

# The Member Equity Toolbox

## Structuring Capital to Meet Present and Future Needs

A Guide for Retail Food Co-ops

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# Introduction to the Member Equity Toolbox

Cooperatives are businesses owned by the people they serve, and more communities from around the country have expressed strong interest in establishing new food cooperatives. There are many benefits to having a food co-op in your area: local economic viability, greater access to healthy food, and a community-owned asset that promotes ethical business practices. These advantages have drawn increasing numbers of people to explore the cooperative business model and start new food co-ops.

All businesses need some base capital to finance their start-up, and this is typically provided by the owner. In a cooperative, this means that the members of the association are responsible for providing this essential financial foundation to the business. Equity, also known as member shares, is one important way owners of the co-op provide capital in the cooperative.

Whether you have an established group of committed volunteers already working on developing a food co-op, or just considering it, this toolbox should help you better understand what's involved in making important decisions for the future of your co-op, including how to structure your member equity requirement.

Many resources are available from organizations that are devoted to helping groups form food cooperatives, including organizations like Food Co-op Initiative, CDS Consulting Co-op and co-op development centers. Through connection with these groups and others, people can get the assistance they need organizing and opening a successful food co-op. As part of the resources available to start-ups, this toolbox was created to help people understand cooperative equity needs and how to use best practices to meeting your goals.

CDS Consulting Co-op has developed a model for the development of food cooperatives called *4 Cornerstones in 3 Stages*. The cornerstones of vision, talent, capital, and systems support the co-op through stages of organizing, feasibility and planning, and implementation. The four cornerstones comprise the attributes of a successful start-up within the three stages. The vision of Food Co-op 500 is to support faster and more efficient start-ups by providing assistance and resources all the way through the development process.

This toolbox is designed to complement your other research and to focus on and simplify the options for member equity structures. If you are using the 4 Cornerstones in 3 Stages development model (see [www.cdsconsulting.coop](http://www.cdsconsulting.coop) for more information); the activities in this toolbox will also support the work you are doing.

There are many complexities to opening a co-op and choosing your equity structure is one of the areas that needs considerable thought and research in order to make sure your owner base contributes both enthusiasm and capital. This basic foundation of cooperative ownership—economic participation—is one that will allow you to start your co-op as well as sustain it.

# Ownership: What it is and Why it is Important

When you hear the word “co-op” you might picture a natural food store with friendly people, a warm environment, bulk foods and fresh produce. However, the cooperative idea is more than a bricks and mortar store. Simply put, a co-op is a business model that allows a group of people with a common need to combine their resources, or capital, to achieve their goals. Cooperation is built upon the idea that the owners control the use of these resources to benefit the users of the co-op.

Integral to the cooperative way of doing business is transparency, fairness, democracy and education. These concepts are based on a set of guidelines called the International Cooperative Principles (see [www.ica.coop](http://www.ica.coop) for more information) that serve as the underpinnings for how cooperatives operate. These values and principles are common to all co-ops, no matter whether they are in business to offer electricity, insurance, or groceries to their members. It is imperative to the success of any cooperative that its owners understand these cooperative principles, and are cognizant of their role in supporting the co-op through their equity.

## Statement on the Co-operative Identity

### Definition

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

### Values

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

### Principles

The co-operative principles are guidelines by which co-operatives put their values into practice.

The International Cooperative Principles were last revised in 1995 by the International Cooperative Alliance (ICA) as part of the Statement on the Cooperative Identity. They are as follows:

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 Community

## **Member Economic Participation**

The focus of this member equity manual is on co-op principle number three, “Member economic participation.” The full definition of this principle from the ICA is as follows:

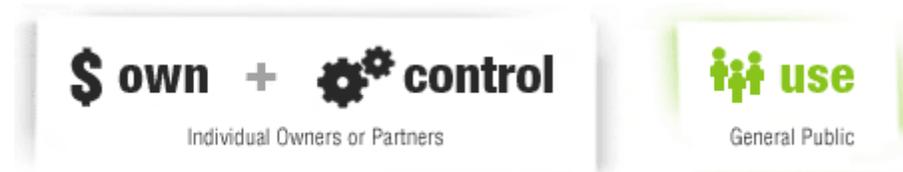
“Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.”

- This principle combines many concepts; all based on the idea that co-ops—and their money—are owned and controlled by their members.
- Members provide the basic capital (money) to start and operate the co-op.
- Profit resulting from the operations of the co-op belongs to the members, and through the board of directors, they control how it will be distributed.
- For consumer co-ops, profit is returned to members in proportion to the amount of business each member has conducted with the cooperative.

## What motivates people to form a co-op?

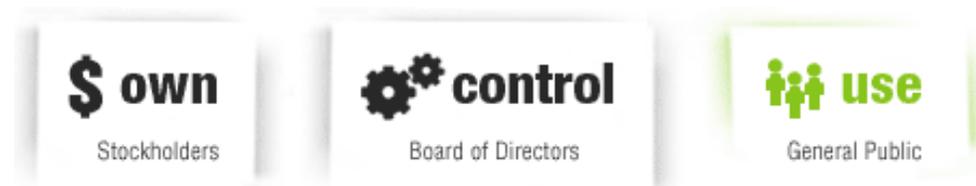
In private or stockholder-owned businesses, individuals invest to earn a financial return. In a co-op, individuals are motivated by a shared need for certain products or services. By joining together, members gain access to products, services or markets not otherwise available to them. In other words, when forming a co-op members are motivated to become co-owners of the business primarily so that their mutual needs can be met. And co-ops return financial gains to their members, whether through discounts, lower costs or patronage refunds. People join existing co-ops for a variety of reasons. Whether it is the commitment to community, the democratic approach to business, the desire to be part of a business that is locally owned or something else "uniquely co-op" that appeals, anyone can join a cooperative!

### Sole Proprietorship/Partnership



A business owned by one or more people, usually to provide employment and a return on investment to the owners. Local examples include restaurants, bakeries, and bookstores.

### Investor-Owned Corporation



A business whose stock is traded publicly by any number of investors. Examples include Safeway, Whole Foods, Starbucks, Microsoft, and General Motors.

### Cooperative



A member-owned and member-controlled business that operates for the mutual benefit of all members. Examples include your local food co-op, a local housing or child care co-op, Group Health Cooperative, and any credit union. The cooperative form of business is one that brings the owners, controllers, and users of a business together into one group.

*Images used with permission, from the website Go Co-op at [www.go.coop](http://www.go.coop).*

## **Equity: What it is and Why it is Important**

All businesses need some base capital to finance their start-up, and this is typically provided by the owner. In a cooperative, this means that the members of the association are responsible for providing this essential financial foundation to the business. Equity, also known as member shares, is one important way owners of the co-op show their commitment to the cooperative. People typically understand this equity as the dollar amount of what they pay on the day they join the co-op as an owner. For the co-op, equity represents the base capital for the business.

Cooperatives can use equity to buy inventory, finance operations, and pay for the facility. Without such member capital, the co-op would need to look to creditors for financing. Nearly all outside financing will come with restrictions and possibly be very expensive. Additionally, start-ups are considered risky endeavors by most outside financial institutions. Therefore, it's critical to demonstrate a high level of ownership capital providing the co-op with a strong equity base. When the co-op needs additional financing, however, co-op equity levels can make strong support for the co-op evident, and convince reluctant bankers and others to fund the co-op.

Planning for adequate equity from owners in the beginning phases of co-op development is critical. Member equity dollars are raised over time throughout the life of the organization, and represent the ownership stake in the co-op. That's why it's important not to limit your co-op's potential by setting member equity requirements too low.

Food co-op history of the last 40 years has been instructive in this regard because small annual fees combined with liberal discounts led to problems when it became painfully clear that the co-op's founders had not understood the vital importance of member equity. Even when equity was adequately determined, the need may still change over the years as the co-op evolves and grows. Many food co-ops today are increasing member equity to adequately reflect its importance and value to the business. Another trend in existing co-ops is the elimination of everyday discounts for members in favor of patronage refunds.

