TOOLBOX SERIES

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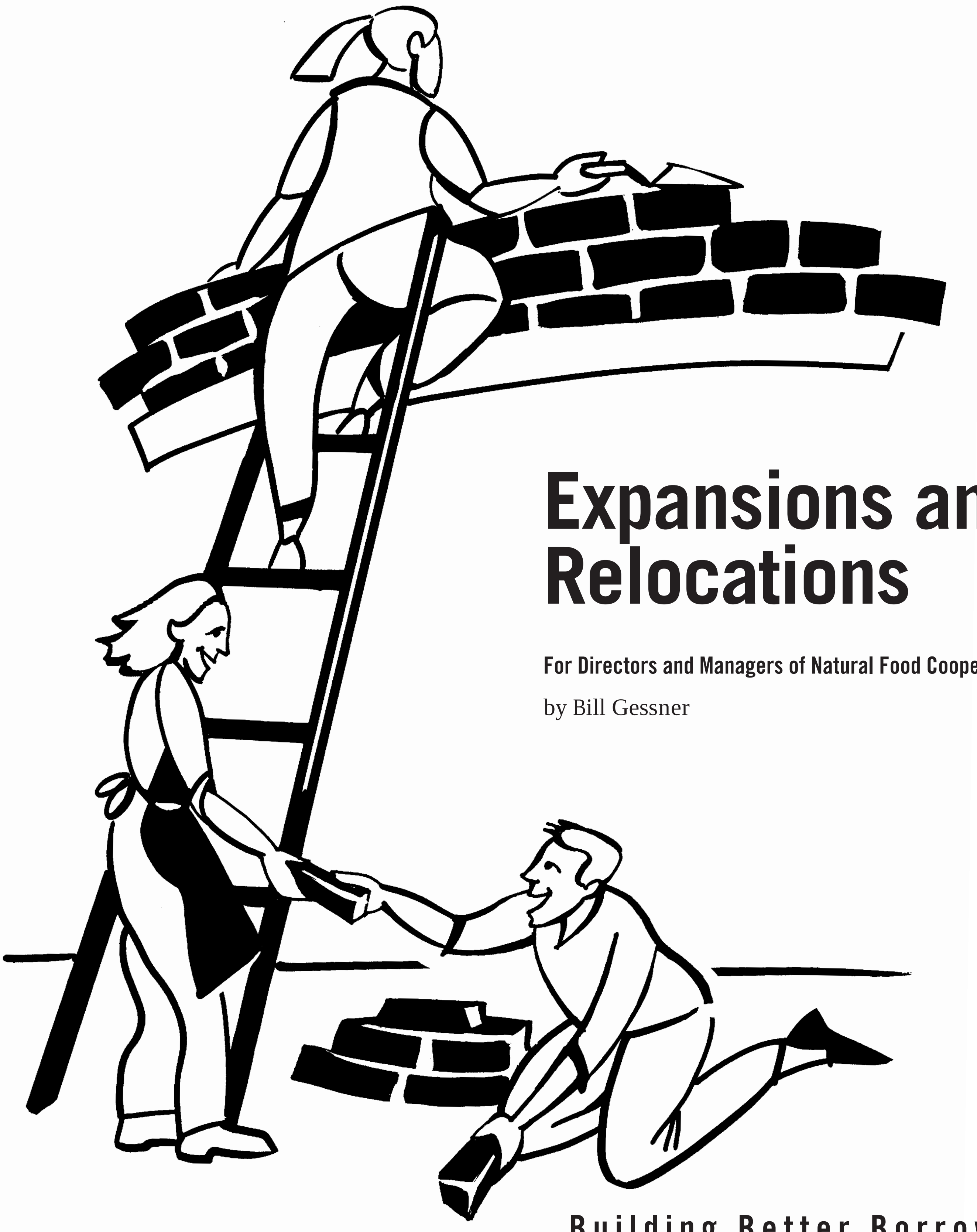

Expansions and Relocations

For Directors and Managers of Natural Food Cooperatives

by Bill Gessner

Building Better Borrowers

NORTHCOUNTRY COOPERATIVE FOUNDATION

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The Expansion Toolbox

A Tool for Expanding and Relocating Co-ops

by Bill Gessner

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Table of Contents

I. INTRODUCTION

EXPANSION
- expanse
- the act or process of expanding
- the quality or state of being expanded
- the increase in volume of working fluid in an engine cylinder…
- the result of carrying out an indicated mathematical operation
- the expression of a function in the form of a series
- having a capacity or tendency to expand
- characterized by high spirits, generosity, or readiness to talk
- characterized by richness, abundance, or magnificence
- any of several colloidal substances of high molecular weight…
- to open up
- unfold
- to increase the extent, number, volume, or scope of
- enlarge
- to express at length or in greater detail
- to stretch
- spread
- to feel generous or optimistic
- amplify
- swell
- may apply whether the increase comes from within or without and regardless of manner
- the extension or enlargement of something inadequate
- gradual beyond a thing's original or normal limits
- outward extension caused by pressure from within
- introduction of air or something insubstantial and suggests a resulting vulnerability and liability to sudden collapse
- expansion of circumference
- extended
- firmament
- the great extent of something spread out
- a policy or practice of…
- brought about by warmth

I think we need a toolbox!

Planning and implementing a successful expansion or relocation for your natural foods cooperative is a major undertaking that always involves risk. As the natural foods marketplace is experiencing rapid change and growth, retail natural food co-ops are being challenged to serve their members and their communities better than ever before. Long-term survival, maintaining and building market share and cooperative growth are critical issues for over three hundred natural food co-ops in the United States and Canada.

While many natural food cooperatives have become financially successful at their current site, they are often in overcrowded, rundown facilities with worn-out equipment. Management and directors have developed the skills to operate and lead their current store, but they may lack the experience, skills, and systems to move into and manage a larger store (and adding a second store is even more challenging).

With these facts in mind, Northcountry Cooperative Foundation, with a grant from the National Cooperative Bank Development Corporation, has created this Expansion Toolbox as an aid for co-op managers, project managers and boards of directors as they begin to plan for the expansion or relocation of their businesses. This toolbox will help you to assess the feasibility of your plans and project. We offer a "road map" to guide you through unfamiliar terrain, and we've gathered advice from professional consultants and veteran managers to help you begin operations in a new or expanded store through at least the first year following expansion. Information and recommendations are also included on seeking outside financing for your project from lenders such as Northcountry Cooperative Development Fund, National Cooperative Bank Development Corporation, and your local bank(s).

Although we expect that information throughout this manual will be used by most of the key players in an expansion project, we have chosen to "write it to" the General Manager. All decisions, actions and responsibilities of a major project must be funneled through a "point person" and that is typically and appropriately the General Manager of the cooperative.

Two tools in the Expansion Toolbox that have been placed towards the end of the manual are vital for a successful trip into the unknown: Section X: "Roles & Responsibilities in Expansion/Relocation Projects" and Section XI: "Working Effectively with Consultants." Both of these sections could justifiably be placed at the beginning of this Toolbox following the introduction, however, we feel that they may be understood and utilized best after reading the preceding information. You might want to review these sections at the beginning and then again at the end.

