

Starting An Online, Local Food Cooperative



Local Food for Local People



**Northwest Cooperative Development Center
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I. Introduction

Improving access to local foods continues to be a challenge for rural communities. Local producers face steep costs in attempting to market and deliver directly to local consumers. At the same time, there is increased interest by consumers to “buy local” because of concerns about how their food choices affect their community and the environment.

In 2003, Oklahoma Food Co-op modeled a unique approach to connect local consumers and producers. Its approach was to bring consumers and producers together as owners of a cooperative. Through the cooperative, they created an online, virtual marketplace where local products could be ordered and distributed. Together, the consumers and producers shared the costs and risks, as well as the benefits, of establishing a new community food system.

The purpose of this guide is to provide a systematic approach to starting an online, local food cooperative. The approach follows the standard steps of cooperative development and supplements those steps with information specific to online food cooperatives. The guide describes key aspects of the online business model. You are encouraged to adapt the specifics of your operations to meet your circumstances and mission. Examples of variations are listed on page 16.

The Northwest Cooperative Development Center (NWDC) prepared this document as a resource to rural communities who seek to support their local agricultural economy through cooperative development. A companion document is the case study of the startup of the Idaho’s Bounty cooperative, available through NWDC. This guide is only one source of assistance. You are encouraged to seek information and insight from the many cooperative resources (See Appendix A).

What is an Online Food Co-op?

In 2003, the Oklahoma Food Co-operative (OFC) launched a new concept in marketing local food. OFC developed an on-line ordering and distributing system operated by producers and consumers as co-owners of a cooperative. In this virtual co-op marketplace, local producer members display their products on the co-op’s website and consumer members shop using an online shopping cart. On established delivery days, the products are taken to a central site, sorted into orders, and the orders are transported to locations for pickup by members.

The online co-op can exist without a physical storefront but members still have opportunities to be part of a community by participating in potlucks and member events, getting to know the local farmers, and volunteering with the co-op as a member and owner.

Cooperative Principles

Online local food cooperatives and other cooperatives around the world generally operate according to the same core principles and values, as adopted by the International Cooperative Alliance in 1995. The cooperative principles are:

1. Voluntary and Open Membership
2. Democratic Member Control
3. Members’ Economic Participation
4. Autonomy and Independence
5. Education, Training and Information
6. Cooperation among Cooperatives
7. Concern for Community



The Benefits of an Online, Local Food Co-op

For local farmers and producers trying to reach a specific local audience, an online co-op enables them to directly market to the consumer members and share costs for advertising, distributing and other operations. Online ordering also enables them to harvest and supply in known amounts, avoiding waste from unsold product.

For local consumers seeking local products, the online co-op enables them to find desired products, shop at their convenience, and support community values that are important to them.

Together, the producer and consumer members accomplish a mission that is rewarding to all.



Idaho's Bounty online orders are filled by picking up the products directly from local producers, sorting the food into order bags and transporting the orders to Bountiful pickup sites or directly to consumers' locations.

Photos courtesy of Idaho's Bounty





II. The Steps to Establish a Cooperative

A cooperative is a business owned and controlled by the people who use its services. The members are the owners who finance and operate the business or service for their mutual benefit. By working together, they can reach an objective that would be unattainable if acting alone.

Starting a cooperative is a complex project. It begins with discussions within the community about the economic need that will be addressed by the cooperative. Next, the group analyzes the feasibility of the proposed cooperative. If the decision is made that the cooperative is feasible, the group moves into implementation of the cooperative and the startup of operations.

In cooperative development, following a step-by-step deliberative process is important because of the need to review progress and obtain input as required by a cooperative's democratic governance. Throughout the startup process, go/no-go votes are held to be sure there is enough participation, confidence, and momentum to proceed. The document, "How to Start a Cooperative" of the U.S. Department of Agriculture, presents a 16-step sequence of events to create a cooperative business. The 16-step sequence is summarized by this guide into four steps:

1. Identify needs and organize
2. Decide the feasibility of the business
3. Structure the cooperative
4. Startup the operations

Sources of Assistance

The cooperative's organizers will benefit from experienced assistance with organizational, legal, economic, and financial aspects of the proposed cooperative. Types of assistance and sources are listed in Appendix A. Assistance includes:

Cooperative development advice by specialists of cooperative development centers, consulting organizations, and U.S. Department of Agriculture programs.

Legal Counsel, preferably by an attorney familiar with your state's cooperative statutes. Legal guidance should include advice on complying with any requirements of the U.S. Securities and Exchange Commission related to the purchase of shares/equity. To identify potential attorneys, check with a cooperative development center, a U.S. Department of Agriculture office, or an established cooperative in your area.

Financial counsel should be sought early in the process:

- Consider involving a local financial institution to advise how to prepare a loan request. Specialists on finance and accounting matters can also advise the cooperative.
- Before shares are sold to members or money handled, an independent accounting firm with knowledge of cooperative operations should be hired to establish the bookkeeping system, tax records, and a plan for revolving capital.



Steps to Establish a Cooperative

1. Identify needs and organize

- Identify the economic need the cooperative might fulfill.
- Establish a steering committee to guide the next steps.

2. Decide the feasibility of the business

- Understand the work of an online food co-op.
- Evaluate software.
- Identify potential members and sales.
- Size up the costs and sources of funds.
- Decide how to proceed.

3. Structure the cooperative

- Decide membership.
- Prepare legal papers and incorporate.
- Establish a board of directors.
- Implement the business plan.

4. Startup the operations

- Secure other financing and funding
- Hire the manager.
- Arrange for facilities and equipment.
- Begin operations.