### **Advantages of Strong Equity Capital**

It is important to consider the advantages to the co-op of strong equity dollars when you are determining what your capital goal should be. When the equity required from co-op members is at the right level to address the needs of the co-op, it can become a sizable fund. It is interest-free money for the co-op, and is a nontaxable source of funding. Therefore, it increases the asset level of the co-op and is a point of leverage for some of the co-op's other financial needs. Unlike membership "fees," shares can also be repurchased when a member leaves the co-op if the co-op has adequate capital and with board approval.

## Risks to the Member Equity

Member equity is an unsecured asset in the co-op, and should the co-op need to close, there is no guarantee that the shares will be paid back. Member equity does not appreciate or pay dividends. It is non-transferrable and is redeemable only at face value with approval from the board. Proper care should be taken in all policies and communication to document that member equity is at risk and not subject to securities registration.

## How to Calculate the Owner Equity Requirement

In order to plan your owner equity requirement, you need to know what your capital needs are for your project, as well as for the future. Simply, how much money does the co-op need from its owners?

To finance your new store you need capital from your owners. There are two types of owner capital: debt and equity. The debt comes in the form of loans. Equity comes from member shares. You will need both types of owner capital to finance your co-op, although in most circumstances member equity is raised first.

In order to figure out how much it should “cost” to become an owner—often referred to as “how much it is to join the co-op”—you will need to calculate the amount of capital members need to contribute in the form of common shares. That amount can be estimated when you create your initial budget projections, particularly the Sources & Uses of Funds.

(See <http://cdsconsulting.centraldesktop.com/cdsvideo/doc/6654794/w-SourcesAndUses> for detailed information and a template.)

This model suggests that a start-up co-op will need *at least* 50 percent of its financing from owner capital. At least 15-20 percent should come from member equity, or common shares.

Below is an example of how to arrive at the amount that each owner will need to contribute as equity.

### New Community Co-op Example

- New Community Co-op needs \$1 million dollars in owner capital to open a successful small co-op with approximately 3,000 square feet of retail space (4,000 square feet total.).
- The co-op projects that 50 percent will come from owner capital (\$500,000).
- A sources and uses budget projects that
  - 20 percent of capital will need to come from common shares (\$200,000)
  - 30 percent of capital will come from owner loans and/or preferred shares (\$300,000)
  - 50 percent of capital will come from other sources of debt (\$500,000)

- A feasibility study projects that 1,000 people will join before opening.
- \$200,000 divided by 1,000 is \$200 of common shares per owner.
- According to this example, people would need to buy \$200 in common stock when they become owners.

After you arrive at this number it is also important to think about the future equity/capital needs of your co-op. Throughout the years of business the co-op may need capital for things like new equipment, an opportunity to buy your building, new technology, natural disasters and other unplanned opportunities. That's why it is critical to give the co-op the flexibility to make changes to equity levels should the co-op need to do so. For these reasons, it is equally essential that the share purchase is never referred to as a "lifetime" membership in the co-op.

Having an ongoing source of equity from owners helps co-ops to finance these things without outside financing. Additionally, one of the benefits of ownership in a co-op is that a portion of the profits are returned to members based on their patronage in the co-op. Member patronage dollars are allocated to each member based on their total purchases at the co-op and its ratio to profits. These profits can also be reinvested in the co-op as retained patronage equity. You will also want to consider the role of retained patronage equity in your co-op's ability to capitalize the business.

So, in order to secure the future of the co-op—not just finance the new store—you will need to consider how to establish your ownership structure so that it meets those future needs as well. One way to do this might be to consider an ongoing equity contribution annually from all members. Another good practice would be to examine the capital base every five years using the same criteria you use to determine new member equity:

- How much capital do we need?
- How much should come from owners?
- How many owners do we project recruiting in the coming years?
- How much should equity be now?

## Choosing a Member Equity Structure

There are many types of member equity structures. This toolbox highlights the structures that are considered to be the best options for a co-op's fiscal strength and member-owner benefit. In choosing your structure, you will need to work closely with your attorney so that your choice is reflected in your bylaws and fulfills all state requirements.

There are two types of incorporation structures that co-ops should choose from, and to some degree, your choice of incorporation structure will have an impact on your member equity structure.

The two incorporation structures are referred to as old-style (Corporate Co-op Sub T) and new style (Unincorporated Co-op Sub T) available in some states. For more information on this, refer to *The Legal Primer for Formation of Consumer-Owned Food Cooperatives*, downloadable at [www.foodcoopinitiative.coop](http://www.foodcoopinitiative.coop). There are lively discussions in the food co-op sector about these two choices and your founding group will want to work closely with your lawyer to decide your preferred choice. What is important is that your structure and bylaws have flexibility to change the equity requirement in the future.

As you work to determine your co-op's member equity requirements, it is important to research other co-op systems. Find out from other cooperators what has worked well and what has been challenging. Yet beware of following advice from long-established co-ops that have not reviewed or updated their member equity systems. Choose yours based on your co-op's financial needs and the best practices of the food co-op community. The following are highly recommended equity structures for food co-op start-ups.

### Types of Member Equity Structures

#### Option 1: Initial Share Purchase

The initial share purchase option is defined as a one-time share purchase in the co-op upon joining, with no additional shares required, unless the board decides to increase the share requirement in the future (a decision made with member-owner support).

Using the example from How to Calculate the Owner Equity Requirement on page 11, a member would need to purchase \$200 worth of shares in order to join the co-op. Preferably this would be done all at once, but if a payment plan is offered, the member would purchase their voting shares of stock first, and then buy the rest of their shares in the structured timeframe. This plan is easy to communicate and calls for little future administration.

#### Option 2: Initial Share Purchase with Ongoing Annual Equity Requirement

This option is similar to Initial Share Purchase Option 1, but adds an additional, ongoing equity requirement annually. This plan can start with a lower initial share purchase, perhaps \$100, with

an annual contribution requirement in order to stay a current member. This brings new equity into the co-op each year and builds an ongoing source of capital for the co-op.

This is a plan that could benefit a community with little turnover in population or a small community where the smaller member base will be called upon to make financial contributions to the store.

## **Other Considerations to Member Equity Structures**

### **Administration**

It is important to consider the way your co-op's equity structure will be administered as you make your decision. Whether you opt for a payment plan for the Initial Share Purchase, or decide to go with an annual ongoing equity requirement, your co-op will have to create workable systems to implement your decision.

All of these equity structure options require some operational considerations, including record keeping and tracking payments. Carefully consider the level of administration your equity structure may require. For more information on this issue, see the section Administering Member Equity on page 15.

### **Household and Business Memberships**

When an owner purchases equity shares in the co-op, this entitles them to one vote in the cooperative association, typically understood as "one member, one vote." For those with household or business memberships in the co-op this principle still stands. A household can be defined as people living together at one address, or a business with multiple representatives patronizing the co-op. However, only one person is the designated vote-holder and contact for the equity shares.

### **Repurchasing Shares**

Inevitably, a member will discontinue using the co-op, and will want the co-op to repurchase their shares. Member shares in the food co-op are non-transferrable, meaning an owner cannot "give" or sell their shares to someone else if they leave the co-op. No matter which equity structure you choose, repurchase is possible, but only with board approval and when there is no financial detriment to the co-op in refunding the equity.

## Administration of New Member Equity

Once you have an understanding of the purpose and uses of member equity, and have made a decision on how to structure it, administering your program is the next step. It's important that you set up an administrative system that will easily facilitate the growth of new member equity within the capacity of your start-up organization. It should be easy to understand and join the co-op, and uncomplicated for the co-op to sign up new members.

### Create the Membership Form

You will need to create your membership form (share subscription form). This form should be approved by your lawyer. The form does not need to be elaborate, and it is helpful to spend the money and have the forms printed in duplicate. If your lawyer does not have a standard form they recommend, look at Appendix A: Bay Ridge Food Co-op Member Agreement on page 31 for an example of a membership form.

