

# Solutions

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## Secure Resources, Financing During Down Economy

BY PATRICIA CUMBIE

At this time in our nation's history the word "economy" is synonymous with hard times. Over the past year we've encountered more than enough examples of the economic despair that has caused small business financing as we've known it to dramatically change. Standards for approved loan applications have become more stringent in an industry forced to clamp down on its lending. Food cooperators working on expansion projects today are finding that their perseverance and abilities have been tested like never before.

Finding definite resolution to the challenges of financing growth and expansions can be trying even in good times. However, the business model for cooperation is compelling to its owners, and its strength of purpose is a strong selling point for raising member capital. This important cornerstone of cooperative financing—capitalizing on the idea that as a group we are stronger—is where food co-ops can gain the needed support and momentum to fully fund expansion and growth.

"I'm seeing banks are all over the place, some are expressing strong interest, some are offering weak, middling interest," said Bill Gessner, expansion planning and business development consultant. "And the financial benchmarks are stricter. It is important to creatively seek out sources of subordinate debt that will help leverage the primary debt." From his perspective, food co-ops will need to launch what he called internal fundraising, building momentum for the project from food co-op owners in order to enhance the co-op's ability to attract outside lenders. It's a connection that's integral to



the co-op's success, in addition to financial soundness and stability.

Whether or not you look beyond bank loans for financing, the co-op will have to enhance the following business activities in conjunction with their search for support:

**Ramp up marketing and communication** that showcases the co-op as a valuable and worthy community asset.

**Build alignment throughout your co-op** on the shared vision of what you are trying to accomplish.

**Continue to improve systems and staff training** in your current operation.

**Use the business tools available** to carry out your planned initiatives, including the Member Loan toolbox available for free download at [www.cdsconsulting.coop/mbrlms](http://www.cdsconsulting.coop/mbrlms), and the Expansion toolbox for sale to CGIN members. To order go to [www.cgin.coop/toolbox/re\\_pub](http://www.cgin.coop/toolbox/re_pub).

**Don't give up hope.** Hold on to the excitement of what you're doing, keep looking forward and continue to take steps toward your goals.

According to Gessner, accessing a greater pool of financial resources through members is also about staying focused and productive as a business. "You

*continued on page 2*

## Putting It Together

Over ten years ago now, the infamous "Co-op Quilt" was auctioned off for the first time as a fundraiser for the Howard Bowers Fund. The quilt was the brainchild of Ann Hoyt, director of the Urban Cooperative Initiative at the University of Wisconsin-Madison. She created it in 1999 out of 54 food co-op t-shirts from around the country.

The impetus for doing it, she said, was that she felt fundraising methods for the Howard Bowers Fund were getting stale. The quilt, now three quilts, is truly a legacy and gift to the food co-op movement, and has raised significant funds over the years.

I think about it now as food co-ops look for ways to freshen and refine their approach to financing their expansion projects. Not that everyone needs to make a quilt now, but it was such a simple and inspired move. Through her simple act of showing—look at all these special co-ops and their strong history—she created a vehicle for getting people to envision even more and to invest in cooperation.

Our co-op's owners are the key to providing critical momentum in food co-op growth. As we slog through an economy that's given everyone pause, it's time to look at new ways of engaging the power of our collective imagination and show everyone how we go about achieving the future we want.

—Patricia Cumbie



## Our Mission

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

CDS Consulting is a network of independent professionals experienced in developing cooperatives. Our consultants have worked on over 500 projects and will tailor our services to fit your needs and provide solutions.

### Board Leadership Development

- CBLD—Cooperative Board Leadership Development
- Board training and facilitation
- Hire, evaluate and compensate your GM
- Policy Governance® and Accountability
- Member owner linkage

### Expansion and Relocation

- Expansion planning
- Financial pro forma
- Capitalization and member loans
- Business strategy
- Market, location and site analysis
- Trade area and market penetration analysis
- Project management
- Store planning and design
- Consumer research

### Improving Operational Performance

- Business planning, goal setting and monitoring
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- CoCoFiSt workshops
- Margin enhancement
- Labor controls
- Merchandising
- Management training, coaching, and support
- Employee surveys
- Produce department success
- Human resource systems—assessment, planning and training
- Supervisory skills and training

## Financing in a Down Economy continued from page 1

want to put yourself in the best position for financing," he said. "In this economy, attracting financing means having to do more."

