for Membership](#).

Develop a Plan for a Capital Campaign

Member equity from new members typically comprises about 10–15% of what the startup co-op needs in capital. About 40–50% is often raised through a capital campaign consisting of member loans and/or preferred shares. Loans have a defined interest rate and payback date. Preferred shares can pay dividends to the shareholders at the discretion of the board of directors. The rate of return is limited by law and is not guaranteed. Dividends are usually only declared once the co-op is profitable. Preferred shares do not give the holder any additional voting control in the co-op and can only be redeemed when the board approves. Most startups have had better success with loans, but preferred shares provide greater financial strength since they are equity investments rather than debt. A co-op

Questions Your Lender Will Ask You

Forms vary by program and lending institution, but they all ask for similar information. You should be prepared to answer the following questions. It is a good idea to have this information prepared before you fill out the application:

- Why are you applying for this loan?
- How will the loan proceeds be used?
- What can the co-op offer as collateral?
- What assets need to be purchased, and who are your suppliers?
- What other business debt do you have, and who are your creditors?
- Who are the members of your management team?

From www.sba.gov

can offer both options, but be careful not to confuse your owners with different choices.

A capital campaign requires a concerted effort during a limited period of time. It has two distinct phases: planning and implementation. Planning for a capital campaign typically happens in Stage 2b and the implementation phase happens at the beginning of Stage 3a. This section presents action lists for each of these phases. Each action list represents a summary of the steps that are needed to plan and execute a successful campaign. While the steps are sequential in nature, they are not intended to imply a rigid order. This is only a general summary, for detailed information about capital campaigns; see the [Food Co-op Initiative Capital Campaign Workbook](#), a free download.

Member loans and preferred shares are both regulated as securities. There are both federal and state laws governing securities, and it is essential that you obtain legal and financial advice before making your plans.

Co-ops often are able to take advantage of certain registration exemptions that can save you a lot of time and money, so make sure your legal advisor is familiar with cooperatives.

The planning for a capital campaign typically takes 4 to 8 weeks. Your plans will include:

- Determine the goals for the amount to be raised (with a particular focus on the minimum amount needed to allow the start-up to move forward), and by what date. The final deadline may be determined by contingencies you negotiated for your site.
- Develop printed materials (appeal letters and envelope, brochure, testimonials, newsletter articles, site renderings or photos, member loan information packet, community displays, website information, system for informal thank you cards, promissory notes).
- For member loans:
 - ◆ Determine the goal for the average size loan. Set a level for a minimum size loan and consider whether the co-op should establish a maximum amount it will borrow from a single owner.
 - ◆ Establish the basic terms for the member loans (interest rate, length of term, etc.)
- For preferred shares
 - ◆ Set minimum investment (typically \$1,000, but can be higher or lower.)
 - ◆ Decide whether or not to define anticipated dividend rates and redemption periods.
- Create a budget for the campaign, and create a timeline for both the planning and the implementation phases of the campaign. Revise budget and timeline as necessary.
- Arrange for legal consultation and review of all written materials which will be distributed to owners.
- Arrange for appropriate consultation to assist with planning and implementing the campaign.
- Organize the capital campaign task force (or committee) with defined roles to cover coordination, calling, and collecting.
- Create target lists of members.
- Develop a separate approach and target lists for seeking larger member loans and investments (for example, those above \$10,000).
- Develop a calling sheet for tracking calls or conversations with each target member.
- Develop an e-mail group that can be added to over time, and plan initial messages. This group should include campaign members and interested people.
- Develop administrative capacity and record keeping systems to manage the loans or preferred shares on an ongoing basis.
- Develop and implement a training program for callers, including creating a script, guidelines, a list of frequently asked questions (FAQ's), and talking points.
- Implement a training program for the people who will be asking members to invest so they are informed about the campaign and able to guide interested owners.
- Gain early commitments prior to the launch of the campaign for at least 10–15% of the goal from the Board of Directors (or an expanded leadership group).
- Develop a monitoring/tracking system (spreadsheet or data base) that can be used from Day 1 of the capital campaign.
- Begin to plan for an appropriate launch date to implement the campaign.
- Organize the initial mailing, including hand addressing of envelopes.
- Have fun and maintain good communication, build energy, momentum, and support.

Implementation of a Capital Campaign

Member loan and preferred share drives usually are launched at the beginning of Stage 3a shortly after the co-op completes a contingent site contract. By this time you need to have enough owners to ensure the success of your capital campaign. A capital campaign, if well organized and planned, can be completed in a 4-week period (allow a hidden 2-week overrun

What is a LEED Certification?

LEED certified buildings save money and resources and have a positive impact on the health of occupants, while promoting renewable, clean energy.

LEED, or Leadership in Energy & Environmental Design, is a green building certification program that recognizes best-in-class building strategies and practices. To receive LEED certification, building projects satisfy prerequisites and earn points to achieve different levels of certification.

LEED certifications are becoming more highly sought-after as awareness of environmental issues increases throughout the building industry. Understanding how to achieve a high certification level can be crucial to making the project a high-value success.

Getting a building LEED certified begins with making the essential project requirements clear. The building's function, capacity, size, location, and budget should be considered in light of certification from the outset. This can be facilitated by using a design professional accredited by the Green Building Certification Institute and designated as a Certified LEED Accredited Professional. Architects, construction managers, and even building and property managers can be LEED accredited. The project has a much better chance of getting a high certification if you choose them for your team.

The next step in the LEED certification process is registering the project with the U.S. Green Building Council. The project should be registered as early as possible. Once the project is registered, the project manager is provided access to LEED online tools, which assist in managing the certification process. The project manager can keep track of how many points the project has accumulated throughout the construction process.

US Green Building Council: <http://www.usgbc.org/>

allowance). Certainly some campaigns have taken longer than 6 weeks — extending out from 3 to 6 months or longer. However, the longer it takes, the more stressful and challenging it becomes. Building momentum with a well-organized and coordinated campaign is most effective and makes it possible to raise a large amount of money in a relatively short period of time.

A member capital campaign can be accomplished in a total of 3 months, including 4 to 6 weeks each for planning and implementation, and not counting whatever gap there is between stages.

Business Plan for Financing

If you don't have a business plan, it needs to be developed now. The business plan is an ongoing, living document, not something you do just once. You will probably continue to revise it throughout your co-op's development process. If you have already written a preliminary business plan, you will need to update it for presentation to lenders. In this version, you will want to pay particular attention to justifying the business you are proposing with solid financial information. Lenders will want to know what you are forecasting for the future of the business and how the business will grow. They will need to know your current funding requirements and how you intend to use the money. Update the following information, needed to

demonstrate how the co-op intends to support its plans (and pay off its debt):

- Sources and Uses budget
- Pro forma financials (sales forecast, expense budget, cash flow statement, income projections, projected

balance sheet of assets, liabilities and equity, and a debt service schedule)

- Business vision and mission
- Market research and site analysis
- General manager profile (if hired)
- Board of directors profile

Systems

Getting ready to open a retail food co-op involves the development of many internal systems. Systems design occurs throughout the entire organization, from the board's development to how the operations are going to be carried out. This is a crucial activity that sets the stage for implementing the vision.

Governance Transition

Before opening, the co-op needs to clarify that the responsibilities of the board are governance. Management of project details must remain separate. This separation is especially important when the board begins the process of hiring a general manager. In hiring the operational leader, the board introduces new roles and procedures into the organization. The board needs to learn how to effectively manage its one employee. It must understand that the general manager needs flexibility in creating an operating team and exercising authority as granted by the board. The board's relationship to the general manager has to be clear.

Many founding committee members and board members are accustomed to doing hands-on work on behalf of the co-op. The process of letting go and allowing others to develop co-op operations may unintentionally involve a struggle for control. That is why it is important to establish a governance system that allows both empowerment and accountability.

Refine Market Analysis

Just as the business plan is a document that is continually updated, you may also need to revise your market study and site analysis. Market analysis updates

will consider any changes in the community and competitive environment and will evaluate the specific sites under consideration to ensure your sales projections are valid.

Finalize Site and Design Options

One of the most exciting moments for any startup venture is when you have settled on a location for your store. It is a real cause for celebration — which you should do — after you have secured that site! But before signing off on a lease or purchase, make sure that your site has been evaluated with a current market study that looks at the site's accessibility, visibility and traffic, any notable retail synergies (compatible businesses), parking, and other factors that will impact your success. Please do not underestimate the importance of parking in contemporary American society. While many of your potential customers may bike or walk, having adequate parking is critical to providing a convenient shopping experience. The recommended parking capacity is 5–8 spaces per 1,000 square feet of retail. Before signing off on a lease agreement, make sure you have worked through design feasibility and preliminary design, including preliminary bids on leasehold improvements and equipment.

Leases and purchase agreements are complicated contracts that will have lasting impact on your operations and expenses. Unless you have an experienced real estate negotiator on your team, we recommend getting professional support to ensure you get the best agreement possible. Whether you are buying or leasing, the co-op will need to be aware of any policies, procedures,

and zoning requirements for the property. If you are working with an architect or contractor, they should be able to advise you on these. Find out if there are any regulations regarding signage. Good signage can dramatically improve the co-op's visibility; however, some cities and towns have ordinances regarding lighting, size, and type of signage.

FYI: Remember that most real estate transactions require confidentiality.

Without confidentiality, competitors could learn about or compete for the site. The deal might fall through. The involvement of too many people might affect the co-op's ability to negotiate effectively; conveying too much excitement might raise the price. Appropriate confidentiality will protect the co-op from potential liability.

Store Design

Careful planning goes into any retail store design. The project manager will work closely with a store design team, including an architect and retail store designer, and confer with other retailing experts. The four main elements of store design include:

- Co-op site and location
- Architecture of building
- Store layout
- Merchandising plan

Schematic and preliminary store design typically take place in Stage 2b as part of the design feasibility process as sites are being evaluated, while the final design work is done in Stage 3a once a commitment has been made.

The project manager will confer with the general manager (who, once hired, should be involved in decisions that impact operations), store design consultants and construction companies on the build-out; manage the timeline and budget, and oversee the complete store layout. Store layout will include things like where shopping carts will be kept, the produce department, dairy cooler location, bathrooms, break

room, cash registers, etc. A good store design will promote a convenient shopping experience from ease of parking to quick checkout lanes, and will enable efficient store operations for staff. The store design becomes part of the co-op's brand, and should be incorporated into its fixtures and finishes.

Often food co-op owners want the store's design to be eco-friendly, and many food co-ops consider becoming LEED certified (Leadership in Environmental Energy and Design). LEED certification helps demonstrate your co-op's ideals, but can add significant costs to store construction or renovation. There is more about this topic than can be outlined here, but review our sidebar for other sources of information.

The merchandising plan, which is often laid out by a consultant or with support from retail specialists, includes what products the store will carry, how they will be promoted and displayed, and on what sorts of shelving, or fixtures. The merchandising plan is almost always created in collaboration with the co-op's general manager and merchandising manager (if the co-op is hiring one).

Formalize a Store Image: Marketing and Brand Development

So what is this thing called a "brand," and why should it be an important part of your marketing efforts? The simplest definition of the term "brand" is the use of unique and identifiable symbols, names, or other associations to help differentiate competing products, services, or organizations. A brand is not based solely on one element such as a logo or a tagline. On a deeper level, a brand creates physical and emotional triggers to state the kind of experience and relationship you want your customers to have with you.

You will consider many elements when developing your brand, but most important, you need to know how you are perceived in the minds of your customers — this is where the brand identity truly begins to take shape. Branding is the conscious application of the following elements in your retail environment:

- Image

- Quality of product or service
- Emotional connection

A successful brand in a food co-op will include the look and feel of external and internal marketing materials, defining the level of product quality to be sold in the store, how shoppers perceive price levels and the customer service experience. By branding your co-op, you ultimately have the potential to connect a wide variety of people to your store's mission in a personal and meaningful way.

A unified organizational brand is used internally and externally to create a consistent image, message, and identity within the marketplace. Branding defines the personality of an organization and heightens awareness of the organization. Branding helps create a consistent experience that will build customer loyalty and strengthen your co-op's image. Branding can also demonstrate commitment to the cooperative principles, and the co-op's mission and values. Until a store staff person is hired to market the co-op, the founding group will need to be a mindful "keeper of the brand" in order to ensure consistent use of standard logos, fonts, and themes, and to plan for ongoing outreach and marketing activities.