At the same time you are thinking about your form, you should be figuring out how you will number your memberships. When you are accepting memberships online and through various avenues, it can be a challenge to make sure the numbering of the memberships is accurate. It might be helpful to number the membership forms as soon as you have them printed, or to include a numbering system on the forms when you get them printed.

Member records are the official record of corporate ownership, not just anonymous data entry. Allocate adequate resources to develop and maintain this system: labor, computer, software and support.

Be sure that member database and entry forms have

- Room for all communication venues (address, phone, cell phone, e-mail)
- Room for a credit card number for automatic payments on a schedule, if used.
- Record of equity payments—amount/date; next due date (if not paid in full).
- Ability to generate list in alphabetical OR member number OR order by whatever information you want
- Appropriate means of tracking business memberships (Check bylaws, state laws—there are accounting requirements for business members—W9, possible 1099 forms).
- Have a plan (forms and/or procedures) to handle death, divorce, and otherwise separating households.

### Create Payment Systems

Decide how you will be receiving payment. For many co-ops, being ready to accept payment from your website will be very helpful in the start-up stage. You will need to create an online form as well as a means to accept payment. PayPal is a popular means to receive payment online.

Someone from your organizing group will need to be in charge of accepting payments and then doing the follow-up paperwork for any memberships processed online. You will need to mail a duplicate of the form to the new member and get a signed form back from them as well as giving them their copy. This person should also work with the treasurer to be sure the money is being deposited appropriately.

If it too difficult to create an online payment/enrollment process, you should refer people to an email or phone number where they can get the materials mailed to them.

When you are at events, you can accept cash or a check. Taking a payment in person with a credit card is more difficult. At events, if you are able to have a laptop available with internet connection you could have people sign up online who want to use a credit card.

Credit cards are a reality of the world we live in and they also encourage payment in full. It is strongly encouraged that you create a system to allow for that type of payment.

## **Create the Membership Database**

For many co-ops, a simple Excel spreadsheet is all you will need in the start-up phase to enter data from new memberships. Be sure to be consistent in entering all data. Data from the form should be entered as well as mapping out a member's payment due dates if they are on a payment plan. Be sure this information is being saved and handled very carefully. It may help to have one person be in charge of entering, maintaining and storing this data. Don't forget to back it up and ensure appropriate security for confidential information!

Collecting extra data, like where the member joined (event, online, friend of, saw an ad) can be helpful in monitoring which marketing avenues are successful for recruiting new members. See "Best Practices for Membership Development in Food Co-ops" at [www.cdsconsulting.coop/bestpractices](http://www.cdsconsulting.coop/bestpractices) for more information about this.

## **Payment Plans**

Once you have decided on how much your membership equity requirement will be, you can decide what type of payment plans you will allow. For some co-ops this is an important decision that comes with much discussion and some anxiety. Your decision on payment plan options may affect how potential members view the cooperative and its potential accessibility.

Many committees struggle with asking people to pay the full amount of their share purchase up front, and they want to be able to include payment options immediately when they are talking to people about becoming a member. While this can be a workable option, it is encouraged to always say that full payment is preferred in order to save administrative work as well as to maximize the new member equity capital in the co-op.

For example, if you decide your initial share purchase in the co-op is \$200, and you have a payment plan with \$25 payments spread out over a long period of time, you are not going to raise

much money at the start for your co-op. Encourage the initial membership shares to be paid for in full which will reduce your administrative work and give you a better financial statement to show your outside lenders.

If you do give payment plan options, limit them to the shortest time and fewest payments possible. There is a lot of record-keeping and administration in setting up payment plans. For example, the \$200 can be paid by spreading it into four quarterly payments of \$50. Additionally, you might want to consider adding a handling fee to help cover the costs of administering a payment plan and discourage people who are able to pay in full.

Ask that people choose the plan that their family can afford while keeping in mind that for the co-op to open its doors and convince an outside lender that its owners are committed in dollars, it will need the majority of the owner shares to be paid for within the first year.

### **Other Administrative Considerations**

It might seem early to consider your Point of Sale (POS) system, also known as your cash register system, but when you are thinking of receiving payments, imagine how you will administer the member payment plans. If you have decided to have payment plans that span many years, there will need to be a consistent, reliable method for the member to be reminded to make payments, as well as a method to receive and record the payments. Many POS systems have the software capable of reminding members that their payment is due and allowing for the payment to be accepted along with their grocery purchases.

## Member Benefits at Your Co-op

For many people, being an owner of a co-op implies that there are benefits provided to them. The co-op exists primarily to serve member needs and the biggest benefit to the owners is that the co-op exists. This message is crucial for start-ups. It is very difficult to open a co-op. It takes a lot of energy from a number of people—meetings, phone conversations, planning, research, community events, and in the end the biggest benefit of ownership is walking through the doors on opening day and buying a bag of quality groceries.

Especially for start-up co-ops, you need to get people to join the co-op by using this message. Once you are ready to have a food co-op members can shop at, you can discuss any other benefits the association might like to offer. However, there are some benefits that are unique to co-ops, and they are important to understand. For example, it would be appropriate to mention the benefit of the co-op's educational mission and vision that might include educational materials, newsletters and community meeting space.

The relationship between the co-op and its owners should be mutually beneficial. One of the most important aspects of cooperation is that the co-op is set up for user benefit, not investor benefit. This means that those who use the co-op the most will potentially have the most to gain. Profits in the co-op are refunded back to members in the form of a patronage refund that is part cash and part retained equity, based on their purchases from the co-op. See the section Patronage Refunds: The Return on Ownership: Patronage Refunds on page 23 for more information specifically regarding patronage refunds.

### About Discounts as a Benefit

Offering benefits other than ownership and potential patronage rebates creates an expectation that the only reason to become an owner is to receive instant gain from member benefits. The reason people should join, especially when starting up a co-op, is to achieve the goal of having a store in their community. Without a store open and an understanding of what the store's fiscal performance will be, it is not prudent to promise any other benefits when encouraging community members to join and become an owner. Everyday discounts for members are not sustainable and should not be offered.

The cooperative idea is one built on fairness, and when it comes to deciding owner benefits in the co-op, it is important that they are distributed equitably. This is one of the reasons that co-op discounts have been the source of much discussion, challenge, and change in cooperatives. Discounts have been a popular membership benefit for obvious reasons, but they cause serious drawbacks to the business because giving away profits at the cash register before any expenses are accounted for is imprudent. Overly generous discount programs have led to big problems for food cooperatives, including instability, loss of profit, minimal capital reserves, and even closure.

While it might be tempting to copy benefits programs of co-ops you have visited, we encourage you to build yours based on your community and your co-op's financial needs and understanding of the current economic environment. The systems that were put in place when many of today's

co-ops were formed 30 or 40 years ago would not work today. That is not to say you will not provide other incentives to your owners when they join--such as quarterly discounts, member specials or community partnerships--but keep in mind that all benefits and incentives should be thought of and promoted as flexible. This allows for changes if they prove to be detrimental to the fiscal health of the co-op.

## Preparing to Sell Memberships

As a cooperative business, educating and marketing membership to people is an essential component of your organization's success, as well as one of the co-op principles. Membership plays a significant role in your start-up strategy because this is one of the key ways to build awareness and loyalty in the co-op.

It is important to create your language and message that “**membership**” means **ownership** from the very start of your co-op. If you can educate people from the onset that joining the co-op means owning it, then throughout the life of your co-op you will have an easier time raising capital and communicating what it is your co-op needs to be successful and sustainable financially.

It's important to include membership growth as a part of your planning process and continually revisit how you are communicating your messages to the community. Selling membership can be broken down into two basic activities: recruitment and retention. The messages and materials given to prospective members should be welcoming and inclusive. In a start-up, you will be focusing your energies on inviting people to become owners of the co-op.