1. Identify needs and organize

People form a cooperative to address a shared economic need. For cooperatives focused on local foods, people should be brought together to talk about their needs related to foods, such as its quality, accessibility, and safety. Discussions could also explore the related issues of commercial food transportation and its environmental impacts, and the support of local producers and the community's economy. Including a wide range of people from the community will be beneficial. Reach out to consumers; students; representatives of food banks, religious organizations, health services, and non-profit organizations; farmers, ranchers, and other producers; and restaurant owners, bankers and other business people. Ask the discussion groups to:

- Capture key concepts to be used in forming a vision statement.
- Recommend which groups should be included as members of the cooperative, such as consumers and/or producers.
- Vote on whether to proceed to the next step of establishing a steering committee.

Establish a steering committee

The steering committee will guide additional research and discussion until the decision is made to formally establish the cooperative and form a board of directors.

Members of the steering committee should have a keen interest in the cooperative, be well-respected within the community, and have sound business judgment. Steering committee members often become members of the cooperative's first board of directors. The publication, "How to Start a Cooperative" of the U.S. Department of Agriculture provides additional information (see Appendix A for a list of resources).

Share the Vision

Take the time to collaboratively express the vision or mission of cooperatively accessing wholesome foods. Members are empowered and motivated by the needs they share.

Oklahoma Food Co-op

"This is a wonderful adventure that we have called together here. We have brought together producers and customers into the same organization. Among our producer and customer members we find a diversity of lifestyles, beliefs, cultures and religions. Even so, we find common ground based on our mutual need for a marketplace where we can find good, healthy, nutritious local foods. We are focused on meeting local needs with local resources. We will discover new ways to participate in neighborhood and community."

Idaho's Bounty Co-op

Excerpt, "Case Study of an Online, Local Food Co-op"

A group of visionaries came together in the fall of 2006 in southern Idaho. The topic was connecting people to wholesome, local foods. The participants were local producers and consumers. They spoke passionately of their commitment to wholesome foods. This was about more than nutrition, they said. It was about food security and community values, the ability to access food that is produced organically, ethically and locally. They also spoke of how the traditional, worldwide systems for selling, transporting and buying foods did not support their values. Finally, the challenge was voiced: It was time to take action.



2. Decide the feasibility of the business

The steering committee will address a number of questions about the feasibility of the online cooperative's business, such as:

- What is the “economic need” as expressed by potential members? How will the cooperative's business address those economic needs?
- Are enough consumers interested in becoming members and buying from the cooperative? Which products would they buy?
- Are enough local producers interested in becoming members and supplying the consumer members with the desired products?
- The cooperative will require capital investment from its members to start up. How will the funds be raised and what level of member commitment is expected? For example, will the funds be raised through member share purchases, member loans, and/or donations,?
- What is the estimated cost of operations for this cooperative, given its circumstances?
- A goal for the cooperative is to become self-sustaining. Will the estimated volume of purchases distributed by the cooperative generate enough income to support the cost of operations?
- What are marketing strategies to reach a self-supporting volume of business, to the benefit of the consumer and producer members?
- Can the distribution of the orders be accomplished effectively and economically?

The research and analysis to answer these questions are discussed in the following sections:

- Understand the work of the cooperative
- Evaluate software
- Identify potential members and sales
- Size up the expenses and sources of funds
- Analyze how the business will perform
- Decide how to proceed

The importance of outreach

As the business model is being developed, the steering committee and supporters will also be reaching out to potential members. Activities could include community meetings and potlucks, mailings, online discussions, and newspaper articles to promote awareness of the proposed cooperative and invite participation.

Oklahoma Food Cooperative

The Oklahoma Food Cooperative organizers made extensive use of the internet. In addition to a website, they organized a listserv to discuss organizing a local food cooperative, and joined many other local internet discussion groups. (See the archive at okfoodret@yahoogroups.com which contains a complete written record of the development of the cooperative from the first announcement of the idea to the present time.)

Idaho's Bounty

Publicity brought new members to Idaho's Bounty. The coverage included a public television show, “Edible Idaho”. Another public television show featured one of the local farmers, Mike Heath, in a discussion of the book, “Botany of Desire” by Michael Pollan.



Feasibility

Understand the work of the online food co-op

An online food cooperative will require an online ordering system and a process for filling and distributing the orders to the consumer members. The flow of online food ordering is shown in Illustration #1.

Important characteristics of this online model are:

- Products are distributed directly from local producers through the cooperative and not through an existing commodity distribution system. Therefore, the co-op is responsible for establishing a unique distribution system between local producers and consumers by providing trucks and drivers, and managing routing, sorting and pickup activities.
- The producer members determine their own products' information and therefore have an important role in keeping the system's information current about the availability and prices of products.
- The ordering and distribution cycle occurs periodically (such as monthly or weekly) but not daily. The periodic cycle allows time for the co-op members to coordinate their orders, sales and distribution. Periodic delivery days also help to concentrate the costs of delivery within a higher volume of orders which is more cost-effective.

To accomplish ordering and distributing, the co-op:

- Recruits consumer and producer members,
- Administers the cooperative, including support of the Board and member outreach activities,
- Manages the ordering system, including technical operation, implementation of pricing and product policies, and tracking of orders and payments,
- Manages the process for filling and distributing the orders, including the transportation of products, sorting of orders, tracking consumer pickup and delivery, payment of orders to the producers, and payment of shipping and handling fees by consumer and producer members to support the co-op.

Learn from others

One of the Cooperative Principles is "Cooperation Among Cooperatives". Since Oklahoma Food Co-op launched its online, local food model in 2003, at least 16 others have started similar operations, using the Oklahoma Food Co-op as a model to organize their operations and using the open-source software developed by the Oklahoma Food Co-op to support their operations.

While this support helped speed up their startup, the budding cooperatives all encountered unique circumstances which required them to customize their actions for their situations.

To answer your unique questions, look for opportunities to learn of others' experiences through webinars, conferences, case studies, reports and information posted on websites and internet discussion sites. See Appendix A for a list of resources.



