

500 Co-ops in 10 Years!

BY MARILYN SCHOLL

When I get calls and emails from people looking for information on how to start a food co-op, I'm glad I can send them to the Cooperative Grocers Information Network website (CGIN) and the *How to Start a Food Co-op* manual written by Karen Zimbelman. That and other online resources* are terrific places to start, and these tools have served us well.*

But when someone is embarking on a huge project they've never done before and have little idea about what's involved, you'd like to be able to offer more than a manual and a "good luck" wish. I tell them to call again when they need help, and I hope they will, because I know they are going to need it. But honestly, I also have a lot of anxiety because, until now, there were few resources to offer and no way to help them pay for the all support they are going to need.

There's so much more our sector can be doing to foster new co-op development. Co-op development today requires capital, technical assistance, and support—things that go beyond what a manual can provide. We have the manual; now we need the resources and the midwives.

Cooperative Development Services (CDS) staff and consultants and others in our sector have taken notice of an increased interest in new food co-op development around the country. This includes natural food and conventional grocery formats in both rural and urban settings. Inquiries to CDS about starting a food co-op occur with increasing frequency. We have also been involved in more startup efforts; some of them are now fully operational stores.

Several more are in the works.

About 18 months ago, CDS began tracking development efforts through several channels, including online news, word of mouth, and direct inquiries. The list now has 65 entries from 27 states and the District of Columbia. Nearly every week, we hear about another group in another community interested in having a food co-op! The inquiries indicate there are many serious efforts going on around the country to develop new food co-ops. A trend is bubbling, and we can turn up the heat! We need a coherent system in place to help communities efficiently and successfully move through this process.

Last year, CDS began a research and development project based upon a vision of a support system that enables a faster and more effective startup process. A model was developed after reviewing multiple case studies and existing resources, taking into account experience accumulated over two decades within the food co-op sector. A second phase of that project is to implement and study the development model through pilot projects within the Food Co-op 500 Program.

In September of 2004, the National Cooperative Bank (NCB) held a forum with a number of cooperators to contribute to an industry-wide effort to improve the environment for new food co-op development. Collectively, those in attendance concluded that a trend for new food co-op development is emerging. As a result of that meeting, CDS, NCB, and the National Cooperative Grocers Association (NCGA) collaborated on a task force that created the Food Co-op 500 Program.

Creating a co-op development model

The program intends to create a support system to stimulate growth and development. The goal is to facilitate the development of at least 200 new co-op stores over the next 10 years, bringing us to 500 food co-ops in the U.S. We hope and expect that many of these stores will come from expansions of existing co-ops. But brand new co-ops are very fragile and have the greatest need of support, so the task force focused its initial efforts there. All three collaborating organizations know that we're more likely to be successful if we form strategic partnerships on this development path.

At the NCGA's general assembly in February, members met and discussed the need for just such a program. Robynn Shrader, director of marketing for the NCGA, said, "Members embrace the concept and are devoting organizational resources to it. The NCGA has taken a strong role; we're committed to being involved."

The Food Co-op 500 vision has also been endorsed by many other co-op organizations, including the National Cooperative Business Association, Northcountry Cooperative Development Fund, CoopMetrics, and Mainstreet Cooperative Group.

The new wave food co-ops experienced a development heyday during the 1970s. Unused storefronts, a few used coolers, and legions of volunteers were the necessary ingredients for starting food co-ops back then. Times have changed; competition and consumer demand for sophisticated merchandising have put pressure on all food retailers.

Teamwork, however, never goes out of style. Thus, the reasons for "going co-op"—community participation, social and economic empowerment—are still the forces motivating the current renaissance. "While the growth of new food cooperatives is important, it is also important for cooperatives of every kind to live by the values and principles of cooperation," said Vicki Swartz of NCB's Mission Banking Group.

As we enter into another wave of food co-op development, how would we like to do it? All co-ops take unique approaches to development, due to people, circumstances, and resources. Yet it is imperative that our sector adopt best practices and a systematic approach that help extend not just efficient opening and operating systems, but cooperative values as well.

