

Solutions

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Create a Cooperative Legacy in Your Community

BY PATRICIA CUMBIE

Democratic ownership is one of the unique and valuable benefits food cooperatives offer their communities. Yet it is also one of the most commonly misunderstood concepts by the very people co-ops are designed to serve: the member-owners. Without a strong common ownership viewpoint, how can members engage in meaningful conversation about what the co-op is doing to meet their needs?

Engaging members in the articulation of the co-op's mission is different from educating them about it. Without the membership's overall understanding of the co-op as a shared benefit, our culture's prevailing "me-first" attitude combined with a dose of consumer apathy could put a precious community asset, like the food co-op, at risk. Continuous education about democratic ownership is also essential, especially as the co-op looks toward the future. In co-ops around the country, this issue is especially relevant as co-op looks at the long term benefit of distributing profits via patronage rebates (aka patronage refunds) based on purchases, versus discounts given out at the cash register.

According to Peg Nolan, CDS consultant, the challenge is twofold: to engage the members in better understanding their co-op, and for the co-op's leadership to be clear about the co-op's current situation and its mission. "Those co-ops that have historically used patronage rebates as a way of building owner equity and building understanding of collective ownership as a means of improving their lives and communities have demonstrated long



term sustainability and strength."

Giving away discounts as a membership benefit, especially before you know the co-op has a profit, is a risky practice. Addressing that issue proactively has sometimes meant countering members who believe a change in the co-op's benefit policy means something is being taken away from them. However, those who have gone through the change say that most people are supportive once they understand why it's necessary.

Co-opportunity Consumer Co-op in Santa Monica, Calif., implemented their patronage rebate system in 2004. The change was prompted by costly external realities: workers' compensation and health insurance costs skyrocketed. "We couldn't continue to give discounts with those kinds of expenses," said recently retired general manager Will Simon. "The membership has to understand the co-op is their business. We explained to them what the discount was doing to the business. It wiped away our bottom line."

They instituted a much-reduced discount with a cap on it and the new patronage rebate

The Real Thing

There's Elvis, and then there's the Elvis impersonators. Elvis left a musical legacy that's impossible to explain just by listing off his accomplishments. He had an inimitable style, and a much-beloved common touch that was enhanced by his lavish generosity to friends and family. Because of the way he died and his level of fame, it is easy to trivialize his contributions to our musical heritage.

The trappings of Graceland may fall away over time (or maybe not, depending on Elvis' deification schedule) but what he meant to music is forever pressed in our consciousness.

There's independent food co-ops, and then there's monolithic chains. When I think about the word legacy and food co-ops, I'm thinking about things a little more down-to-earth than Elvis, but no less important. We can be a positive force in our communities with a similar common touch and lavish generosity.

When we look at the success food co-ops have had with instituting patronage rebate systems, literally putting millions of dollars back into our communities and building on our assets, we can see that our legacy will be this: fairness, strength in numbers, hope for the world. We have something special and authentic, and it is worth everything we put into it now to secure its place in the future alongside any cheap imitations.

—Patricia Cumbie

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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.

Expansion and Growth of Cooperatives

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

Leadership Development

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

Improving Performance

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

Strengthening the Cooperative Advantage

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

Cooperative Legacy *continued from page 1*

system. Their first year with the new system yielded the co-op a \$150,000 profit.

The Wedge Co-op in Minneapolis, Minn., made the switch to a patronage rebate profit allocation in 1989. The co-op did it for a number of reasons, not the least of which was a recognition that the co-op could use its financial success to finance the co-op's mission and build a legacy for the future. Wedge membership director Elizabeth Archerd explained, "We thought more about how we could be our own economic engine. To do so we had to get out of a nonprofit mindset. We didn't want to put our mission at risk by not paying attention to that part of the business."

Stephen Wolfe, CDS consultant, also noted that one of the most compelling reasons to institute a patronage rebate system is the ability to shelter profits made on business with members from tax liabilities. "One of the biggest benefits of the patronage rebate is the co-op's ability to avoid taxation. It also keeps profits in the local co-op community." He also said that the patronage rebate system is a good way to build cash reserves for potential expansions, or other things co-op members want to do.

Wolfe pointed out that the overall benefit to patronage rebates is that it makes the cooperative much more financially sound. "In the past, food co-ops worked on eking by, but if you look to the future you always need some reserve. It's important to have better cash management."

He also stressed how a patronage rebate system is cost effective, even if there are expenses up-front to implement it. "It's important to recognize it takes time to set up a system for tracking patronage and disbursing profits. But in the long run it makes more sense. And as a member, I would prefer that system, getting a statement every year from the co-op, seeing how my patronage is building up the co-op."

The Wedge leadership knew the patronage rebate system was in keeping with the co-op principles, and an equitable way to support the community and the membership while building the co-op's capacity for the future. "What do a few dollars given away at the cash register really mean to anyone anyway? Now our co-op members can invest thousands of dollars in efforts they

really want to support," Archerd said.

The Wedge's numbers certainly speak to the long term benefits of instituting a patronage rebate system. In 1997, the co-op rebated \$44,000 in profits back to its members in the form of cash and class B stock held in reserve. In their most recent rebate in 2005, the co-op gave back over \$560,000. That's a half a million dollar increase in less than a decade. "As stewards of our community asset, we're not sending out anything we can't afford. Our bills are paid," Archerd said.