Owner Benefits at Your Co-op

For many people, being an owner of a co-op means that there are benefits provided to them. The co-op exists primarily to serve owner needs and the biggest benefit to the owners is that the co-op exists. This message is crucial for start-ups. It is very difficult to open a co-op. It takes a lot of energy from a number of people, and in the end the biggest benefit of ownership is walking through the doors on opening day and buying a bag of quality groceries.

Especially for startup co-ops, you need to get people to join the co-op by using this message. Once you have a food co-op owners can shop at, you can discuss any other benefits the association might like to offer. However, there are some benefits that are unique to co-ops, and they are important to understand. For example, the benefit of the co-op's educational mission and vision that might include educational materials, newsletters and community meeting space.

While it might be tempting to copy benefits programs of co-ops you have visited, we encourage you to build yours based on your community, and your co-op's financial needs and understanding of the current economic environment. The systems that were

About Discounts as a Benefit

Offering benefits other than ownership and potential patronage rebates creates an expectation that the only reason to become an owner is to receive instant gain from owner benefits. The reason people should join, especially when starting up a co-op, is to achieve the goal of having a store in their community. Without a store open and an understanding of what the store's fiscal performance will be, it is not prudent to promise any other benefits when encouraging community members to join and become an owner.

The cooperative idea is one built on fairness, and when it comes to deciding owner benefits in the co-op, it is important that they are distributed equitably. This is one of the reasons that co-op discounts have been the source of much discussion, challenge, and change in cooperatives. Discounts had been a popular membership benefit for obvious reasons, but they cause serious drawbacks to the business because giving away profits at the cash register before any expenses are accounted for is imprudent. Discount programs have led to big problems for food cooperatives, including instability, loss of profit, minimal capital reserves, and even closure.

Everyday discounts for owners are not sustainable and should not be offered.

put in place when many of today's co-ops were formed 30 or 40 years ago would not work today. Member benefits must be affordable for the co-op. Options such as quarterly discounts, owner specials or community partnerships, have modest cost and can generate loyalty and additional sales, but keep in mind that all benefits and incentives should be thought of and promoted as flexible. This allows for changes if they prove to be detrimental to the fiscal health of the co-op.

The Return on Ownership: Patronage Refunds

The relationship between the co-op and its owners should be mutually beneficial. One of the most important aspects of cooperation is that the co-op is set up for user benefit, not investor benefit. This means that those who use the co-op the most will potentially have the most to gain. Profits in the co-op are refunded back to owners in the form of a cash patronage refund and retained patronage equity based on their purchases from the co-op.

Owner patronage dollars are allocated to each owner based their total purchases at the co-op and its ratio to profits. When a co-op's profit is returned to owners, it will be distributed in proportion to the amount of business each owner has conducted with the cooperative. The more an owner spends at the co-op, the greater their rebate. For startups, patronage checks will be something to look forward to in the future, once the co-op is profitable and stable — usually several years.

This rebate allows the co-op to return some of the profits to its owners in cash (at least 20%, more at the board's discretion) while retaining much of it as allocated equity. This allocated equity is retained for improvements needed for the co-op, future expansions and overall financial stability. Refunding profits, if there are any, and deciding on their allocation, whether to disburse in cash or keep it in the business as retained equity, is the responsibility of the board of directors. The co-op must keep track of purchases made by individual owners in order to calculate possible patronage refunds and retained equity. In most co-ops,

this occurs automatically when shoppers provide their membership numbers to a cashier.

Retail Operations Plan

A retail operations plan builds efficiency and ensures the smooth flow of operations in the store. The co-op's general manager is responsible for creating the systems and procedures that guide employees in their daily activities. Although the board is responsible for monitoring the work of their general manager, it is important to remember that anything related to retail operations and store administration should be in the hands of the professional you hired, and not led or carried out by board members. A well-prepared plan helps managers set expectations and train staff, ensures that everyone understands their job assignments as well as their larger role as representatives of the co-op. A new store will need job descriptions, employee policies, ordering and stocking guidelines, customer service policies, and much more. By hiring your general manager 9 to 12 months ahead of opening there will be enough time to compile a well-designed operation plan.

The operations plan covers five key retail areas:

- Store administration
- Financial reporting
- Managing inventory and display (merchandising)
- Customer service
- Marketing and promotions

Store Administration

This is a huge category that covers human resources and personnel procedures, including documents like applications, job descriptions, and the employee handbook; determining a wage scale and hiring staff, planning for training programs and work instructions for employees.

Store administration systems include creating an organization chart. It will identify key personnel in addition to the manager — for example, a human resources manager, front end manager, fresh foods manager, marketing, and information technology (IT) specialist.

Service contracts for things like linen delivery, paper products, deli containers, shopping bags, floor cleaning services, and any other such activities will need to be negotiated.

Store administration also includes planning for the technological systems necessary to running a grocery store. The co-op will need computer networks, a point of sale system (cash registers), electronic communication systems, security systems, credit card readers, and backup systems for all of it.

The member services system, including a membership database tracking member purchases and member benefits, will also need be included in the administrative plan.

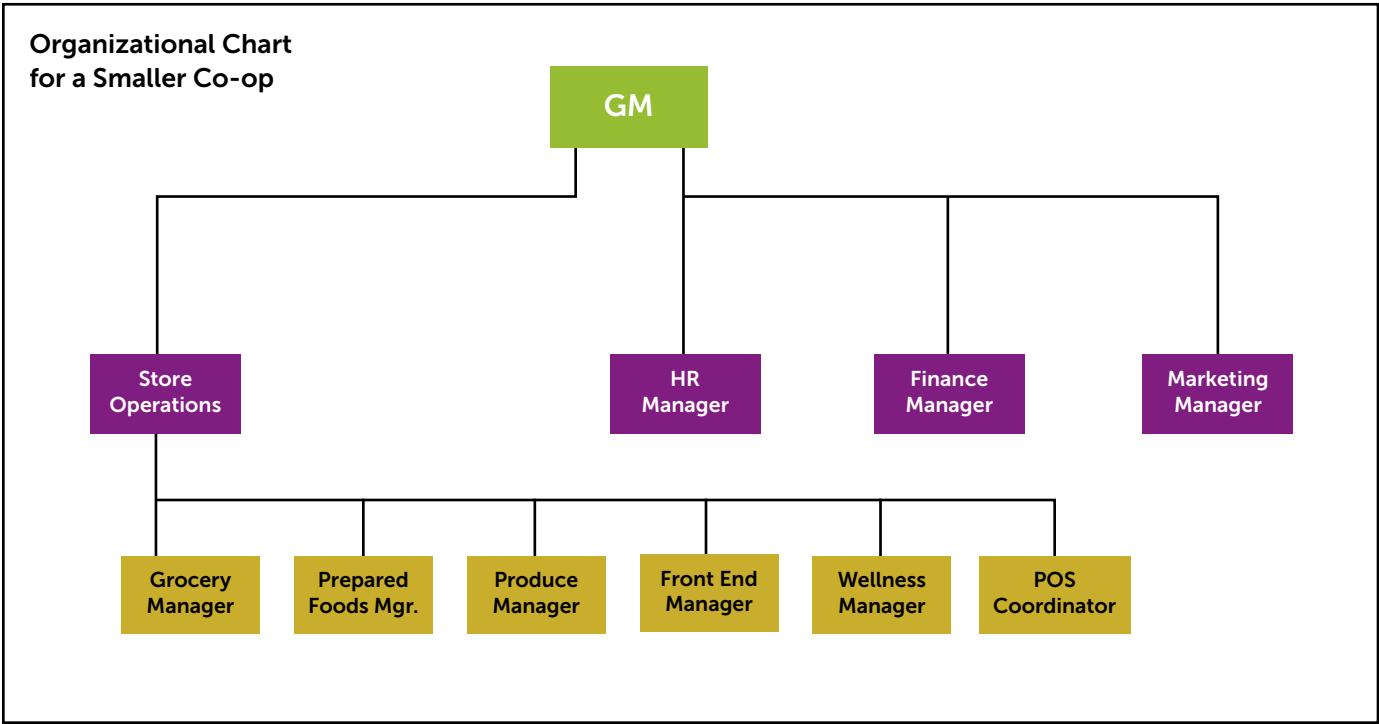
Financial Reporting

Once the co-op is operational it will need sophisticated financial systems for reporting profit and loss, and a chart of accounts based on the needs of a retail, not a startup group. This includes systems for billing and receiving, and tracking inventory. This is a huge

priority. Co-ops that have adequate financial reporting systems in place before opening have the ability to understand right away whether the business is on track with its projections. Some of the most complicated accounting work takes place as the store prepares to open and conducts its first months of business. Not preparing adequately can leave managers and the board without essential financial information during this vulnerable time.

Managing Inventory and Display

This includes setting up vendor relationships, determining how product is going to be purchased and how much, how it will be handled and stocked, and how it will be displayed or merchandised. The merchandising manager and department managers will work together with the GM to create a consistent plan that meets all the store departments' needs. The co-op will also need food safety systems and licensing, and will need to work with the local health department and weights and measures divisions.



Customer Service

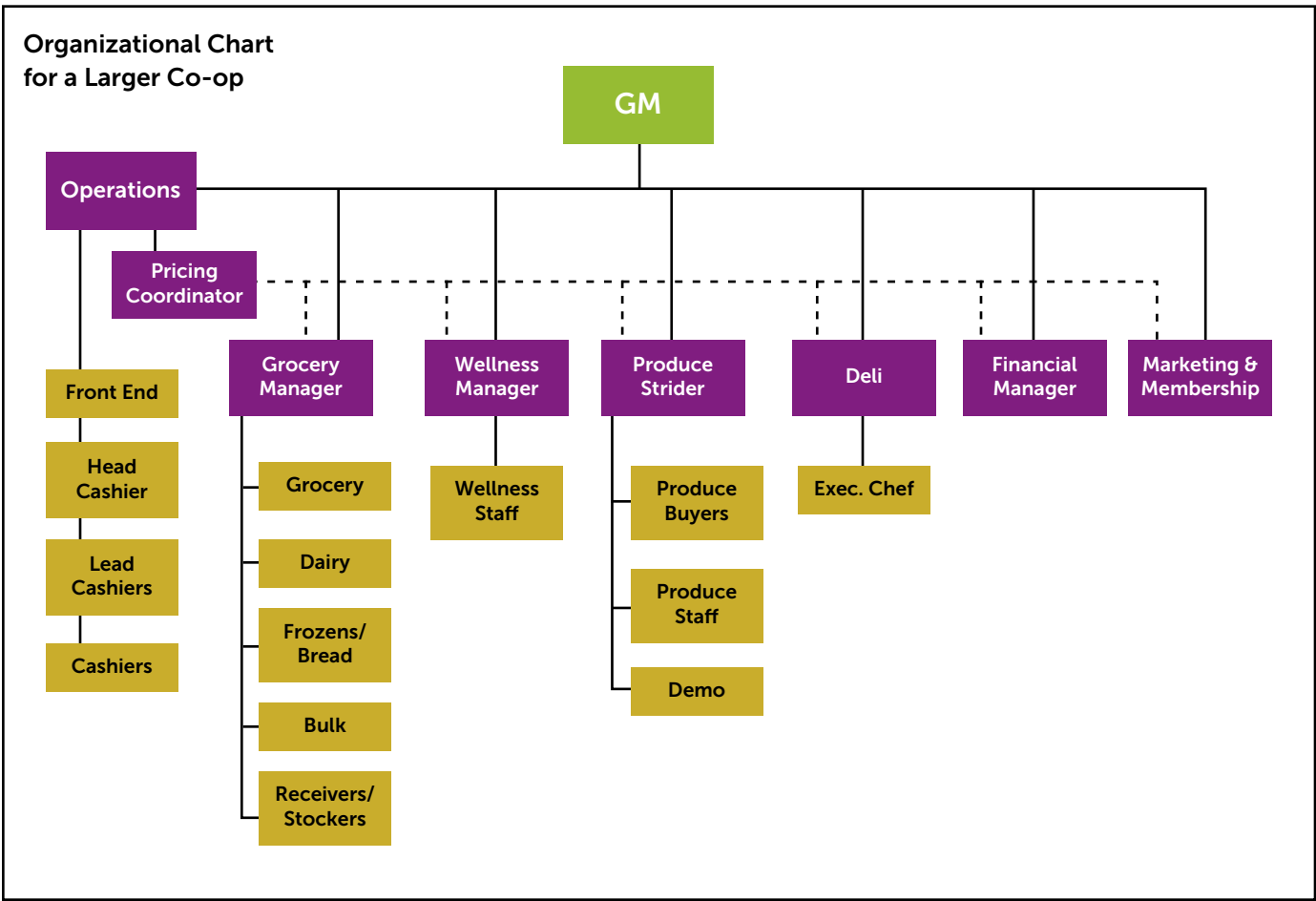
This part of the retail operations plan will cover how the co-op plans to attract and keep its new customers. You will need a well-stocked and merchandised store, efficient cash register systems, and an ongoing customer service training program. The staff’s ability to welcome shoppers, answer questions, and provide consistently excellent customer service is critical to the co-op’s success. The co-op has a special interest in providing excellent customer service — most of its customers are also owners!