Swartz said, "Co-op 500 is different because it provides a strong foundation from which to build by providing support from successful and knowledgeable cooperatives." By pooling all our resources to build on this impetus within communities around the country, we will expand the possibilities for growing our movement.

Four cornerstones

The development model for Food Co-op 500 is based upon the four cornerstones of vision, talent, capital, and systems that are each within

* For free manuals on starting a co-op, see:

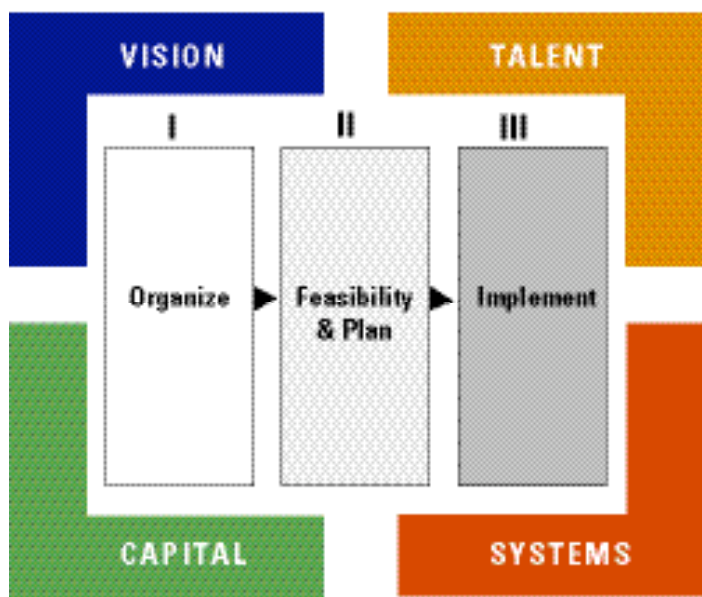
■ How to Start a Food Co-op www.cginc.org/manual/index.html

■ Cooperatives: A Tool for Community Economic Development at www.wisc.edu/uwcc/manual/cover.html

■ How to Start a Co-op, *USDA Cooperative Information Report # 7*
<http://www.rurdev.usda.gov/rbs/pub/cir7/cir7.pdf>

■ For general information on starting a co-op see: www.wisc.edu/uwcc/info/ipages/coopdev.html

Food Co-op 500 Development Model



Four Cornerstones in Three Stages

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three stages of food co-op development: organizing, feasibility, and planning, and implementation. The four cornerstones comprise the attributes of a successful startup within the three stages. The vision of Food Co-op 500 is to support faster and more efficient startups by providing assistance and resources all the way through the development process.

The four cornerstones and their three stages comprise a process for developing a cooperative retail food business, a process that includes recognition of necessary support systems and decision points. Each individual and organization involved plays an important role and contributes to the likelihood of success.

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 building a shared vision exhibits these qualities:

- Reflects core values and purpose held in common by the group members that emerged during the vision-development process; and
- Recognizes multiple stakeholders besides potential members, such as lenders, community and economic development organizations, suppliers, and other cooperatives in the community and industry.

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, a co-op development manager, facility project manager, and general manager. All of the talent will provide leadership and accountability to the emerging development process.

Capital is the financial resources necessary to sustain the cooperative in all stages of development. Capital is monetary and in-kind, internal and external. Internal resources leverage external resources. Capital is needed for all of the development phases from organizing to feasibility and business planning to implementation. Capital will also be needed to sustain the new co-op.

Systems are organized, integrated, and interdependent methods that are ongoing with a commitment to continuous improvement. Systems

become more complex as the organization proceeds through the development stages. Systems include legal, governing, planning and assessment, communication, marketing, finance and accounting, and operations.

Three stages of development

Organizing commences when one or more people start with an idea to organize a retail food cooperative that will solve a problem or meet a need for a larger group. The organizing stage includes convening a core group, assessing common interest and needs, designating leadership, building a shared vision, committing time and money, coordinating initial market research, and preparing for incorporation.