The easiest way to get people to join the co-op is to ask. It sounds simple, and it is, yet many groups are stymied by developing an effective recruitment program. One key to getting people to join is to convey to them that you want them to join, and to show them how the community will benefit from their decision to do so.

How you approach potential members is crucial. The most important membership sales tool is going to be people who can quickly and clearly articulate the co-op's ownership values and how they can join. It will be important for your group to secure training for membership sales techniques, and have marketing materials, including an active website, newsletter, and a brochure you can mail or give to people at events.

New member recruitment usually involves the efforts of numerous people, and coordinating your promotions and communications with each other is a critical part of success. What follows is a suggested list of possible ways for your group to conduct its outreach.

- Community events and meetings
- Classes about food and ownership
- Direct mail
- Newsletter
- Public relations

- Social networking
- Website
- Join or partner with organizations that share similar goals

## Design an Effective Membership Pitch

Most people find it easier to promote discounts or other financial incentives as a reason to become a member of the co-op. However, there are many other values-based reasons for joining the co-op that support why you are starting a new co-op (community, ownership, education). Identify those and build a pitch around them. As you determine what messages you want to convey to people about membership, consider the following elements of a good pitch:

**It's short.** Keep it to three major points. It has to be something anyone can say, not just at events, but when you are going about day-to-day activities in the community. You could be out walking your dog and lo and behold, you may encounter someone who may ask you about the co-op.

**It's easy to understand.** This is especially important if someone is new to the idea of cooperation. Try to keep your message simple. For example, it's about ownership, supporting the community, increasing availability of healthy food. Additionally, anyone in a leadership position, speaking at meetings or to the media about the co-op, needs to clearly understand the difference between a co-op and other businesses and be able to explain it easily.

**Easy to join.** It should take no longer than two minutes for someone to fill out and process an application. It should also be accessible, something people can either do in person, or online, with their credit card.

**Consistent Message.** You want all the people selling membership in the co-op to be promoting the same thing and giving the same messages to the community. That's why education about cooperation and training sessions for selling memberships are critical. It gets everyone comfortable with selling and promoting the co-op consistently.

**Enthusiastically conveyed.** Communicate the spirit of what it means to join the co-op; convey the message that it's a positive, fun experience and the co-op welcomes new members.

## Example of a Member Recruitment Script

A prepared "30-second" answer to membership questions, supplemented with written materials (a flyer or brochure) will give you the tools and confidence to get people to support the co-op idea by joining and contributing their equity share. NEVER ever use the term "lifetime" to describe a one-time share purchase (you cannot guarantee that), and don't use the inaccurate word "fee" or "annual fee" to describe equity.

Membership = Ownership  
 Membership = Local Economic Advantage  
 Membership = Service to the Community

- “By joining the co-op you support local ownership, which has great benefits for the community by keeping dollars in our local economy, and for you as an owner by delivering on your needs for healthful, locally-grown food.”
- “The ownership share is only ‘X dollars,’ and your purchase will go a long way toward helping this community realize owning its own local food co-op.”

Have a planned closing comment that ensures that people feel welcome be a part of the co-op even if they don’t buy a membership. Reassure them that you are happy to answer any questions at any time

## **The New Member Packet**

Provide new members with something tangible and symbolic at the time of joining such as the owner guide, membership card, coupons, or a small gift. Items with the co-op logo serve an additional purpose as advertising and public relations. Receiving something tangible helps members feel they received something from their membership right away.

Provide an owner’s guide/new member packet for new members. It should include:

- bylaws
- ownership information
- organizational information

Make sure new members understand that they are receiving a complete packet of everything they will need to know. Suggest that they keep it to refer to later.

Provide high quality, good-looking printed materials. Be sure owners know how and where they can get answers to their questions.

## **New Member Orientations**

Once you have encouraged someone to join the co-op, it’s important to explain the rights and responsibilities of membership. Commitment to education is one of the co-op principles, and members who understand their role in the cooperative’s success form an excellent foundation for the co-op’s future.

Schedule orientations and encourage attendance. Send a letter or postcard to invite members. Give a gift to thank those who come.

At orientation, include the co-op’s history, structure, uniqueness; equity info; and what you want people to know about the start-up co-op’s plans and services. Ask new members for their assistance on committees, for special projects, getting the word out and feedback.

Your orientation will help build and sustain interest in co-ops; helping consumers know what it means to jointly own a food co-op. Show what it is that differentiates the cooperative from other

businesses selling similar products and deliver that enduring message. Focus on what the co-op is “for,” not what you are “against.” A new member orientation should include the following elements:

- Information about the history of consumer cooperation, including the Rochdale Pioneers.
- Explanation of the co-op principles.
- History of this co-op effort
- Benefits of membership in the co-op, including the message that cooperatives keep money, jobs and profits in the local community.
- Description of how the co-op will promote equity in relationships with farmers, producers, staff, and owners.
- Demonstrate how members can and do influence the co-op through its governance and customer relationships.
- Convey the co-op’s goals regarding new memberships or financing for its future plans.

### **Elements of a Successful Membership Drive**

You will need to put some time and energy into membership recruitment methods that will be effective in the long term for your co-op's next membership drive. Some of the following tips for successful membership drives involve planning and co-op education for new member recruitment. Raising equity for your co-op is serious business; it's the capital base from which your co-op derives its ability to grow into the future. Your challenge is to educate yourself and potential members about this vital issue. This can be accomplished a number of ways with excellent results.

- Involve others in the planning.

This is crucial to the success of your drive because people power, and not the efforts of one person alone, will make it happen. You can do this by getting group training for new member recruitment and giving a consistent message to prospective new members.

Orient your work group to the co-op principles as well as the correct way to handle membership inquiries and how to proactively recruit new members. This is how you raise people's comfort level with the membership drive and it helps build excitement and ownership in the drive.

You must have a compelling reason for your membership drive in order to generate excitement for it. Letting people know you are starting a brand new food co-op and need their support is critical. The plan your co-op has for member equity should be enthusiastically communicated via in-person events and meetings, the co-op's newsletter, handouts, and website.

- Set concrete goals and communicate them.

Your drive should be undertaken for a specific time period with goals for each development stage and an end goal in mind. If you know you need a certain amount of money in new member equity to accomplish what you've set out to do, let everyone know. You need to keep your goals high but reachable. Break the goals down into components. See Calculating New Membership Recruitment Goals on page 26 for more information on how to do this.

In addition, even if your co-op has an equity payment plan, push for fully paid memberships to meet your goals. Sometimes we project our own financial reality on those who could afford to pay in full (i.e., I'm always broke but maybe you're not!).

- Give free perks to new members upon joining.

Sometimes you have to entice prospective members to get them to the commitment stage. Offer them something for joining the co-op: a free shopping bag, a bouquet of flowers, or a coffee mug with your co-op's name on it.

- Don't neglect support materials.

Make sure you have adequate signage, banners and brochures you may need for your drive. Prospective members will feel the excitement of your project and want to be part of the co-op. You may want to have a special table set up, staffed with people who exude enthusiasm for the co-op. However, keep in mind that this is just one thing of many you are doing to attract new members. The real key to membership drive success is an adequately trained group of people who can consistently articulate the co-op's vision.

- Make it easy to join.

This is obvious, but true. You will lose them if it's a hassle. Planning a membership drive is an excellent time to evaluate your procedures for signing up new members. If it takes longer than a few minutes, it's too long. Membership must be easy to explain as well, so provide your work group with a script for guidance. Watch for procedural barriers to becoming a member, such as having only certain people trained to do it, or requiring too much paperwork or too many steps. Joining the co-op should be as easy as writing down your name and address.

- Nag!

After all you have done, you still need to gently remind, inspire and cajole people into joining the co-op. Do not forget to dangle the goodies, and publicly thank and praise everyone's efforts.