Marketing and Promotions

Marketing and promotions are how you let customers know you are open for business and why they should care. The general manager will need someone to do

marketing communications planning and community outreach, including organizing events, co-op education, and partnering with community groups. This department also interfaces with the merchandising department to launch in-store promotions of products for sale.

FYI: To see an example of a retail operations plan, go to the Startup Checklist located in [Appendix B](#) of this guide.



Case Study — Friendly City Food Co-op

Friendly City Food Co-op

Harrisonburg, Virginia

www.friendlycityfoodcoop.com



In the Shenandoah Valley, near Shenandoah National Park and the Blue Ridge Parkway, you will find the “friendly city” of Harrisonburg, Virginia, a town with 40,000 residents about two hours away from Washington, D.C. It is a place where cultural food traditions run deep, but also where mass food production has been long established.

Harrisonburg is an agricultural town with a mix of family farms, feed mills, and big poultry processing plants. The town also has two colleges, a state university, and a Christian academy. It had several conventional chain grocery stores and two small independent health food stores focused on supplements. Residents wanting natural foods and high-quality dining had long been underserved.

In 2005, the Little Grill, a worker-owned restaurant, attempted to launch a natural foods store in Harrisonburg. When the store started to struggle, its owners sought help from a group that had expressed interest in starting a food co-op. That group realized that Little Grill’s store was not a viable venture: it was too small and did not offer what the community really needed. The store closed, but its closing jump-started the process of establishing a full-service food co-op in Harrisonburg.

In the fall of 2006, organizers hired a consultant who was an expert in food co-op development and expansion. With his assistance, they began to understand what they needed to do to make the co-op a reality. The group needed to raise more than \$1 million from co-op owners. In early 2007, organizers held their first fundraising gala. The party’s success went beyond their expectations. People came out in droves on a cold February night, enjoying good food and music. Almost 100 people joined the co-op that evening. People were excited about the possibility of having a food co-op in their community. The event gave the founding group resources and momentum to keep going.

That does not mean the organizers didn’t hit snags. They eventually realized they had fallen in love with a totally inappropriate site. A co-op site and location specialist encouraged them to abandon it in favor of something more visible and with adequate parking. The search for a good site dragged on. And because it had no new information to pass on, the founding group stopped communicating with the community. That was a big mistake, according to one founding member, because “people thought we were up to no good” or that the co-op was “dying.” A Food Co-op Initiative specialist told the group to put more effort into communications, not less, even if it was to report nothing new, and to continue to ask people to be part of the co-op.

The founders launched a membership drive and ramped up their outreach. This activity brought fresh energy to the project and gave them the pool of owners they needed to raise adequate member loan dollars. They hired someone to work 10 hours a week on administrative tasks and event coordination.

When they were finally able to secure a lease on a site, the organizers went into overdrive to raise member loans. They e-mailed, telephoned, and threw more parties to raise more money. The co-op continued to be challenged because it could not secure commercial bank financing. By the fall of 2010,

the group was on track to meet its goals for membership recruitment and member loans. A private lender agreed to loan the co-op \$500,000 to help the co-op reach its financing goals, but they still fell short. This became an issue when they learned they had unexpected costs during the co-op's build-out construction. Their plans for their deli were scaled back to accommodate the budget.

Fortunately, Friendly City Food Co-op had hired an experienced food co-op general manager, Steve Cooke, to establish operations. He counseled patience, especially when it came to raising all the necessary funds. "People get impatient for results, but it's good to hold off until you can do it right," Cooke said. Despite some of these issues, the co-op is currently meeting its sales targets, and is planning to expand operations, including addressing the need for a better deli kitchen.

Looking back, Friendly City Food Co-op organizers offer this advice for other start-up food co-ops: Things often take longer than you think; strive not to get ahead of yourself. Pay attention to planning and preparation. Speak to co-op professionals as soon as you can. You will have to pay for consulting, but professional services will save you time and money in the long run. Hire a staff person to get more work done and to create an environment of accountability and follow-through.



"Things often take longer than you think; strive not to get ahead of yourself. Pay attention to planning and preparation. Speak to co-op professionals as soon as you can...professional services will save you time and money in the long run."

Friendly City at a Glance

Year incorporated:	2007
Year opened:	2011
Number of members at opening:	1,000
Number of members in 2014/15:	1,500
Member equity investment:	\$200
Cost of total project:	\$1.8 million
Member loans:	\$780,000
Member equity:	\$200,000
Private lender financing:	\$500,000
Retail square feet:	4,200
Projected first-year sales:	\$2.5 million
Actual Sales	\$2,042,000
Actual Sales for Fiscal Year 2015	\$4 million

Simplified Checklist, Stage 2b

- ☐ Finalize vision and mission statements; communicate with all stakeholders.
- ☐ Conduct a strong membership drive to recruit owners and engage members.
- ☐ Hire a project manager to manage the implementation stage.
- ☐ Begin the planning process to hire General Manager. Hire as early as your resources and availability of quality candidates allow.
- ☐ Establish contact with NCG and local co-op associations.
- ☐ Adopt a board leadership development plan.
- ☐ Draft member loan and/or investment documents.
- ☐ Finalize member loan plan and other member investment opportunities. Get legal review.
- ☐ Be ready to launch capital campaign soon after committing to store site.
- ☐ Identify top sites and get a professional market study update.
- ☐ Finalize site search and negotiate to buy or lease (with contingencies).
- ☐ Update your 'Sources & Uses' budget and checklist for implementation.
- ☐ Update your financial pro formas to use when seeking financing.
- ☐ Prepare or update Business Plan for seeking financing.
- ☐ Begin creating an Operational Plan (when GM is on board).

Decision Point

This stage is complete when the new co-op site is secured with contingencies, made public, and has enough members for a successful capital campaign (or 60% of the owner goal by opening).



READING IS GREAT,
now call us to chat!

Food Co-op Initiative: 844-324-2667

CHAPTER 5

Developing the Business

Stage III: Implementation

This is the final stage of the co-op's development, and perhaps the most challenging, yet exciting of all — preparing for opening! Like every stage of the co-op's journey, it has its unique set of challenges and rewards. Yet it is the realization of a long held dream, and everyone has worked hard to get to this point. There is a lot to celebrate, but there is still quite a bit of work to be done before and after ribbon-cutting day when the doors finally open.

Stage III: Implementation is divided into 4 sub-stages: 3a = Preparing for Construction, 3b = Construction, 3c = Preparing for Opening, and 3d = Year 1 and Beyond.

This guide does not go into the same depth in describing Stage III as it does in Stage I and Stage II. During implementation, you will be relying on your project manager, the co-op design team and your general manager to provide the experience and expertise needed to complete the tasks leading to store opening. However, the board is still responsible for ensuring members' investments are well spent, and that employees and contractors meet their commitments. Seek further education and training as you approach Stage III, so that you have a complete understanding of the process and tasks of this most important stage. Most importantly, you need to understand the purpose of sub-Stage 3a: Preparing for Construction (or Renovation) and the Key Decision Point that you will reach as you complete Stage 3a.

The Key (Final) Decision Point at the end of Stage 3a is when you decide whether or not to remove the financing contingency in your lease or purchase agreement and go forward into the construction stage. It is, in a great sense, the final decision point — once you cross over into Stage 3b, there is no turning back. In order to remove the financing contingency and close on the financing, the following conditions must be met:

- All financing must be in place, including the collection of all member investments
- The design work has been completed, bids have been obtained and a contractor selected, all in accordance with the parameters of the financial pro forma and requirements of the external lenders
- Most of the planned membership share equity needs to have been collected (and much of it will have been spent, especially in Stage II and 3a) and the co-op should demonstrate that they are on track to raise the remainder by store opening.

As management and facilities are coming into place, the co-op is preparing to begin store operations. The board must transition to its new role. Management must set up staffing and other operating systems. Owners must be ready to support the co-op with their patronage.

Brand Development

What kind of experience do you want customers to have when they shop at the co-op? Recall what people said from survey results. Consider the positive messages such as “it will be a fun place to shop,” “I love fresh local foods,” “the staff will be friendly and knowledgeable,” and “I want to feel like I am part of a community.” You can use these comments and turn them into messages that you use in display ads, on your website, and in your co-op’s brochures to convey your brand identity.

As you further develop your brand messages, consider the values of the people associated with the co-op and those of your intended audience. Include in your brand development discussions:

- Mission statement
- Consumer beliefs and values
- Identify the target audience for messages
- Identify the best way to communicate with them

Messages need to break through the information clutter and address what is most important to your target audience(s), and differentiate you from your competitors. When shaping your messages, consider the consumer benefits in the message, the barriers to hearing it, and the changes you want to motivate.

Not everyone who signs up as a co-op member will become a regular shopper after the co-op is open. Your marketing plan will help encourage those members and new shoppers to come to your store. During the implementation stage, the co-op may hire someone to do this work, and in the months prior to opening, the general manager will conduct a search for a professional marketing director who will assume the role of marketing the co-op.

Developing Communication Strategies

Once you have defined your organizational brand, the co-op can begin the next level of planning by developing marketing communication strategies for implementing specific activities intended to build a market for the co-op’s products and bring in shoppers. Well-planned strategies will create cohesion with the entire marketing effort, and help focus your external and internal communication efforts. Communication strategies will include your website and social media; print, radio, and television advertising; public relations announcements, public events, and the publications and signage you use in the store.

Continue to Engage Members and Organize the Community

With the anticipation and constant activity of the implementation stage, you will have many opportunities to generate excitement and promote the co-op. Some people might not always understand or care much about financial projections and business details, but they can get excited about the storefront taking shape, the new manager you hired, and the approaching store opening. Continue to encourage people to join, make a loan, come to meetings, give feedback, volunteer at an event, or talk to people in their virtual and actual neighborhoods. Demonstrate the relevance of the co-op and how community members are an important part of the process.

One of the strengths of a co-op startup is that it involves so many people in the process. This is a competitive advantage as well. Not many retailers start out with so many owners and invested members of the community. Community ownership gives everyone a stake in the success of the business. Using the contacts you have cultivated in the community, reaching out, and continually asking for feedback and involvement will pay off in strong sales and a successful co-op opening.

General Manager and Site Project Manager Roles

A project manager is hired when you begin preconstruction to coordinate and oversee the many aspects of design, renovation, and final preparations for the new co-op. The co-op's general manager should be hired as soon as you have made your final decision to go forward, 9–12 months or more before opening. The hiring process can take several months, so be sure to allow plenty of time. The GM will be focused on planning store operations and developing the team that will be responsible for running the co-op once it is open for business. (It may be possible to find an individual talented enough to do both jobs, but this is not common since expertise in both construction management and retail management is rare).

The project manager will work closely with the building contractor, architect, and interior designer on the co-op's construction and layout. The project manager will likely work with personnel and consultants from the CDS Consulting Co-op, National Co+op Grocers, and major distributors such as United Natural Foods Inc. (UNFI), for assistance with store planning and equipment sourcing.

Before the co-op can open, the project manager will need to finalize the plans for the construction project, and then supervise and monitor any demolition, build-outs, or remodeling. The project manager will also negotiate equipment contracts for refrigeration, heating and ventilation, service cases and grab-and-go refrigerators, kitchen equipment, including ovens, stoves, and any walk-in or reach-in coolers. The project manager and general manager will work together to plan space allocation and shelf sets of inventory. During the course of the project, they will be meeting frequently to communicate about the co-op's development.