In the first phase of securing bank financing, it's important to develop your preliminary contacts and do your research. Look at lenders as thoroughly as they will look at you—are they a stable business or not, what have they recently financed, and at what level of risk? What factors would make your project most attractive to them? Gessner also noted that throughout this process the co-op must educate the lender about the nature of the cooperative business model and the role of member financing so that they are comfortable with it. "It's a big part of building that relationship," he said. Then the co-op must do its best to meet the standards and criteria set forth, including meeting financing goals through member loans.

During the second phase of the financing process, the co-op will make a formal presentation, including business plan and pro forma, to demonstrate the momentum and buy-in the co-op has achieved for the project. For established co-ops, this usually means at least 30 percent of the financing has to come from members (the "owners contribution" including cash reserves, new member equity and member loans), and for startups, at least 50 percent. The more the better.

Retained patronage dividends can also be a good source of cash helping to strengthen the balance sheet and leverage other capital. By retaining the maximum amount allowed (80%) cooperative can accumulate tax free earnings to use to finance their vision and opportunities.

For a lot of co-ops, these benchmarks represent additional pressure to raise money from their constituents. For some it seems like a daunting challenge—but the opportunity it represents for the co-op is huge. CDS Consulting Co-op member Tami Bauers consults with food co-ops working on their member equity and member loan projects. Despite the economic challenges of the past year, she's finding member interest in helping to finance food co-ops is strong, especially if the messages from the co-op about its expansion and growth plans resonate with them.

"It is easy to sell," Bauers said, "because member loans have so many benefits." Members get a good return on it (anywhere from one to five

percent), and they get to see directly what their money is doing in the community. "People who are passionate about the co-op will come forward," she said, and that's why it's important to give people as many opportunities as possible to do so.

Co-ops that have been successful at meeting their member loan goals are those that have a multi-pronged approach that includes raising media awareness (mainstream as well as internet social media), educating staff, talking with members one-on-one through tabling and calling blasts, mailings, and messages from board leadership demonstrating their commitment to the project.

"Most people are pretty motivated by the co-op being able to offer more services that reflect their values," Bauers said. Additionally, some people consider food co-ops an alternative to big box chains, and want to support the growth of independent business in their community. Other movements, like Slow Money, have inspired people to consider the long-term value of their investments on the community and environment, not just to maximize short term gain. Investing in the food co-op is in alignment

with those approaches to development. "People are really excited to do something important with their money."

Bauers said that for startups it is a more challenging prospect to raise a higher percentage of financing from members, but not as much as one might think. "If you have been doing a good job of getting people to join, you are starting from a good base of members to draw from for additional financing," she said. Both Bauers and Gessner stressed the link between raising strong member equity and loans, and securing outside financing.

For those who don't have resources to lend to the co-op, it's important to offer other ways for them to participate by offering preferred shares or other options. "Even something as small as encouraging them to buy a gift card for a new shopper makes a difference because you'll need to build sales in the new store," Bauers said. By doing all you can to execute the necessary steps to prepare to get equity and loans from members and thinking creatively about financing, the co-op will be positioned to reach its goals. "You piece it together if you have to in order to show outside investors the power of co-op ownership," she said.

*Some people consider food co-ops an alternative to big box chains, and want to support the growth of independent business in their community.*



## CASE STUDY

# Linden Hills Co-op: Reaching Member Loan Goals

The Linden Hills Co-op is located in one of the most livable and bucolic neighborhoods in Minneapolis. Geographically bounded by lakes and parks, the area has miles of hiking and biking trails, and is well-known for a walkable, attractive retail district that makes the urban neighborhood feel like a small town. Throughout the years of the co-op's existence, the co-op has been an anchor in that district and community, creating synergy with other independent businesses.