Once you've administered a successful membership drive, you'll discover that the investment in training and effort was worth it. You will have the tools for bringing in more new member equity on a continuing basis even after the drive is over.

## **Checklist for Membership Drive**

Use this as a basic guide to planning for a membership drive.

**Purpose:** Explain how your co-op's project is important to the community.

**Goals:** Communicate the equity dollars and number of members the co-op needs. (The dollars are the capital that the co-op needs and the member count represents the degree of community support and future customer base.)

**Plan:** Identify leadership team and resources.

**Administration:** Streamline process for joining the co-op; maintain good records.

**Support materials:** Brochures, posters, website, etc.

## Calculating New Membership Recruitment Goals

As you plan for new member recruitment, you will also want to determine goals for how many owners to attract to achieve your focused outcome of building a new food co-op. When you are determining how many new members your start-up may need, use the following formula based on the 4 Cornerstones in 3 Stages development model (see [www.foodcoopinitiative.coop](http://www.foodcoopinitiative.coop) or <http://cdsconsulting.centraldesktop.com/cdsvideo/doc/6654594/w-OrientationToDevelopment> for more information).

How many members you need depends on the nature of the community and the size of the store you are planning, but assuming an average size store for a start-up might have 4,000 square feet of retail space (and 6,000 square feet total space), consider the following benchmarks.

- For start-up co-ops, a good benchmark is 300 owners by the end of Stage 1 (which is the organizing stage) in the development model.
- By the end of Stage 2, (where the co-op secures their site and goes public with it and launches an owner loan drive) the co-op will want 500 owners.
- By the end of stage 3A when the financing should all be committed and the co-op removes contingencies on the site and crosses the no turning back point, the co-op will need to have 800 owners.
- At the end of Stage 3C just prior to store opening, the co-op will want 1,000 owners.
- When the co-op has its grand opening (which would be two or three months after store opening) the co-op should have 1,200 owners.
- The co-op would then build from 1,200 to 3,000 owners by the end of Year 5, or up to nearly one new owner per day, depending on the co-op's location, population, and whether it is a rural or urban community.

## The Return on Ownership: Patronage Refunds

One of the benefits of ownership in a co-op is that a portion of the profits are returned to members based on their patronage in the co-op. If a co-op's profit is returned to owners, it will be distributed in proportion to the amount of business each owner has conducted with the cooperative. The more an owner spends at the co-op, the greater their rebate. At least 20 percent

will be returned as cash, the remainder may be retained by the co-op as allocated member equity. This allocated equity is retained for improvements needed for the co-op, future expansions and overall financial stability.

The board of directors is responsible for the allocation of the co-op's profits, whether to disburse in cash, or keep it in the business as retained equity. The manager and staff are responsible for tracking purchases made by individual members in order to calculate their share of the co-op's total member patronage.

There are many benefits to distributing patronage equity, including the opportunity for the co-op to avoid taxation on those funds. If the co-op retained all of its profits, they would all be subject to taxation. However, tax laws allow patronage dividends to be exempt from taxation when they meet specific requirements. In order for the co-op to retain part of patronage refunds as equity, members must receive a notice of allocation regarding what is being rebated back in cash, and what is being retained in the co-op. At least 20 percent of the total allocation must be in cash. Most food co-ops typically do a 20/80 or 20 percent cash and 80 percent retained equity patronage refund. Only the profits that can be attributed to sales made to co-op members are eligible for this tax exemption. Profits on sales to non-members will be taxable. The cash portion of the patronage refund that members receive will not be taxable to them, so long as the purchases were for personal consumption.

Returning all the profits to members as cash is an option, but can do the co-op a great disservice. What to do with the co-op's retained equity is often a strategic discussion, one based on the co-op's long term goals and ability to secure capital. Retained equity represents an excellent opportunity to build the co-op's capital reserves without the expense of interest or taxation. Part of an owner's responsibility to the co-op includes capital contributions to the needs of the business, and retained patronage equity represents a member's capital contribution to the co-op. The board may also choose to designate some of the retained earnings to meet the co-op's other goals such as community outreach and education, staff bonuses, or contributions to other organizations.

All patronage refunds have to be allocated to individual members because of stipulations by the IRS. However, from a philosophical and financial standpoint, the retained member equity portion is part of a collective holding on behalf of the cooperative's future. It is not to be considered equity that individuals should expect to receive from the co-op during profitable years. It is possible for a cooperative to refund retained equity from past years, but it is generally not a recommended practice.

## Hypothetical “Big Harvest Co-op” Example

Big Harvest Co-op had total sales of \$11 million in one year and profits of \$87,500. Of the 4,500 members at the co-op, 70 percent of those sales were done with members. The board declared a patronage refund and decided to distribute 20 percent back to the members in cash, and the remaining 80 percent would be retained as equity to finance an expansion and to ensure the cooperative’s financial soundness for the future.

As an individual member, Suzy Sunshine had spent \$8,000 on groceries at Big Harvest that year. Sunshine received an \$18 refund in cash, and \$73 was held as retained member equity in the co-op. She did not have to pay taxes on the refund. Here is how the calculations were made:

Total Sales	\$ 11,000,000		
Sales to Members	\$ 7,700,000	70%	of total sales
Total Profit	\$ 125,000	1.14%	of total sales
Profit on Member Sales	\$ 87,500	70%	of total profits
Member Rebate calculation	1.14%		% of profit on member sales
Suzy's annual purchases	\$ 8,000		
Suzy's total rebate	\$ 91	1.14%	of her purchases
Cash	\$ 18	20%	
Retained Equity	\$ 73	80%	

# Case Studies

## Lost River Market & Deli

### Paoli, Indiana

[www.lostrivercoop.com](http://www.lostrivercoop.com)

Year incorporated: 2005

Year opened: 2007

Number of members at opening (2007): 350

Number of members currently (2010): 700

Member equity investment: \$90 household

Cost of total project: \$850,000

Member loans: \$245,000 + \$55,000 in new member equity

Financing: \$550,000

Number of staff at opening: 15

Number of staff currently: 8

Retail square feet: 2,900

Annual sales, first year (2007): \$670,000

Annual sales, currently (2010): \$630,000

The Lost River Market and Deli is a project of the Lost River Community Co-op, a member owned natural food grocery store located in Paoli, Indiana. The store is a full service grocery store featuring natural and organic foods, some conventional items, a large produce department, deli, cheese and bulk departments. The town of Paoli has a population of about 4,000 people and is one hour from the city of Bloomington, Indiana. Demographically, the area has been low income, and somewhat reliant on tourism. Many of the co-op's customers have been patrons of Bloomingfoods Market & Deli, with three locations in Bloomington.

The residents of Paoli considered their town a "food desert," a place where the availability of healthful, fresh foods is limited or unavailable. A local grocer had closed, and many people shop at a Wal-Mart supercenter. It was important to the organizers of Lost River that they have access to natural and organic foods; and equally essential that the co-op create stronger links to local agriculture and products produced in the region.

The co-op's coordinating group and founding members began to organize in 2005, educating themselves about the co-op movement and its business structure, as well as deepening their connection to each other and local producers. They held monthly dinners to raise awareness of their project and attended countless committee meetings. They took out ads in the newspaper and were a fixture at the local farmers' market. When they knew they were serious about launching the endeavor, they put together their new member equity requirement and began to get people to join the co-op.

Because the organizers believed so many people were familiar with Bloomingfoods Market & Deli, and shared some proximity to it geographically, they decided to make their new member equity requirement \$90, the same as Bloomingfoods.

The co-op institutes a quarterly payment plan for those who could not pay the \$90 at once. Most people do pay in full when they join the co-op, and currently the co-op has only about 12 members paying on the payment plan. They have not had much problem getting people to pay in full, but they realize that if they had a bigger store or more people on the payment plan, keeping track of payments would be more complicated.