Finally, The Expansion Toolbox emphasizes the need for various types of professional assistance throughout your project and suggests appropriate times and ways to seek it. This toolbox is not intended to act as a substitute for outside professional assistance, but rather to help readers make the best use of outside expertise.

II. EXPANSION SURVEY RESULTS

The Survivors Speak

In the spring of 1997, we began to interview co-op managers and directors who had recently completed an expansion or relocation of their natural food cooperatives. We sent a lengthy written survey out to twelve very different co-ops across the country, and got responses from eleven of them. Since then we have continued to talk with managers and boards of other co-ops that have completed or are in the process of expansion. The generous response from these individuals represents many hours of time talking on the phone, and looking up the financial, legal, real estate, and contractual information they used in their projects. Some projects have been more successful than others but despite the outcomes, each manager was emphatic about wishing they'd had the information they shared with us — before beginning their project. Most of the sidebars in this manual are their words of advice, of woe, of encouragement and warning. Each of them hoped, by sharing this information, to help other cooperative managers, staff and boards avoid mistakes, save some money and maintain a degree of sanity through the very exciting process of growth.

Co-op Expansions And Relocations: Survey data collected March-April, 1997

Store expansion size ranged from 2,100 sq. ft. to 25,000 sq. ft.
Cost of project range: $16,000 – $2.2M. Average was $982,363. Median was $570,000.

Driving forces and preparations

- Most stores indicate that inadequate physical plant and competition are the two driving forces for a project.
- Most co-ops began to make changes to membership and retained equity a few years before the project.
- Most boards were supportive and helpful.
- All boards had members with skills specific to a "project": Construction, Architect, City planner, Attorney, Lawyer, Real Estate, Banker, etc.
- Obtaining loans for the project was not a problem, though sometimes challenging and complicated. All stores used a variety of lenders, but not all used member loans.
- All stores cited local lenders as being especially helpful, accessible and quick to respond.
- Most managers/directors had to educate local lenders about co-ops before the lenders would consider a loan
- All stores, except one, used a variety of consultants who specialized in cooperative business.
- All of these stores said they'd use a consultant again.

Problems

- Most projects were undercapitalized, necessitating a reduction in size/scope of project, as originally planned, and/or using the whole line of credit and applying for an additional line of credit.
- Major problems related to not bringing consultant in soon enough, or delay in implementing consultant's recommendations.
- Systems for changes and increases in labor were inadequate or non-existent
- Training for staff, both retained and new, was developed after the move, not before.
- Stores that did not have a "project manager" had costly problems resulting from poor communications between contractors/lenders/landlord/co-op.
- Almost all stores indicated a need to increase inventory, over projected figures. This was the most common need for additional cash.
- Pro-formas that showed a variety of sales projections seemed to be the extent of "worst case" scenarios, but clear plans to address low sales were not identified.

- No stores had discussed/developed plans for dealing with problems after the move.
- Boards in particular show high turnover after a project, and are unable to provide continuity of vision for a year or two after a project.
- Delis were very difficult to manage (even for stores who had existing delis) and rarely broke-even in the first few years.
- Engineering reports were often faulty or inadequate, causing unexpected delays and expenses in year one or two, or a reduction in scope of project as planned, and occasional inability to use facility as planned.

What would you have done differently?

- "Board and management should have been stronger about changes to equity increases. We would be in a better financial position today if they had."
- "We should have gotten outside help."
- "Our lenders should have met together, first. The financing has been very complicated and some problems would have been avoided if lenders talked together first."
- "We should have increased working capital, and conducted a stronger marketing effort for members and community. We had no real internal systems in place before the move."
- "Don't involve the city in the project. Too many factors were out of control."
- "More cash, for sure."
- "Would have had a complete engineer's report in hand before beginning negotiations with owner."
- "Would have hired skilled staff and trained better for customer service. Better job descriptions in place."
- "Would have brought in deli consultant. Hired a bookkeeper sooner."
- "Would have worked much harder on member capitalization. I'd have *paid* someone to do it."
- "Hire for experience."
- "Our staff should have been better trained and experienced."
- "Have a better handle on the operating budget. Talk with more people for advice. Staff was not well trained and efficient at their jobs." (Everyone mentioned this as a problem.)
- "Hire the right project manager and spend for quality next time."
- "Bring project manager on right at the start."
- "Get better at making plans - thinking everything through to avoid changing mind in mid-stream."
- "Additional capital. Hired more…staffing was inadequate."
- "More personnel planning. A better development budget. We brought a consultant on too late."
- "Read the construction contract more closely."
- "Board policies would have helped the board focus on the important parts and not get caught up in the changing details of the project."

III. ASSESSING FEASIBILITY[1]

Will this project work?

If your cooperative is considering or pursuing an expansion opportunity, it is important to have a **systematic** way of assessing feasibility or viability. Given both the predictable time pressures and the unpredictable timelines of expansion projects, it is all too easy to say: "It sounds good. Let's try it and see."

With an emphasis on effective planning, we suggest you systematically approach the question of feasibility from four points of view:

A. Market feasibility
B. Internal readiness
C. Financial feasibility
D. Design feasibility

An examination of each of these points of view, discussed below, can then be integrated into an overall assessment of feasibility that looks at both the larger picture and the specific scenario your co-op is aiming to create. Following these steps will provide much more information to evaluate your "go or no go" decision. A systematic feasibility assessment may support your original hunch, or it may uncover some surprising information. In any event, personal agendas, emotions, and whims will get a thorough reality check. You will come away from the exercise armed with facts that lenders, members and vendors want to see.

Process can be very important to cooperatives when it comes to building commitment and making sound decisions. In the process of determining feasibility, your cooperative must dedicate appropriate resources of people, time and money. It is not unusual for a co-op with annual sales of $1.8 million and 2000 sq. ft. of retail space to spend $30,000 to explore feasibility, negotiate for a site, develop a business plan, and attempt to secure financing, and then not be able to secure the preferred site or obtain financing (1999 statistics). The feasibility process may need to be repeated again, and your co-op management and board will have received a valuable education.

Putting resources at risk to explore feasibility is a test of your co-op's commitment to expansion. While $30,000 seems like a lot of money to spend, it is a small percentage of the total cost of a project (e.g., 2-3 percent of $1-1.5 million) and a small price to pay for "due diligence." If the project is found not feasible, it will have been well worth the cost.

Wedge Co-op

The Wedge Community Co-op in Minneapolis, Minnesota is one of the most successful natural food co-ops in the country. It's worth a visit to their archives to hear the story of their first expansion project:

"Late in 1988, the board of directors concluded that the co-op's top priority was to find a new site and relocate. Member demand, together with the problems of limited parking, narrow aisles and worn out equipment made change imperative. In early 1989 the member-owners voted to raise the stock purchase requirements to $80 in order to provide financing for relocation. At the same time a member loan drive was launched.

By the summer of 1989, however, everything came to a halt. The General Manager left the co-op. The store had been losing money for some time and it was in no position to finance such a project. By late 1989 sales had dropped, margins were weak, tensions had grown between the staff and management, customer service suffered and members had lost faith in their co-op.

