

Learning from Co-op Startups

Study and engagement project solicits views and lessons

BY PATRICIA CUMBIE

In the years since 2005, when the Food Co-op 500 pilot project began to challenge the sector to have 500 food co-ops by 2015, a lot has been accomplished in an attempt to achieve this goal. As a result of these efforts, along with a resurgent interest in business fairness and transparency and other social trends, hundreds of communities across the United States are in various stages of organizing food co-ops. The Food Co-op Initiative (FCI, formerly Food Co-op 500) reports that 50 new retail food co-ops have opened in the last five years, and 250 more are in some stage of organizing.

Within the field of food co-op development, infrastructure to address the needs of startup groups continues to grow and be strengthened. Three organizations currently specialize in serving food co-op startups during three critical phases of their maturity: FCI (organizing phase), CDS Consulting Co-op (CDS CC, feasibility and planning), and the National Cooperative Grocers Association's Development Cooperative (DC, implementation). (See page 6 of this issue for a report from the DC.) For background, see "500 Co-ops in 10 Years," at www.cooperativegrocer.coop/articles/2009-01-21/500-co-ops-10-years.

As these three organizations continue to meet with each other and work together, they have recognized that it is important to hear directly from startup groups and the people working to assist them about what the issues are and how cooperators could capitalize on the strong nationwide interest in food co-op development. CDS CC's board of directors initiated a study and engagement project to better understand the challenges. "We recognized that many people were working hard to support startup efforts, that many people had their own anecdotal stories about startups, but that it was hard to see the big picture or the key trends. We thought a better understanding might lead to an improved support structure," said CDS CC board president Mark Goehring.

The research

The first part of the study, conducted in conjunction with FCI in February 2011, was a formal survey of individuals involved in startup groups.



Harvest Moon Co-op in Long Lake, Minn., which began planning in 2006 and opened its doors in 2009.

It's in the best interest of established food co-ops to support this new wave of development, the likes of which has not been seen in a generation.

The second part of the research was to conduct four roundtable conversations based on the survey data. Participants at these sessions during March and April 2011 included startup co-op organizers, leaders of newly opened startups, managers of existing food co-ops, and professionals who serve new and existing food co-ops. The function of these roundtables was to learn what the participants extrapolated from the survey data, how they connected the data to their own experience with startups, and to find out their ideas about what the sector can do with this information and insights.

After the four roundtable discussions, it was clear participants believed there is a critical need for more education for startup groups about cooperative structure and finance, marketplace realities, and organizing their communities. Most participants were concerned that startup groups, especially those in the early stages of organizing, appear to lack significant knowledge about the basics of cooperative

business and economics and that startup groups' vision for success was being limited by lack of education and access to resources.

For existing co-ops and co-op development organizations, the paramount question was how to best support startup groups and develop systems and infrastructure. Participants tended to believe that this new wave of startups has not yet reached its peak and to share concern that existing systems for assisting startups will be inadequate. The general consensus of the roundtable discussions was:

- The food co-op infrastructure needs to be more proactive to address the needs of this new wave of startups, and
- It is also in the best interest of established food co-ops to support this new wave of development, the likes of which has not been seen in a generation.

Summary points

- The wave of startup groups continues to grow and has not yet peaked.
- Startup groups are challenged by raising capital and require more understanding of cooperative financing. Additionally, startup groups appear to be pursuing a small-store vision, especially in their

beginning stages. It is not clear if this is a sign of under-reaching or recognition of capital and marketplace realities.

- Existing food co-op leaders and food co-op development organizations see a need for a strategic process to address new food co-op growth and development.

Despite all that groups and individuals have done to address the needs of food co-op startups in recent years, the approaches to starting a food co-op are still scattershot. Co-op development systems are currently unprepared to assist hundreds of startup groups, and some fear a worst-case scenario of under-planned storefronts opening that will burden other food co-ops with underperforming stores in years to come.

From the roundtable participants' perspective, the good news is that interest in starting food co-ops is at an all-time high. The challenge is two fold: How to best assist these startup groups in their organizing stages, and how to aid their education to ensure they become successful grocery stores.

Marilyn Scholl, CDS CC consultant and manager said, "After gathering this feedback, we are ready to begin another exchange with food co-op organizations and individuals who can help leverage, sustain, and build support for this burgeoning wave of food co-op startups."

Raising capital and providing education

Raising capital and the challenges inherent in that activity are universal for startup groups. The current economic conditions may be one of the most difficult financing environments for new co-ops. There is limited investment capital for everyone, even those with a good business plan. This challenge becomes doubly difficult for startup groups that may have a limited understanding of cooperative finance.

