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## SOLUTIONS

*for Strengthening Your Cooperative Business*

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# Solutions

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## Member Equity: Essential Foundation, Educational Tool

BY PATRICIA CUMBIE

Most people know that if they were planning to start their own business or buy an existing business, they'd have to ante up a certain amount of capital, or equity, to get it launched. In addition, as the business grew, its equity needs would be something to be continually mindful of. Yet in co-ops, the importance of owner equity seems poorly understood as a source of capital.

Our co-ops are packed with people who view joining the co-op as a way to receive certain benefits—and they are not at all clear about what ownership means and may not recognize the co-op is using their investment to realize individual as well as community and social benefits.

In the average co-op, this doesn't necessarily manifest as a problem until the time the co-op is faced with the need to change something about their existing program. Some co-ops may even be faced with having to change from an annual fee to an equity structure. Others may not have changed their equity requirement in decades and need to raise it in order to reach new goals. Either way, how this organizational challenge is addressed through educational and other efforts is critical.

Good Foods Co-op in Lexington, Kentucky changed its membership requirement from a \$10 annual fee to a \$200 equity investment in the fall of 2002. In addition, they legally incorporated as a cooperative from their previous nonprofit status, and dropped a 5% discount in favor of a patronage rebate system. Although the change had been in the works for over five years, the move and expansion



*“When we had the \$10 fee it was like using pebbles to build a foundation... We needed the concrete blocks of equity to be a solid foundation and help move us into the future.”*

sion to their current location precipitated the necessity. They needed to pay for the new space, had cost overruns, and all their cash was depleted. “We had nothing to fall back on,” said Ann Marx, owner services/marketing director. “When we had the discount we were giving away profit before we knew we had it. It was not a solid business practice.”

“It's important for people to understand the co-op is a business, not a club or a charity,” said Marilyn Scholl, a board consultant with CDS. “Somebody has to provide capital, and in any other business the owner does that. But in integrating business with the cooperative

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## Ownership Education

*There's a postcard I found at a truckstop once that had a picture of the open road on it. Printed above the road on the card were the words, “Hi! We're traveling on the interstate.” It was up to the sender to use the space on the back to write to the recipient about where they're traveling. That postcard could come from virtually anywhere, and without some kind of explanation would be practically meaningless.*

*The way co-ops do (or don't) convey the concept of community ownership to members can be like sending a generic postcard. Nice idea, but where's it from? As both Good Foods Co-op in Kentucky and People's Food Co-op in Oregon learned as they went through the process of switching from a fee to equity-based structure to raise capital, it's important to communicate how member investment in the co-op gets the co-op to a stated destination.*

*What's most impressive, leaders of those co-ops said, is how much education specifically about cooperation and equity's uses has empowered their members and excited them about the idea of community ownership. This is an important competitive advantage, as Good Foods Co-op now realizes as they face new competition from Wild Oats. People committed to the ownership model of cooperatives are more loyal to the business they own, and their loyalty is rewarded with incentives that go beyond the financial.*

*—Patricia Cumbie*

## Our Mission

CDS is dedicated to building and strengthening cooperative businesses by providing consulting, training and development services.

## Our Core Competencies

We specialize in the following areas, offering our experience and tailoring our services to deliver results for your co-op.

### Expansion and Growth of Cooperatives

CDS provides a full range of services to assist your cooperative in growing your business and in the planning and implementation of expansion/relocation projects.

### Leadership Development

CDS works to support and strengthen the leadership team—governance and management. Our work builds organizational alignment and enhances the working relationship between board and management.

### Improving Performance

CDS identifies areas for improvement and develops strategies for results in organizational and business improvements.

### Strengthening the Cooperative Advantage

CDS believes that the cooperative difference is your competitive advantage. We help co-ops build member investment and loyalty. We contribute to co-ops benefiting from collaborative networks while retaining local ownership and control.

## Equity Investment *continued from page 1*

idea, the financial reality is one part of the story.” Scholl stressed that finding compelling ways to excite members about the idea of ownership is important to a co-op’s ability to reach its full potential.

Marx said, “When we had the \$10 fee it was like using pebbles to build a foundation. It wasn’t solid. We needed the concrete blocks of equity to be a solid foundation and help move us into the future.” She used that analogy when talking with their staff and members.

“We did a lot of education. The first thing we did was educate staff about why equity is important because they would be the first ones answering questions,” said Marx. “It took a lot of coordination and communication between the board and management. It was a tremendous project, and the key was getting the buy-in of the staff.”

The process took about a year and included getting legal advice, using professional consultants, as well as holding meetings and staff trainings. It was also labor-intensive. “Every member in line at the cash register got information. We didn’t start with a blitz, but built up to it,” Marx said. “Once we explained to them why we needed to make the switch to equity people really got it. I think it’s because the staff believed in it.”

“What Good Foods Co-op did with their equity switch was not only get members to vote ‘yes,’ but they created a group of people who understand that they are one of the owners of the business,” said Scholl. Scholl theorized that a co-op movement strategy to change the relationship with shoppers and members in this way has potentially great benefit. “If members continue to be satisfied with their role as an owner, the benefit goes well beyond the monetary investment.” Satisfied owners are more likely to be loyal to the co-op, to keep informed, to participate in elections, and use the power of word-of-mouth to promote the business they co-own.