The Board of Directors' Transition

The implementation phase can be one of the board's most challenging times. This is when the board and founding groups will need to let go of hands-on tasks and allow the general manager they've hired to take on the responsibility for operational decisions and strategies. Board members have invested a lot of time, money, and care in creating this new co-op. It is their "baby," and it can be very difficult to let someone else take over. Good reporting systems and clear expectations between the board and manager must be in place so trust can be established. The board will continue to focus on board training and policies, including systems of delegation and accountability, and adjust to their transition from organizers to managers of one employee, the general manager.

FYI: For help with establishing a great relationship with your general manager, view the online recorded workshop "[Starting off Right with Your New General Manager](#)".

External Capital Commitments

During the implementation phase, the co-op will need to secure any external capital commitments, like commercial loans, before opening. It is critical the co-op does not open undercapitalized, and at this time in the co-op's development, patience may be necessary. It may be tempting to go ahead with opening without the necessary capital, in part because everyone has worked hard and people may have faith that things will fall into place. Opening without adequate

capitalization with the expectation that you'll raise it as you go along is a big risk. A co-op needs enough working capital to offset negative cash flow in the first year. Most new businesses have negative cash flow for a year or more, and may not show a profit for several years. You can survive this rocky period with adequate working capital reserves. Demonstrating that your co-op has enough working capital will make it easier to obtain financing, since it lowers the risk of early failure.

Sources of Start-up Financing

- Co-op owners (ownership shares, donations, loans)
- Fund-raising events
- Angel investors
- Self-directed IRAs
- Local economic development offices
- State minority and small business development offices
- Local chambers of commerce
- Small business development centers
- USDA rural development grants and loan guarantees
- USDA business and industry loan programs

Potential Funders

Shared Capital Cooperative

www.sharedcapital.coop

Located in Minneapolis, Minnesota, Shared Capital Cooperative offers competitively priced loans to its members. Shared Capital has more than 170 member cooperatives and more than 200 individual members in 31 states. Any cooperative may join Shared Capital and apply for a loan.

Cooperative Fund of New England

www.cooperativefund.org

CFNE in Amherst, Massachusetts, makes loans to cooperatives, employee-owned businesses, and community-based nonprofits in New England and eastern New York.

Local Enterprise Assistance Fund

www.leaffund.org

LEAF's mission is to promote human and economic development by providing financing and development assistance to cooperatives and social purpose ventures that create and save jobs for low-income people.

U.S. Department of Agriculture

www.usda.gov

The USDA funds development initiatives in rural and urban communities around the United States. Visit its website to learn about sustainability, food safety, specific grants, and funding.

Continued Member Equity Drive and Member Loans

During implementation, the co-op will continue to solicit and collect member loan commitments and conduct intensive membership recruitment. Sometimes a core group feels passionate about starting a food co-op, confident of its success, but has not done enough outreach to know how much the community will use or support the co-op. This can lead to premature commitment to implementation plans before appropriate numbers of members and adequate

capital have been assured. Cutting corners on either is a recipe for failure.

This point cannot be overstated. While pockets of people in an area might desperately want a food co-op, food co-ops that open without engaging the community often open with low visibility. They suffer from low customer counts and small average sales, and are hard-pressed to survive. By continuing to communicate and reach out, your startup group is putting down a foundation for building greater co-op equity as well as a strong future sales.

Systems

Implementing the Operations Plan

The general manager's main task over the course of the year prior to opening the co-op will be to craft and implement operations plans. Procedures, systems, guidelines, and contracts need to be created to:

- Implement systems for store administration, financial reporting, inventory management, staffing and customer service, marketing and promotion
- Finalize staffing plans
- Draft job descriptions and labor budgets
- Begin recruiting key department managers
- Plan staff training and orientation programs
- Create a pricing and promotion plan
- Set up vendor accounts
- Negotiate service contracts

Store Administration

Often startups begin with a small administrative department and build on it as sales grow. At minimum, the co-op will need someone who can do bookkeeping, payroll, and carry out the legal requirements related to processing human resources paperwork. The general manager may be responsible for human resources functions related to staffing, and as the co-op gets

more established, it may hire a dedicated human resources manager. The general manager will also have to create a benefits plan and a labor budget, taking into account Workers Compensation insurance, payroll taxes, health insurance, time off policies, and other benefits. The co-op will need a Personnel Policy manual and an Employee Handbook.

Financial Reporting

Effective financial reporting is critical to a startup operation. Knowing where the business stands financially at any given time is vital to its success. A professional bookkeeper or accountant who understands the nuances of cooperative accounting will be needed to manage a retail co-op's accounting system. A strong financial reporting system will enable the general manager to monitor key indicators such as sales, margin, shrink and inventory, so that the general manager and department leaders will be able to make necessary adjustments as needed on a timely basis. Sound income statements and balance sheets, appropriate software and technology, and a strong understanding of the point of sale system, will give management and staff the tools they need to manage the store, and will provide the board of directors with the information they need to monitor the store's performance.

Managing inventory

A modern “cash register” is actually a point of sale (POS) system that consists of the cash registers, scanners, scales, credit card readers, software, and computers that are all linked and designed to collect a wealth of data for every transaction. It is an important component of the co-op’s operational infrastructure. Not only do POS systems ring up sales, they have the capacity to help monitor inventory and margins, track each member’s annual purchases, and record product sales trends. Choosing a POS system will require research, and after purchase, a thorough training for the staff, front end manager, and information technology staff.

Depending on what region your food co-op is located in, sourcing products may be relatively easy or more challenging. The co-op will need one or more distributors with expanded product lines, regional specialty distributors, produce warehouses, and local producers and farmers. Start talking to potential suppliers well in advance of opening the store. Ask about their pricing systems and delivery policies, store support programs, opening order discounts, and payment terms. Local farmers and producers will need to know what kinds of products you wish to purchase, estimated quantities, and what you will pay. Before you have sales records, these can be hard questions to answer, but offer honest estimates and do not promise anything you cannot deliver. The people and companies you source goods from, and their relationships

with the co-op, will become part of the co-op’s brand image and, if done well, a competitive advantage.

The general manager will be responsible for seeing that pre-opening vendor contracts are negotiated and in place. The co-op should have a set of vendor and product guidelines; ordering, receiving, and stocking procedures; pricing plans, and a merchandising manual for each department. Employees should be familiar with these and know where to find them for reference.

Store Staffing and Customer Service

At least two months before the co-op is open, the general manager will hire people for management team positions. Usually these positions are sales department managers, such as grocery, produce, meat, deli, and wellness; and administrative managers for the “front end” (cashiers), owner services, and outreach. Those department leaders will be responsible for hiring the people who work in their areas.

A merchandising manager and bookkeeper or accountant may be hired even earlier, since they will have a lot to plan and set up before the store opens, and can assist the project manager and general manager during the happy chaos of preparing to open.

New food co-ops need the best-qualified department managers and staff they can get, but usually find it hard to recruit enough people who have direct grocery experience, let alone food co-op experience. The available talent pool may be enthusiastic, but not very knowledgeable about the co-op’s products or the



READING IS GREAT,
now call us to chat!

Food Co-op Initiative: 844-324-2667

cooperative business model. Staffing may require flexibility as most people in the startup's management team will be taking on more than one role (for example, the deli, meat, and seafood departments may be managed by the same person). New managers will probably need specialized training on key performance indicators like sales, margin and inventory management, and what the benchmarks will be for their departments. Other major training areas for staff include customer service, food safety, cash handling, workplace safety, department cleanliness, and stocking techniques.

The general manager has to ensure that orientation and training programs are in place for all new staff. They will include store and personnel policies, customer service training, work practices, and co-op education. Customer service is part of everyone's job description. It is a key component of a successful retail as well as a means for maintaining customer loyalty and attracting new shoppers.

Marketing and Promotions

About 6 months before opening, the co-op's marketing manager or other person with marketing expertise should start working on a strategic marketing plan that defines the store brand and strategies for attracting and maintaining customers. Marketing a grocery store business requires new approaches to the outreach that has already been ongoing. Soon the co-op will have food to sell, and customers will have questions and need information about preparation, ingredients and sourcing. There may be more in-store events and product sampling, and there will be a need to coordinate these things with staff and department managers. Plan to use all your media channels to promote the co-op, including in-store signage, your website, social media, and local press. The co-op's first day of business, or "soft opening," and its grand opening are major opportunities to celebrate, have fun, and make a big media splash. Be sure to take full advantage of this free publicity.

Simplified Checklist, Stage III

- ❑ Finalize brand development and create marketing communication plan (GM)
- ❑ Continue to engage members and the community (Board)
- ❑ Define Project Manager and General Manager roles (Board)
- ❑ Continue store and operational planning with key organizations (GM)
- ❑ Transition board of directors to governance (Board)
- ❑ Finalize member loans and external capital commitments (Board and GM)
- ❑ Implement operations plan (GM)
- ❑ Finalize staffing plans and conduct hiring (GM)
- ❑ Set up vendor accounts (GM)
- ❑ Negotiate service contracts (GM)
- ❑ Set up key store systems: administration, finance, inventory, human resources, marketing (GM)
- ❑ Determine opening day (soft opening) and a grand opening celebration (Board and GM)

Decision Point

The only decision now is how to celebrate!

At this point the co-op should have met (or exceeded!) its goal for membership, and secured its financing and site. When the general manager hires and trains staff, and sets up operational systems, and the project manager coordinates the construction to completion, the co-op will be ready to open its doors to the community.

Case Study — River Valley Market

River Valley Market

Northampton, Massachusetts

www.rivervalleymarket.coop

River Valley Market in Northampton, Massachusetts, is celebrating its eighth anniversary, and has long been a model of food co-op startup success. This doesn't mean they didn't experience setbacks on the road to opening their co-op, but they always persevered, driven by a will to finish what they'd started, and their belief in cooperative business values.



The journey to opening day at River Valley Market highlights a community's tenacity and its earnest desire for a food co-op. One of the common challenges for start-ups is finding the perfect location. Either the real estate costs are prohibitive or there is nothing available. In a town where real estate prices are sky-high, River Valley Market experienced both problems.

The work began long before incorporation. In a strong, sophisticated, and competitive food market, organizers did not want to rely exclusively on local volunteers. They engaged the services of professionals to do feasibility and market studies. Research showed that the co-op idea was very viable. Although a \$9.7 million dollar project sounded steep, it was arrived at with a clear idea of how the co-op could realistically meet the community's needs.

One of the realities of grocery retailing is that it is very tough to get consumers to switch their buying habits. A new grocery store in a competitive market has to do a great job of meeting consumer needs. "If you build a store that doesn't fully fulfill shopping needs, you won't get much traction," said Rochelle Prunty, the co-op's general manager. "You don't want to shortchange the community on the scope of services you offer based on the idea that you should start small."

River Valley began a membership drive with a goal of getting 1,000 owners. The co-op also created a member loan campaign with a goal of \$1 million. Both the equity and loan goals were based on how much money the co-op needed to get financing for the project. River Valley Market also secured a New Market Tax Credit financing deal, wherein \$1.8 million in debt could be forgiven after a period of time, but conventional lenders were hard to convince, and the final financing package involved a number of co-op and community lenders.

The goals were reached, but not without their challenges. Because of the difficulty in securing a site, deals fell through one after another, and the group struggled with credibility in the community. Organizers needed to manage expectations and keep their messages about the co-op consistent.

Finally, after a number of feasibility and market studies, River Valley Market was able to lease an undeveloped property at a former rock quarry and build its store. The store opened in 2008 and immediately overshot sales projections, reaching year ten predictions in year three. "In any startup, the first years are focused on getting to open, but the hardest part is opening and being financially stable. It's good to be on the other side of that," Prunty said. She credits good planning for their co-op's current success.

In 2014, the co-op needed to refinance its debt and the board decided in addition to bank refinancing to invite co-op owners to participate with a member loan campaign. They needed at least \$1.3 million to

reach their goal, but board president Jade Barker said they decided to be “audaciously inclusive” and ask for \$2 million total to help finance a much needed remodel as well. River Valley Market met that goal and then some, raising a total of \$2.4 million through member loans.

“I’m so moved and impressed and surprised by what this community can do,” Gregory said. “Plus, we raised this capital for the unexciting reason of refinancing.” She credits the work of the board, management and staff for coming together to explain the benefits of owner capital to the community. “We told them that by refinancing with member-owner loans the co-op would be more stable, have a stronger balance sheet, and be in a better equity position.”

