

Remember the Member

Co-ops are in a capital revolution

BY DAVID THOMPSON

There is a revolution going on among food cooperatives in the U.S. The root of the revolution is that many food co-ops are now fully engaged in the capital business. Our success as retailers has brought on an era of major remodels, relocations of existing stores, and an increase in the number of co-ops adding new branches. Without a doubt, food co-ops in the U.S. are on the move in epic proportions, and that requires money and plenty of it.

The question is, whose money? It is time for co-ops to access the biggest tool for expansion of our co-ops and the co-op movement, the capital our members have. Millions of dollars of capital sitting in our member's pockets are going unused! Start thinking about ways you can get your members to invest more in your co-op. Your co-op needs to plan how to ask for and successfully obtain member capital.

The National Cooperative Grocers Association reports that at least 50 percent of food co-ops in the U.S. are undergoing some form of expansion. The capital needed for buildings, equipment, and inventory is far beyond these co-ops' ability to finance growth through retained earnings. To finance this immense natural growth, food co-ops need to look at acquiring substantially higher levels of capital.

Capital is destined to be much more of a factor in our future than it ever was in our past. However, money from those with outside interests (banks) does not come cheaply or without tight strings. The higher cost of bank interest ends up increasing our shelf prices.

During this difficult era in the economy and tighter lending practices, member capital gives cooperatives a lead over our competitors.

Capital for cooperatives

To understand the need for capital in the natural foods industry, look at what happened to Whole Foods this fall. Whole Foods sold 17 percent of the company to Leonard Green & Partners in return for a capital infusion of \$425 million. John Mackey, Whole Foods' chief executive, said the investment from Leonard Green & Partners would help the company "manage through these difficult economic times while continuing to invest prudently in our long-term growth."

Whole Foods will now pay 8 percent per year on investment, in addition to allowing the investor to gain a 40-percent return on the stock price. This gives us a clear idea of how much our major competitor is willing to pay for equity capital.

When it comes to equity, Whole Foods does not have what co-ops have: member capital! However, this potential access to capital is presently underutilized and not well understood.

My own co-op, the Davis Food Co-op, ignored suggestions to take full advantage of member capital for a major remodel. Instead, the DFC ended up borrowing only debt capital from a foreign-owned bank. The contested member vote on the almost \$4 million bank loan passed by only 98 votes. However, as a result of the issues raised, the DFC is now pursuing a program of raising member capital.

Co-ops need to understand they are now permanently in the capital business. Some cooperatives are leading the way in creating more sophisticated ways of raising capital from their members. Here's how three food co-ops have

successfully structured the cooperative to obtain member capital in both shares and loans:

North Coast Cooperatives (NCC), two stores in California, projecting \$26 million sales in 2009. Members are required to have a \$25 Class A voting share and up to \$300 in Class B shares (\$10 per share). Members having the full amount of Class B shares are allowed to invest in any dollar amount of Class C Shares. C Shares currently earn 3.5 percent interest (slightly higher than a bank and set quarterly) and can be withdrawn with a month's notice. In 2006 NCC members had \$165,225 in Class A, \$704,632 in Class B and \$1.7 million in Class C shares. In addition, members have loaned \$555,500 to NCC. They receive 6-7 percent interest on the loans. Capital of \$3.1 million comes from co-op members.

Weaver Street Market, three stores in North Carolina, projecting \$28 million sales in 2009. Weaver Street is a hybrid model of both worker and consumer members. Membership capital required is based upon household size (\$75 one adult, \$135 two adults and \$175 three or four adults). Weaver Street's recent issue of



ILLUSTRATION BY DEBRA HUGHES

member loans helped to finance their third store in Hillsborough. During 2008 worker-owner equity reached \$374,151, consumer equity reached \$1,143,241 and loans from members \$1,324,750. Capital of \$2.8 million dollars comes from co-op members.

Seward Co-op, a single store relocating in Minneapolis, Minnesota, projecting \$20 million sales in 2009. To become a member one must invest \$75 in shares. Seward offered member loans and \$500 Class C shares as part of its \$10.5 million capital drive to finance its new store. The majority of member capital was in loans totaling \$1.2 million. Depending on size and terms, these loans paid rates ranging from 5 percent to 8 percent. The co-op also raised \$300,000 in Class C shares. The intent is that the co-op will declare a 5 percent dividend. To finance the relocated store, capital of \$1.5 million has come from co-op members.

The key lesson from each of these three stories is to remember the member! The members of our food cooperatives have all the funds we need to fund our local co-ops, along with our cooperative development funds and co-op partners.

Capital cooperation among cooperatives

To fund its growth, Organic Valley created Class E shares as a method for supporters to invest in the cooperative (www.organicvalley.coop/our-story/invest/stock-prospectus). As of the end of 2008, Organic Valley has obtained \$21.7 million in Class E shares, which are equity investments from supporters. The goal for 2008 had been \$4 million raised in Class E, yet Organic Valley received \$9 million. The 2009 goal is the same: \$4 million.

Almost 1,400 investors (93 percent individuals and 7 percent entities) have invested an average of \$15,800 in Class E shares. Food co-ops and members of food co-ops are a significant group, making up about 35 percent of the investors. Twin Pines Cooperative Foundation is the largest investor in Class E Shares, and we are extremely pleased with the partnership we have built with Organic Valley under the leadership of Jerry McGeorge, director of cooperative affairs. Since 2003, TPCF has invested \$300,000 and promotes Organic Valley in the food co-op community. In return Organic Valley has contributed \$40,000 in matching funds and support dollars for Twin Pine's Cooperative Community Fund program.