A new General Manager focused on solving internal problems and improving customer service. After a major reset and remodeling in February of 1990, sales began to increase and the co-op became

[1] By Bill Gessner. Reprinted from Cooperative Grocer, Jan.-Feb. 1998.

An examination of feasibility contains elements of:

- Commitment and planning
- Strengthening and positioning
- Site search and securing

They are, at the same time, activities and outcomes of the research and work you do when assessing your project.

Assessing feasibility can take from three months to three years.

A. Market Feasibility

Market feasibility can best be determined by securing a professional **market analysis** and/or site analysis that focuses on your preferred site (or search area) and analyzes the sales potential. The analysis includes:

- Defining your trade area through customer and member spotting techniques,
- Analyzing demographic characteristics, assessing the competitive environment, and
- Rating your preferred site against a number of standard criteria.

This analysis will help you project the sales level that the co-op could achieve in your new or expanded site during the first three years. It is important that you find a qualified analyst who not only has experience with retail and grocery but also has knowledge of the natural foods industry and an understanding of cooperatives.

Customer and member surveys are also valuable tools in assessing the needs, behavior, and specific demographics of your customers. While a customer survey can complement or enhance a market/site analysis, it does not replace such analysis. Co-ops often use a third party, or "outsider" to assist with the survey design and to conduct a customer survey. Remember that you are looking for an unbiased view of your current operations. Data collection and analysis is a science, not an art and it can be difficult for someone who loves the co-op to record critical information in an objective manner.

profitable once again. In 1990 management began searching for a new site again and, after a year of study and a $25,000 investment was forced to abandon a prospective site because the co-op couldn't put the financing together. Even with the strengthening the co-op had done, operationally and membership-wise, no lender would approve the current operational results, or projections for the new space.

The $25,000 was well spent, however, because management and board learned some important lessons. When the two lots adjoining the co-op became available in early 1991 they were able to make the decision to buy them before a five-day deadline expired. Plans quickly took shape for the Wedge to build a store next door to its existing location.

Financing the new store involved many different sources. Members put in almost $125,000 in loans. A local bank loaned $412,000, the city provided $110,000, the Wedge kicked in $300,000 and the rest came from cooperative warehouses, NCBDC, NCDF and a neighborhood development organization.

The day the foundation was to be poured in late October Minneapolis was hit with 28 inches of snow in 24 hours. Two weeks later another 14 inches dropped. The opening date got postponed from late 1991 to spring of 1992 as construction problems caused further delays. Finally the new store opened after being closed for just one day to move inventory. The new store was an immediate success and sales have grown strongly and swiftly ever since. The store has expanded twice since then and will undoubtedly be looking at another new project and a whole new set of projections, proformas, business plans and membership programs again."

B. Internal Readiness

It is seldom ever too early to begin expansion planning. Assessing internal readiness is an important contribution to overall feasibility. An **organizational assessment** will help you identify the areas of the business that need to be strengthened before opening a larger or new store. It is important to prioritize those areas and to create a plan that will improve them in a timely way. Developing and refining key systems will increase the operating capacity of your co-op. Internal readiness can be evaluated by the management and staff using techniques such as surveys, evaluations and SWOT analysis (strengths, weaknesses, opportunities, threats).

Also valuable is an **external assessment** in the form of an organizational audit that examines the key systems and operating areas of the business. The organizational audit can vary in scope, from one conducted by professionals, to a review by your peers. An audit of this nature provides a new set of eyes and a fresh, detached assessment. It can help you shift your focus and energy away from a myriad of internal, unranked priorities and conflicts and can serve as a beginning for planned change in the cooperative.

Key systems that can be assessed in an organizational audit include:

- governance
- management
- planning
- staff training
- accounting
- merchandising
- marketing
- membership
- public relations
- customer service
- cleanliness
- signage
- product line
- purchasing
- receiving
- personnel policies
- hiring and evaluations
- financial results
- community services
- co-op principles

A brief diagnostic tool for assessing internal readiness is included in Section IV. Since part of planning is internal strengthening and positioning you should begin that work well before you plan to open your new store. And if you find that your project is not feasible, you will still be way ahead of the game by making some of these internal changes. You will be poised to take advantage of the next opportunity.

C. Financial Feasibility

Financial feasibility can best be determined by **constructing a financial model** or pro forma that includes:

- a "Sources and Uses" development budget
- five-year projection of income statement, cash flow, debt service, and balance sheet, along with
- a list of assumptions.

Creating these projections—whether within the co-op (if the financial, accounting, and computer skills are present) or by a qualified professional consultant—is essential. The model allows you to see how development costs, historical and projected operating income/expenses, and debt service affect profitability, cash flow, and the balance sheet in your new space. First year losses are likely and can be acceptable if there is adequate cash flow and if reasonable profitability is projected in following years. The financial model will suggest appropriate levels of working capital to cover potential initial losses. Overrun and contingency allowances should be part of the start-up development costs.

Key indicators of financial feasibility include

- initial and cumulative profitability
- positive cash flow and cash reserves after debt service
- and ratios such as debt to equity, return on assets, and return on equity

Make your projections conservatively. Conservative estimates are the ones you are "banking" on as opposed to projections that are more optimistic. **At the minimum** you will want a set of projections that realistically can be achieved. However, we recommend that you run at least two scenarios, including one that shows a higher measure of success. Believe it or not, a more successful project carries its own set of challenges. If you have not anticipated higher sales, you may need to go back to a lender for a cash flow loan to buy extra inventory or pay additional staff.

You will probably create many versions of the financial pro forma before you settle on a final one. It's a great idea to date and keep these versions, as they serve as some of the best documents that track your changing assumptions during the feasibility phase of your project.

D. Design Feasibility

Design feasibility is the final piece of the feasibility puzzle and involves two basic stages:

Preliminary site and store design and, if all looks feasible, a **final design**. Design issues you must address include the store concept, efficiency, and ease of shopping. If yours is a large project, it will be important to assemble a design team that includes marketing advice, a store planner (floor plan), interior design, architect, engineer, and equipment suppliers (especially refrigeration equipment).

These are some of the important questions that design feasibility answers:

- How much retail space is possible and how will it look?
- Is there enough back room space for prep and staging areas, kitchen, bakery, offices?
- Is truck receiving feasible?
- Is there adequate off-street parking, ingress and egress, and visibility?
- What are the initial cost estimates, based on preliminary drawings?
- What are the key design issues that will need to be addressed: Structural issues? Drainage for coolers and freezers? Lighting? Heating/venting/air-conditioning? Electrical capacity? Environmental issues?

E. Assessing Risk: "Worst-case" Scenarios

Even though expansion projects can range from low-risk to high-risk, they are always a stretch for an organization. It is important that the board and management in your cooperative become comfortable with the level of risk that is involved. A good feasibility study will highlight some of the more unrealistic (high-risk) assumptions you may have made. The efforts you then make to change plans, sales assumptions, product mix, and so on, will go a long way in creating comfort with the appropriate level of risk for your co-op. An important piece of this process is to review "worst-case" scenarios and determine what your plan of action will be if you experience such a situation. What would the warning signs be? What will your plan be in that event?

