

CDS

Cooperative Development Services
consulting services for food cooperatives



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Project Stage II: Preparing for Leasehold Improvements/Construction

BY RICK MCMONAGLE

Now that your co-op has declared its intent to expand its current location, relocate to a new and larger site, or add an additional store, how you proceed with those grand plans will help to determine the long-term success of your co-op. The co-op has extensively researched the concept, committed to the plan and achieved alignment with membership and key community members (usually without disclosing the specific site) that the growth plan is coming at the right time and place. You've managed to skillfully maneuver through the many challenges of Stage I, the Feasibility Stage, culminating in the major decision point of signing the lease or purchase agreement (likely with contingencies—for example: contingent upon the co-op securing full financing for the expansion project) for the new space. Building on the momentum and hard work of this first planning stage, you are ready to see some concrete results of crossing those T's and dotting the many I's.

The next stage (Stage II) of the Expansion/Relocation process is called "Preparing for Leasehold Improvements or Construction," as described in "The Expansion Toolbox," written by Bill Gessner, a consultant with Cooperative Development Services (CDS). This resource is available at the Cooperative Grocer website at www.cooperativegrocer.coop and describes in detail all of the stages of this important phase in the life of your co-op. This has been a very useful and popular guidebook for co-ops since it was first published in 2000.

Stage II can last from two to 12 months, but four to six months is a typical time frame. It may seem like one huge project, but it is useful to view



it as the two related tracts of finance and design. During this time, actual designs and related bids are formulated and you prepare to go to the bank with these paper plans and concepts. This pre-construction time involves site and facility design, development bids and financing. The major decision point of this planning stage is to close on the financing along with removing any remaining contingencies. Once this major step is complete, you've reached the point of "no turning back" and are on your way of seeing those walls go up and watching the next part of your co-op's life begin.

At the beginning of Stage II some general managers hire a project manager or designate an existing employee to assist with the expansion/relocation. There are pros and cons for both options. If you hire a new employee or consultant, you incur added costs that need to be factored into the overall project budget. On the other hand, if the person you hire specializes in the type of project you are undertaking, that expertise can save time and money in the long run. If the general manager or other co-op employee assumes the duties and responsibilities, you have added tremendously to their workload. They must

Stage II: Success or Stress

The food co-op system continues to learn and evolve a set of best practices and systems that will support successful expansions. Even so, each project brings its own set of unique challenges. While the Feasibility Stage (Stage I) is often the most difficult, Stage II can be the most complex and risky (in terms of expense) of the 4 Stages. A co-op may not reach the end of Stage II. The preferred plan may not prove to be workable for a variety of reasons. A systematic approach to working through the challenges of Stage I and II has proven to be most effective in overcoming the hurdles and obstacles.

CDS is strongly committed to providing quality support and services to food co-ops throughout all phases of the planning and implementation of an expansion project. Over the past twenty years our consultants have provided expansion planning assistance to more than 200 food co-op projects nationwide. Co-op general managers have also found very valuable support from other general managers and increasingly from NCGA. We're hopeful that the continuation of this progress and collaboration will lead to less costly projects and more co-ops becoming profitable quickly after expansion.

—Marilyn Scholl



Our Mission

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

CDS includes a network of independent consulting professionals experienced in all aspects of developing food cooperatives. CDS consultants have worked on over 500 projects and will tailor their services to fit your needs and deliver results.

Board Leadership Development

- CBLD—Cooperative Board Leadership Development
- Board training and facilitation
- Strengthen board/manager relations
- 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 services

Improving Operational Performance

- Business planning, goal setting and monitoring
- Audit and strengthen operational systems
- CoCoFiSt
- CoCoFiSt workshops
- Margin enhancement
- Labor controls
- Merchandising
- Financial system design and assessment
- Management training, coaching, and support

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somehow integrate these new activities into their daily duties and determine what drops off and who picks up the slack. The current employee may not have any experience in this type of project management and will be trying to play catch-up.

Once you've secured the new site or determined how your existing site will be enhanced, you have to find and hire the design and construction professionals to make your dream a reality. There are two general avenues for getting the right people to do the work. One, is to hire a company to handle all of the design/construction work which can be an efficiency advantage by dealing with one company. This is commonly referred to as Design/Build. Two, is to hire an architect to lead you through a full design and bidding process, culminating in hiring a general contractor to coordinate all of the aspects of the construction including hiring the subcontractors, etc. With the latter option, you may get more competitive bids since you are not dependant on one company and their particular cost structures. (Note: In both of these options the refrigeration contractor is usually hired separately and directly by the co-op.)

Denise Chevalier, a CDS consultant who specializes in project management and new co-op development, says that "finding a general contractor or project manager can be a challenge for co-ops, especially those located in small towns or rural areas." Wherever you are located, you must try to find the best fit for your particular situation. Other businesses and co-ops in your region can help you locate competent professionals.

No matter what path you choose, it is critical that a project team is assembled to oversee all phases of the project. This team usually consists of the store's general manager, a store planning consultant, architect, contractor and other essential players such as the refrigeration contractor. Organizing a project team is a common practice to handle the abundance of details and unexpected challenges that are part of the territory of large projects. "No matter how the expansion/relocation is organized, the general manager is ultimately responsible for the project," says Bill Gessner, CDS consultant. That means it is more imperative than ever for the GM to have a competent team

The co-op must be cautious and creative in its approach to finding the necessary funds to see the project to its fruition, while not jeopardizing the daily operations of the store.

in place to assist in making crucial decisions and offer support when obstacles occur. Anyone who has survived even a minor home renovation can surely sympathize with the co-op's GM during this hectic time.