Feasibility Evaluate software

The online ordering software is the heart of the cooperative's operations. The software electronically links the producer-members with the consumer-members and provides information and tools for the cooperative to manage the transactions and accomplish the filling and distribution of the orders. Ideally, the software supports the actions required to:

- Describe the products for sale and list their prices,
- Select products to buy and place orders,
- Pay for the orders,
- Prepare the ordered products for distribution,
- Distribute the orders, and
- Manage the related membership, finances and operations of the cooperative.

Available software can be compared by reviewing how the software addresses the ordering and distribution process and the cooperative's work. Suggested features to evaluate are listed in Illustration #2.

“
It is important that the software is easy to use on the variety of computers and systems out there. You can spend a lot of time helping people with technical problems. It is also important that the software helps you make necessary corrections and changes in accounts, orders, and the like. There is so much more to the work than what you see on the web page.”
--Meadow Summers, Six Rivers Market

Software should also be compared by the costs charged to use the software and the costs to modify it. Costs could include, for example, a subscriber fee charged by the software provider and there may be costs for a software developer's time to install the software or modify it.

The rapidly changing world of software

The Oklahoma Food Co-op developed its own software in 2003 to meet the unique needs of the online food co-op it created. The Oklahoma Food Co-op made its software available as open source code, without licensing fees. Many of the early online co-ops relied upon the software to get them started.

However, more software alternatives are now available. An evaluation of software should begin with a search for current offerings. For example, in 2011, online local food software was available from:

LocalFoodCoop.org, the site hosting the open source software created by Oklahoma Food Co-op.

OpenFoodSource.org, the site featuring improvements to Oklahoma's original open source software, with support services available.

LocalDirt.com, the software service developed through a National Science Foundation grant. The software service links buyers and sellers of many types.

LocalFoodMarketplace.com, a software service originally created to run Eugene Local Foods of Oregon.

CSAware.com, a software service originally developed to support farmers with managing CSA shares.

Other sources may exist. It is recommended that you conduct a fresh search by using the internet and asking others about available software.

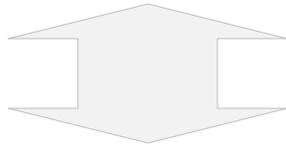
Illustration #2

Evaluating Software for Online Local Food Cooperatives



How do producer -members use the software to:

- Enter information about products & practices
- Manage wholesale pricing and retail pricing
- Help fill their orders (e.g., pick lists, labels)
- Communicate with purchasers
- Track payments due to them



How does the co-op use the software to :

- Maintain the co-op's home page
- Manage the transportation routes
- Organize and complete the sorting into complete orders
- Track and manage payments
- Maintain member information
- Obtain financial reports
- Interface with co-op's accounting software
- Obtain reports to manage the co-op's operations



How do the consumer-members use the software to:

- Directly access the co-op's shopping
- Join the co-op online
- View products & prices
- Select purchases and revise orders
- View the final, consolidated order
- Pay online
- View status of payment
- View where to pickup their orders
- Contact the co-op
- Change their personal account information



Feasibility

Identify potential members and sales

The online cooperative exists as a virtual marketplace for consumer and producer members. The cooperative's financial existence is therefore dependent upon the purchases by consumer-members, which in turn is dependent upon the variety, supply, quality, and price of the products provided by the producer-members.

A market analysis is an important aspect of determining an online co-op's feasibility. The analysis pulls together information about:

- The number of potential members, both consumers and producers,
- The estimated volume of purchases, and
- The estimated supply of local products.

Suggested methods to identify market information include the following:

- Conduct a survey of potential consumer members, asking about the level of interest in becoming a member and the type of products they purchase (see Appendix B for an example of a community survey by Six Rivers Market).
- Visit local producers to identify their level of interest and volume of products.
- Use U.S. Census data available at www.census.gov to identify the number of people in your area as potential members. It is useful to map the clusters of populations so you can see the distances involved in distributing orders. At this point, you may consider seeking the help of a professional market analyst who can interpret factors such as distance from a co-op pickup site or proximity to a competitor and refine the estimates of membership and sales.

With a market analysis, the picture begins to take shape of who the cooperative will potentially serve. The market information will be considered along with the financial information.

Importance of a market analysis

The online cooperative which provides distribution of individual orders seeks to cover its operating expenses through charges paid by consumer and producer members for each order, commonly referred to as "shipping and handling fees" or "commissions". The amount of income generated by the charges is tied to the number of orders which, in turn, is driven by the number of consumer members who order and how much they purchase.

Therefore, a critical part of the co-op's feasibility is estimating the volume of sales. A market analysis is needed to identify your service area, the number of potential members, and projected sales. The market analysis will consider the potential variety and supply of products.

The analysis will also identify whether the potential sales will generate enough income to cover projected expenses. Typically, initial startup costs are greater than the income from startup sales and the new cooperative will rely upon donations, grants and member equity to finance their first years of operation.



Feasibility

Size up the costs and sources of funds

As a cooperative, the members are agreeing to share the benefits of “buying local”. They are also agreeing to share the expenses of creating a new linkage between local producers and consumers. So what are those expenses? And what sources of funds are needed to cover the expenses?

The following discussion explains typical types of expenses and the sources of funds to cover those expenses. The example in Illustration 3 should trigger questions about how your particular circumstances may differ.

Types of Expenses

- **Facilities**
A site is needed to centrally sort the products into complete orders. The orders are then transported to other sites for pickup by consumers. The sorting site is used one or two days for each ordering cycle. Many online co-ops use space made available to them at no charge.

The consumer pickup sites are used for a few hours during each delivery cycle. The space is typically provided at no charge.

Most online co-ops operate without a physical office. They stay in touch via phone and email.