Simply running a business means that you have found some comfort in taking risks. A successful expansion project means that the leadership of the co-op has acknowledged risk, developed a fall-back plan in worst-case scenarios and has effectively spread the risk among internal and external stakeholders. (See Section V: Decision Points)

In conclusion: The feasibility stage can be very challenging and complex, but it is the most important part of the project and should not be short-changed. It is a good test for the leadership of your co-op and a strong indicator of future results. If problems, conflicts, and misunderstandings arise in the feasibility stage, they will continue to drain your project if and until they are dealt with effectively. If the process goes relatively smoothly, and you arrive at an agreed upon plan during the feasibility stage, you will be positioned and aligned for a successful expansion project.

Assessing feasibility can be difficult and ambiguous. However, once you've done it, you will have a much better reason to be confident, comfortable, and successful. You may even have some fun on the way.

SURPRISE!

As you proceed with your expansion/relocation project, no matter how thorough your planning process or how complete your feasibility study, you will always encounter the unexpected. The key is to minimize surprises through your planning efforts. Here is a partial listing of lurking surprises that caught other co-ops off guard…they may be waiting for you, as well:

- *Electrical amperage to the building is not adequate after all. And there are no electrical outlets near where you will need them.*
- *Soil conditions do not support the planned construction. Pilings are needed. The building must be redesigned.*
- *There is or may be environmental contamination.*
- *The building permit cost is not included in the construction bid. Neither is the cost of the performance bond required by the bank.*
- *Overruns and change orders with the general contractor are not clearly documented.*
- *The building is only 46 ft. wide, not 48 ft. as the drawing says.*
- *The contractor's bid is not firm. Some areas only have allowances or are design/build.*
- *Security position and available collateral are not sufficient for your primary lender.*
- *You didn't know that once your staff numbers reached a certain size, payroll taxes ware due each payroll period…not quarterly! Fines continue to mount….*
- *Opening day is planned and new staff is hired, but now it is delayed three months.*
- *You failed to budget for the $20,000 in personal property tax (cash out) that came due on January 31 during the first year of businesses.*
- *The new freezers ice up and are "down" overnight after being loaded with product.*

IV. ARE YOU READY?

Assessing Your Cooperative's Capacity for Change, Growth, and Expansion

The decision to make a major investment of time and money in a relocation or expansion of your cooperative requires financial, organizational and emotional commitment. Too often, however, an emotional commitment carries the day and vital details and difficult decisions are ignored until too late.

The best way to start any project is with a good reality check—are we really ready to do this? The set of questions on the following page is a self-diagnostic tool for assessing the internal readiness of your cooperative for a major project. It may be answered by a group and/or individuals as part of a training or planning session. This tool will help determine the appropriate green light scenario for your co-op. This is a self-diagnostic tool and as such, the information it yields will be subjective. As you determine your co-op's organizational readiness, also make sure that you seek the perspective and opinion of industry professionals outside of your organization.

You will be asked to rate your cooperative on a scale of 1-10 (with 1 being low or no and 10 being high or yes) in a number of areas. Admittedly, many of the areas encompass two or more dimensions, thus requiring you to take that into account as you give your rating.

After (not before) you have rated your cooperative on page 12, see page 14 for an interpretation of your ratings.

Self-Diagnostic Tool

Please rate your cooperative on a scale of 1-10 (with 1 being low or no and 10 being high or yes) in each of these areas.

1. _____ Our current sales growth is strong and we are servicing it well. Annual percentage sales growth for the last 3 years =____, ____, ____.
(Suggested benchmark: at least 8% or "same sized store" industry average)

2. _____ Sales/retail sq.ft./year = $_______.
(Suggested benchmark: at least $800/year, although it may be less in rural areas and in smaller stores.)

3. _____ We have been profitable recently and historically. Percent of sales = _____
(Suggested benchmark: at least 2% net profit from operations.)

4. _____ Our cooperative has strong and empowered management/leadership.

5. _____ We have a shared vision, mission, and values that are clearly articulated and visible throughout the cooperative.

6. _____ We have alignment within the organization around major goals and strategic directions, especially between board and management and staff.

7. _____ We have a committed and capable board that
   - knows its role.
   - leaves managing to managers
   - provides support to management.
   - models appropriate leadership.

8. _____ Our cooperative has a growing (in number) and committed staff, including
   - talented and effective management team.
   - increasing depth and breadth of talent, so that more staff can be promoted into positions demanding increased skill and responsibility.

9. _____ Our cooperative is a responsive organization. We are able to make timely/difficult decisions and respond effectively to changing market conditions

10. _____ Our cooperative has excellent customer service that is continuously improving.

11. _____ Our cooperative has a loyal and strong membership with a base of member capital.
How many members? ________
How much member capital? _______
Membership share requirement?__________
(Suggested benchmark: Member capital should be at least 33% of total equity and 20% of total assets.)
Sales to members = _______% of sales.
(Suggested benchmark: at least 50% of sales.)

12. _____ Our mission includes serving the broader community as part of serving the needs of our members. We are successfully serving our broader community.

13. _____ We can answer the following questions about our co-op's market:
   - Is it strong?
   - Is it developed?
   - Is there growing demand?
   - What is the potential?
   - Who is our competition?
   - When will the new competition arrive?
   - Who are our customers and where are they from? What are their demographics?
   - What is our niche?
   - Is our knowledge based on fact (from a study), or on intuition?

14. _____ We have recently had or plan to have a professional market analysis of our trade area and our future location.

15. _____ Debt to Equity Ratio & Equity to Assets Ratio[2]

	D/E	E/A
• Before expansion	_____	_____
• Projected after expansion	_____	_____

16. _____ Ratio of Total Project Cost to Annual Sales[3] (current) = __________
(This ratio simply requires you to compare two numbers that are worth putting side by side. While there are no hard and fast rules, suggested range = .35 to .80 The higher the number, the higher the risk. Anything over .80 will require a creative financing package. A low number might indicate a project cost that is underestimated.

[2] See example on page 13.

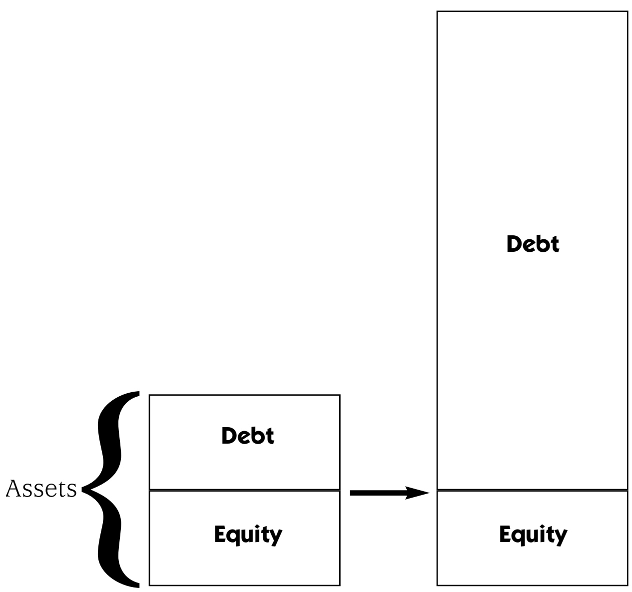
[3] See example on page 14.