In hindsight, the \$90 new member equity requirement has had its disadvantages. While it is certainly a familiar number, and it reflects a level of affordability for area incomes, the co-op has had problems meeting its goals for member equity. Their goal was to have 500 members at opening, and they only had 350. If the new member equity requirement were higher, they probably would have raised more money at the beginning and may have given themselves greater operational flexibility once they were open. Not setting sights too low and putting more trust in their ability to raise the money may have spurred more growth earlier on.

Additionally, by not meeting their goal of 500 members, it put additional pressure on the smaller pool of members to raise the capital they needed through member loans. They continue to take member loans, and have now exceeded their fundraising goal. They are also looking at doing more member fundraising by offering class C non-voting shares in order to raise more money.

As member benefits they opted for a modest discount program based on a once a month member appreciation day and a bimonthly coupon in the newsletter. Members also receive a 10% discount on the day they join and a new canvas shopping bag. The co-op feels that discounts to members are at a reasonable level and it is a benefit system that works for them.

One of the things that surprised them after they opened was the perception in the community that the co-op was exclusive and overpriced. Once they had a store, the co-op had to overcome a members-only mindset that had developed in the area. They found there were some gaps in understanding—people had just assumed it was members-only because the co-op was encouraging people to join before opening—and there was the reality of what the store delivered, and the sometimes unrealistic expectations of what the store was going to be.

The first year the co-op was open it worked hard to dispel the rumors and educate people about the co-op being open to everyone, and the value proposition of natural foods. Although there are other cooperatives in the area (electric, credit union), the idea of a food co-op is still a novel idea to people. The store has struggled to reach its projected sales growth since it opened, but the last two quarters have shown some improvement.

Additionally, the co-op is gaining more recognition that it is an important factor in the commerce of the town and their whole county. Local food is a big attraction in the store, and since they have been open they have doubled the amount of business done with local vendors. Lost River is a strong proponent for local economies and educating consumers about how much money is re-circulating in their community. The co-op has created connections to local agriculture, tourism, and natural food in Paoli where there were none before.

## River Valley Market

### Northampton, MA

[www.rivervalleymarket.coop](http://www.rivervalleymarket.coop)

Year incorporated: 1999

Year opened: 2008

Number of members at opening (2008): 2,000

Number of members currently (2010): 4,000

Member equity investment: \$150 household

Cost of total project: \$8.3 million

Member loans: \$1 million

New member equity: \$300,000

Outside Financing: \$7 million

Number of staff at opening (2008): 70

Number of staff currently (2010): 75

Retail square feet: 17,000

Annual sales, first year (2008): \$8.1 million

Annual sales, currently (2010): \$10.5 million

The journey to River Valley Market's opening day in Northampton, Mass. in 2008 is one that highlights a community's tenacity and earnest desire for a food co-op in a town where prime real estate locations are booked up through and through. However, their challenges are shared by many food co-ops around the country where market areas look favorable for co-ops, but in the places it makes sense to locate, have nothing available and/or sky high real estate costs. In River Valley Market's case, it was both. Finding the right site and location was a nuanced and complicated job, and a number of locations didn't work out during the course of their search.

Throughout their process, River Valley Market engaged the services of professionals to do feasibility and market studies. They even did it before they incorporated as a co-op. Research showed that the co-op idea was viable and the market considered strong, sophisticated, and competitive, and they didn't want to rely on local volunteers to try to figure things out. This was also the case when their co-op committee went through the process of determining what their new member equity level would be.

In addition to surveying other co-ops in the area about their equity requirements, they also focused on what they thought would be an accessible, but maximum dollar amount they could ask from members. They settled on \$150. At the time they also made a decision about what defined a household membership. They determined that whoever signs for the share purchase is the one who controls it, and that person is the responsible party regarding benefits, voting, and informing the co-op of any changes to the household.

After the decision, one of the co-op's board members created a database and kept track of new members. However, getting people to sign up was challenging. The co-op had scrambled to create a membership brochure and develop a system for signing up. People had to get an application first, fill it out, and then mail it in with a check to a postal address. It was

cumbersome to join River Valley Market until they added an application on their website and a PayPal account to accept credit cards.

They offered volunteers training on how to sell memberships, and commenced a membership drive with a goal of getting to 1,000 members. In selling memberships and the co-op idea, co-op leaders were cautious about trying not to create expectations that people would receive anything more than the satisfaction of bringing a locally-owned food co-op to their community. However, some enthusiastic volunteers didn't always stick to that idea, getting improvisational in their zeal for building a store. Achieving consistency in their message was occasionally challenging.

Concurrent with determining their new member equity, they also created a member loan campaign. Their equity and loan goals were based on how much money they needed to raise to get financing for their project. The co-op felt their community could support their member loan goal of \$1 million, and if not, they would need to get a lot more members. Fortunately they were able to meet both goals, but it was not without setbacks. Because it was so hard to secure a site, deals fell through one after the other, and the group struggled with credibility in the community. Could they really pull it off?

So, many potential sites and feasibility and market studies later, River Valley Market was able to lease an undeveloped property, a former rock quarry; and build their store. It opened in 2008 on track to meet their sales projections. Not only that, co-op leaders believe their co-op is well-positioned to build community, as everyone hoped, and participate in greater retail synergy in their area.

## **Just Food Co-op**

**Northfield, MN**

[www.justfood.coop](http://www.justfood.coop)

Year incorporated: 2002

Year opened: 2004

Number of members at opening (2004): 900

Number of members currently (2010): 2,000

Member equity investment: \$125 household

Cost of total project: \$1 million

Member loans: \$372,000

New member equity: \$112,500

Financing: \$390,000

Number of staff at opening (2004): 28

Number of staff currently (2010): 47

Retail square feet: 4,200

Annual sales, first year (2004): \$2.8 million

Annual sales, currently (2010): \$4.1 million

The story of Just Food Co-op's development in Northfield, Minn. is a case study of what can right when all the elements are in place: solid community commitment to the co-op, strong board

leadership, and an excellent staff and general manager. The store just celebrated its five year anniversary, and community members are just as enthusiastic about the co-op as they were on opening day.

Northfield is a small college town about 40 miles south of Minneapolis-St. Paul. The population of 17,000 includes about 3,000 students from Carleton and St. Olaf colleges, two highly respected liberal arts institutions. The co-op has become a focal point for people in the community. Being able to effectively achieve the level of community-wide support they needed is one major reason they are doing so well. It was their ability to organize themselves around a singular goal that enabled them to raise the capital they needed to take their co-op to the next level.

Like other cooperators seeking to determine their new member equity commitment, they did research and hired consultants for best-practices advice. The Just Food board felt like the new member equity decision was key, and one with lasting consequences, so they wanted to get it right. In addition to those steps, they also used information from their market study to get census tract information to figure out the average income (\$48,000 per year) for area residents. Based on all those factors, they chose \$125, an amount that they felt would be affordable to the average person, and give them enough to help to secure financing for the project.

The group had a lot of discussion about a payment plan because they didn't want to unnecessarily burden their future operation with a lot of administrative work. Not only that, as a volunteer group they didn't want to be tapped out by keeping track of payment plan members. The Just Food Co-op organizers felt that any money they were owed was a liability because it cost money to remind people to make payments. However, they did opt to offer a one-year quarterly payment plan with a \$10 administrative fee. Collections are still an issue, but the group felt it was important to be able to offer some kind of alternative payment plan.

The one thing the group wished they would have talked about more thoroughly was determining how a membership is defined. In a town with so many student organizations and housing, they found out afterward how convoluted understanding ownership in the co-op could get. The co-op had to re-educate members that membership is about ownership; that one person must be designated as responsible for it, and that it is not simply about having access to a discount.

After the co-op had signed up 330 members, it began its member loan campaign, concurrent with a goal to sign up 700 more members by opening. At that juncture, the Just Food group hired a professional fundraiser to help train them on how to do it. They felt like the 330 members was a small pool to start the member loan campaign. By getting the assistance they needed, they were able to raise a third of their financing through member loans and reach their membership recruitment goals. They poured themselves into community organizing, going to every single meeting or event they could think of to build awareness.