Feasibility and planning begins when the organizing stage reflects positive assessments of market potential and internal readiness, including incorporation and a seated board of directors. Feasibility takes into account in-depth assessments of market potential, financial projections, and organizational commitment. Planning occurs when management capacity is built and a business plan for financing and operation is developed.

The feasibility and planning stage ends when a site has been secured through lease or purchase, with contingencies. This is a major decision point for the co-op.

Implementation is set off when there is sufficient capacity in all the cornerstones—vision, talent, capital, and systems—to launch the business operation. Implementation makes possible the satisfaction of member needs. It has several components:

- Preconstruction involves site and facility design, development bids; and financing; the preconstruction phase ends with a no-turning-back decision point at the close of financing and removal of contingencies.
- Construction and renovation entail completing bids, overseeing construction and equipment acquisition, building business relationships, developing merchandising plans, and determining opening orders, promotions, and staffing plans.
- Preparation for opening involves building organizational and operational capacity and implementing staffing, marketing, and membership program plans.
- Sustaining operations includes preparing for the first year and beyond.

Seed Fund and Sprout Fund

As we begin testing the model with selected pilot projects, NCB is launching two funds that will provide capital to startup groups and existing food co-ops. The Seed Fund will match up to \$10,000 for eligible organizations seeking to start a food co-op in their community. This starting fund of \$100,000 has been contributed 50-50 by NCB and the Blooming Prairie Foundation. The NCB has also committed \$250,000 to a Sprout Fund, which will provide loans of up to \$25,000 to match funds provided by new startups as well as existing co-ops. The official rollout for the program is summer 2005.

Seed Fund money will be available to cover costs associated with organizing a co-op, including membership development, initial market analysis, legal organization, or other professional assistance. To be eligible to apply for a grant, an organization must intend to become a legal cooperative operating under cooperative principles. Those selected for the matching grants will be chosen based on the viability of their concept, market and membership potential, and ability to raise matching funds. To better test the system, the task force expects to fund projects in a variety of settings, including urban and rural co-ops with interest in both natural foods and traditional grocery formats.

The Seed Fund is not for existing co-ops seeking to open additional stores. Both existing and new co-ops will be eligible for Sprout Fund loans for expenses associated with a feasibility study or business planning. The Seed Fund is also a demonstration program, and if it is successful, Food Co-op 500 will need to establish a permanent source of funding.

It's important to recognize that Food Co-op 500 is currently in the pilot phase, and the organizations involved will be testing and refining the model and building a toolbox based on what works. However, since the proposed model will be based on research and case studies, there's a strong hope that following it will deliver results. "This is a fairly complete development model," said Shrader. "The four cornerstones could be replicated in other co-op sectors, but food co-ops benefit from the pilot project. We're the lucky ones."

Meet in the middle

In part, this model is not just a process of planning to open a new store; it's a process of creating community. No one can give a co-op to a group of people; they have to want it. Leaders need to step forward intentionally to create and nurture an ever-growing group of people who will work together so that they can access the benefits a co-op can bring. The dynamics and challenges of this human component cannot be underestimated.

But also at the core of a successful startup is a viable business proposition. Regardless of market size or demographics or proposed product mix, there needs to be enough sales volume at sufficient margins to generate profits that will repay lenders and ensure cash flow, to retain talented staff, and to provide for the ongoing growth of the co-op. There is a disciplined process necessary to testing the viability of a business concept.