- **Distribution**
The operation of trucks, vans or trailers incurs expenses for the vehicles, maintenance, fuel, licensing, and insurance. The size and features of a vehicle affect the costs, as does the number of miles driven. Some cooperatives start by contracting for a driver with his own pickup truck and trailer. Later, they seek used delivery trucks or vans to purchase.
- **Labor**
Particularly at startup, members provide critical assistance by working at no charge to the co-op. Board directors also work without compensation. However, online co-ops typically strive to pay for a part-time general manager and pay for the truck drivers’ time and expenses. It is recommended that a cooperative work toward a goal of other paid positions as well.

Know the volume of sales needed to cover operating costs.

A key source of funds for the cooperative will be the shipping and handling fee paid by the members for each order. The shipping and handling fee is charged as a percentage of each order’s sales. For example, if the shipping and handling fee is 10% charged to the consumer member and 10% charged to the producer member, the sales would need to total \$250,000 to generate \$50,000 income to the cooperative:
$$\$250,000 \times 2(10\%) = \$50,000$$

In Illustration 3, the example lists first year costs totaling \$87,730. If this amount was covered entirely by the shipping and handling fees, the sales would need to total \$438,650 for the year to generate \$87,730 of shipping and handling fees.



Starting An Online Local Food Cooperative

- **Other Expenses**

Marketing and member outreach may include sponsoring community dinners, food drives, cooking classes, newsletters, brochures, and use of social media such as Facebook.

Other expenses also include liability coverage for board directors.

- **External Services**

Accounting services are essential. The co-op must have accurate accounting processes and financial data to manage the cooperative and track purchases and payments between consumer members and producer members, collect shipping and handling fees, and manage membership share purchases and other fees.

To prepare for startup, the co-op may also utilize professional services for legal assistance and development of the cooperative and its business.

Software operation may also be provided externally. Possible expenses include software usage fees, costs to develop the website, support costs to install, operate and maintain online operations, and charges to modify and update software.

Sources of Funds

The members are the primary source of funds through the purchase of shares to become an owner and through payment of charges for shipping and handling of orders. Membership share purchases are very important to the cooperative because they serve as the cooperative's capital base and demonstrate support by the members who are the owners. The amount of the share purchase should be set at an appropriate level to support the operations.

Fees also may be charged to people who use the online service but who do not purchase shares and are not owners, such as the "non-voting member fee" and the "visitor fee".

Members may also support the cooperative through donations and member loans (member loans require legal assistance to assure compliance with laws).

Grants may be available, particularly at startup.

Financial support from the members

Ultimately, the cooperative's goal is to sustain itself financially through the business conducted by its members. Members cover the costs of their cooperative's operations primarily through their purchase of shares as voting members and through shipping and handling fees paid on each order. Members can also support the cooperative through donations and loans.

Examples are:

- *Shipping and handling fee:* The consumer member pays a fee of 10% of each order, and the producer member pays a fee of 10% of each order.
- *Membership:* Consumer member - \$10 per year, and Producer member - \$60 per year
Or,
- *Voting Member:* \$100 for one share of common stock — plus \$20 annual fee thereafter, waived the first year.
- *Non-voting Member:* \$40 annual non-voting member fee.
- *Visitor:* \$6 visitor fee added to each order.



Illustration 3 Adjust this example to meet your circumstances & feasibility analysis

Assumption: Monthly ordering cycle, one sorting hub, 4 consumer pickup sites

Type of Expense	Est. First Year Cost or Value	Sources of Funds				
		Fee income & member equity	Members' "volunteer" time	Donations: Cash, In-Kind	Grants	External Loan
Facilities						
*Order-sorting site (500 sq. ft. @ \$6 sq. ft./mo. for 2 days per month) (Cost per sq. ft. varies widely)	\$2,400			Provided for 2 days per month at no charge		
*Sites for order pickup (50 sq. ft. @ \$6 sq. ft./mo. for 2 days per month,4 sites)	\$480			Provided at no charge		
*Office space (100 sq. ft. @ \$6 per sq. ft. per month)	\$7,200			Decided not to have an office		
*Utilities: phone, internet, electricity (\$100/mo.)	\$1,200	\$1,200				
*Storage & refrigeration equipment, etc.	\$6,000	\$2,000		\$4,000		
Distribution						
*Truck/van/trailer (cost varies)	\$20,000				\$5,000	\$15,000
*Fuel, maintenance @ \$0.55/mile for 9,000 miles	\$4,950	\$4,950				
*Vehicle insurance	\$1,000	\$1,000				
Labor (Part-time)						
*Truck drivers (contract)	\$2,500	\$2,500				
*Labor at sorting & pickup sites	\$1,920		\$1,920			
*Co-op administration (contract)	\$15,660	\$15,660				
*Member services & marketing	\$13,570		\$13,570			
Other Expenses						
*Advertising/marketing	\$6,000	\$6,000				
*Liability insurance	\$1,000	\$1,000				
External services						
*Accounting	\$1,200	\$1,200				
*Information systems	\$3,000	\$3,000				
*Startup professional services (legal, consultant)	\$10,000				\$10,000	
Totals	\$98,080	\$38,510	\$15,490	\$14,080	\$15,000	\$15,000



Feasibility

Analyze how the business will perform

It is important to look beyond startup and the first year of operation. It is likely that it will take three to four years for the cooperative to become self-sustaining. Typically, the membership and volume of sales will increase over time, with periodic large expenses for trucks or facilities or personnel offsetting the gains in sales income. A financial analysis of the cooperative's sales, expenses and income over four to six years will reveal the trends in the cooperative's financial status. Depending upon your cooperative's circumstances, annual sales of up to \$1 million may be needed to generate a sustainable income.

