Co-operative of Food Co-operatives

Business Case

Author: Sarah Weate

Manly Food Co-op

Co-op Federation

# Business Problem

Food cooperatives in the Sydney region have been forming since the 1980s: each with the broad objective of providing unpackaged, ethical organic goods to members on a non-profit basis. It is important to note that most have stared into a financial abyss at least once. The Blue Mountains Food Co-op is the standout financially with a huge turnover and a healthy balance sheet but Alfalfa House, Manly and Flame Tree have all faced financial challenges in the last few years.

At their inception food co-operatives provided a unique service: there was no other way for an environmentally-conscious, organic shopper to get low waste, organic goods. Co-ops also provided community hubs for like-minded people to share information and to support a like-minded venture. Their customer base was assured. The challenge was always to weigh up retaining profit to grow and stabilise the balance sheet against reducing prices and passing the profit onto members in the form of lower prices.

Food cooperatives now face a plethora of private businesses who have mimicked the look and feel of co-ops and compete directly against them. Additionally, these private business competitors pose fresh challenges:

* They eschew fresh food, concentrating instead on the products with the highest mark-up: dry goods, shelf stable products and health and beauty. Co-ops generally try to provide the full range of supermarket goods as a service and thus stock lower margin items.
* The competitors can use the economies of scale, negotiating special prices with wholesalers to supply all their stores, effectively becoming price-makers. Co-ops are price-takers, reliant on the price the wholesaler chooses. Thus, margins are lower even if the product is sold at the same price as competitors.
* As businesses that are focussed on retail, they do not feel the need to provide a community hub for like-minded people.
* The competitors create marketing content and events that can be rolled out across all their shops. The Co-ops are all creating this individually.
* Co-ops are generally more committed to a genuine environmentally sustainable product than our competitors who regularly engage in greenwash.

In short, our competitors use purchasing might, a streamlined product offering and lower environmental and ethical standards to challenge us on price, range of services and content.

# Possible Solutions

In late 2019 a group of food co-ops agreed, in principle, to form a co-op of co-ops. From that meeting it was decided we needed to produce a document identifying the initial scope of the project and the cost and tasks associated with establishing the co-op. The document informing that meeting, detailing specific products and opportunities, is included here as Appendix 1.

The participating co-ops generally agreed that forming a co-operative, one member, one vote across food co-ops would provide advantages in buying, marketing, packaging, supply chain and costs. The question this document addresses is to examine how to approach establishing this co-op, the scope of the area served and of the functions provided.

## Phased Small Start (PSS)

The Phased Small Start Model (PSS) would establish a co-op with limited participants, implementing certain functions on a test-and-learn basis. The learnings from this trail would be used to refine the process to ensure the resultant business processes, cashflows and communications are scalable. It would make sense to include the following co-ops in the initial trial: Blue Mountains, Alfalfa House, Manly, Flametree and Thoughtful Foods. These co-ops represent large, medium and small co-ops and all have similar business models and objectives.

The co-op would aim the implement the following basic functions:

Some combined ordering of non-perishable goods,

Shared Marketing Content,

Sharing information on suppliers,

Sharing information on tools and processes.

The intent would be to expand membership to additional co-ops once the basic functions, as defined above, were proven, resilient and scalable.

### Advantages of Phased Small Start

Risk Reduction: Having fewer co-ops buying would result in smaller orders, meaning the likelihood of large errors is reduced.

Reduced Effort: Many of the new processes will initially be tactical and thus require manual intervention with significant touch points. Fewer co-ops involved will streamline that manual effort.

Agile solutions: Having fewer co-ops needing to agree will allow changes to the model to be adapted quickly and as needed.

### Disadvantages of Phased Small Start

Limiting the number of participatory co-ops to similar businesses in the same geographical area could lead to homogeneity. The demographics of the co-ops vary which mitigates this concern to some extent.

Reducing the number of active member co-ops will result in lower income for the newly formed co-op until the membership base is expanded.

## Initial Open Membership (IOM)

Having all co-ops become members of the co-op from day 1 would increase membership to more than ten co-ops. The initial trial would undoubtedly take longer as it will be more challenging with and a larger group and its associated diversity to agree products and priorities for the new body. The trial would take longer purely through having to seek agreement from a broader group of participants. However the information gleaned from the group would be broader and the learnings from this trail could be used to create better next stage processes and communications. It is worth noting that the broader group of co-ops represent not only large, medium and small co-ops but also a range of rural, suburban and urban communities with a range of different objectives and business models..

### Advantages of Initial Open Membership

Representative: A larger number of participatory co-ops would be more representative of the final membership of the new co-op.

Financial: A larger number of co-ops would increase the annual income.

### Disadvantages of Initial Open Membership

Risk: Having a larger number of co-ops would increase the effort and potential for problems for the first suite of products.

Agility: With more participants it is harder to pivot to new solutions. A smaller trial enables quick agreement to changes in emphasis and implementation.

Distance: More geographically distant co-ops have suggested flat shipping rates across the co-ops which may make products financially unattractive for the Sydney co-ops. The Sydney co-ops have a high combined turnover so would be essential for bulk buying.

# Recommended Solution & Implementation Approach

The Phased Small Start approach is the recommended solution. It is lower risk and processes will be quicker to implement and to refine.

* Initially explore some combined ordering of non-perishable goods, such as Herbon cleaning products and essential oils.
* Implement a repository for shared marketing content and a method to communicate between the co-ops’ marketing teams.
* Implement a repository for supplier information and a method to communicate between the co-ops’ ordering teams.

The intent would be to expand membership to additional co-ops once the basic functions, as defined above, were proven, resilient and scalable.

## Next Steps

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### Stage 1: Now

* Create an initial co-op based on the following membership
* Establish Legal Structure & Rules
* Branding
* Purchase domain name and host a website giving information on all food co-operatives
* Prioritise products/projects for bulk buying.
* Create a space for sharing marketing content, local suppliers etc

### Stage 2: 2022

* Expand to include Co-ops beyond Sydney
* Ordering infrastructure to streamline aggregated ordering for many participants.

### Future Stages to expand the scope of the functions the co-op would perform

* Consider Driver logistics.
* Bulk buying of perishable food items.
* Prepared food manufacturing with manufacturing insurance.

# Indicative Costs & Revenue

|  |  |
| --- | --- |
| **Establishment Income/Costs** |  |
|  |  |
| **Current Balance** | **$ 1,239.00** |
|  |  |
| **Establishment Costs** |  |
| Register rules and company | $ 113.00 |
| Create Rules - Sam pro bono | $ - |
| Branding | $ 500.00 |
|  |  |
| **TotalEstablishment Costs** | **$ 613.00** |
|  |  |
| **Balance less Establishment Costs** | **$ 626.00** |
|  |  |
|  |  |
| **Annual Costs/Income** |  |
| **Annual Costs** |  |
| Domain Name .coop (110USD) | $ 150.00 |
| Co-op Federation Membership | $ 50.00 |
| Website Hosting with Wordpress | $ 250.00 |
|  |  |
| **Total Annual Costs** | **$ 450.00** |
|  |  |
| **Proposed Membership Fees** |  |
| *$100 over $1m turnover* |  |
| *$50 under $1m turnover* |  |
| Blue Mountains | $ 100.00 |
| Alfalfa House | $ 100.00 |
| Manly | $ 100.00 |
| Flametree | $ 50.00 |
| Thoughtful | $ 50.00 |
|  |  |
| **Total Active Member Fees** | **$ 400.00** |
|  |  |
| **Net Annual Profit/Loss** | **-$ 50.00** |