Gregory believes that their successful member loan campaign was also the result of an “ongoing consciousness” at the co-op about keeping all stakeholders involved in the conversation about where the co-op is going. “Our board talks a lot about the best ways to communicate with our member-owners, shoppers, staff, general manager and the community. It’s a huge priority for us,” Gregory said. “Our communication and conversations help people move in the direction of the common good.”

Prunty added, “Once you’re up and going, all the things you talk about regarding local farmers, good-paying jobs, supporting the community, and nonprofits and food banks, get to become a reality. It’s worth it. Even though only six years have passed since opening, now it feels like the co-op has always been here.”

River Valley Market at a Glance

Year incorporated:	1999
Year opened:	2008
Number of members at opening:	2,000
Number of members in 2014:	6,500
Member equity investment:	\$150
Cost of total project:	\$9.7 million
Member loans:	\$1.1 million
Member equity:	\$300,000
Financing:	\$7.3 million
Number of staff at opening:	70
Number of staff in 2014:	120
Retail square feet:	17,000
Projected first-year sales:	\$7.4 million
Actual Sales (first year)	\$8.1 million
Actual Sales Fiscal Year 2015/2016	\$25.2 million

“If you build a store that doesn’t fully fulfill shopping needs, you won’t get much traction. You don’t want to shortchange the community on the scope of services you offer based on the idea that you should start small.”

— Rochelle Prunty, River Valley Market general manager

APPENDIX A

Legal Primer

Getting Started

One of the first things you should do, in preparing to legally establish your cooperative, is to become familiar with the statutes of the state in which the cooperative will be organized. This may be the state in which the retail operation is located, or it may be another state. Competent legal advice should be sought at this early stage to help the group understand how to choose the right state statute for your organization and how the choice affects your organizing efforts. This statute will provide the parameters within which your cooperative is founded and operated. Familiarity with the applicable state cooperative statute cannot be stressed enough.

We also encourage you to incorporate or organize the cooperative sooner rather than later, because individuals may have personal liability exposure that will be mitigated or even eliminated by the “corporate” liability shield of the cooperative.

FYI: Throughout this chapter you may encounter terms used in describing capital structure in cooperatives. References to these terms are found in the glossary at the end of this guide.

Choosing a Business Structure

Different states treat cooperative businesses differently. Most states do offer cooperative corporate business forms that are suitable for retail food cooperatives.

However, a limited few states do not provide for any cooperative corporation. In those states, as a result, some retail food co-ops have chosen to use a not-for-profit corporation as their business form, while others have chosen to incorporate using another state’s cooperative corporation law. Incorporating as a for-profit corporation and operating as a co-op is another business form co-ops have used.

In choosing your business form, we recommend that you first carefully review the options provided by the state in which the retail store will operate. Because a cooperative form of business provides significant advantages, we assume the cooperative is your choice of business structure. However, there are different kinds of cooperatives and a variety of considerations in choosing where to incorporate. This chapter includes a review of the basic business structures available to cooperatives.

FYI: Lawyer Alert! You will need professional legal assistance with establishing food co-op articles of incorporation and bylaws. Laws are different from state to state, so you will want to get advice about the laws in your state.

Retail Food Co-op Structures

There are four basic structures available to retail food cooperatives. In general, choice of structure is driven by tax, financing, governance, and corporate name

considerations. Table A below illustrates these considerations and compares four business structures.

FYI: To gain a greater understanding of the financial structures and tax implications of these business forms, please refer to the [“Tax Considerations”](#) section of the *Legal Primer for Formation of Consumer-Owned Food Cooperatives*.

Several Initial Steps

Establishing the Fiscal Year

When incorporating any form of co-op, one of the first financial determinations the board needs to make is when the fiscal year ends. The ending of a fiscal year requires additional work, such as doing year-end inventory and accounting. Therefore, the board may want to choose a less busy time of the year for a year-end. With the winter holidays usually being the strongest sales period for a food co-op, the board may want to choose a year-end other than the calendar year-end. Most food co-ops use a 52/53 week fiscal year, ending the fiscal year on the same day of the week each year to make inventory-taking more effective and to have more comparable financial data.

Most co-ops end their fiscal years at the end of June. CoCoFiSt (Common Cooperative Financial Statements) deadlines and reports are designed around the preference for ending quarters at the end of June, September, December, and March, even if the fiscal year end is not at the end of June. If the co-op plans on having its books audited, the board should also check with the auditor to see if she/he has a preference. Tax returns for a Sub T (IRS form 1120-C) are due 8 1/2 months after the end of the fiscal year.

Name of Entity

Most community groups wishing to form a retail food business want to include the word “cooperative” in their name. In considering the various business forms, only the traditional and LCA co-ops definitely allow the use of the term. Depending on the state statute, both the corporate form and the LLC form are likely to disallow the use of the term “cooperative” in the business’s name.

State of Incorporation

Generally speaking, a cooperative should incorporate in the state within which it resides. The primary reason relates to federal securities laws. Registering under federal securities laws is an expensive and time-consuming process. The cooperative should do

Table A

Entity Type	Tax	Financing Flexibility (4=most)	Cooperative Governance (4=most traditional)	Name of Entity
Limited Cooperative Association (LCA) (new-style statute) Sub T	Limited taxation	4	3	Allows use of Co-op in Name.
Corporate Co-op (traditional statute) Sub T	Limited taxation	3	4	Allows use of Co-op in Name.
Corporation (including non-profit) Sub C	Double taxation	2	2	May Restrict use of Co-op in Name
LLC, Sub K	Single Taxation	1	1	May Restrict use of Co-op in Name

everything in its power NOT to require registration. This is most easily done through a federal intra-state exemption, which is allowed if all of its member loans are from its state of incorporation. In the case of a co-op that resides close to another state, the co-op will only be able to obtain loans from owners in one state. It should choose the state of incorporation based on where most of its owners will reside, if it wishes to obtain member loans from them. Owners who reside in a state that the co-op is not incorporated in are not allowed to supply member loans.

Not-for-Profit Organizations

Sometimes the community group wishing to form a retail food business believes they want to form as a not-for-profit. Some states may provide statutes for formation of non-profit co-ops, while others may provide for the formation of non-profit corporations. Other states provide neither alternative. Generally, non-profits operate for the public good, and no monetary gains may be returned to its members or investors.

It is prudent to organize as a for-profit cooperative. Co-ops need earnings to finance their growth, similar to other businesses. Consequently, it seems that forming under a “for-profit” statute is more straightforward in its depiction of the co-op. Thus, we believe organizing “for profitability” more accurately portrays what a food cooperative is, and keeps the co-op from entering a grey area as a non-profit where its operations could come under federal and state scrutiny.

Co-ops and organizing groups can sometimes find a fiscal sponsor or non-profit organization that can accept donations and grants for education and community development activities, and use those funds to support the cooperative’s educational and community development activities.

Organization of Entity and Timing of Legal Organization

Articles of Incorporation

To legally organize, articles of incorporation must be filed with the Secretary of State of the state in which

you are organizing the business. This action brings the organization into existence. If you are filing for a traditional corporate co-op or a corporation, you will be filing articles of incorporation. If you are filing for a LCA unincorporated co-op or an LLC, you will be filing articles of organization. Both types of articles are very similar. Since the term “articles of incorporation” is the best-known, this term is often used to refer to both types of articles.

The articles are public record, and are available to any citizen. The articles are normally simple, and just follow statutory criteria. The articles are more of a static document and are not amended often. The most common reasons for amending the articles are to increase the co-op’s equity limits or to change the name of the business.

Articles of Organization or Incorporation include the following:

- **Name**
- **Address**
- **Registered Agent:** This may be required in some states. The agent is a resident of the state to whom the government can serve documents if required. This person does not have to be a board member. There are companies that provide this service (ex: CT Corp), but usually a person fills this role.
- **First Board of Directors:** Sometimes these people must be named, and sometimes not, depending on the state requirements.
- **Minimum Number of Directors:** A minimum number of directors is normally established in the articles. A typical company does not have less than 5 directors, and the bylaws then can establish the specific number.
- **Capital Stock vs. Non-Stock:** Check with your state statute to see if you have a choice. The unincorporated cooperative can be stock or non-stock, and the founding group must make a choice. We recommend non-stock, and thereby incorporating on a member basis as discussed above.
- **Distribution of Earnings on Basis of Patronage:** Many state statutes require that the articles include a

statement that distribution of earnings will be made on the basis of patronage. Even if it is not a requirement of the statutes, you should add a provision like it for the purpose of creating a pre-existing obligation.

- **Altering Statutory Defaults:** As mentioned earlier, defaults are minimums or maximums that are set in state statute to protect member interests. There may be a number of them that can be altered. Check with your state statute to determine what defaults can be altered. A state will impose its statutory default unless the founding group alters it in the articles or bylaws.

FYI: Want to see an example of the Articles of Incorporation? There's a template available in [Appendix D](#) of this guide.

Personal Liability

Experts recommend organizing your cooperative into a legal entity as soon as possible, after the formation of the founding group. Legal organization is a very easy process. Early legal organization protects the founders from personal liability with what is normally termed a 'corporate shield'. However, the founding board needs to be aware that the corporate shield is not an absolute protection, and the board must act responsibly in setting up the business. While the incidence of lawsuits against co-op directors or founding members is very low, there are two ways in which the corporate shield may not provide protection:

- **Going Around Corporate Shield:** On both a federal and state level, if securities laws are broken in the sale of securities or if certain tax statutes are not followed (such as payment of taxes), the courts can reach around the corporate shield and charge board members directly. In the case of liquidation, the holders of member loans and preferred stock can also go around the corporate shield to obtain recompense from directors. Therefore, fiscal responsibility is of the utmost importance in the operation of your cooperative.
- **Piercing the Corporate Veil:** This can occur if the corporate shield is weakened by inadequate

procedures such as minutes not being taken at board meetings, board meetings not being held, or not allocating tax preparation to a preparer. When this occurs, the corporate shield may not protect directors from personal liability in areas well beyond those mentioned above. It is therefore very important to follow corporate formalities in order to maintain the corporate shield.

Another way to think of maintaining the strength of the corporate shield is that a cooperative, like any other form of business, is a fictional entity with similar constitutional rights to us. In effect, businesses are fictional persons. We must keep this entity in good standing or it will weaken and can die, disintegrating the corporate shield and opening directors to personal liability.

There are ways in which your directors can strengthen the corporate shield. When dealing with outside vendors or organizations, a director should always state that she/he is representing the cooperative. This makes it clear that the director is not acting on his/her own. Providing directors with business cards can be an easy way of formalizing this.

FYI: For more information on the risks and protections provided by board membership, please see "[Appendix 4: Duties and Responsibilities of Cooperative Board Members](#)," in *Legal Primer for Formation of Consumer-Owned Food Cooperatives*.

Indemnification and Director & Officer (D&O) Insurance

Usually state statutes require a cooperative to indemnify their board of directors, and even if not required, we recommend that your bylaws provide for director indemnification. Indemnification means that either the co-op or their D&O insurance company will cover legal and certain other expenses that could be incurred by a cooperative or director in the course of defending themselves against allegations of misconduct

or negligence. D&O insurance may indemnify both directors and employees for their actions if the insurance covers employees as well. The cooperative should be aware that indemnification is a reimbursement for expenses paid, not a direct payment of the expenses. So, the co-op (or a director) must pay the legal fees before being reimbursed from the insurance company.

Bylaws

Bylaws can be viewed as the contract between the board and the membership concerning how the organization will be run. Bylaws are usually not a legal requirement. However, you will find that many businesses do have bylaws in addition, of course, to their articles of incorporation or organization on file with the state. Articles are generally very short, because sharing a lot of confidential information in a document that is public and can be obtained by anyone is not always prudent. The bylaws are considered for members' eyes only and are a confidential membership document. It can also be far easier to draft and amend bylaws than articles. Sometimes bylaws require a lower approval level (simple majority vs. two-thirds). And, more importantly, bylaw amendments do not need to be filed at a Secretary of State's office, as do amendments to the articles.

Bylaws allocate governance responsibilities. Again, state statutory defaults play a role here. Typically a statute will set a minimum, and allow adjustment upward. For example, the statute may set quorum for member meetings at a low level, and it can be increased in the bylaws, but not decreased. In the case of the size of the board of directors, the statute may say no less than three, and the cooperative can apply either a range or a specific number in the bylaws.

By state statute, members' power is limited to specific areas. These normally include:

- Members elect or remove directors.
- Members vote on dissolution, merger, consolidation, or sale of all or substantially all assets.
- Members are usually permitted to request records and minutes from the cooperative, but sometimes this must be for a proper purpose.