Illustration of #15: Equity Ratios

No increase in equity

Co-op before expansion

Co-op after relocation or expansion (tripling of store size)



Equity/Assets = .5/1 or 50%

Debt/Equity = 1/1

Equity/Assets = .17/1 or 17%

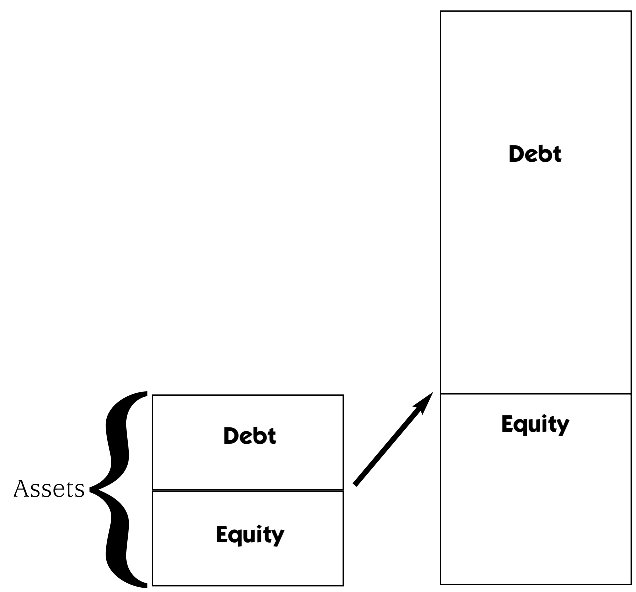
Debt/Equity = 5/1

This scenario shows a project that will not receive financing because of the lack of equity. The equity has not been increased beyond the current level.

Planned increase in equity

Co-op before expansion

Co-op after relocation or expansion (tripling of store size)



Equity to Assets = .5/1 or 50%

Debt/Equity = 1/1

Equity to Assets = .33/1 or 33%

Debt/Equity = 2/1

This scenario shows a project that will likely receive financing.

SUGGESTED BENCHMARKS:

Equity/Assets should be between 33% and 50% — or no lower than 28.5%

Debt/Equity should be between .5/1 and 2/1 prior to the expansion and no higher than 3.5/1 after the expansion.

REMEMBER:

Assets = Liabilities (or Debt) plus Equity

Assets = What We Have

Liabilities = What We Owe

Equity = What We Own

PLAN AN INCREASE IN EQUITY BY:

- Increasing profitability,
- Member equity drive,
- Member loan drive (Member Loans can be viewed as equity because they are subordinate to the primary debt.)

Illustration of #16: Examples of Ratio

Assumptions:

Project Cost	/	Annual Sales (Before Expansion)		Ratio	
$1,200,000	/	$2,500,000	=	.48 or 48%	
$ 850,000	/	$1,300,000	=	.65 or 65%	
$ 430,000	/	$ 500,000	=	.86 or 86%	
$ 160,000	/	$ 230,000	=	.70 or 70%	
$ 180,000	/	$ 500,000	=	.36 or 36%	
$ 96,000	/	$ 100,000	=	.96 or 96%	
$ 1,500,000	/	$ 900,000	=	1.67 or 167%*	
$1,703,000	/	$2,400,000	=	.71 or 71%	Example from "Sources and Uses." See page 21.

** This scenario would be a very risky project. Financing would be difficult. Real estate and the finished building used as collateral may be needed to make it feasible, along with lots of member loans.*

Rating Interpretation Scale for Self-Diagnostic Tool on Page 12

• If your rating is between 8 and 10 in all the areas, your co-op is definitely ready for expansion.

• A rating between 5 and 8 indicates your co-op should continue with expansion planning, while creating a plan to strengthen the weak areas.

• If your overall rating is under 5, your organization will require a lot of strengthening before you can reach an appropriate level of organizational readiness. You might continue your expansion planning and preparedness, but your timeline should expand to at least two or three years before any actual expansion happens.

Whatever your score, your focus should be on the three areas where you rate the lowest. These are likely to be priorities for strengthening as part of the expansion planning and feasibility stage. Include a specific "improvement" strategy designed and implemented for each area.

V. PRIMARY TOOLS FOR MANAGING YOUR EXPANSION PROJECT

While there are many "tools" that can assist you in managing your co-op's expansion/relocation project, the three primary tools are:

1. Timeline and Decision Points
2. "Sources and Uses" Budget
3. Purpose, Policy, and Parameters

The process of developing and using these tools forms the basis for managing a successful project. Once they are created, you will continually refine them and use them in every step of your project. These tools serve well as a base and point of reference from which to view the challenges and changing conditions that arise over the course of a project, and they are adjustable within certain parameters. For example, as you discover information about your finances, about the preferred site or construction codes, the initial timeline and budget will need to be modified. These primary tools, however, continually provide a solid framework for your project.

These three tools (in addition to regular quarterly financial reports) become the primary reports that management uses to communicate with the board of directors during an expansion project. Well thought-out timelines and budgets help the board understand the process and progress of the project. Accountability is clearer and easier to monitor with these regular reports.

Tool #1: Timeline and Decision Points

(The Four Stages in Your Co-op's Expansion Project)

A development timeline shows the different stages of a project, the primary activity tracks, and the steps needed along each track. Creating that timeline is the first step in understanding the full process involved in a cooperative expansion project. Rather than stepping into quicksand at the onset of your project, using the Four Stage Development Timeline will help ensure that you will be on firmer footing. You will know the basic stages of a project and will have a reasonable idea of how long each stage or step might take.

During this process, your cooperative will

- explore feasibility,
- build higher levels of commitment, and
- develop a level of comfort with the risk of the project.

Each step and each decision point along the way requires greater commitment, resources, and performance.

For starters, simply double your original time estimate. Give yourself plenty of time to plan your project. Start planning today so that you will be ready to act when the right opportunity comes along. The idea of "moving overnight" without adequate preparation and planning is perilous, and less feasible than it was ten or twenty years ago when your co-op was smaller, had less competition and a lot less to lose.

Be sure to date each draft of your timeline (and you will likely have many revised timelines during the course of your project). The timeline makes a great planning, reporting and communication tool. Share it with others to give direction and/or to seek feedback and suggestions. Solicit input and urge the participation of your management team. When they see the overall timeline ("the big picture"), each manager can then begin to create a timeline specific to their own department or area that will be compatible with the overall project.

A project timeline can come in different forms and formats. Timelines can be organized sequentially or by activity tracks or a combination of the two. Feel free to experiment until you find a format that works for you.

Although each project is different, all expansion/relocation projects have some basic similarities that can be seen in the following broad overview of a four-stage development timeline. The "four stages" timeline can be adapted for other development projects within or outside of your overall project as well. Consider using it to develop a new marketing program, acquire a new front-end system, revitalize your membership program, or undertake numerous types of community projects.