Archerd thinks food co-ops have done themselves a historical disservice by equating "co-op" with discounts in the minds of the consumers, and that it's imperative to change that mindset. "It's important to keep putting out big picture scenarios. Get people to understand that the patronage rebate system is fundamental to fairness and the health of the business."

"Nearly everybody knows it's time to change their system, but it does take courage and clarity," Nolan said. She offered these reasons for why it's necessary:

For the Co-op

- A responsible method of returning surplus to the owners
- Protects co-op against lean years
- Allows option of reinvesting surplus to improve services
- Favorable tax treatment
- Encourages growth
- Sustainable even if all customers are owners
- Improves ability to be competitive

For the Member

- Supports future viability of business they own
- Improved store, products and services
- Provides fair rate of return on investment
- Benefit accumulates during the year
- May be other tangible benefits throughout the year

Archerd said, "We have an ethic of community wealth that's separate from corporate wealth. We can develop a base of stability for our community well being. Short term thinking impoverishes our community. We need to think about our co-ops the way we think about organic soil—we have to build it up."

CASE STUDY

Patronage Rebate System Initiates 50 Ways to Love Your Co-op

When the board of a profitable co-op starts singing “50 Ways to Love Your Co-op” to members at meetings, you know times must be good. Yet in 2004, when the Hendersonville Community Co-op in Hendersonville, N.C. instituted a patronage rebate system and radically changed their discount policy, they envisioned a disgruntled membership, not four-part harmony.

For years, the co-op had marginal finances, and in the last five years had been losing money consistently. It became clear that the 5% discount the co-op gave members at the register was leaching away profits. It was hindering the co-op’s ability to thrive, and yet the board felt reluctant to change it. Would members stay happy and loyal if they got their co-op benefits through a patronage rebate system based on their purchases at the end of a profitable year, instead of a cash register discount?

“Our greatest fear was that people would think of the co-op as a buying club, like Sam’s Club. We needed to retrain ourselves and our owners in the community,” said Hendersonville’s board president Laura Miklowitz. CDS consultant Peg Nolan helped allay the co-op board’s fears, Miklowitz said. “We were in the mulling phase and she told us ‘you seem ready.’ She and others in the co-op community helped us see we couldn’t proceed and grow without making this change.”

That’s when the board knew it was also time to bring people together and engender a real sense of ownership in the co-op by making ownership fun and accessible. They worked hard over the course of a year to inform members of the necessity of the patronage rebate system via the newsletter, mailings, meetings and training cashiers. They also informed members that the co-op may not be able to declare a patronage rebate, especially at first, and that was also part of the benefit and risk of ownership.

In the first full year of implementation of the patronage rebate system, however, Hen-



Hendersonville Community Co-op
Hendersonville, NC

Founded: 1983

Members: 1,300

Equity investment: \$250/household

Number of Staff: 32

Retail square feet: 4,200

dersonville posted a whopping \$110,000 profit. The board elected to rebate \$30,000 in cash back to the members and put the remainder in

class B stock for an eventual expansion. Not only had the co-op made a profit, but in the process of implementing a system to track member purchases, they’d also improved their overall financial reporting. Doing patronage rebates wasn’t exactly simple and had big costs associated with it, but the change was certainly cost effective.

“We couldn’t have done it without the co-op community’s help,” Miklowitz said. Hendersonville’s membership in the National Cooperative Grocers Association (NCGA) and participation in CDS’ Cooperative Board Leadership Development (CBLD) program showed them that a lot of the hard work for implementing a patronage rebate system has already been done by others.

The change has rejuvenated their sagging bottom line and injected a level of energy and spirit into the co-op’s community that had been lacking. “The sense of ownership is getting stronger. We attribute it to the board communicating to the owners its dreams for the co-op,” Miklowitz said, “It’s nice to know we really can build and grow, not just the co-op, but the community. If we find a new location we feel confident it won’t slip through our fingers. We feel like we have real potential.”

Check out the lyrics to “50 Ways to Love Your Co-op” at www.cdsfood.coop/jan2005.html

Rebating Superdividends to Members in the UK

West Midlands Co-operative Society (WM) and Oxford, Swindon & Gloucester Co-operative Society (OSG) have recently merged to create the fourth largest co-operative society in the UK: The Midcounties Co-operative.

They currently operate co-operative funeral services, co-operative child-care, retail stores, travel agencies, post offices and Motorworld.

Superdividend has revolutionized the membership of The Midcounties Co-operative. Superdividend rebates members a share of the Society’s profits in relation to how much members spend and how much they get involved with the co-op.

A superdividend card enables members to earn points wherever and whenever they use the co-op. More points are rewarded for using co-op services tied to the mission of the cooperative, including purchasing Co-op Brand products and fair trade items.

Members can earn superdividend points in a number of different ways:

- on purchases of goods and services in all trading groups
- involvement as a member, e.g., attending the annual meeting or other events, voting, taking part in a members’ survey
- convenience shopping—for multiple visits using the superdividend card, members will be awarded bonus points



These points are converted to vouchers twice a year, usually in May and November. The vouchers can be spent in any of the Society’s trading groups, or paid into the member’s share account. There is also an option to donate the dividend to charity.

For more information about the Midcounties Cooperative and their Superdividend program, go to www.midcounties.coop.



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