Like a lot of food co-ops, Linden Hills battled the need for more parking and retail space, and began a search for a larger location. In late 2009, the co-op board approved a move for the food co-op away from the established Linden Hills retail district in order to relocate on a main artery less than a mile away. The co-op will open at the new location they are leasing in the fall of this year. The timeline for the move is admittedly ambitious, and as part of that, the co-op needed to raise \$1.5 million from its members in 90 days in order to secure financing for the relocation. A few people were nervous that it would be impossible given the timing—the member loan campaign was launched going into the holiday season, in a recession.

"We had a phenomenal response," said Luke Schell, the co-op's general manager, about the membership's participation. "We knew we wouldn't be able to get financing without securing stated member loan goals. Even our new landlord required that we hit certain thresholds."

In order to meet those goals, Schell worked with Tami Bauers of CDS Consulting Co-op on how to execute a successful member loan campaign. "Securing someone with experience made us feel more comfortable. She was so positive right from the beginning that we could do this," Schell said.

As part of their fundraising plans, the co-op looked at all the ways it could quickly raise awareness of the loan campaign and how it could



### Linden Hills Co-op

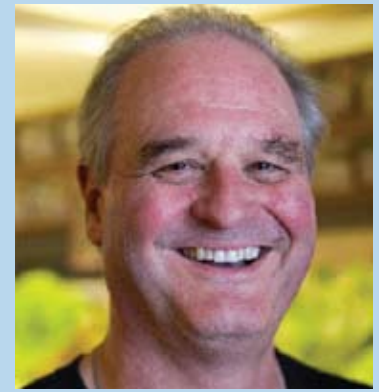
Minneapolis, Minnesota  
 Year founded: 1976  
 Number of members: 5,200  
 Equity investment: \$80 per household  
 Number of staff: 75  
 Current retail square footage: 5,300  
 New retail square footage: 7,800  
 Relocation costs: \$3.5 million  
 Member loans raised: \$1.5 million

give members the opportunity to provide capital. A big part of that was using media—mainstream print as well as social media (Facebook and Twitter) gave Linden Hills Co-op excellent PR, and a multi-pronged platform to reach members and the general public. They also did a mailing to every member, implemented a calling bank, and held public meetings.

This isn't to say everything went without a hitch. Some members disagreed with the co-op's move and held their own public meeting to refute it. It was challenging, but Schell said they did all they could to "handle it diplomatically and professionally." Ultimately, the co-op was able to gain their trust, and some are now even considering making loans.

The board was also integral to the member loan process. They were very hands-on regarding talking with people—through the calling bank, doing info tables in the store and meeting one-on-one with members. The board certainly went beyond expectations, resulting in strong financial support for the project, but in hindsight they were still left wondering how they could create a stronger link to members that might have prevented the conflict with members unhappy about the move.

Schell was able to find enthusiastic lenders for the project, including loans from a local bank, Northcountry Cooperative Development Fund and the City of Minneapolis. Schell also thinks that because of the economic downturn, he was able to find assistance for the project from individuals and firms who would otherwise have been unavailable or out of reach. "We've got a good location and a nice design," Schell said. "We've been pretty excited about the opportunity to thrive and grow."



## Welcome, Mark Mulcahy

Mark has over 27 years of hands-on experience in the organic retail produce industry, and has been consulting with co-ops and natural food retailers since 1996. Mark is known for his creative merchandising, effective training techniques, passion for produce, successful financial strategies and dedication to sustainable ag.

Mark has designed and focused his services to cover every aspect of a dynamic, profitable and knowledgeable produce department:

- Consultation (on-site or phone)
- Systems development for single and multi-store formats
- New department set-up
- Department resets
- In-store staff trainings
- Department merchandising for better sales and more efficient use of labor
- Management training, mentoring
- Accountability training, set up
- Financial training
- Buying and inventory systems
- Passion-building
- Team-building
- Local grower programs
- In-store customer education

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