Funding and Selling "Co-op"

BY DAVE GUTKNECHT

Got capital? Few topics are as persistent in co-op history. How will the co-op finance improved assets and services that will attract and retain owners? The cooperative structure requires that providing capital be a widely shared responsibility. Customers must be persuaded to become owners.

Got fees? Better food co-op practices around capital have evolved through the years and many hard-won lessons. For example, membership fee income can disguise weak operations and is taxable, whereas equity contributions strengthen the balance sheet metrics of cooperative ownership. Co-op success depends on sound treatment of capital, and co-op failure can result from weak support of capital needs.

Got discounts? Marketing the co-op is closely tied to building cooperative capital. But poorly thought-out ownership policies can undermine building capital. Typical grocery store earnings are 1 to 2 percent of sales, and most food co-ops have reformed earlier practices around member discounts. Excessive discounts hamper prudent financial management and retard the accumulation of capital used for the greater good.

Got dividends? Many food co-ops offer annual patronage dividends or refunds—both to fairly distribute earnings and to share capitalization of the co-op through retained earnings. The latter cumulative capital, the result of careful management as well as foresighted governance, is now the largest source of owner equity in food co-ops.

Got owners? The link between funding and selling "co-op" is strong, and this holds both for startups and established co-ops. Yet it is far from simple. For example, why is shopping loyalty (i.e., where household grocery dollars are spent) so weak among most member-owners? Another challenge in selling "co-op" is remaining accessible to people of limited means. Yet co-op capital is not strengthened nearly as much by a $100 owner investment today as it was 25 years ago: should member capital requirements evolve as well?

Got partners? In addition to improved practices, food co-ops have important resources and allies in our movement of shared ownership and democratically controlled capital. Some are reported in this issue of *Cooperative Grocer*:

- An updated "Capital Workbook," produced by Food Co-op Initiative, sets out guidelines for member loan campaigns as well as for preferred shares and other less familiar capital tools.
- Established lenders support further food co-op development, leverage additional funds, and expand cooperative impact—including allies at National Cooperative Bank, Co-op Fund of New England, and Shared Capital Cooperative. Potential partners also include the new Principle 6 Fund supported by Organic Valley and the Cooperative Community Funds being sponsored by Twin Pines Cooperative Foundation and some 40 local food co-ops.
- An important resource for members of National Co+op Grocers, offering patient capital and expert assistance and expert assistance, is its Development Cooperative (www.ncg.coop/ncg-development-cooperative).
- Further afield but closer to home, local banks and businesses are potential allies in financing co-op development. We'll also see more of this if the Small Business Association ever changes its refusal to support cooperatives.
- Grassroots organization allied with co-ops are also proposing to launch loan funds, such as the newly formed Peer Network: www.theworkingworld.org/us/peer-network/.

Let's step back from these examples of capital resources. All cooperative funders encourage the financing of business improvements through leveraging of owner equity and equity-like financial instruments. In our credit-driven economy, this is typical of the owner risk found in most businesses. What degree of risk is acceptable, as well as what assumptions to make about the future, are critical and unavoidable questions. Even if a strategic decision is made to avoid external debt and its risks, the assets will be financed through obligations to the owners.

Somewhat to their disadvantage, co-ops have tended to be cautious in leveraging their capital, often constrained in their outlook by a large owner base—the same aspect that potentially gives them a market edge. If a food co-op is managed and governed well and communicates that well, it should be able to sell a growing number of owner shares and to leverage owner equity for expansion of services.

Got community? Declining circumstances lead to expanding interest in cooperatives as a way to build more equitable local economies. The value of self-reliance especially pertains to capital formation, where consumer cooperatives have emphasized benefits and mitigated risks concomitant with ownership. ☐

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