The financial pro forma consists of a set of financial analyses used to project income and loss statements, balance sheets, cash flow, and breakeven. From these analyses, the steering committee can see the feasibility of the co-op's proposed approach to its business. The steering committee will discuss the assumptions about the approach to the co-op's business and revise those assumptions if needed. Ultimately, after discussion of the feasibility, the steering committee will vote on whether to proceed to establish the cooperative.

The steering committee may decide to use professional services to conduct a comprehensive feasibility study.



Photo courtesy of Nebraska Food Co-op

Unique aspects of the business

Cooperatives dedicated to providing only local products face some unique considerations which affect their sales. Those include:

- Produce ordering volumes typically peak in the summer and early fall, coinciding with the availability of locally grown produce. Some online co-ops have increased winter sales through sales of frozen local meats and local processed products such as jams and bakery items. Some have also extended the produce season through use of greenhouses.
- Local products may be limited in variety and therefore the consumers' orders may be small in dollar value and generate less revenue. However, the co-op's costs to distribute a small order are nearly the same as distributing a large order.
- Wholesale sales to restaurants, hospitals and institutions provide a higher volume of sales. Several cooperatives include wholesale as well as retail sales.
- Once a month delivery is a difficult schedule for produce growers whose produce ripens every day. The co-op should consider a weekly or biweekly schedule when it becomes feasible or the producer will need to seek additional markets.



Feasibility

Decide how to proceed

The Steering Committee now has an analysis of the proposed business and whether it is feasible. The Steering Committee must decide what action to take next:

- Proceed with the business model as analyzed
- Stop and not proceed further
- Revise the proposed business to address concerns and proceed.

The Steering Committee may consider modifying the proposed business. Examples of connecting to local foods in different ways are provided in the table below.

If all issues, recommendations, and limitations are fully explored, and the project is declared feasible, the group and steering committee proceed to develop a business plan.

Connecting Consumers and Local Foods In Different Ways	
<p>Idaho’s Bounty Ketchum, Idaho <i>www.idahosbounty.org</i></p>	<p>This cooperative exists as an online ordering business for local products. It distributes orders to centralized pickup sites or directly delivers to a consumer.</p>
<p>Fresh Abundance Spokane, WA <i>www.freshabundance.com</i></p>	<p>A community nonprofit organization, Fresh Abundance sells organic products online for pickup at a central location. Their sales tie into their community work to produce local foods.</p>
<p>The Farmhouse Market Wenatchee, WA <i>www.communityfarmconnection.org</i></p>	<p>The Farmhouse Market buys directly from local farmers and sells at a storefront as an all-local grocery store. It does not provide online ordering. The market is operated by Community Farm Connection, a nonprofit organization.</p>
<p>Vancouver Food Cooperative Vancouver, WA <i>www.vancouverfood.coop</i></p>	<p>The cooperative has a vision of a full-service storefront but began with online ordering of selected products picked up by the consumer at a central site. Recently, the co-op opened a Saturday store.</p>



3. Structure the cooperative

The need for the cooperative and the feasibility of its business is now defined. The steering committee is ready to formally establish the cooperative by taking action to:

- Decide the membership structure.
- Prepare legal papers, including bylaws, and incorporate.
- Establish a board of directors.

These actions are described in detail in U.S. Department of Agriculture publications (see Appendix A for a list of resources). Following are excerpts from Circular 7, “How to Start a Cooperative.”

- The members are the owners of the cooperative. One of the important actions is to decide the membership structure. This includes defining the membership classes (i.e., consumers and producers), how the membership classes relate to the cooperative’s governance, the share purchase requirements, and voting rights. The decisions should be supported by the bylaws. It is recommended that you seek legal counsel.

- Prepare legal papers and incorporate.

Perhaps the most important process, other than determining the business feasibility, is drafting articles of incorporation and bylaws. Other legal documents include the membership application, membership or stock certificate, revolving fund certificate, marketing/purchasing agreements, and meeting notices and waivers of notice.

Incorporation is usually the best method of organizing. Each State has special enabling laws under which cooperatives may incorporate. It may be preferable to incorporate under the State’s general corporation enabling act, but structure bylaws to operate as a cooperative.

Filing the articles of incorporation (usually with the Secretary of State) activates the cooperative corporation.

Once chartered by the State, the cooperative should promptly adopt bylaws. Bylaws usually have membership requirements and lists rights and responsibilities of members;

The Multi-Stakeholder Model

“The Oklahoma Food Co-op model brings producers and consumers together as co-owners of a business. In 2003, it was an unusual model in the cooperative world. Producers and consumers were assumed to have completely different economic needs in terms of price, with the producer always seeking the highest price and the consumer always seeking the lowest price. But instead the two groups have demonstrated a very compelling common interest: to promote a rational and sustainable system of supply and demand”....“The goal is not to get the best deal for any one party but rather to run a business that serves the community’s food economy and thereby benefit both producers and consumers.”

Excerpt, “Solidarity As A Business Model”
www.american.coop



how directors and officers are elected or removed, and other specific requirements, rights and responsibilities.

- Call a meeting of charter members and all potential members to review and adopt the proposed bylaws. Elect a board of directors.
- Convene the first meeting of the board and identify the board officers. Assign responsibilities to implement the business plan.

4. Start-Up the Operations

The cooperative, now formally established and led by the board of directors, moves towards startup of its operations. At this stage, the cooperative will:

- Conduct its membership drive,
- Acquire funding,
- Assign staff
- Arrange for facilities and equipment, and
- Begin operations.

To start-up the cooperative's operations, several existing online cooperatives organized around a core group of positions, with additional help provided by members on delivery days.

Illustration #4 An example of a startup organization

Examples of job descriptions and responsibilities are available from Oklahoma Food Co-op (See Appendix A).