The Four Stages of Your Co-op's Expansion Project

Development Timeline for Expansion/Relocation Projects

The following is an outline of the four stages. An explanation of the various steps in each stage is found on pages 17 and 18.

Stage I: Feasibility

(3 months to 3 years)

Commitment and planning

Strengthening and positioning

(Initial contacts with lenders and designers: sell your project)

Site search and securing

- *Major decision point: Sign lease or purchase agreement, with contingencies.*

Stage II: Preparing for Leasehold Improvements or Construction

(2 to 12 months, typically 6 months)

Design, bids

Financing

- *Major decision point: Close on financing, remove contingencies*
- *Final decision point, "no turning back"*

Stage III: Leasehold Improvements or Construction

(2 to 12 months, typically 6 months)

Stage IV: Prepare for Opening

(1 to 3 months)

Steps Taken During Stages I – IV:

Stage I: Feasibility

(3 months to 3 years)

Note: The three sections of Stage I: Commitment & Planning, Strengthening & Positioning, and Site Search & Securing do not necessarily happen in sequence. They happen concurrently and test your co-op's ability to manage a multiple focus during the project. The different parts of Stage I also illustrate that planning for an expansion project involves a lot more than just a site search.

1. Commitment & Planning

- Build, clarify, and increase commitment
- Clarify vision, mission, values, and strategic direction
- Develop alignment within the organization around vision and direction
- Identify roles, process and timeline
- Develop relocation policy, set parameters (from board to management)
- Develop business plan and market strategy
- Identify barriers to expansion/relocation, and act to remove them
- Review bylaws for barriers and limitations, develop a plan of action for revisions
- Conduct customer/member surveys and focus groups
- Create preliminary "Sources and Uses" for the project
- Develop a plan/system to monitor/manage project "Sources and Uses" (see Appendix F)
- Conduct/seek preliminary market analysis
- Determine training needs, and seek training
- Obtain appropriate outside assistance

2. Strengthening & Positioning

- Maintain and build profitability from operations of current store
- Strengthen membership, board, management, and staff
- Implement appropriate training programs
- Strengthen visibility, image, promotions, and customer service
- Develop/implement programs for improved community/member relations
- Improve motivation, morale and performance at the staff level
- Develop initial idea of new organizational structure for new store
- Clarify concept and niche that you occupy and that you are seeking
- Develop financing strategy and resources
- Conduct organizational or systems audit and prioritize areas that need strengthening.
- Develop and implement plans to strengthen key systems.

3. Site Search & Securing

- Prioritize criteria and search area for new site
- Explore options for lease vs. own, existing building vs. new construction
- Develop options for new site
- Initiate site search (do not limit to currently vacant buildings)
- Develop financial pro forma to analyze options:

  ("Sources and Uses," Years 1-5 of income statement, cash flow, and balance sheet)
- Develop preferred site with back-up option/s (spend approx. 80% of time on preferred option and approximately 20% of time on back-up options)
- Obtain a structural inspection from engineer, architect, and/or contractor
- Determine current and future real estate taxes
- Contract for a site/market analysis to determine sales potential and market feasibility
- Develop a preliminary site plan and professional store design
- Begin selection process for architect.
- Review legal contracts
- Seek initial estimates from contractors
- Negotiate lease or purchase agreement, with contingencies
- Seek preliminary plan approval from the city
- Make plans to vacate current site (assuming a relocation)
- Initiate financing drive

Decision Point – Sign lease or purchase agreement, with contingencies

Stage II: Preparing for Leasehold Improvements or Construction

(2 to 12 months, with 6 months being typical)

- Finalize site plan, layout, design, and architectural drawings
- Seek contractor bids and preliminary equipment bids
- Obtain plan approval by the city, health department, etc.
- Develop new store promotion plan and staffing plan
- Finalize all financing, including terms with primary vendors
- Prepare to sign contract with contractor after appropriate legal review
- Remove contingencies, close on lease/purchase

Decision Point : **Close of Financing, remove contingencies**

Decision Point : **No Turning Back**

Stage III: Leasehold Improvements/Construction

(2 to 12 months, with 6 months being typical)

- Finalize bids and agreements with equipment vendors
- Supervise and monitor construction, including all change orders
- Implement promotions and staffing plans
- Plan opening orders, determine lead-time required for orders
- Work with vendors to create special promotions and deals for both store opening and grand opening
- Plan interior and exterior signage

Stage IV: Prepare for Opening

(1 to 3 months)

- Set equipment and test
- Set inventory
- Hire the rest of the new staff needed to fill in the staffing plan
- Train new staff
- Implement interior and exterior signage
- Begin planning grand opening and celebration. Grand opening is usually 6 to 12 weeks after the initial store opening.
- Pass all inspections, obtain occupancy permit and necessary licenses

Open for Business!
(And now the work begins)

Decision Points

As part of your project's timeline, it is helpful to indicate the key decision points, especially the decisions that the Board of Directors must feel comfortable enough to make. Defining when and how decision points occur is crucial to building commitment to your project. Sharing that information can help everyone understand his or her role in the overall process, and allows everyone the opportunity to establish a comfort level as direction is set.

To illustrate, in Stage I, the initial decision that your co-op makes regarding expansion need not be (and is not) the final decision, or what might be called "the no turning back" decision. The idea of expansion simply begins the process of commitment and deciding on a direction. You can change your mind if the plan you develop shows the project will not be feasible, or if you find that you do not have the capacity to undertake the project at the current time. Your first decision point then, is basically a decision to explore feasibility. It does involve committing resources (time and money), but the commitment of resources serves as a healthy test of the basic level of commitment in the organization.

Many co-ops have spent time and money on Stage I only to decide not to proceed at that time. Sometimes they lose the opportunity to acquire their preferred site due to changing market conditions. As painful as the decision or event seems at the time, it may end up being the best money you spend on the entire project - both short-term and long-term. If you learned enough to decide not to pursue an unfeasible project, you will have taken a valuable step. You will also be better prepared to assess and pursue future opportunities in a timely way.

In Stage I, there might be three or four distinct points, where the board has to decide if they want to take the next step and commit further resources to explore feasibility. There is a major decision point at the end of Stage I that is usually represented by the signing of a lease or purchase agreement with contingencies.

These legal documents containing the wording "Contingent upon ________" give you the ability to say that you are willing to move forward only if a number of factors meet your approval. The most important contingency is the ability to obtain full project financing. Other contingencies might include plan approval, environmental feasibility, design/structural feasibility, and/or board approval. Signing an agreement with contingencies is not the final "no turning back" decision point, but it does represent a serious level of commitment. It means that, based on what you have found out so far, the project appears feasible, and you wish to move forward to see if you can put all the pieces (especially design and financing) together to make it work.

During Stage II, there may be one decision point (e.g. committing to the preferred design and/or financing option) that leads up to the final decision point: the "no turning back" point at the end of Stage II where the contingencies are met or removed. From there, it is full steam ahead.