In 2004, Twin Pines suggested to Diane Gloede, Organic Valley's investment relations manager, that Organic Valley advertise Class E shares in food co-op newspapers. Class E investments from three cities show that food co-op members responded strongly by investing in Class E shares; Minneapolis/St Paul (\$262,000), Milwaukee (\$134,000) and Davis (\$273,000). Diane said, "Advertising in food co-op ■>

Cooperatives for capital: four key partners

In addition to the capital plans of the individual food co-ops, there are a number of regional cooperative loan funds that make equity-like loans to food co-ops. Financing food cooperatives usually requires a triple deck of dollars. The bottom layer is equity capital from the co-op, the top layer of debt capital comes from NCB Capital Impact or conventional bank sources, and in between is a healthy layer of near equity, usually from one of the three cooperative loan funds.

Without the cooperative loans funds filling the gap, many food cooperatives would find their avenues to debt capital closed. To build solidarity and reciprocity, every food cooperative should have a policy of investing in one of these three cooperative loan funds. The Twin Pines Cooperative Foundation/Cooperative Community Fund program invests in these funds to the tune of almost \$700,000 (to learn more visit www.community.coop/ccf).

Cooperative Fund of New England (CFNE)

Assets of \$6.5 million
 \$16.7 million in 435 loans to co-ops since 1975
 30 of 37 food co-ops lent to in the New England region
 \$14,100 average individual investor
 \$73,900 average institutional investor
 Food co-ops borrow 25% of CFNE's funds and supply 7% of CFNE's investment.



Northcountry Cooperative Development Fund (NCDF)

Assets of \$9.6 million
 \$28.5 million in 731 loans to co-ops since 1978
 \$11.1 million in loans to food co-ops since 1978
 \$10,600 average investment from individuals
 \$48,670 average investment from all co-op investors
 \$61,120 average investment from food co-ops
 \$138,250 average investment from other institutions (non-co-op)
 Food co-ops have borrowed 39% of NCDF's funds and provide 56% of NCDF's investment.



Northcountry
 Cooperative
 Development Fund

ICA LEAF (Local Enterprise Assistance Fund)

Assets of \$1 million
 Began lending to food co-ops in 2000
 \$560,000 in existing loans to seven food co-ops
 \$12,000 average individual investor
 \$50,000 average institutional investor
 Food co-ops are presently borrowing 75% of LEAF funds.



NCB Capital Impact

Lending to food cooperatives since 1980
 Is the largest single lender to food cooperatives
 Frequently lends in association with three cooperative development organizations
 "Sprout Fund" has lent to six new food co-ops
 Assists with new market tax credits and food co-ops



< newspapers/newsletters has been both effective and relatively inexpensive. It is a great way to target our core consumers.”

Equal Exchange (www.equalexchange.coop/investing) has \$5.2 million in external investments (mainly shares), which include an innovative CD program offered through Wainwright

Bank in Boston. Equal Exchange cannot market the shares publicly due to securities laws restrictions on soliciting investments, and is also limited to only 500 members of the share class available to outside investors. Many investors appear to be food co-op members, but there is no tracking on that basis. About one-third of

Equal Exchange investment supporters come through socially responsible brokers. To learn about the Wainwright Bank CD program, visit, www.wainwrightbank.com/html/nonprofit/savings/equalexchange.cd.html.

Four years ago, Equal Exchange had a minimum share investment of \$1,000—allowing the fund to collect \$1,000 from 500 investors to obtain \$500,000. As their capital needs grew, Equal Exchange needed to change the minimum share amount to \$10,000—since the 500 shareholder limit cannot be changed. The maximum obtainable is now \$5 million dollars.

Alistair Williamson, Equal Exchange investment coordinator, said, “About 35 percent of our capital comes from Massachusetts, 20 percent from California. The rest is from all across the country, not to mention many coffee co-ops in Mexico, Nicaragua, and Costa Rica. Long term, we’ll need a new capital model, due to the restriction on the number of shareholders we can have.”

Members of food co-ops are strong supporters of Equal Exchange, buying its products and supporting its projects to help coffee farmers. Many food co-op members who go on Equal Exchange coffee tours end up being investors. Since 2005, Twin Pines/Cooperative Community Funds has invested \$200,000 in Equal Exchange. In return, Equal Exchange has contributed \$25,000 in matching funds and support dollars for the Cooperative Community Fund program. ■



Call for Proposals

Blooming Prairie Foundation is now accepting proposals for its 2009 funding cycle.

The Foundation's mission is to promote innovative ideas, practices and procedures in the area of organic and natural foods in order to further the health of the people, the health of the environment and cooperative ideals.

The Blooming Prairie Foundation makes grants to nonprofit, charitable organizations that conduct any of the following activities:

- Developmental, research and educational efforts in the organic industry and the cooperative community
- The development of organic and natural products.
- Cooperative development in the natural products industry.

Grants are not made to individuals. To be considered for a grant, your organization can follow the guidelines on the “Grants” page of the Blooming Prairie web site at: www.bloomingprairie.org. Deadline for proposals is 5:00pm, Feb. 1, 2009.

For more information:
Please call Lynn Olson, Grant Administrator at (609)556-3055 or e-mail at bpinfo@yahoo.com





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