



The Cooperative Model of Grocery Store Ownership

Rural Grocery Store Guide Supplement

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- *Why a cooperative grocery store?*
- Rural communities often struggle to maintain local grocery stores for a variety of reasons, including lack of high profit margins to attract individual owners or private investors, poor access to capital for individual entrepreneurs, or changing commuting and shopping and commuting patterns by local residents. Under some circumstances, a cooperative can be a useful business model to start or keep a grocery store in this environment. While a cooperative grocery store must be profitable at a basic level, a cooperative by definition does not need to deliver high profits to investors to be deemed a success, making it suitable in some environments investors are not otherwise attracted to. Cooperatives are capitalized at a basic level through small share purchases by many member-owners, and hence do not depend on large equity investments that are often hard to find in a rural environment. And at its best, a cooperative can help turn community sentiment (“We want a convenient grocery store in our town!”) into action (regular shopping at the store) by challenging community members to literally take ownership of the store. Under certain circumstances cooperatives can also have tax advantages over other forms of business. A cooperative grocery store can be a new business start-up, or an existing grocery store business can be converted to or sold to a cooperative as a succession mechanism.
- While this guide starts with a focus on organizing full-line grocery stores in rural areas as cooperatives, the majority of existing grocery or food cooperatives in the US focus on the natural foods and local foods market segments. Natural foods co-ops are worth keeping on the radar screen for rural communities, since they help meet demand for these products that may exist in the area, and can provide a market outlet to serve the expanding interest in local food production and in value-added food products. These grocery cooperatives leverage other traditional advantages of the cooperative form, especially providing access to specific food products that might otherwise not be available to local residents at an affordable price, or at all. A number of examples of hybrid or crossover grocery cooperatives



exist, carrying both conventional groceries and natural foods products at the same location to serve a broad range of customers.

Regardless of the market segment, cooperative grocery stores can provide community development benefits in addition to the economic development impact of an additional successful local business. Cooperatives are democratically controlled by their local members-owners, providing an additional venue to cultivate a culture of civic engagement in the community. Cooperatives also have a traditional commitment to community service and education, and seek to facilitate broad participation and ownership from across the community.

What is a cooperative?

According to the USDA, cooperatives are “business entities that people use to provide themselves with goods and services.” Cooperatives are owned by their members and operate for the primary purpose of meeting the needs of those member-owners. The business is governed on a one member – one vote basis. The main benefit member-owners derive is improved access to goods or services; any distribution of financial surpluses back to members is done on the basis of how much each member patronized the cooperative. Although cooperatives by definition do not seek to maximize profits for investors, a cooperative is a business and must be operated on a financially sound basis, in which adequate revenue must be generated to cover costs and support future stewardship and possible expansion of the business. Despite this focus on maximizing member benefits over maximizing profit, most people in the cooperative movement regard a cooperative as a for-profit, rather than nonprofit, business model. The legal status of a cooperative in this regard depends on state law. In Illinois, most grocery cooperatives are incorporated under the state’s statute for for-profit corporations.

Cooperatives can also be classified according to whom their member-owners are. Consumer cooperatives are owned by the individual customers who patronize them, while worker

cooperatives are owned by their employees. Multiple independent businesses can also become the member-owners of a business or shared services cooperative. Most cooperative grocery stores are consumer cooperatives. But a grocery store could also be organized as a worker co-op, or a hybrid consumer-worker entity. And independent grocery stores can form a business cooperative to pool orders from wholesalers or to share expenses for marketing services.

How does a cooperative grocery store work?

Much as any grocery store, cooperative grocery stores purchase food and other products from suppliers and resell it on a retail basis to consumers, typically through a physical retail store location. In most cases, grocery co-ops choose to open their store to any interested shopper, and do not require consumers to join the co-op in order to shop there. Special benefits are usually extended to members in one or more ways, including register discounts and/or periodic patronage refund payments. The co-op is governed by a board of directors that meets periodically through the year, elected by and ultimately accountable to the overall membership, which typically meets annually. The co-op board sets policies and strategic priorities, and ensures that the business is run professionally by hiring a competent general manager, who in turn hires staff and manages operations. Although some grocery cooperatives supplement paid staff with volunteer labor from the member-owners in order to reduce personnel expenses, this practice is often not sustainable over time. Hence many food co-ops do not require or even ask their member-owners to volunteer at the store.

People become members in a grocery cooperative by purchasing one or more shares, with a total investment often totaling in the \$100 to \$250 range. Some co-ops allow optional purchase of additional shares beyond the minimum. Most co-ops allow the share price to be paid in installments, and some offer lower price shares or grants to offset share price to low income individuals. Regardless of the price level, this share purchase constitutes

an equity investment – and ownership of – the cooperative by the new member. Most grocery cooperatives do not require additional annual fees beyond the initial investment. Member purchase of shares provides the primary base of capital for the cooperative, which is usually supplemented in the start-up or expansion phases with borrowing.