Key aspects of an online co-op focusing on local foods

In 2003, Oklahoma Food Co-op launched its unique approach of connecting local consumers and producers through an online, virtual marketplace. Oklahoma Co-op's Board Director and co-founder Bob Waldrop points out several key aspects of the co-op's operations that contributed to its success:

- Producers set their own prices, the co-op does not set prices. Waldrop explains, "We say that, in effect, each producer is his or her own brand and the price is part of their brand."
- The co-op does not limit the number of producers who can sell in a product category and instead supports open access by all producers who meet the co-op's standards.
- Producers tell about their products, farms and practices so people can learn about where their food comes from and decide on the products they wish to buy. "We don't just sell food, we sell "food with a story," explains Waldrop. "Otherwise, people will go to supermarkets."
- Member education is very important. Consumer members learn how to prepare and cook local foods and producers learn how to improve their sales.



III. Grow the cooperative

Local food cooperatives have missions to positively impact their communities as well as obtain local foods. Their overall success relies upon their outreach and education efforts as well as their business performance.

Outreach and education

Local food cooperatives reach out to other organizations in their communities and collaboratively sponsor local food activities. Examples include:

- Restaurant events featuring local foods,
- Community gardens,
- Donation of food boxes ordered through the co-op to food banks,
- Cooking and food preparation classes co-sponsored with a local health clinic,
- Harvest meal events, and
- Tours of local farms.

The cooperatives also communicate and educate through their websites, featuring wholesome foods and recipes and news of events.

Improve business performance

“ We quickly set up our operations at the onset and welcomed many new members. But we feel our success is still to come, when we are moving much more of the food that is created sustainably in southern Idaho and we economically cover all our operational and capital expenses.”

--General Manager, Idaho's Bounty

Online cooperatives must be well-managed to maintain costs at levels that are acceptable to the producer-members and the consumer members.

Existing online food cooperatives take a multi-dimensional look at their business and seek to become more cost-effective for their members through several actions:

- Increase the variety and amount of products available each month and level out seasonal swings. A “shopping cart survey” can help identify the products the consumer-members wish to buy (see Illustration #5). The co-op then works with producer-members to provide these products .

Track your performance

Tracking the cooperative's performance helps you to understand what affects the business. Some of the performance ratios used by online, local food co-ops include:

- Average dollars per order
- Number of customers per order cycle
- Cost per delivery mile
- Percentage increase in memberships
- Sales volume per month per season



Starting An Online Local Food Cooperative

- Increase the number of consumer members through education and outreach, and through expansion of routes. Identify dense clusters of populations that are more cost-effective to serve and can help support deliveries to less dense areas.
- Increase the volume of sales by including wholesale and large retail members .
- Improve the efficiency of routing and distribution to deliver at less cost.

Existing online cooperatives also track historical information such as sales by month and sales by product (see Illustrations #7). Some are also tracking performance ratios such as average dollars per order and number of customers per order cycle.

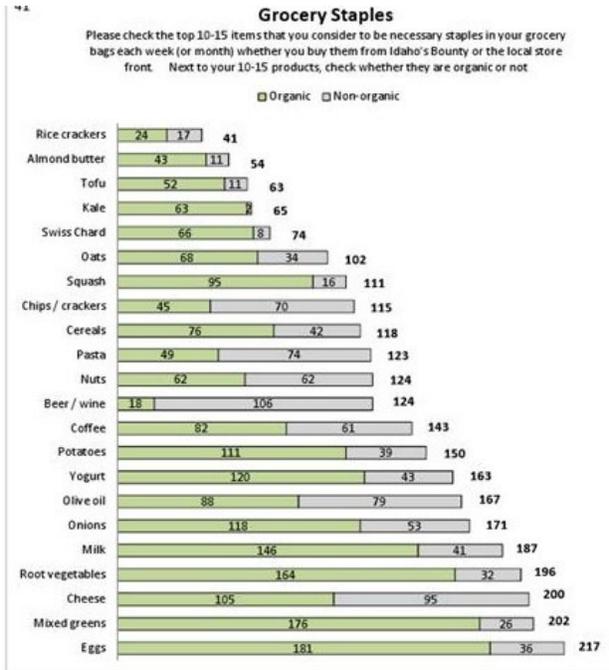


Starting An Online Local Food Cooperative

Illustration #5

Idaho's Bounty

Illustration #6



A total of 240 people responded to the survey. An average of 12.5 responses per person was recorded.