Now that the co-op has been open five years, raising new member equity is one of those things that seems to function as a matter of course, rather than with the same sense of urgency that it did for the start-up phase. The challenge for co-ops that have been operating for a number of years is to continue to keep the importance of co-op capitalization at the forefront of its planning.

# Appendix A: Bay Ridge Food Co-op Member Agreement



## Member Agreement

### **Our mission**

The Bay Ridge Food Cooperative (BRFC) will be a member-owned and operated cooperative whose aim is to provide quality, wholesome food and goods at the lowest practical cost. We strive to make Co-op membership welcoming and accessible to all residents of our diverse community and the surrounding areas. As such, the BRFC anticipates accepting a variety of forms of payment, including WIC and EBT.

The products the BRFC will carry—as well as our business practices—reflect the values and needs of our members with a specific emphasis placed on building community, promoting social and economic well-being, and acting in an environmentally sensitive manner.

### **The seed has been planted. Help it grow.**

Without member-owners, the Co-op is simply a good idea. Your membership shares are vital to providing funding, labor, leadership and guidance to reach our target opening date. Without member-owners, the progress of the Co-op will remain on-hold. We need you and your membership commitment to help us move forward. When you sign the membership agreement, you agree to the terms set forth by the Co-op. Please note the terms of membership will be further defined and revised by a vote of members (including you when you join) as the Co-op develops and our needs evolve.

### **What does membership require?**

#### *Member equity*

Membership shares are \$200 per adult (aged 18 years or older). This is a one-time fee and every adult member in the household, sharing in the benefits of the Co-op, must become a member. Each paid member becomes a voting member.

#### *Reduced Equity Option*

Those interested in becoming BRFC members who are on government-assisted programs can join with a reduced equity option upon showing proof of eligibility. The documents accepted as proof of eligibility include Food Stamps, SSI, Medicaid, WIC, Family Health Plus, Section 8 Housing Subsidy, and the Advantage Program. Requests for reduced investment and reduced membership can be made at any time.

#### *Work Responsibility*

Every member will be required to contribute a set number of work hours (sweat equity) each month (approximately 4 hours/month). There will be exceptions to this requirement and written requests for waivers of membership sweat equity may be considered from people living with certain disabilities.

If a member of the household cannot complete their work requirement, another member of the same household may work for them. Work hours are flexible and not all work is physically demanding. Work may entail stocking shelves, ringing on a cash register, or helping with paperwork or other office work.

### **Summary of by-laws**

#### *Credit for time invested*

In order to give value to time invested towards the opening of the BRFC, we will record and credit hours for future use towards membership labor requirements.

#### *Cooperation among cooperatives*

The BRFC and the Park Slope Food Cooperative (PSFC) are working together. If you are a member of BRFC and you are also a PSFC member, PSFC work hours may be satisfied by contributing at least 4 hours per month to the BRFC effort.

*Provisional membership*

If an individual is interested in becoming a member, but cannot contribute financially towards member-ownership, they may become a provisional member. Provisional members are welcome to have a voice at meetings, and participate in events, but will not have a vote. Provisional membership will be available only until the time of store opening. Time worked by provisional members will also be recorded.

*Termination of membership*

If, at any time, you should choose to terminate your membership, membership fees will be returned within a reasonable amount of time upon *written request* and subject to approval of the Board of Directors. Administrative fees will be non-refundable.

The Board reserves the right to terminate membership of an individual or a collective household at any time, or for any reason, including illegal activities or actions that effect the operations of the Co-op such as theft, violence, or harrasment of staff, members, or shoppers.

*Other fees:*

An administrative fee will be waived for the first 500 members to join. After that time, the Co-op will charge one-time, non-refundable administrative (joining) fee—above and beyond membership fees—to cover the costs of processing new memberships.

**General Release And Waiver of Liability**

Funds governed by this agreement are subject to risks inherent in any start-up enterprise such as the BRFC and that such risk may result in the loss of part or all such funds. Membership equity investments are subordinate to all other debts of the Co-op.

The BRFC Board shall keep a record of all membership investments and shall provide an accounting of such funds to any Member upon written request. Membership equity is not entitled to a dividend and is not transferable.

I have read and understand and specifically agree to all the language in this agreement. I agree to release BRFC from any liability associated with the loss of all or part of my equity in the enterprise

I certify by my signature that I am at least 18 years of age and have full mental capacity to enter into the Agreement.

**Becoming a member-owner**

Choose a payment plan and complete the attached membership agreement. Upon full payment, each adult member of a household will own a share of the Co-op subject to the terms of this agreement.

- Plan A:* \$200 Payment in full (one-time lump-sum payment)
  - Plan B:* \$50 initial payment, \$50/quarter until \$200 membership paid in full
  - Plan C:* \$20 initial payment, \$20/month until \$200 membership paid in full
  - Plan D:* \$10 initial payment, \$10/month until \$200 membership paid in full
  - Plan E:* \$10 initial payment, \$10/year until \$50 membership paid in full\*
- \* This option requires documentation as described above

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**THIS IS YOUR RECEIPT**

I subscribe to purchase \_\_\_\_ shares for my household at \$200.00 per adult per household, for a total of \$\_\_\_\_\_.

**Date:** \_\_\_\_\_

**Method of payment:** \_\_\_\_\_

**Name:** \_\_\_\_\_

**Amount paid:** \_\_\_\_\_

**Payment accepted by:** \_\_\_\_\_

Date: \_\_\_\_\_

Last name: \_\_\_\_\_ First name: \_\_\_\_\_ Middle name: \_\_\_\_\_ Title: \_\_\_\_\_

Street address: \_\_\_\_\_ Apt #: \_\_\_\_\_ # of adults in household \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ Zip: \_\_\_\_\_ # of children in household \_\_\_\_\_

Email: \_\_\_\_\_

Home phone: \_\_\_\_\_ Cell phone: \_\_\_\_\_

Names of other adults:

Last name: \_\_\_\_\_ First name: \_\_\_\_\_ Middle name: \_\_\_\_\_ Title: \_\_\_\_\_

Last name: \_\_\_\_\_ First name: \_\_\_\_\_ Middle name: \_\_\_\_\_ Title: \_\_\_\_\_

Last name: \_\_\_\_\_ First name: \_\_\_\_\_ Middle name: \_\_\_\_\_ Title: \_\_\_\_\_

Do you want to receive e-mail from the Co-op? \_\_\_\_\_ Do you want to receive mail? \_\_\_\_\_

Do you want to volunteer in the organization that is creating the co-op? \_\_\_\_\_

Equity investment Plan ( x # of adults)	Adults	Check	Online*	Mail**	Cash
\$200 Paid in full (per adult)					
\$50 per quarter, until \$200 is reached (per adult)					
\$35 first payment, \$15/month until \$200 is reached (per adult)					
\$10 first payment, \$10/month until \$200 is reached (per adult)					
\$10 first payment, \$10/year until \$50 is reached (per adult)					
<i>* If you would to make payments online, please note that processing surcharges will apply. If you would like to pay your membership fees using a credit card, please note that we are currently setting up this capability.</i>					
<b>**Mail to: Bay Ridge Food Cooperative. 128 Marine Avenue, 5E, Brooklyn NY 11209</b>					

Everyone is welcome to become a member of the Bay Ridge Food Cooperative (Co-op). Membership equity is required from each adult individual in a household. The Co-op shall keep a record of all membership investments. Membership equity is not entitled to a dividend and is not transferable. When a member leaves the Co-op, the investment may be refunded to the member upon written request, with the approval of the Board of Directors. Membership equity investments are subordinate to all other debts of the Co-op.

At some time in the future, each adult member, who is able, will be required to work at the Co-op.

## Disclaimer and Signature

I understand that I am committing to adhere to the by-laws and policies of the Bay Ridge Food Co-op at present and in the future.