For example, a significant number of respondents from the survey (37 percent) do not think it is important whether the money needed to start the co-op comes from members. (See chart above.) Additionally, 56 percent of startup groups represented in the survey have 100 or fewer members. Half of respondents believe they will need \$1 million or less to capitalize their co-op, and 24 percent don't know how much they'll need to capitalize. This data points to the profound need for education and support on this issue. It takes much effort to start a co-op, and by not understanding co-op economics up front, startups may take longer and make mistakes that limit their opportunities.

Most respondents feel all the items in question 4 are important or very important. The one item that a considerable percentage of respondents seem to feel is somewhat important or

Question 4: Please indicate how important each of the following cooperative characteristics is to your group.

Characteristic	Very Important	Important	Somewhat Important	Not Important
Co-ops have a duty to promote the sustainable development of their communities	69%	22%	8%	1%
The co-op will be owned by the members	66%	24%	8%	2%
The co-op is our community's response to a common need	61%	36%	3%	0%
Membership in the co-op is open to anyone and is voluntary	60%	31%	6%	3%
Each member has an equal voice (i.e., one member, one vote)	59%	26%	12%	4%
The membership have a say, through the board, on how the co-op is run	50%	36%	10%	4%
The co-op has a duty to educate members and the public about co-ops	49%	35%	12%	4%
The co-op will be an autonomous and independent business	46%	42%	9%	3%
The money needed to start the co-op is coming from our members	24%	40%	26%	11%

not important is that startup funds come from their members.

According to Marilyn Scholl, the comments in the survey about financing were quite pointed. People are afraid to ask others for money; they are frustrated by the economic problems that make it hard to get financing. They have to deal with selling an intangible idea (about which they may or may not be well-educated) as they seek to raise money for the assistance they need.

Getting assistance to become more educated about cooperative financing and marketplace realities is a challenge as well. The survey reported that only 51 percent of groups are using professional co-op consultants. For those who are not using them, 46 percent believed they could not afford one. For those doing market studies, 30 percent were using a member of their organizing committee to do it rather than someone with relevant experience and expertise.

This data points to a number of issues. Cooperation is a unique business model that presents its own set of challenges and benefits. Using expertise from within the organizing groups themselves or from people outside the sector raises red flags. For example, financing a food co-op is different from many conventional businesses. Startup groups working without professional assistance from co-op experts may not be

getting accurate information based on best-practices, nor be grounded in an understanding of cooperative food business.

Finding needed resources

Getting that education, leading the community, and coordinating events all require resources. Startup groups are clear they need more up-front money to hire people who can help them be educated about the issues as well as reach the next stages in their development more efficiently. Feasibility and market studies top the list of needs for startups.

Ben Sandel, board president at Friendly City Co-op, a startup that opened in 2011 in Harrisonburg, Va., said, "Getting financing and generating community support are two different pursuits. On the one hand, you are engaging the community, and on the other, you are starting a grocery store, both of which come with their own learning curves."

Sam Olmstead, steering committee chairperson of the startup San Clemente Community Market, in San Clemente, Calif., expressed appreciation for the support that is available but said that it could be more accessible—financially and logistically. They have recently approved bylaws and incorporated the co-op. "We were still learning by putting our feet to the fire," he said. "We needed something that would help us be more efficient as we got organized." ►



Left: Chatham Marketplace in Pittsboro, N.C., in operation since 2006. Right: Burlington, N.C.'s Company Shops, which opened in May 2011.

◀ Terry Appleby, general manager of the Hanover Co-op with stores in New Hampshire and Vermont, noted that the startup groups his co-op has worked with in their area—including River Valley Market in Northampton, Mass.; Littleton Food Co-op in Littleton, N.H.; and the Monadnock Community Market in Monadnock, N.H.—benefit tremendously from professional expertise in their early stages. “It helped them avoid unrealistic expectations and projections by speaking to experienced people right away.” Appleby believes local communities need to demonstrate their financial support, but if people can find ways to help vital startup groups “quickly transition to expertise,” the food co-op movement will benefit from their sustained efforts.

Of all the resources currently available to startup groups, existing co-ops were cited as number one (73 percent), with FCI coming in at 66 percent and handbooks at 62 percent. Since existing co-ops are so highly utilized by startups, it raises the question as to what extent development organizations could also give support and resources to help existing co-ops with mentoring startups.

Nearly three-fourths of respondents said they have received assistance from other co-ops.

Which of the following resources has your group used? (Select any that apply)

Assistance from other co-ops	73%
The Food Co-op Initiative (FCI)	66%
Food Co-op Toolbox Manuals (created by FCI, NCGA, and CGIN)	62%
Cooperative Grocers Information Network (CGIN)	51%
CDS Consulting Co-op online workshops	44%
Cooperative Grocer magazine (including archived editions)	42%
CDS Consulting Co-op consultants	34%
The National Cooperative Grocers Association (NCGA) Development Cooperative	27%
Other	24%
We've not used any of these external resources	9%

FCI, the Food Co-op Toolbox Manuals, and the Cooperative Grocers Information Network were used by more than 50 percent of the groups.