Completing Stages I and II, indicates that the leadership of your cooperative has fully explored feasibility, built higher levels of commitment and alignment between board and management, and has developed a level of comfort with the risk of the project. Thus, the initial decision — to explore feasibility — may lead to a final decision point where the organization is fully committed, prepared, and confident.

Tool #2: "Sources and Uses" Budget

The "Sources and Uses" development budget is drafted by management and effectively shows a picture of your project on one page. It requires you to list out all the intended "uses" of funds by category and estimated cost, and then to list the "sources" of funds by source and amount that will match (and pay for) the total "uses". Thus, "Sources," = "Uses."

If you've never been involved with an expansion or relocation project before, you might think only about equipment costs or maybe a few other items such as inventory. Your original estimate may come in unrealistically low because you may not be aware of all of the other project costs. Similarly, you may not be aware of all the possible sources of funds. Again, as with the initial draft of a timeline, it is usually a good idea to at least double the original estimate of uses and then get creative with your fund-raising and financing strategies. For example, we've seen many co-ops estimate their leasehold improvement or renovation costs anywhere from $5 to $20/sq.ft. and then find the actual costs end up being more in the range of $55 to $65/sq.ft. It is possible to put a fund-raising and financing package together for a project with improvements costs at that low level, but it is best to assume a higher level from the onset, rather than have to go back to your members and lenders and say, "Oops, we need more money."

The higher project costs can be quite intimidating, but they will be more realistic, and will certainly minimize or prevent last-minute unpleasant surprises. If you are able to complete your project for less than your budget, it will be a pleasant and unexpected but welcome outcome. While the project may cost more than your very initial estimates, you may be surprised at your ability to creatively raise funds and financing for your project.

Like the Timeline, the "Sources and Uses" budget for your project is both a planning tool and a communication tool. Like the timeline, you will go through many drafts of your "Sources and Uses" budget. Each one should be dated. The "Sources and Uses" budget will also list key assumptions, thus allowing the viewer to get a rather complete picture of your project in one glance.

"Sources and Uses" Development Budget

Note: The example below represents the basic format of a "Sources and Uses" budget. The amounts should not be construed as a guideline because each situation is different and costs will likely increase over time.

Key Assumptions

	current store	**new store**
retail	2,800 sq. ft.	8,400 sq. ft.
total 1st floor	4,000 sq. ft.	12,000 sq. ft.
upstairs office	500 sq. ft.	-0-
basement	1,000 sq. ft.	-0-
total	5,500 sq. ft.	12,000 sq. ft.
lease	$7.80/sq.ft./yr gross lease	$9.50/sq.ft./yr triple net
off-street parking	10	55
projected store opening =		_________ (assume 18 months for this example)
sales/sq.ft. retail/yr. =	$857	Yr. 1 = $450
annual sales	$2.4 million	Yr. 1 = $3.78 million (57.5% growth)

Uses	*$*		*Notes*
Acquisition	0		
Construction/Site Development	0		
Leasehold Improvements	480,000		$40/sq.ft. ($35–60)
Equipment	540,000		$45/sq.ft. ($30–60)
Additional Inventory	175,000		$32/retail sq. ft., less current (range of $32–40)
Fees	165,000		6-12% of subtotal. Project management, consultants, architects, engineering, design, legal; financing (up to 2% of bank loans), environmental, misc.
Interest, during project	18,000		6 mo., avg. draw = 50%
Business Disruption	15,000		lost gross margin, 1 wk.
Start-up Promotion	20,000		3 mo. Adv. budget of yr. 1
Start-up Staffing	20,000		
Holding Costs (site-related, before opening)	25,000		
Working Capital, 1st Year*	90,000		to cover yr. 1 projected losses
Subtotal		1,548,000	
Overrun Allowance		155,000	Minimum of 10% of subtotal
Total Uses		1,703,000	= **$141.92/sq. ft.**

Sources			
Sale of Current Site	0		
Co-op's cash reserve, current	180,000		
Cash from operations, before new store	72,000		2% of sales for ___ mos. (18 mos. in this example)
Donations & Sale of Equipment	10,000		
New Member Equity	70,000		560 @ $125
Member Loans	180,000		60 @ $3000; 4,5, 6 yrs; 5.5%
Owner's Contribution		512,000	30% of total
Vendor Credit	131,000		75% of additional inventory
Free Fill	44,000		25% of additional inventory but varies widely
Vendor Loans**	50,000		9%, 4 yrs. (seek $150,000)
Landlord Contribution	120,000		25% of leasehold improvements.
Equipment Leasing	0		
City/Community	80,000		4%, 15 yrs. (seek $150,000)
External, subordinated		425,000	25% of total
Revolving loan fund	100,000		9%, 5 yrs.
Lender	666,000		9%, 7 yrs.
External, senior (primary) debt		766,000	45% of total
Total Sources		1,703,000	

* The amount of working capital will be verified later with the complete financial proformas for years 1-5.

**Note: Sometimes vendor guarantees can take the place of vendor loans, or can be in addition to vendor loans.

From the example on the previous page, we emphasize the following:

- **The sources are listed in approximate order of decreasing risk**. In other words, the funds most at risk in the event of a worst-case scenario are the owners' contribution, and within that segment, the cash reserve is most at risk.
- **The primary debt (also called senior debt) is in first position.** It is secured by the co-op's assets (as collateral) and has first claim on the co-op's assets in the event of default. The primary debt is therefore least at risk.
- The other debt ranks behind the primary debt, is normally unsecured, and is **subordinate** to the primary debt. Subordinate debt refers to its ranking behind the primary debt. **Subordinate funds are used to leverage the primary debt, and are the last or least likely to be paid back in the event of a business failure**.
- **The Member Loans in the "Owners' Contribution" is also subordinate debt and is usually subordinate to both the "External, Subordinated" and the "Senior Debt."** In theory, the owners' contribution leverages the "External, Subordinated," and those two categories in turn leverage the "Senior Debt." Thus, subordinate debt is useful for its' leveraging ability: it supports and attracts additional debt capital into the project.

Listing the sources of funds in this manner helps you to understand and communicate to your board and membership how the three categories of "Sources" each contribute a portion of the total. In our example, the categories contribute as follows:

Owners' (Co-op's) Contribution	= 30%	
External, Subordinated	= 25%	
External, Primary (or Senior) Debt	= 45%	(first position)
	100%	

Thus we see the importance of the Owners' Contribution as a percentage of the total. A standard for Owners' Contribution for an established cooperative that is relocating is at least 30% of the total sources. There are exceptions where a project can be financed with the Owners' Contribution being less than 30%, but that requires a heavier debt load from outside lenders, and should be viewed with caution. It is a better planning strategy to seek a level of Owners' Contribution higher than 30%, thus reducing the reliance on outside debt.

The following shows the three primary categories of "Sources" and gives a typical (preferred) and a possible range for a percentage of the total for each category.

	Preferred	**Possible Range**
Owner's Contribution	30%	20–50%
External, Subordinated	25%	5–40%
External, Senior Debt	45%	25–60%
	100%	100%

The "Uses" that are most often and most substantially **underestimated** (or forgotten about) are:

- Leasehold Improvements
- Working Capital Allowance
- Overrun Allowance.