I certify that my answers are true and complete to the best of my knowledge. I understand that false or misleading information in my application may result in termination of my membership. I understand that funds covered by this agreement are subject to risks inherent in any start-up enterprise like th and that such risk may result in loss of part or all such funds. I am of legal age and able to enter into a contract in the State of New York.

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

Last name: \_\_\_\_\_ First name: \_\_\_\_\_ Middle name: \_\_\_\_\_ Title: \_\_\_\_\_

Street address: \_\_\_\_\_ Apt #: \_\_\_\_\_ # of adults in household \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ Zip: \_\_\_\_\_ # of children in household \_\_\_\_\_

Email: \_\_\_\_\_

Home phone: \_\_\_\_\_ Cell phone: \_\_\_\_\_

Names of other adults:

Last name: \_\_\_\_\_ First name: \_\_\_\_\_ Middle name: \_\_\_\_\_ Title: \_\_\_\_\_

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Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

# Resources

## Food Co-op Development Organizations

Start with these organizations to get information and links to other organizations and networking sites that assist start-up food co-ops.

Food Co-op Initiative (formerly Food Co-op 500)

[www.foodcoopinitiative.coop](http://www.foodcoopinitiative.coop)

Food Co-op Initiative is a support system that seeks to enable a faster and more efficient start-up process to develop new retail grocery co-ops.

CDS Consulting Co-op

[www.cdsconsulting.coop](http://www.cdsconsulting.coop)

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

Cooperative Grocer

[www.cooperativegrocer.coop](http://www.cooperativegrocer.coop)

Cooperative Grocer is the trade magazine for the food co-op sector, covering issues on topics specific to food co-op governance, finance, membership and operations.

## Food Co-op Development Model

Four Cornerstones in Three Stages

New Food Coop Development Model

<http://www.cdsconsulting.coop/fourcorner>

Sources and Uses Budget Template

By Bill Gessner

<http://www.foodcoopinitiative.coop/uploadedFiles/Sources&%20Uses%20template%20for%20start-ups%20Feb1,08webinarfinal.xls>

## Food Co-op How-to Manuals

Legal Primer

By Joel Dahlgren

[http://www.foodcoop500.coop/uploadedFiles/Home/Content\\_Items/LegalPrimerFinal.doc](http://www.foodcoop500.coop/uploadedFiles/Home/Content_Items/LegalPrimerFinal.doc)

Member Loan Toolbox

By Ron Griffith, Beret Griffith and Bill Gessner

[www.foodcoopinitiative.coop/uploadedFiles/Home/Content\\_Items/Member%20Loan%20Toolbox.pdf](http://www.foodcoopinitiative.coop/uploadedFiles/Home/Content_Items/Member%20Loan%20Toolbox.pdf)

How to Start a Food Co-op  
By Karen Zimbelman  
<http://cgin.coop/files/manual.pdf>

## **New Member Equity and Capitalization Articles**

Best Practices for Membership Development in Food Co-ops  
<http://www.cdsconsulting.coop/bestpractices>

Discounts and Death  
By Dave Gutknecht  
<http://www.cooperativegrocer.coop/articles/index.php?id=189>

Capitalization Strategies  
By Bill Gessner  
<http://www.cooperativegrocer.coop/articles/index.php?id=723>

Remember the Member  
Co-ops are in a capital revolution  
By David Thompson  
<http://www.cooperativegrocer.coop/articles/index.php?id=852>

Patronage Dividends: A Primer  
By Bruce Mayer  
<http://www.cooperativegrocer.coop/articles/index.php?id=779>

Patronage Refund Systems that Work  
By Elizabeth Archerd  
<http://www.cooperativegrocer.coop/articles/index.php?id=824>

Cooperative Capital and Member Equity Systems: The Heart of Cooperatives  
By Dave Gutknecht  
<http://www.cooperativegrocer.coop/articles/index.php?id=73>

Membership Is Ownership: The Cooperative Advantage  
*By Marilyn Scholl*  
<http://www.cooperativegrocer.coop/articles/index.php?id=804>

Seven Steps to a Successful Membership Drive  
By Patricia Cumbie  
<http://www.cooperativegrocer.coop/articles/index.php?id=202>

## Reference Books

*Cooperation Works! How People are Using Cooperative Action to Rebuild Communities and Revitalize the Economy*, by E.G. Nadeau and David Thompson, Lone Oak Press, 1996.

*Cooperative/Credit Union Dictionary and Reference*, The Cooperative Alumni Association, 1990.

*Weavers of Dreams*, by David Thompson, Regents of the University of California, 1994.

## Glossary

**Articles of incorporation**—the founding legal documents of a corporation. When articles of incorporation are filed with and approved by the appropriate state agency, the corporation begins its own distinct existence, subject to the laws and regulations affecting that type of corporation. Articles of incorporation should set forth the name of the cooperative, the cooperative’s duration and address, the purpose of the co-op, the membership structure, membership share requirements, and what happens to the co-op’s assets upon dissolution.

**Bylaws**—rules that describe how the co-op will conduct its affairs. Bylaws need to be more specific than articles of incorporation, but should not be too specific. They include provisions for how they can be amended as the organization evolves. Bylaws should specify procedures for approving members, distributing net income, paying back members’ capital, and voting, along with the number and responsibilities of directors, and other matters.

**Board of directors**—the elected body responsible for the actions of a corporation

**Capital**—money used in a business, whether supplied by owners or borrowed. Capital typically refers to money contributed to a business by the owners or stockholders.

**Dividends**—amounts paid to business owners based on their investment. Typically, dividends represent a share of profits, paid to shareholders proportionate to the shares held. Cooperatives sometimes pay dividends to encourage member investment. Note: Dividends are not to be confused with patronage “dividends.” Dividends are paid based on the amount invested. Patronage dividends are rebates based on the amount of purchases. Co-op shares that pay dividends come under the auspices of the Security and Exchange Commission (SEC). In some cases they are exempt from registration, but the co-op must obtain legal advice to ensure that they are in compliance with applicable regulations.

**Dues or member fees**—annual payments made to the co-op to maintain or establish membership. Dues or fees are taxable income for the co-op, not equity.

**Equity**—the ownership interest in a business. Equity is made up of share purchases by owners (members) and the cumulative profit of the business. There are three types of equity: allocated, common and preferred

**Allocated equity (retained patronage dividends):** Profits that have been allocated as equity credits to members' individual allocated equity accounts, and are not taxable for either the co-op or the member (as long as the purchases were for personal use).

**Common equity:** The funds required from a member to gain membership in the cooperative. These can be called common shares, stock, voting shares or Class A shares if the cooperative is formed on a stock basis. This equity is not a security since it is non-transferable, is redeemable only at the discretion of the board, and is redeemable only at face value. *This is the type of equity most often referred to in this document and will just be called “equity.” When another type of equity is referred to, the full terminology will be used.*

**Preferred equity:** Funds gained from a capital drive where additional equity is sold to members beyond that required for membership. These are called preferred shares or stock if the co-op is formed on a stock basis, and not a membership basis. These are securities (see “dividends” in glossary) since they yield dividends. Often called Class C stock.

**Incorporate**—to establish a business as a legal entity. Incorporation typically entails filing articles of incorporation with the state to conform to a corporate statute.

**Member**—If a person buys shares in the co-op as a requirement for membership then “member” is equivalent to owner of the co-op. Member-owner is also used to describe a member.

**Patronage rebate, patronage dividend or patronage refund** (used interchangeably)—distribution of profits made by a co-op to its members, proportional to members’ use of or purchases from the co-op.

**Securities laws**—laws that govern how business can accept investments from potential owners.

**Shares or membership shares**—units or stock sold to co-op members above and beyond common or voting shares. Shares are like stock in a traditional business, but because of special rules for co-ops, membership shares are not subject to the same regulations that govern stock (as long as certain conditions are met). For that reason, most co-ops prefer to use the term “share” in reference to member investments.