- Members can petition the Board to call a special meeting of the Members; typically 25% of the members must sign the petition.

Members should be educated that these are the limits of their power. Their control over the cooperative is through their election of the board of directors, and therefore they should be urged to participate in board elections.

A universal approach to writing bylaws does not exist, because each state statute is different, and must be separately evaluated. Having said that, if you compare the bylaws of cooperatives across the country, you are likely to see common threads running through many of them. Some of these common threads that you should consider addressing are included in the list below. However, a close review of your state statute is still highly recommended.

1. Members

a. Membership Criteria: what is expected from members (for example, they must patronize the co-op, must live in the area). These criteria can be more restrictive, such as saying no felons, but they cannot cross a protective class.

b. Termination of Membership: under what circumstances membership privileges are lost.

i. Automatic Termination: This usually occurs when the member is no longer doing business at the cooperative (the bylaws normally state a length of time before this takes effect), or the member moves. This termination is normally just a board action.

ii. Discretionary Termination: This is done on the basis of parameters set within the bylaws. For example, the bylaws can say that all members must be approved or disapproved by the board, or that members must behave in accordance with the norms of the community where the cooperative is organized. This leaves discretion to the board as to whether a membership should be terminated. Discretionary terminations can occur without a hearing before the board, but the bylaws could state an option for an open meeting.

2. Board of Directors

a. Size of Board: number of directors or a number range. We recommend selecting either seven or nine as the number of directors.

b. Term Limits: number of terms directors may serve. There is normally no default on this in state statutes.

c. Staggered Terms: staggered terms are set for board directors so that the board does not turn over completely at each annual meeting.

d. Frequency of Board Meetings: Monthly meetings are the norm.

e. Requirements of Officers: The attached sample bylaws lay out the normal responsibilities of officers of the board. However these can be altered some. For example a Secretary or Treasurer could preside over meetings. And the number of officers required to sign a note or contract should be included in the bylaws.

f. Notice Requirement for Board Meetings: State statutes often say that notice of a board meeting must occur a certain number of days before the meeting. The bylaws can alter the number of days or remove this entirely, so that there is no notice requirement.

g. Removal of Directors by the Board: Bylaws should include a provision that allows a super-majority of the board to terminate a director for cause. Many boards adopt a code of conduct policy that sets behavior standards which would be used to terminate a director who violates the code of conduct. The bylaws can also include a provision for dismissal of a board member under specific circumstances (such as missing three consecutive or four total board meetings in a year).

h. Use of Advisory Directors: The bylaws may want to allow for advisory directors who are from the membership or who are professionals in the community whose expertise is important to the Board.

i. Member Voting Districts: Most food co-ops do not have member voting districts, where each district elects a board member, and it is not recommended.

j. Dishonesty Insurance: Dishonesty insurance or bonding can be required for those that handle money, whether they are directors or co-op employees. However, cost may restrict a new cooperative from purchasing this insurance. In the absence of insurance, we recommend that the Board require two signatures on a check. These concerns can also be addressed in board policy.

k. Unqualified Annual Audit: An audit is an option, and the bylaws can require it. Sometimes a bank will impose an annual audit as a prerequisite for obtaining a loan.

l. Nominating Committee: Normally this committee is formed from the board, but members sometimes elect a board nominating committee at the same time that they elect the board of directors. This gives the members more power by controlling who is nominating director candidates.

m. Per Diem and Expense Limitations for Directors: Some bylaws state that the directors receive no compensation, whereas others allow the board to establish its own compensation. If compensation is allowed, the amount is usually defined by a policy rather than the bylaws.

n. Membership of Non-Patrons (in LCA Co-ops): If the cooperative wishes to take advantage of non-patron investment in the LCA cooperative, the bylaws must first grant membership to the non-patrons.

o. Non-Patron Directors' Control in LCA Cooperatives: The bylaws can change the defaults set by state statute in order to adjust the financial and voting rights of patrons and non-patrons at the member and board level (as per the earlier discussion).

p. Board Power to Amend Bylaws: Under the required notice provisions, the bylaws may be able to give the board power to amend bylaws. Some state statutes say the board cannot amend bylaws, but usually the statute is silent about the role of the board. If the statute is silent, the bylaws can grant the board the right to amend bylaws. If this is chosen, we recommend that

the bylaws include the requirement that the board announces any bylaw change that it has made at the following annual meeting. Some co-op bylaws require that the members approve of any bylaw changes made by the board during the year.

3. Member Voting

a. Absentee Ballots for Election of Directors: If absentee ballots are preferred, the state statute should be consulted, since the provision for absentee ballots may have to be included in the bylaws. Our suggested wording is “Absentee ballots shall be used for removing directors, and may be used for electing directors.” The option for electronic ballot may also have to be stated in the bylaws. For the election or removal of officers, it is best not to rely on a special meeting of members, since quorum in a low turn-out can be misused by a faction of people wishing to control the co-op.

b. Minimum Period of Notice for Member Meetings: Check the state statute for this. The statute normally sets a default minimum, and the bylaws may set a longer period.

c. Parliamentary Rules: The rules for conduct of the member and board meetings are normally not in the statute. The bylaws can establish parliamentary rules for the meetings, such as Robert’s Rules of Order. In the absence of a specific requirement in the bylaws, the board of directors, or perhaps the president or chairman alone, can determine what rules will govern.

4. Financial Issues

a. Annual audit: The state statute normally does not require an audit, but the cooperative may want to include the preparation of an unqualified annual audit in the bylaws.

b. Limits on Handling Losses: Often, bylaws state that losses must be applied against the capital reserve of the cooperative, and then subsequently against members’ equity accounts. But some bylaws allow the capital reserve to go negative, so that members’ equity accounts are not affected. The cooperative needs to decide how it wants to handle this.

c. Redemption of Equity: This should always be at the discretion of the board. There should be NO requirement of the board to ever redeem equity, and this should be stated in the bylaws. Required redemption of equity could put the co-op at financial risk, or subject it to onerous record-keeping.

d. Minimum Cash Refund Paid to Patrons: By federal law, 20% is the minimum percent of the patronage dividend that must be paid in cash to patrons as patronage refunds. Increasing this does not need to be in the bylaws, but can be a board policy.

e. De Minimus on Which Patronage Refunds are Paid: This is the minimum amount that the board will write a check for, or the minimum amount of the distribution to a member. Often, the bylaws state a de minimus of \$1, so that no checks for patronage refund distribution will be written for less than that amount.

f. Pre-Existing Obligation: Federal law states that there is a pre-existing obligation that patronage earnings must be distributed on the basis of patronage. This provision must be in the bylaws (or in the articles if there are no bylaws).

g. Losing Contact with Members: It is nearly impossible to keep track of every member because many move for employment or other reasons. The co-op is not under any obligation to maintain a current address for each member. That is the responsibility of the member. Many addresses go invalid each year. A “No Address” bylaw allows the board to determine when it is satisfied that the member cannot be found, in which case any allocated or contributed equity that has not been called for payment previously may be redesignated to the co-op’s capital reserve. Reassignment keeps the co-op’s records current, and allows the board to focus its attention on the allocated equity of members who are known, and for whom the board may develop redemption policies. The “No Address” bylaw allows the board to direct its attention to the true “obligation,” allowing the board to make comprehensive plans for the proper management of equity. However, please be aware that the allocated

equity reassigned to the unallocated capital reserve is potentially taxable. Check with your tax accountant to determine the tax impact. Also be aware that cooperatives are subject to unclaimed property law once the co-op cuts a check. If the owner of the patronage refund cannot be found, the amount becomes unclaimed property and must be turned over to the state. The unclaimed property statute requires an annual report to be filed with the state. It is recommended to do this even if the co-op has nothing to report, because it establishes a starting point for the statute of limitations in case a claim is made at a later date.

h. Consent: This is one of the requirements of a Subchapter T, which came into existence in the early 1960's. There had historically been much controversy and confusion about whether or not the co-op and/or its members should pay tax. It has been established that patronage allocations made by consumer-owned co-ops are not taxable to the co-op or to the member. However, there could be income passed through to the member that is taxable, although this is not a normal occurrence. IRS rules require that the member must consent to submitting income for taxation if it is taxable. This consent can occur in any of the following manners:

i. Include a Consent Provision in the Bylaws:

Typically the co-op is expected to send out the bylaws to each new member, and include a reference (such as in a letter) that specifically points to the consent provision.

ii. Membership Agreement: The co-op can provide membership agreements to new members that must be signed to activate their membership. This agreement includes the consent provision.

iii. Check: On the check that is sent out to the member, a little statement can appear close to where they endorse the check that says they are consenting to report this income if it is taxable.

i. Building Unallocated Capital Reserves: Allocated capital is that portion of the profit that is placed under members' names as allocated equity credits in their equity accounts, after the cash portion of the patronage

refunds has been made to them. Unallocated capital are those retained earnings which are put into the capital reserve for use by the co-op. A statement can be made in the bylaws that empowers the board to determine how much profit to put into the capital reserve.

j. Distributions of Equity in Conversions or

Liquidations: Although rare, a food cooperative may be converted to another form of business structure, such as an LLC. When this conversion happens, or a liquidation occurs, the question becomes how to allocate proceeds after debt has been paid. A provision can be included in the bylaws to either donate the excess to a 501c3 non-profit organization, or to allocate it to members. We recommend that a 501c3 option be considered in the case of a conversion, but that proceeds should go to members in the case of a liquidation.

5. Raising Capital

a. Cooperative Member Interests: Generally, cooperative member interests are securities. In a cooperative, the members have received equity either in exchange for having paid for shares, or for money they have earned from the co-op that has been reinvested in the co-op. However, in some circumstances, properly structured membership interests in cooperatives may not be securities, allowing solicitation of membership without the impact of securities registration. The benefit of a cooperative's equity not being considered securities is that the co-op does not have to incur the onerous cost of security registration. It is important to note that preferred stock/equity and, with only a limited exception, members' loans, are securities.

b. Registration and Exemption of Securities: Preferred stock/equity, member loans, and any common stock that is considered a security must either be registered or be exempt from registration under both federal and applicable state securities laws. Below are several of the more commonly used federal exemptions for consumer-owned food co-ops:

i. Intrastate Federal Exemption: The intrastate exemption exempts, from federal securities regulation, offers and sales of securities that are

offered and sold only to persons in one state. In general, to qualify for safe harbor, the cooperative must be organized, doing business, and making offers and sales of its securities in the same state; the offers and sales can only be made in that state and cannot be made to any resident of another state within six months of the offering; and any transfers of the securities within nine months of the offering must be made only to residents of that state. The securities must be registered or exempt under the applicable state securities laws. Some states have a self-executing exemption from registration (meaning you do not have to do anything to qualify) for co-op securities, especially the large agricultural states. However, this exemption may be limited to only common stock or to particular types of cooperatives. You will need to review your state statute to determine if your cooperative qualifies for this or any other state exemption before moving forward with the intrastate federal exemption.

ii. Non-Public Offering: This exemption is available when the offering is truly a private offering. In a cooperative, one type of private offering is by making offers and sales only to current members that do not involve any general solicitation or advertising. The longer that the members have been members, the stronger the argument in favor of a non-public offering. This offering cannot be made to potential members as part of their joining the cooperative. Many states have existing member exemptions. You will need to review the specific details of your offering with respect to federal securities laws, as well as state statutes in all states where you have members, to determine if this exemption is available to you.

iii. Rule 506 Offering: Another type of non-public offering is a “Rule 506” private offering. In general, sales can be made to an unlimited number of accredited investors (as defined in the regulations) and up to 35 nonaccredited investors; there can be no general solicitation or general advertising; the securities cannot be resold unless registered or

otherwise exempt; and the cooperative must satisfy certain disclosure requirements. Securities sold in accordance with Rule 506 are considered federal covered securities and are exempt from state registration requirements.