Last, but by nowhere least, the many financial pieces of the project puzzle must come together in this phase. As in any costly and potentially risky

endeavor, the co-op must be cautious and creative in its approach to finding the necessary funds to see the project to its fruition, while not jeopardizing the daily operations of the store. There are various ways to fund the co-op's expansion/relocation, but experience has shown that the primary sources of bank/credit union and direct membership support have worked very well for many co-ops. Member loans to the co-op are an "extremely important and healthy method" of financing, noted Bill Gessner. He went on to say that the loans are not secured, typically have a \$1,000 to \$2,000 minimum and a term of 4 to 8 years. Food co-ops are currently raising between \$300,000 and \$1,500,000 in member loans to support expansion projects. Planning for a member loan drive needs to happen in Stage I, so that the member loan drive can be launched at the beginning of Stage II when the site is publicly announced. Some co-ops sell preferred shares to fund the expansion project and these can be advantageous for reasons of balance sheet presentation and pay back flexibility. The bottom line is that with substantial financial support from the co-op's members investing in the project, other types of financing will come more readily. Indeed, without the co-op's own funds to bring to the project, a lending institution may not even be willing to loan the money. The ongoing member commitment, both as owners and as shoppers, is what separates the co-op from the grocery store down the street.

With the vision, talent, capital and systems in place, you have assembled the necessary ingredients to launch the building phase of your new and improved store. When you break ground take time to appreciate all that has been accomplished. Be sure to celebrate the outstanding collective achievement as you ready for the new challenges and opportunities that a larger store will surely bring.



CASE STUDY

Almost Ready: Contractors, Money and Member Expectations

Keeping everyone abreast of the progress of the expansion project was just one of the challenges for Dan Gillotte, General Manager of the Wheatsville Co-op in Austin, Texas as he prepared for the start of construction. The co-op had announced the new plans for the store a year before the actual building had begun. One way he handled this situation was by posting detailed updates on the co-op's website including the actual drawings of the expansion and photos of the current store and the changes that will take place. Members and others could see this tangible evidence that progress was indeed being made.

There are many tasks to accomplish as a co-op prepares for leasehold improvements or new construction. Both the financing and the physical design aspects of the project must be simultaneously addressed to get past the final decision point and, hopefully, on to the day of starting construction. No matter how well you plan, finding the financing and the right people to design and build your new store can be very taxing. Wheatsville had the perfect contractor in mind, but when their bid came back much higher than expected, the co-op put the project out to bid. This was an unexpected event that made the process longer than expected.

Not surprisingly, cost was a constant issue for Wheatsville. They thought they could do a relatively inexpensive renovation/expansion, but as they looked more closely at all of the issues with their 50-year-old building, they decided to undertake a "complete infrastructure overhaul." Of course, as the project planning lasted longer than expected, the rising costs of construction and materials (like copper) added more financial pressure. This became a real learning opportunity for Gillotte. He had been extremely cost conscious to the point of "squeezing pennies" to get the best deal for his store. It is a difficult balancing act to invest the time to make sure you are spending the co-op's money in the most efficient way possible while knowing that it is ultimately pushing back the start of construction. As Gillotte looks back, he feels that one of the most important things



Wheatsville Co-op managers at the expansion groundbreaking ceremony on April 29, 2008.

he learned was "not pushing so hard to lower the price at the expense of adding delays to the project. Cost containment is important in the planning and implementation of a project, but time is a cost as well."

Most co-ops take a two-prong approach to finance their growing business by getting funds from members and financial institutions. As is often the case when members are asked to respond to a significant challenge at the co-op, the owners (members) at Wheatsville came through with flying colors. They were able to raise \$715,000 from selling "investor shares" which, according to Gillotte, "are like preferred shares and are unique to Texas." NCB, the national cooperative financial institution, also provided financing for the project.

Even with the many challenges and delays, the Wheatsville Co-op successfully completed all of the financial and design details and began the construction phase of their expansion project in late April 2008. All of the work to prepare for the renovated store will be worth it as members, customers and staff will be able to shop and work in a larger and more open and inviting co-op.

Consumer Cooperative Management Association (CCMA) Conference 2008

We hope to see many of you at the Consumer Cooperative Management Association (CCMA) 2008 Conference in Portland, Oregon on June 12-14. CDS food co-op consultants will be presenting the following workshops at the conference. We look forward to seeing you and working together on topics that are relevant to your co-op.

FOR NEW CO-OPS

Your Source for Guidance: Food Co-op 500
Stuart Reid

The Steps to Take: An Orientation Guide
(double session)
Bill Gessner

FOR BOARDS

Managing Conflict So It Doesn't Manage You (double session)
Michael Healy and Marshall Kovitz

An Opportunity to Lead: The Board's Role in Expansion
Mark Goehring

FOR GROWTH

Assembling a Team for Your Expansion Project
Denise Chevalier

Things I Wish I Had Known BEFORE Expanding
Panel discussion facilitated by Bill Gessner

For more information on CCMA see: www.cals.wisc.edu/ccs/Current%20Programs.html

See you in Portland!