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Strategies to address startup challenges

Existing food co-op leaders and food co-op development organizations see a need for a tactical process to address new food co-op growth and development. There has been a lot of grassroots organizing but not enough strategic advancement. For example, FCI has only two employees, and if the sector is looking at potentially hundreds of startups coming into the system, it is clear that FCI, and perhaps other organizations, will soon be overwhelmed. “The FCI wants to provide a high level of service at the early stages that will allow more groups to have a viable future,” said FCI Executive Director Stuart Reid. “We are at the wide end of the funnel working with a lot of groups. Therefore, the best scenario is that we have ▶



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Food co-op development infrastructure

The **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. It offers advice, coaching, and access to training materials and other resources, so that groups interested in starting new food co-ops have the tools to get started using best practices based upon experience and models for success. In addition to being the first organization most startup groups will interface with, FCI also plays another unique role: it is completely open to anyone seeking information about organizing a food co-op effort—all the way through opening. FCI doesn't charge for the information and services, working to encourage development by being accessible to anyone. FCI activities are funded largely by grants from the Blooming Prairie Foundation and the United States Department of Agriculture.

Since 1992, **CDS Consulting Co-op (CDS CC)** members have been working to support the creation and development of food co-ops. In 2008, the food co-op consultants reorganized to respond to exponential growth and increase their capacity for meeting the needs 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, with its former parent Cooperative Development Services, codified the stages of expansion and growth for startups through the Four Cornerstones in Three Stages model. The four cornerstones of vision, talent, capital, and systems operate within three stages of food co-op development: organizing; feasibility and planning; and implementation. The model is also applicable to existing food co-op expansions.

The National Cooperative Grocers Association (NCGA) formed as a secondary cooperative in 1999 to provide support to its member retail food co-ops as a virtual chain. The **NCGA Development Cooperative (DC)** was incorporated in 2008 after members asked the NCGA to find ways to assist them with expansion and new store development. Members can engage the NCGA DC fee-based services through a contract that returns a percentage of their sales to DC over the term of the agreement.

The DC assists expanding co-ops with financing, real estate negotiations, opening the new store, and monitoring operating profitability for up to two years after opening. According to C.E. Pugh, its national development director, the DC usually works with stores after they have done some financial projections, a market study, and site selection activities with CDS CC.

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◀ multiple funding streams.”

Sector stakeholders must have a conversation to address the apparent underinvestment in critical systems. It's time to push the vision outward. Therefore, it's important that cooperators as a whole identify the opportunities inherent in this new wave, assess startup needs, and create systems that are most likely to support successful outcomes.

“The information in the study is a reflection of what I've been experiencing in my own work,” said C.E. Pugh of the DC. He believes there are many changes that have taken place in the marketplace in recent years that force cooperators to take a more strategic approach to organizing, planning and implementing successful new food co-ops. The organic, slow growth of food co-ops begun in the 1970s may no longer be possible.

Currently, the FCI, CDS CC and the NCGA DC are meeting regularly to address how to better leverage each organization's strengths in order to create a quicker and easier development path for startups. The following are issues they want to address:

Identify opportunity—Interest in starting new food co-ops is at an all-time high;

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— MARILYN SCHOLL

now is the time to look at this massive group strategically.

Assessment—Identify what startup groups need to thrive in these areas: systems, financing, organizing and education.

Systems—Continue to build the infrastructure that supports better understanding at the grassroots level about cooperation, finance, community organizing, and marketplace realities.

“The co-op community has already given a lot of support, encouragement and advice,” said Marilyn Scholl. “It's been tremendous but has not been enough to provide the support that's really needed. It's a big dilemma. If we had

more resources, more groups would open successful co-ops.”

Pugh pointed out that there are limited resources for everyone, not just startups. In the grand scheme of things, the development groups discussed here are also small organizations without deep pockets. “We have to work smarter to make our limited resources go further,” he said. “I'm confident that between the three groups, we know how to do this.” Discovering ways to finance startup development from within and outside of food co-ops is part of the task at hand. “We're learning how to work together and pilot things, but we're also working on a vision for what startup development could look like with additional resources.”

CDS CC's Goehring commented, “Clearly, many local communities want the benefits a food co-op provides. Can we rethink how to frame the necessary questions, to build the relationships, and to marshal and organize the resources necessary to take full advantage of the opportunity? It's certainly worth investigating.”

The enthusiasm and passion startup groups have demonstrated is truly impressive. Their momentum could provide powerful impetus for all food co-ops into the next generation. ■



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