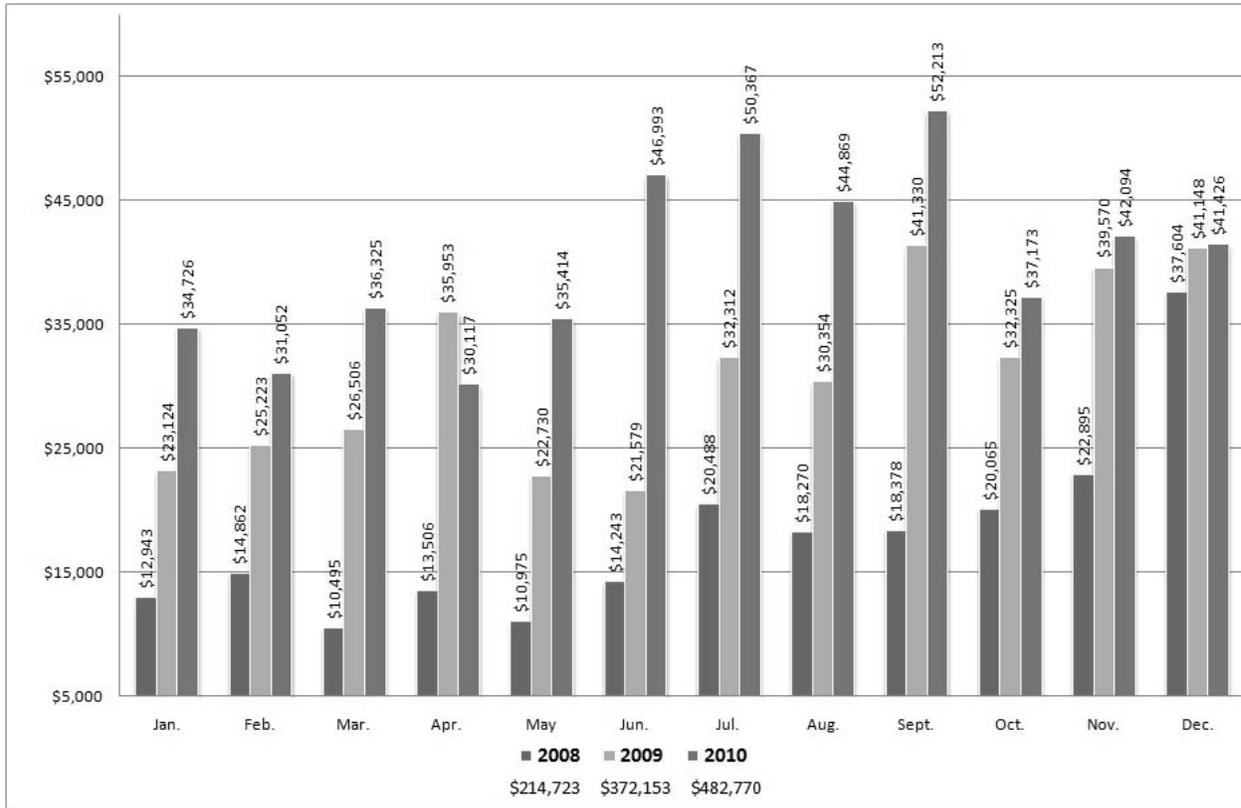
- The fill in the blank responses included:**
- | | |
|---|-----------------------|
| Fruit (mostly bananas, apples, oranges) | Any type of meat |
| Bagels / bread / tortillas | Fish |
| Peanut butter | Vinegars |
| Butter | Oils |
| Soy milk: | Avocados |
| Rice | Juice |
| Dog food | Other types of greens |
| Lunch meats | Flours |

What Idaho's Bounty Sells: 2009 Products as Percent of Sales

Vegetables	34%
Meats	20%
Dairy & Eggs	12%
Fruits	8%
Poultry	5%
Baked Goods	3%
Prepared Foods (Non-Refrig.)	3%
Fresh Herbs	2%
Prepared Foods (Refrig.)	2%
Oats,Grains,Flours,Pasta	1%
Desserts	1%
Beans,Lentils,Peas	1%
Beverages	1%
Honey,Molasses	1%
Condiments,Sauces,Spices	1%
Seeds, Seed Starts	1%
Health&Beauty	1%
Other	3%



Illustration #7 Example of Changes in Sales by Month, Idaho's Bounty



Inspired by the vision

Despite the challenges of the daily business, online co-op members remain inspired by their vision. They speak of their cooperative as more than a business; they work to ensure the integrity of local food by growing a new system of food routes. It is reasonable to expect it to take some time, they believe. It is all about local food for local people.



Appendix A: Resources

Cooperative Development Assistance	
Cooperative Extension System	A current list of cooperative development centers and cooperative organizations is provided by the Cooperative Extension System www.extension.org/pages/31224/cooperative-resources
National Council of Farmer Cooperatives	A current list of Farmer Cooperative Councils is available from the National Council of Farmer Cooperatives www.ncfc.org/member-directory/state-councils
National Society of Accountants for Cooperatives	www.nsacoop.org
Sources of publications, webinars, presentations, and other information	
Northwest Cooperative Development Center	“Idaho’s Bounty: A Case Study of An Online Local Food Co-op” “Starting An Online Local Food Co-op” www.NWCDC.coop
Food Co-op Initiative	Numerous materials related to food cooperatives www.foodcoopinitiative.coop
U.S. Department of Agriculture, Rural Business-Cooperative Service	Numerous materials related to cooperatives www.rurdev.usda.gov/rbs/pub/
CooperationWorks!	Contact information for local cooperative development centers is listed at this website, along with other information www.cooperationworks.coop
University of Wisconsin, Center for Cooperatives	“How to Establish a Cooperative: A Case Study of the Oklahoma Food Cooperative” by Zvi Galor www.uwcc.wisc.edu/info/food/zviok.pd
<u>Nebraska Cooperative Development Center</u>	“Case study of Nebraska Food Co-op” http://ncdc.unl.edu/nebraskafoodcoop.shtml



Starting An Online Local Food Cooperative

Oklahoma Food Co-op	<p>“How to Organize a Food Co-op in Your State, Lessons from the Organizing Campaign of the Oklahoma Food Cooperative” by Robert Waldrop</p> <p>www.oklahomafood.coop/organizing.php</p>
Oklahoma Food Co-op	<p>Board of directors job descriptions</p> <p>www.oklahomafood.coop/board.php</p>
U.S. Department of Agriculture, Rural Business-Cooperative Service	<p>Circular 7, “How to Start a Cooperative”</p> <p>www.rurdev.usda.gov/rbs/pub/</p>
U.S. Department of Agriculture, Rural Business-Cooperative Service	<p>“Vital Steps, A Cooperative Feasibility Study Guide,” Service Report 58</p> <p>www.rurdev.usda.gov/rbs/pub/sr58.pdf</p>
American Co-op	<p>Solidarity As A Business Model, A Multi-Stakeholders Cooperative Manual”, published by Cooperative Development Center at Kent State University</p> <p>www.american.coop/sites/default/files/multistakeholder-coop-manual-2-1_0.pdf</p>
CDS Consulting Co-op	<p>Webinars: Starting a Store Food Co-op</p> <p>http://cdsconsulting.centraldesktop.com/cbld/doc/5469096/w-Fc500WebinarArchives</p>
Alternatives for online ordering of local foods	
Group buying clubs	<p>“A Cooperative Food-Buying Club Primer “ by Lucy Watkins, Modified from original publishing in <i>Vegetarian Baby & Child Magazine</i>, Vol. 3, Issue 3</p> <p>www.vegfamily.com/articles/coop-food-buying.htm</p>
Group buying club as part of a grocery store	<p>“Linking Buying Clubs and Retails for Co-op Development” By Deb Maynard, John Hatton, George Southworth, #068 January - February - 1997</p> <p>www.cooperativegrocer.coop/articles/2004-01-09/linking-buying-clubs-and-retails-co-op-development</p>