It is important to note that there are also registration requirements, and possible exemptions from those requirements, for the individuals that actually offer and sell the securities. Typically directors and officers of a cooperative are exempt from those requirements. However, specific circumstances and applicable law should be examined before anyone makes offers or sales.

c. Disclosure Issues for Securities: You must disclose all of the material terms of the equity or debt regarding the co-op and its business and related risks to prospective purchasers of the securities, regardless as to whether the securities are exempt from federal or state registration. All disclosures related to the offer or sale of a security are subject to the anti-fraud provisions of the securities laws, which means that the disclosure cannot contain any untrue or misleading statement, or omit any statement which makes the information untrue or misleading. The offering documents for an investment include:

i. Confidential Information Statement: This is like a prospectus, and it addresses all material terms and risks of the securities, the cooperative, and the terms of the offering.

ii. Subscription Agreement: This is an agreement to purchase a certain amount of equity, or loan a certain amount of money through a member loan.

iii. Certificate of Indebtedness or Certificate of Membership Interest: This is the official document issued by the cooperative that details the member loan or the equity purchase. The process is that once a member has reviewed the confidential information statement, and decides to move forward with the investment, she/he signs the subscription agreement, which is then brought before the co-op board for

approval. Upon approval, the co-op issues a certificate of indebtedness (for a loan) or preferred equity/ stock certificates (for an equity purchase).

d. Additional Equity: Oftentimes the founders of new cooperatives do not realize the amount of financing that will be required to start up and operate a food cooperative. Due to its limitation on transfer and its redemption at face value, common equity is used simply to purchase membership and does not yield a significant amount of equity. Therefore, the cooperative may need member loans, a bank loan, or preferred equity to obtain adequate financing.

e. Member Loan Programs: A member loan program is a vehicle for obtaining financing in addition to a bank loan. A cooperative can obtain a bank loan (secured) and then obtain any additional financing it needs through a member loan program (unsecured). This financing package could also include a preferred equity program. However, members are often more apt to provide loans where there will be fixed obligations of paying interest and paying principal, and a relatively more “secure” investment. In the case of a liquidation, the secured loans are paid first, followed by the unsecured loans, then the preferred equity, and finally the common equity. As noted above, member loan programs, except in very limited circumstances, are securities offerings and must comply with the registration or exemption requirements of federal and applicable state securities laws.

6. Patronage Dividends

a. Qualified Written Notices of Allocation: Each year, these notices must be sent to individual members, notifying them of their patronage refunds and/or allocation of equity credits, if there are any. The letter to the member must have particular content (see Appendix 5.) The cooperative must do this to qualify for a tax deduction on this allocation, and it must be done at the time of the allocation. If these letters are not provided to members, the IRS and state agencies may consider these funds to be taxable retained earnings.

b. Building Capital Reserves: It is important for the cooperative to retain earnings and build a capital reserve. If there is a year with a loss, this allows the loss to be deducted from the reserve. Then it does not have to be broken into individual amounts and allocated to each member’s equity account as would be required if there were no, or an inadequate, capital reserve.

c. 1099-PATR: As mentioned earlier, the filing of IRS form 3491 after three years of operation exempts the cooperative from filing 1099-PATR forms for each of its members when patronage refunds are made. Normally a 1099-PATR must be filed when an individual refund amounts to \$10 or more. However, form 3491 frees consumer cooperatives of this obligation if they are primarily engaged in the retail sale of goods and services that are generally for personal living or family use of members. Natural food cooperatives fit this definition.

FYI: Reprinting sample bylaws here would be rather lengthy. To read a sample bylaws go to [“Appendix 3: Bylaw Template”](#) in the *Legal Primer for Formation of Consumer-Owned Food Cooperatives*.

This chapter has been reprinted from the *Legal Primer For Formation of Consumer-Owned Food Cooperatives*, By Joel Dahlgren, Black Dog Co-op Law, with contributions from Thane Joyal, Bill Gessner, Marilyn Scholl and Stuart Reid.

Appendix B

Operational Startup Checklist for General Manager

- ☐ Contact NCG about membership
- ☐ Sign up for Co+op Deals (if NCG member) or UNFI promo programs
- ☐ Finalize financing
 - ☐ Member loans
 - ☐ Bank loan(s)
 - ☐ Other commitments
- ☐ Draft business plan
- ☐ Operating Budget- review and update financial pro forma for year 1
- ☐ Startup Budget- monitor and update Sources & Uses budget
- ☐ Create organizational chart
- ☐ Draft job descriptions
- ☐ Write employee handbook
- ☐ Plan manager and staff orientation and training
 - ☐ General orientation
 - ☐ Safety
 - ☐ Store systems
 - ☐ Personnel policies
 - ☐ Emergency procedures
 - ☐ Customer service
 - ☐ Natural foods 101
- ☐ Co-ops 101
- ☐ Financial benchmarks (for managers)
- ☐ Local job market analysis
- ☐ Compensation/Benefits
 - ☐ Create pay scale
 - ☐ Select benefits and find providers:
 - ☐ Medical
 - ☐ Dental?
 - ☐ Sick leave
 - ☐ Vacation
 - ☐ Paid holidays
 - ☐ Bonuses
 - ☐ Profit sharing
- ☐ Promotional plans
 - ☐ Website & Facebook
 - ☐ Full coverage inserts in market area
 - ☐ Local radio
 - ☐ School newspapers
- ☐ POS system
 - ☐ Coordinate setup
 - ☐ Input pricing and product info
 - ☐ Set up membership system

- ☐ Schedule manager and cashier training
- ☐ Schedule department manager training
- ☐ IT support- contract or hire
- ☐ Computer network infrastructure
- ☐ Internet access
- ☐ Telephone system
- ☐ Revise floorplans
- ☐ Oversee project manager and monitor renovations
- ☐ Equipment & fixtures
- ☐ Office furniture and equipment
- ☐ Exterior signage
- ☐ Shelf and store graphics & supplies
- ☐ Vendor preparation
 - ☐ Set up accounts
 - ☐ Schedule opening orders
- ☐ General Merchandise: source local crafts
- ☐ Service providers
 - ☐ Linen service
 - ☐ Janitorial/floor service
 - ☐ Waste
 - ☐ Credit card processing
 - ☐ Inventory
 - ☐ Security
 - ☐ Music and paging service
- ☐ Merchandising plan
 - ☐ Contract with consultant for merchandising assistance and shelf set schematics
 - ☐ Pricing strategy
- ☐ Acquire artwork for store decor

Notes:

This list is not in chronologic order. Some tasks clearly precede others, but for the most part, these are all part of the operational preparation that must be done before staff are hired and the store opened.

Many tasks will be done with the support of other people, whether experts in the community, professional consultants, or other staff who have already been hired. However, the general manager should be actively involved in the planning and execution of everything on this list since s/he will be responsible for the results and long-term implementation.

Appendix C

GM Position Descriptions

General Manager (short version)

Posted: June 15, 2014

Organization: The Sugar Beet Co-op

Organization location: Oak Park, IL

Apply by: 07/15/2014

The Sugar Beet Co-op is currently accepting applications for a General Manager. We are a startup member-owned, natural foods retail cooperative with over 500 members located in Oak Park, IL. Our 6300 sq ft store is expected to open in February 2015 and reach sales of over \$4 million of food and associated products in our first year. Our values are based on democratic and sustainable principles. We have a strong commitment to supporting local producers, carrying a wide range of organic and eco-friendly products, and value our members' desire for a deeper connection to local farmers and producers. Our community is supportive and excited about The Sugar Beet Co-op and what it represents.

Responsibilities:

- Carry out the vision, mission, goals, and objectives of The Sugar Beet Co-op
- Report to and plan with Board of Directors the store's financial and operational status.
- Smooth execution of all daily store operations.
- Maintain our friendly community-oriented store atmosphere, prompt customer service and member relations, and a well-maintained store appearance.
- Collaborate with department heads for effective marketing and merchandising strategies that include educational demos and tastings.
- Financial management, including interpretation, planning and implementation of financial reports, maximizing operational efficiency, and ensuring adequate cash flow and capital for present and future operations.
- Schedule and attend regular staff and manager meetings to review and plan store and department systems, financials, communications, events, and member workers.
- Hire, supervise, develop, evaluate, and determine compensation for staff with a focus on positive reinforcement and empowerment.
- Oversight of maintenance and repairs.

- A genuine interest in creating an excellent work environment

Considered individuals will be highly motivated and show experience in the following qualifications:

Minimum Qualifications -

- Retail food store management experience
- Supervisory experience: hiring, training, evaluating and coaching, setting compensation, termination, supervising supervisory employees, and other similar functions
- Financial experience: operating, capital, and cash budgeting; interpreting and analyzing financial statements and accounting ratios, etc.
- Demonstrated ability to build and motivate a cohesive team and foster stakeholder alignment around a particular vision
- Clear presentation of information in written and spoken form
- Personal and professional values that align with cooperative principles

Desired Qualifications -

- Bottom line accountability experience for a business with minimum annual sales volume of \$4 million
- Demonstrated ability to create and implement strategy for development and growth in a competitive market
- Experience working with boards and familiarity with policy governance
- Experience in natural foods industry and knowledge of current trends
- Experience and familiarity with cooperative business
- Familiarity with open-book management
- Ability to effectively represent the Sugar Beet Co-op to and build relationships with stakeholder groups (e.g. members, staff, the national co-op community, the Oak Park business community)

To apply for or inquire about the General Manager position, please send a cover letter and résumé with three professional references to gmsearch@sugarbeetcoop.com.

General Manager (long version)

Posted: June 15, 2014

Organization: The Sugar Beet Co-op

Organization location: Oak Park, IL

Apply by: 07/15/2014

The Sugar Beet Co-op, a start-up co-op expected to open February 2015, located in the beautiful village of Oak Park, IL (just 10 miles west of downtown Chicago) is seeking a General Manager. Reporting to the Board of Directors, the General Manager is responsible for the overall operations of a 6,300 sq ft retail grocery store with \$4 million in annual sales it's first year and an estimated 20 employees. The General Manager leads the staff in providing exceptional customer service and maintaining a financially thriving business in a competitive marketplace for the benefit of our 500 (and growing!) member households and the surrounding community. More broadly, the General Manager is responsible for working toward our mission while charting the direction of the Co-op in concert with our Board of Directors, employees and members.

Minimum Qualifications –

- Retail food store management experience
- Supervisory experience: hiring, training, evaluating and coaching, setting compensation, termination, supervising supervisory employees, and other similar functions
- Financial experience: operating, capital, and cash budgeting; interpreting and analyzing financial statements and accounting ratios, etc.
- Demonstrated ability to build and motivate a cohesive team and foster stakeholder alignment around a particular vision
- Clear presentation of information in written and spoken form
- Personal and professional values that align with cooperative principles

Desired Qualifications –

- Bottom line accountability experience for a business with minimum annual sales volume of \$4 million
- Demonstrated ability to create and implement strategy for development and growth in a competitive market
- Experience working with boards and familiarity with policy governance
- Experience in natural foods industry and knowledge of current trends
- Experience and familiarity with cooperative business
- Familiarity with open-book management
- Ability to effectively represent the Sugar Beet Co-op to and build relationships with stakeholder groups (e.g. members, staff, the national co-op community, the Oak Park business community)

The Sugar Beet Co-op offers a competitive wage and benefits package, dependent on experience.

About The Sugar Beet Co-op

The Sugar Beet Co-op was founded in early 2012. In March 2013 The Co-op began selling member shares and in March 2014 The Co-op signed a 10 year lease for a beautiful geothermal, LEED certified 6300 sq ft retail space in the heart of Oak Park, IL. With an active and motivated Board of Directors, The Sugar Beet Co-op is progressing quickly towards it's targeted opening date of February 2015. With projected annual sales of \$4 million in the first fiscal year, The Co-op expects to employ nearly 20 staff members. Situated just west of Chicago in the beautiful and diverse village of Oak Park, The Sugar Beet Co-op is one of many start-up food co-ops in the Chicagoland region. Find out more at The Sugar Beet Co-op website. www.sugarbeetcoop.com.

About Oak Park, IL

Oak Park, located just 10 miles west of downtown Chicago, boasts excellent schools, world class architecture, shopping, dining and an extensive public transportation network. But Oak Park is more than a place — it also is a way of life.

Oak Park was named one of 20 Best Towns & Neighborhoods in Chicago & the Suburbs by *Chicago Magazine*. Oak Park was voted Third Best Neighborhood in the United States, by American Planning Association. Oak Park is a highly educated village of 50,000 with a vibrant business district, easy access to public transit via three train lines and is a diverse community committed to sustainability and progressive ideals. The village is located just west of Chicago and is a 20 minute drive to downtown and Lake Michigan. Oak Park is recognized for its treelined neighborhoods, smart village planning, bike-friendly streets and popular farmers' market.