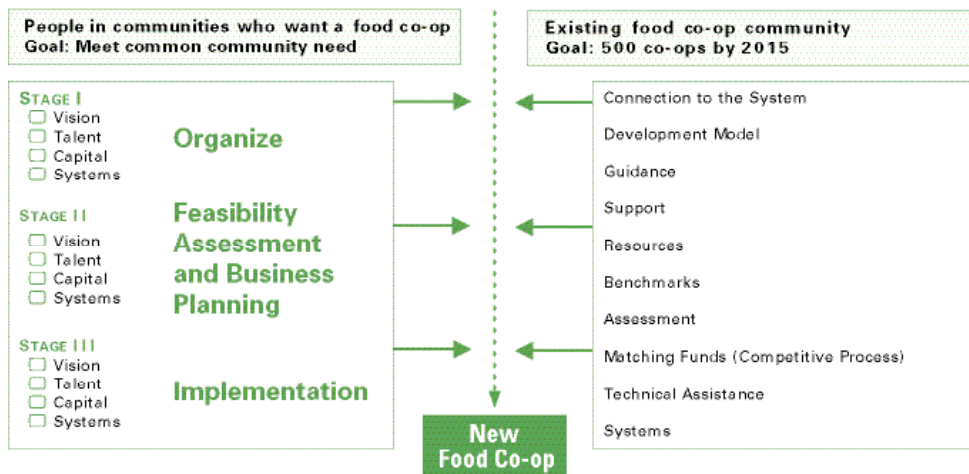
The Food Co-op 500 Program can help startup communities by giving them an opportunity to meet the existing food co-op community "in the middle." Based upon the cooperative value of self-help and the cooperative principle of cooperation among cooperatives, "Meet in the Middle" is an idea that empowers communities to help themselves while the existing cooperative community makes necessary support available at every stage to enable success. The full potential and extent of "Meet in the Middle" has yet to be designed, but we are certain that expansion of food co-ops will not be successful in isolation. The development model, the seed and sprout funds, and the pilot program are ready to go. Now co-ops and their leaders need to be thinking about what more we can do to lend a helping hand.

The next major steps in creating this system will need to be simultaneous: to develop the capacity of this system, ensure its sustainability, and educate the public about the benefits of cooperative business.

For more information about Food Co-op 500 and the startup application process, contact Vicki Swartz, mission banking program associate, National Cooperative Bank, 202-336-7632, vswartz@ncb.com. Or visit the website at www.FoodCoop500.coop. ■

Thank you to Patricia Cumbie and Denise Chevalier for their assistance with this article.

Meet in the Middle THE SYSTEM



Based upon the cooperative value of self-help and the cooperative principle of cooperation among cooperatives, "Meet in the Middle" is a system that empowers communities while the necessary support to enable success is available at every stage from the existing cooperative community!

www.FoodCoop500.coop

Food Co-op
500

Other Sources for Startup Funding

There are a few public programs that may be able to provide financial support for predevelopment expenses for new co-ops. Some of these resources are available only in certain communities (most typically rural communities), but CDS has successfully used each of them to help various groups pay for early stage technical assistance. A brief summary includes:

Rural Cooperative Development Grants: There are about 20 cooperative development centers nationwide (serving more than 40 states) that receive USDA Rural Development funding for rural business and community development. CDS is working with the center members of CooperationWorks (www.CooperationWorks.coop) to help these centers work effectively with food co-op startups in their regions. Though currently not extensively used for food co-op projects, this program has the greatest current potential for assisting new co-ops.

Rural Business Enterprise Grants: This program provides funding for technical assistance to rural businesses to create or retain jobs. The program is generally administered by state USDA Rural Development offices. The grant applicant is typically a local nonprofit service provider that either directly provides services to the startup business or contracts with a service provider (such as CDS) to assist the business with feasibility analysis or business planning. The program is very competitive, and match funding is required.

Community Food Projects Grants: This program has funded a few food co-op start-up projects over the past several years. Also very competitive, the program is administered by the Cooperative State Research Education Extension Service of USDA in Washington, D.C. and provides funding to groups developing innovative multidisciplinary approaches to issues of food access and food security. A dollar-for-dollar match is required for this program, but theoretically up to \$300,000 in federal funds can be awarded to successful applicants. (Typical awards are substantially less than this, however). Both urban and rural community groups are eligible to apply.

Business and Industry Loan Guarantee Program: While this program will not provide predevelopment funding, it can be a useful finance tool for qualifying rural-based businesses since it substantially reduces the risk to private lenders should the business not succeed. (Co-op member loans cannot be guaranteed.) The program is operated by USDA Rural Development offices in each state.

Each of these programs has unique characteristics and requirements. CDS and other cooperative development centers have the expertise to assist co-op startup groups with applications.

—Kevin Edberg, CDS executive director