Good Foods Co-op will be able to put the idea to the test sooner than later. A natural foods chain store (Wild Oats) is opening in August in Lexington. “Having competition on the heels of this change is unique, but it’s important for us to tell our story to

our customers and members before Wild Oats gets entrenched,” said Marx. “Part of ownership is investing, and they will be more invested on an emotional and spiritual level because of the financial commitment.”

Denise Chevalier, who consults with stores going through expansions, said the stores with the greatest success at raising equity “get into the psychology of ownership.” She noted that the need for more member equity always comes up during expansions, and is a great opportunity to educate people about ownership. “Typically in expansions the need to raise equity funds is a fundamental component.” The process of expanding and building a store presents an opportunity to reacquaint people with the idea of true ownership.

When the Rochdale Pioneers founded their grocery cooperative in 1844 in England, they had to come up with six weeks worth of wages to invest in order to open their co-op. By comparison, the investment in a food co-op today is not such a huge stretch—and perhaps this is part of the problem. For many of the new wave food co-ops, equity investment wasn’t even part of the concept at the beginning, as people invested sweat-equity into their co-ops. Some co-ops are challenged to change if they want to grow.

“The good news is once people understand equity they get excited. It rings true,” said Peg Nolan, a CDS consultant in the area of strengthening the co-op advantage. “When you think about it, it’s a radical idea—people taking charge of their economic reality.”

The opportunity for any co-op, not just the ones expanding or seeking ways to immediately raise capital, is to find ways to communicate to owners about ownership. “There’s not a direct connection in the minds of members to the other economic, social and community benefits. It’s an education issue. We need to expand the concept of equity and ownership within our co-ops and in the community,” Nolan said. “We need many entry points and opportunities for people to grow their understanding.”

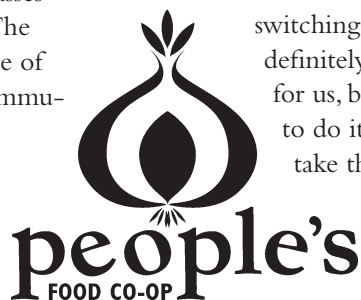
# CASE STUDY: “Green” Store Realized with Equity Investment

When People’s Food Co-op members began dreaming about what their expanded store could be like they envisioned an environmentally-friendly building that would be a reflection of the co-op’s desire to truly support sustainability and community. The store was expanded and renovated in 2002, and was made with recycled building materials, uses ground-source heat and solar energy, and was painted with nontoxic paints. Their new store also has a community room for meetings and classes as well as expanded office space. The building is an outstanding example of green retailing in the Portland community.

According to Miles Uchida, financial manager, none of these goals could have been realized without the co-op taking the important step of switching from a membership fee structure to an equity investment.

“To start, our financial position was not where it should be. There was what we wanted versus the reality,” Uchida said. “There’s no way we could have done it without the equity structure. It was a big stepping stone.” He said that they couldn’t have done an environmentally-sound building if they had to scale back on costs. They needed the financial support of their members, and one way to get it was “having people be really invested” Uchida said. Before the co-op officially switched to the equity structure in May 2000, members paid \$36 a year in annual fees. The current equity investment is now \$180.

Like many co-ops that go through the equity process, People’s Food Co-op also needed to change their bylaws and officially incorporate as a cooperative as well as educate staff and membership about the benefits of the change. For those yet contemplating



switching to equity, Uchida said, “I’d definitely do it. It was a great process for us, but you need to take the time to do it, and do it right. You have to take things a step at a time.” The

co-op spent a year on the change, working with consultants and lawyers, talking with other cooperators, and educating staff

and members.

Apart from wanting an expanded and “green” store, those in the co-op’s leadership

believed that equity would help solidify the concept of ownership as well as contribute to a sound financial strategy. “We had not thought about that kind of capital before,” Uchida said. “We were afraid people would be scared away. I’m glad we went for a higher equity amount, \$180 instead of \$100. In retrospect it was a crucial step.”

But above all, Uchida noted, the education process was eye-opening for the co-op’s staff, board and members. “In general we educated about the basic co-op principles. In our co-op the collective [management] structure is what people latch on to as being co-op...we learned more about the ownership structure and were able to explain to people the difference. It was powerful.”

## Spirit and Food

By Ann Waterhouse

A *lagniappe* discussion at CCMA 2002 led many of us to consider the relationship between spirit and food. Some co-ops have started book discussion groups and community gardens because of the impact of the topic, as a way to involve members in the deeper issues of food.

In thinking about how to share the essence of these discussions, I remember a ceremony I participated in several years ago. A friend wanted to use part of her home for public workshops. Her neighbors were upset by the idea and had made several calls to the city protesting her actions. So, she decided to invite a Potawatome elder to perform a ceremony. He instructed her to prepare a meal using local foods. When we arrived, he blessed the food, and we prepared a plate containing small amounts of each food (squash soup, green salad, strawberries and cornbread) and offered it to the spirits of her place by putting it on the Earth outside her door. The elder said some good words about her intentions for this place, and then we ate the food.

Such a simple ceremony and yet, very powerful...connecting each of us with the spirits of my friend’s place through food. My friend never heard another complaint from her neighbors.

To the extent that we are conscious of our intent to connect with the Earth through the food and with the life force that has lived in our food, we can also connect with the life energy of other people. I invite you to bring spirit and food together in your co-op and see what happens.