To apply for or inquire about the General Manager position, please send a cover letter and résumé with three professional references to gmsearch@sugarbeetcoop.com.

Appendix D

Articles of Incorporation Template

ARTICLES OF INCORPORATION

OF _____

[Co-op's Name]

A Cooperative Organized Under _____

[State of Incorporation] Statutes, Chapter _____

ARTICLE I.

NAME

The name of this association shall be _____

ARTICLE II.

PURPOSE

The Corporation is member owned and shall be operated on a cooperative basis. The purposes for which the corporation is organized are to operate a food cooperative business so that members can buy their groceries and other personal and household items; and for any other purpose which is lawful under the corporation statutes of [state of incorporation].

ARTICLE III.

PRINCIPAL PLACE OF BUSINESS AND ADDRESS

The principal place of business and registered office of this association shall be at _____.

ARTICLE IV.

PERIOD OF DURATION

The period of duration of this association shall be perpetual.

ARTICLE V.

MEMBERSHIP

Section 5.01. Membership Basis. This association is organized without common stock on a membership basis.

Section 5.02. Transfer. A membership is transferable only with the consent and approval of the board.

ARTICLE VI.

Capital Stock

[NOTE: This section is presented as an optional Article V for those co-ops wishing to form on a stock basis.]

Section 5.01 Stock Basis. The aggregate number of shares the corporation has authority to issue shall be _____ (____,000) shares of capital stock, which shall have a par value of \$ _____ per share, and which shall consist of _____ (____,000) shares of common stock and _____ (____,000) undesignated shares. The Board of Directors, without member or stockholder approval, is granted the express authority, by resolution, to establish from the undesignated shares one or more classes or series of shares, to designate each class or series, and to fix and establish the designations, powers, preferences, and governance and veto rights, including member or stockholder voting rights and rights to appoint or elect directors to the Board, qualifications, limitations or restrictions of each additional class of stock (and the corresponding obligation to fix and establish these designations, powers, preferences, governance and other rights, qualifications, limitations and restrictions whenever any additional class is established). The power of the Board extends to and includes the express authority to create classes and series, without member or stockholder approval, which have terms granting the additional class and/or series (and the holders of thereof) rights, powers, preferences and privileges greater than the rights, powers, preferences and privileges associated with any previously established and designated class or series, including but not limited to, creating patron and non-patron class and series designations. The rights, powers, preferences and privileges are the same for all series within a class except as expressly provided otherwise in the class designation approved by the Board, or the subscription or other agreement regarding the series approved by the Board. In no case may the patrons' interest in governance rights be reduced below 80% of the governance rights of all patron and non-patron members.

Section 5.02 Voting Rights. Except as otherwise required by law or pursuant to Section 5.1 hereof, the holders of the shares of common stock shall have the sole voting rights of the corporation.

Section 5.03 Voting Power. The members shall take action by the affirmative vote of the holders of a majority of the voting power of the shares represented and voting at a duly held meeting, except where the affirmative vote of a majority of the voting power of all voting shares is required by statute, and except where the holders of a class or series are entitled by statute to vote as a class or series whether or not such holders are otherwise entitled to vote.

Section 5.04 Stock Ownership. The members of this corporation shall have no preemptive rights to subscribe for or otherwise acquire any new or additional shares of stock of this corporation of any class whether now authorized or authorized hereafter, or any options or warrants to purchase, subscribe for or otherwise acquire any such new or additional shares of any class, or any shares, bonds, notes, debentures, or other securities convertible into or carrying options or warrants to purchase, subscribe for, or otherwise acquire any such new or additional shares of any class.

ARTICLE VI.

PATRONS' NET MARGINS

Net income in excess of dividends and additions to reserve shall be distributed on the basis of patronage.

ARTICLE VII.

VOTING

Each member shall have one vote in the affairs of the cooperative.

ARTICLE VIII.

DIVIDENDS

Dividends on any interest in the association may not exceed eight percent annually.

ARTICLE IX.

DIRECTORS

The Cooperative shall be governed by a Board of Directors not less than five (5) directors

<u>Name</u>	<u>Address</u>	<u>First term ends</u>
1. _____		
2. _____		
3. _____		
4. _____		
5. _____		

ARTICLE X.

LIABILITY

No director or officer of this cooperative shall be personally liable to the cooperative or its members for monetary damages for breach of fiduciary duty as a director, except for liability:

- (a) for a breach of the director's duty of loyalty to this cooperative or its members;
- (b) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;
- (c) for a transaction from which the director derived an improper personal benefit; or
- (d) for an act or omission occurring prior to the date when the provisions of this Article X became effective.

It is the intention of the members of this cooperative to eliminate or limit the personal liability of the directors and officers of this association to the greatest extent permitted by [State of Incorporation] law. If amendments to the [State of Incorporation] Statutes are passed after this Article X becomes effective which authorize cooperative associations to act to further eliminate or limit the personal liability of directors, then the liability of the directors and officers of this cooperative shall be eliminated or limited to the greatest extent permitted by the [State of Incorporation] Statutes, as so amended. Any repeal or modification of this Article X by the members of this cooperative shall not adversely affect any right of or any protection available to a director or officer of this association which is in existence at the time of or such repeal modification.

ARTICLE XI.

INCORPORATOR(S) (MINIMUM OF ONE PERSON, NO MAXIMUM)

Date _____

Name _____

Signature _____

Date _____

Name _____

Signature _____

Date _____

Name _____

Signature _____

Date _____

Name _____

Signature _____

Glossary

allocated equity: Profits that have been allocated as equity credits to members' individual equity accounts, and are not taxable for either the co-op or the member.

articles of incorporation: the founding legal documents of a corporation. When its articles of incorporation are approved by the appropriate state agency, a 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, how membership works, what capital is required of members, and what happens to the co-op's assets upon dissolution.

bylaws: rules that specifically describe how a co-op will conduct its affairs. While bylaws need to be more specific than articles, it is wise to avoid being too specific. Bylaws should specify procedures that will be used in approving members, distributing net income, paying back members' capital, and voting, as well as 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 most typically refers to money contributed to a business by owners or stockholders. In accounting, capital refers to the remaining assets of a business after all debts and amounts owed to others have been deducted. Member equity is also capital. See "equity" in this glossary for more information.

capital reserve: unallocated profits that are retained in the capital reserve of the cooperative, and are taxable.

common equity: the funds required to gain membership in the cooperative. These are called common shares or stock if the cooperative is formed on a stock basis, and not a membership basis. This equity is not a security since it is non-transferable, is redeemable only at the discretion of the board, and is redeemable only at face value.

corporation: a legal entity created under state 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 investments. Typically, dividends represent a share of profits paid to shareholders proportionate to the shares held in a corporation. Cooperatives pay dividends based on owner patronage. See "patronage rebate or patronage refund" in this glossary for more information. Co-ops may also pay dividends on preferred shares as a means to encourage member investment.

equity: ownership interest in a business. Equity is made up of investments by owners (members) and the cumulative profit of the business (capital). 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.

member: equity shareholder and owner of the co-op.

member loans: loans that can be offered to members in a non-public offering. They are securities since they yield interest and may have time requirements on their redemption.

net savings: total income (sales) less total expenses; also called profit and or net income.

owner: equity shareholder and owner of the co-op, also referred to as a member.

patron: a person who purchases products at the co-op, whether a member or not.

patronage dividend: the patronage dividend for a member includes both their patronage refund for the year and the allocated equity credits that were added to their equity account.

patronage refund: That portion of the patronage dividend (and it must be at least 20%) that is paid to a member at the end of the year in which the profit was made. This refund is not taxable to the individual.

patronage rebate or patronage refund: a distribution of profits to members, proportionate to members' use of or purchases from the co-op; also called patronage dividends.

preferred equity: funds gained from a capital drive where additional equity is sold to members beyond that required for membership. These are called preferred shares or stock if the co-op is formed on a stock basis, and not a membership basis. These are securities since they yield dividends.

retained earnings: Earnings that are not paid out to members as patronage refunds, and are retained in the co-op as allocated equity or in the capital reserve.

securities: securities are transferable, pay a dividend or interest, and can increase or decrease in value. Within a cooperative, common equity is not a security, but preferred equity and member loans are. However, both of the latter can be exempt from being registered as securities under specific circumstances.

securities laws: laws that govern how businesses can take investment 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, membership shares are not subject to the same regulations that govern stock. For that reason, most co-ops prefer to use the term share in reference to member investments.

steering committee: a committee responsible for guiding work, such as researching and planning a new co-op. A steering committee is typically elected or selected by those interested in researching the feasibility of a new co-op.

Organizations to Contact

CDS Consulting Co-op

www.cdsconsulting.coop

CDS Consulting Co-op is a network of independent consulting professionals. Consultants specialize in helping food co-ops achieve growth, increase profitability, improve board leadership, strengthen management, and more fully serve members and their communities.

CooperationWorks!

www.cooperationworks.coop

A cross-sector cooperative development network. Click on “members” on the website to get a list of regional co-op development agencies.

Cooperative Grocers Network

www.cgn.coop

CGN is a nonprofit association of North American food co-ops. Its website offers general information, resources, and links for food co-ops, as well as a library of materials accessible only to CGN members. CGN also operates a listserve open to anyone interested in food co-ops.

Cooperative Grocer magazine

www.grocer.coop/articles

Cooperative Grocer is published every other month. Readers will find articles on operating co-ops, relocation and expansion projects, and other topics of interest to food co-ops. The website offers an index of back issues and articles, many of which are available online.

Food Co-op Initiative

www.foodcoopinitiative.coop

info@fci.coop

Food Co-op Initiative is a nonprofit foundation created to provide resources and support for communities that want to start food co-ops.

International Cooperative Alliance

www.ica.coop

The International Cooperative Alliance brings together cooperatives from more than 100 countries. The website provides general information about cooperatives around the world.

National Cooperative Business Association

www.ncba.coop

NCBA is the leading national association representing cooperatives of all types and in all industries in the United States.

National Co+op Grocers

www.ncg.coop

NCG offers business services to cooperatives throughout the United States. It helps food co-ops optimize operational and marketing resources, strengthen purchasing power, and offer more value to co-op owners and shoppers.

National Co+op Grocers Development Co+operative

www.ncg.coop/ncg-development-cooperative

The NCG Development Co+operative is focused on business improvement and expansions, and new store development.

Further Reading

In addition to online resources, the following books provide information about the philosophical underpinnings of cooperation, history, and inspiration for starting a new cooperative venture.

Building a Better World: 100 Stories of Cooperation

Edited by Kate Askew, International Cooperative Alliance, 2012.

Building Powerful Community Organizations

By Michael Jacoby Brown, Long Haul Press, 2007.

Consumer Cooperation, The Heritage and the Dream

By Emil Sekerak and Art Danforth, Consumers Cooperative Publishing Association, Santa Clara, CA, 1980.

Cooperation Works! How people are using cooperative action to rebuild communities and revitalize the economy

By EG Nadeau and David Thompson, Lone Oak Press, 1996.

The Cooperative Solution: How the United States can tame recessions, reduce inequality, and protect the environment

By EG Nadeau, The Association of Cooperative Communicators, 2012.

Green Retail Design

By Martin Pegler, ST Media Group International, 2010.

Owning Our Future: The Emerging Ownership Revolution Journeys to a Generative Economy

By Marjorie Kelly, Berrett-Koehler Publishers, Inc., 2012.

Weavers of Dreams

By David Thompson, Center for Cooperatives University of California Davis, 2012.

Acknowledgments

The authors wish to thank the following individuals for their support and assistance in all phases of this update.

Suzi Carter, Food Co-op Initiative

Mary Christensen, Fairbanks Food Co-op

Steve Cooke, Friendly City Food Co-op

Patricia Cumbie, CDS Consulting Co-op

Michael Faber, Monadnock Food Co-op

Bill Gessner, CDS Consulting Co-op

Rochelle Prunty, River Valley Market Co-op

Stuart Reid, Food Co-op Initiative

Marilyn Scholl, CDS Consulting Co-op

Rosie Weaver, Food Co-op Initiative

We would also like to thank all of the existing and startup food co-ops that have generously contributed to this project over the years.



Our Mission

FCI aims to increase the number, success and sustainability of new food cooperatives delivering access to healthy food in diverse communities across this country. It provides information, training and technical assistance, as well as seed capital, and engages in research to blaze, maintain and improve the development path for new food coops.

www.fci.coop

info@fci.coop

844-324-2667