Seven Cooperative Principles

In addition to being a form of business, cooperatives are a movement and a set of principles and values. Broad support exists among cooperatives for a list of seven cooperative principles that sets out basic values for how cooperatives operate:

1. Voluntary and open membership.
2. Democratic member control.
3. Member economic participation.
4. Autonomy and independence.
5. Education, training, and information.
6. Cooperation among cooperatives.
7. Concern for communities.

Visit the website of the International Co-operative Alliance for a more detailed description of each of the seven cooperative principles: <http://ica.coop/en/whats-co-op/co-operative-identity-values-principles>.

Examples of cooperative grocery stores

- Hanover Co-op Food Stores, Hanover, NH. <http://coopfoodstore.coop/about>
- Mega Foods, Eau Claire, WI. <http://megafoods.com/history/>
- Washburn Community Foods, Washburn, IL.
- Neighborhood Co-op Grocery, Carbondale, IL. <http://neighborhood.coop/>
- Dixon Cooperative Market, Dixon, NM. <http://www.dixonmarket.com>

How do I start a cooperative grocery store?

Many aspects of cooperative start-up closely resemble start-up of other types of businesses, so general business start-up resources – such as the Illinois Small Business Development

Center (SBDC) network – are very pertinent. But other aspects are unique to cooperatives, primarily relative to the distinct orientation a cooperative has towards people – as member-owners and as steering committee or board directors. A typical sequence of events for starting a cooperative could include the following steps, drawn from the USDA *How to Start a Cooperative* publication:

1. Meet individually or in small groups with potential members to discuss issues and identify economic needs.
2. Conduct an general exploratory meeting with a broad range of potential member-owners.
3. Survey prospective member-owners about their needs and priorities.
4. Hold a general meeting to discuss the survey results. Vote on whether to proceed.
5. Conduct a needs/use cost analysis.
 1. Hold a general meeting to discuss the results of the needs/use analysis. Vote on whether to proceed
 2. Conduct a feasibility analysis and develop a business plan.
 3. Hold a general meeting to present the results of the feasibility analysis. Vote on whether to proceed.
 4. Prepare legal papers and incorporate.
 5. Call a meeting of charter member-owners and any interested potential member-owners to adopt by-laws and elect a board of directors.
 6. Convene a first board meeting and elect officers. Assign board member responsibilities to implement the business plan.
 7. Conduct a membership drive.
 8. Acquire capital and develop a loan application package.
 9. Hire a general manager.
 10. Select and acquire a site.
 11. Begin operations.

A theme throughout this start-up sequence is a gradually escalating series of discussions and analyses to assess the viability of the proposed business and the willingness of the stakeholders to participate. When indications are positive at one step, the next step is taken. If indications are negative, stakeholders can assess whether it is possible to act to change

any of the problems seen, whether a transition to an alternative business model (such as a different form of community-owned business, or a more traditional individually-owned business model), or whether business start-up efforts should cease. This approach maximizes stakeholder buy-in and minimizes risk to the individuals involved.

When is a cooperative not a good fit?

Although cooperatives differ from other businesses in important ways, a cooperative is ultimately a business and has similar requirements for success. In adverse environmental for independent grocery stores, cooperative will make the difference when the potential for profit is too small to attract traditional entrepreneurs, but still large enough to cover costs and provide capital for maintaining the business over time. If the revenue potential is fundamentally too small to cover costs, a cooperative will not succeed. When local grocery shopping patterns and purchases volume are a serious issue, cooperatives offer additional ways to motivate local residents to shop locally at the co-op – but this is by no means assured, and will require hard and creative work on the part of the organizers. Starting a cooperative is significantly more people-intensive than most other business start-up situations, and demands a hardworking group of organizers and initial steering committee or board members, and a broader base of sympathetic initial member-owners.

More resources

- IIRA *Rural Grocery Start-Up Guide* <http://www.value-added.org/food-agriculture/rural-grocery-stores/>
- Illinois Cooperative Development Center within IIRA. <http://www.value-added.org/cooperatives/>
- Rural Grocery Initiative at Kansas State University. <http://www.ruralgrocery.org/>
- USDA Rural Development cooperative resources. http://www.rurdev.usda.gov/LP_CoopPrograms.html
- Food Co-op Initiative. <http://www.foodcoopinitiative.coop>
- Cooperative Grocer Network. <http://www.cooperativegrocer.coop/>
- National Cooperative Grocers Association. <https://www.ncga.coop/>
- Illinois SBDC network. <http://www.ilsbdc.biz>

References

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Frederick, D.A., J.J. Wadsworth, & E.E. Eversull. 2012. Co-ops 101: An Introduction to Co-ops. Cooperative Information Report 55. Washington, DC: US Department of Agriculture.

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