Appendix B: Example of a Community Interest Survey



SIX RIVERS

Community market

Community Survey

The goal of this survey is to discover what type of local food market will work best in OUR community. To do that, we need your help. Please take a few minutes to think about these questions and share your feedback with us. Your input will help us shape a local food market that will ideally strengthen and beautify our community for many years to come.

If you currently use the Quest card to purchase food, please note: Six Rivers Community Market may eventually be able to apply the Quest card to its system. Please answer the questions assuming you would be able to shop with the Market using your card.

1. Are you interested in having easy access to local food all year long?

- A. Yes, I'm very interested.
- B. Yes.
- C. I might be interested.
- D. No: Why? _____

2. What is the maximum membership fee you would pay to join a local food cooperative?

- A. \$0
- B. \$3-\$5 per month
- C. \$5-\$10 per month
- D. \$10 or more per month

3. If you were able to shop for local food from a variety of producers each week, which method would you prefer?

- A. Via phone with an updated product list.
- B. Via fax with an updated product list.
- C. Via a website marketplace.
- D. At a physical store.
- E. Directly from each individual producer.

4. How comfortable would you be ordering local food on a website?

- A. Very comfortable.
- B. Somewhat comfortable.
- C. I might get used to it.
- D. Not at all comfortable.

Appendix B: Example of a Community Interest Survey

5. If you're not comfortable ordering from the web, why, or what concerns might you have?

6. Do you have internet access in your home?

- A. Yes. Dial-up.
- B. Yes. High-Speed.
- C. No. But I would be willing to find alternate access in order to participate in a web-based local market.
- D. No.

7. Would you be willing to pick up your local food order from a central Sandpoint location at a set time and day each week?

- A. Very willing.
- B. Willing.
- C. I might try it.
- D. No, but I could arrange for someone else to pick up my order.
- E. No.

8. Would you be more likely to make a local food order if pick-up sites were available outside of Sandpoint?

- A. Yes. Hope/Clark Fork
- B. Yes. Bonner's Ferry
- C. Yes. Priest River
- D. Yes. Other _____
- E. No or not applicable.

9. Would you be more likely to shop with a local food market if a delivery option for \$5-\$10 per delivered order was available?

- A. Very likely, I just like the idea of food delivered to my door.
- B. I might try it, but I'd use the market regardless of having a delivery option.
- C. No, I wouldn't want the added cost.
- D. No, I'm not interested.

10. Would you be more likely to shop with a local food market if there was a physical storefront open for set hours each week?

- A. I might try it, but a physical storefront isn't as important as simple access to local food.
- B. Not at all likely, I prefer lower overhead and lower prices.
- C. Very likely, I prefer a physical storefront to choose my own products.
- D. No, I'm not interested.

11-13. The nature of a local food market means that product availability will vary according to season. Seasonal winter products may include: potatoes, carrots and other root vegetables, apples, jams, meat/poultry, eggs, and baked goods. Summer product availability would expand to include an increased variety of fresh veggies and fruits.

11. How much would you likely spend each **week** on local products during the **Summer** months?

- A. Less than \$10
- B. \$10-\$15

Appendix B: Example of a Community Interest Survey

- C. \$15-\$20
- D. More than \$20

12. How much would you likely spend each **week** on local products during the **Winter** months?

- A. Less than \$10
- B. \$10-\$15
- C. \$15-\$20
- D. More than \$20

13. When seasonal product availability is low, would you be willing to continue your membership with a local food cooperative for the sake of supporting a local food system?

- A. Yes, definitely.
- B. Maybe.
- C. No.

14. Do you have any general comments, suggestions or concerns? _____

WWW.SIXRIVERSMARKET.ORG

WHAT WE WANT TO ACCOMPLISH:

Our main goal is to bring consumers and local farmers together in the simplest manner possible, giving the community easy access to fresh, local food. This can take a variety of forms.

One idea: a web-based cooperative that runs on weekly order cycles with a temporary location for drop-off and pick-up of products (similar to Idaho's Bounty in the Sun Valley area, www.idahobounty.org).

Another idea: a full retail cooperative that focuses on local products, but also brings in other products to maintain a viable business (similar to the Moscow Co-op, www.moscowfood.coop).

There are also a variety of other solutions that are a combination of ideas (such as Fresh Abundance!, in Spokane, www.freshabundance.com).

Thank you for helping us find what solution works best for our community!



**Northwest
Cooperative
Development
Center**

Olympia, Washington 360.943.4241
www.NWCDC.coop

NWCDC is a non-profit 501(c)3 organization, working with co-ops in Oregon, Washington, Idaho and Hawaii.

Our assistance has built capacity for a wide range of cooperative businesses, from agriculture to preschool; from healthcare to organic groceries; from financial services to renewable energy. Founded by co-ops in 1979, the Center has grown into the Northwest's leading provider of co-op business development services.

Feasibility Assessments

Market Research

Business Planning

Strategic Planning

Operations Assessments

Organizational Development

Cooperative Education

Board of Directors Training

Grant Writing