At a minimum you should budget for a 10%– 15% overrun allowance (after and on top of all bids).

Many of the line items in "Uses" should have a **supporting schedule** that ties into the "Sources and Uses" budget, especially for leasehold improvements, equipment, fees, start-up promotion, start-up staffing and holding costs. A supporting schedule is a detailed line-item listing with dollar amounts for each line and a total for the whole schedule. For example, include an equipment list, including installation, freight, and sale tax, that totals up to a number that is equal to or less than what is on the "Sources and Uses". In each supporting schedule, you should include a percentage for an overrun allowance that is in addition to the overrun allowance in the "Sources and Uses" budget.

The "Sources and Uses" Development Budget serves as the cover page and is supported by and linked to a financial pro forma (a/k/a financial projections, budget, financial model) that shows the income statement, cash flow, debt service, and balance sheet projected for 5 years forward for the new store. Illustrating and explaining a full financial pro forma is beyond the scope of this toolbox, but the basic steps are described in Section VI, pages 27–30.

As your project goes forward, it is important to monitor and project the "Sources and Uses" on a monthly cash flow basis. (See Appendix F, "Sources and Uses" Cash Flow.)

- Develop a spreadsheet that shows the "uses" that have been paid out to date and the "sources" that have been collected to date.
- Project the remaining "uses" and "sources" forward by the month as you anticipated them on a cash flow basis. The actual, to-date numbers should tie in with your general ledger and financial statements.
- On your monthly financial statements, your project expenses are shown on a separate line ("other expenses") outside of (and below) store operating expenses and profitability.
- It is important to maintain a clear financial distinction between "operations" and "project."

Tool #3: Purpose, Policy, and Parameters

The third primary tool for project management is a clear statement of the purpose of the project.

- Is the purpose compatible with the cooperative's mission?
- What is the concept for the new store?
- How would you succinctly describe that concept in one or two pages?

The project concept and/or policies can be modified to serve as a tool for communicating the co-ops intended direction to staff and members. Take precautions to preserve appropriate levels of confidentiality.

The board provides direction to management about the overall goals and parameters of a project. Many boards have found that their existing policies on Ends and Executive Limitations provide sufficient guidance. Other boards create specific policies for a project to effectively communicate their expectations to management. Policies (whether specific to the project or existing) will provide guidance to the manager regarding site selection, financing, design and other project decisions. The sample policies on page 24 are examples of how a board could communicate its expectations to management if it determines that a separate policy would be useful. On page 25 is an example of how a Board/GM could use existing policies to provide oversight and accountability during an expansion project.

The CBLD library (http://cdsconsulting.coop/cbldlibrary) has a Field Guide: Reporting During Expansion https://cdsconsulting.centraldesktop.com/cbld/doc/20893836 to assist the board and manager with this process. Other expansion-related resources in the CBLD Library include the "Board Role in Expansion" Online Recorded Workshop, and the "Co-op as Store Becomes Co-op as Community" *Cooperative Grocer* article.

Sample Expansion Policies

Sample #1

The General Manager will not create or carry out business expansion plans unless:

1. The expansion helps our co-op attain our Ends.
2. The board is aware of expansion plans and activities.
3. The expansion is supported by a sound plan that:
    a) demonstrates the financial viability of the new enterprise
    b) includes a third-party's acceptance of the plan's assumptions and conclusions.

Sample #2

The General Manager may not fail to be aware of and plan for business expansion opportunities, including our core food business and other community-enriching businesses.

In considering, creating and carrying out any such plans, the GM may not fail to ensure and demonstrate that:

1. The expansion helps our co-op attain the board-stated ends
2. The board is aware of expansion plans and activities
3. The expansion has the support of current and potential members
4. The expansion is supported by a sound plan that:
    a. includes an explanation of why the expansion is being proposed
    b. demonstrates the financial viability of the new enterprise
    c. demonstrates an unmet need in the community that would be served by such an expansion (using a market analysis or similar tool)
    d. includes a disinterested third-party's acceptance of the plan's assumptions and conclusions
    e. demonstrates all current operations are fiscally sound, meeting the board's stated financial conditions policies, before undertaking significant expansion projects

Using Your Existing Policies

First, review your existing policies to understand how they guide and control expansion plans and activities as well as ongoing operations. Then have the GM present a summary report for the project in relation to those policies. For example:

If your Ends were:

Because of ABC Co-op, people in our community will have

- A market for local, organic and healthy products, meeting the needs of consumers and producers
- Cooperative ownership that strengthens the local economy and community

The GM could answer these questions in relation to the Ends:

- How will the project advance ABC's goals of a market that meets the needs of consumers and producers?
- How will the project impact cooperative ownership?

If your Executive Limitations include:

B1 – Financial Conditions. The GM will not…

1. Allow sales to decline or be stagnant.
2. Allow operations to generate an inadequate net income.
3. Allow liquidity (the ability to meet cash needs in a timely and efficient fashion) to be insufficient.
4. Allow solvency (the relationship of debt to equity) to be insufficient.
5. Incur debt other than trade payables or other reasonable and customary liabilities incurred in the ordinary course of doing business.
6. Acquire, encumber or dispose of real estate.

B2 – Planning and Budgeting. The GM will not…

1. Create plans or budgets that
    a. Risk incurring those situations or conditions described as unacceptable in the Board policy "Financial Condition and Activities."
    b. Omit credible projection of revenues and expenses, owner investment and return, separation of capital and operational items, cash flow, and disclosure of planning assumptions.
    c. Would result in default under any of the Cooperative's financing agreements or cause the insolvency of the Cooperative.
    d. Have not been tested for feasibility.

B3 – Asset Protection. The GM will not…

7. Allow lack of due diligence in contracts.

B7 – Communication to the Board. The GM will not…

3. Allow the Board to be unaware of relevant legal actions, media coverage, trends, public events of the Cooperative, or internal and external changes.

The GM could answer this question in relation to these Limitations:

How does this project/opportunity fit within the board's policy on and management's current interpretation of the relevant Limitations policies?

These are sample policies only. We recommend that you seek appropriate consultation before your board adopts an expansion policy.

VI. SPEAKING OF SOURCES: THE ROLE OF LENDERS

It's a rare business that can complete a sizable expansion or relocation project on cash reserves alone, and co-ops tend to have less capital salted away than some other kinds of corporations. Your ability to persuade a lender to take part in your project will depend on how strong your current business is and how clearly and accurately you can present your case for expansion.

The choice of a lending partner should begin before you need to borrow money. It makes sense that you consider the banking institution(s) that handle your daily deposits and investments. These folks already know something about your co-op, and they know something about your management practices (bookkeeping is accurate, adequate reserves are there to cover expenses, fees are negotiated, etc). But don't forget that banks need to make loans. Loans provide interest payments that pay the bankers' bills and generate profit for them. If you can present an attractive project that shows reasonable cash flow and profitability you can — and should — shop around for the best deal.

Interest rates charged by a bank shouldn't be the only criterion for your choice, however. Many of our survey participants mentioned how helpful their lenders were throughout the planning process, and this is a concrete advantage that is hard to quantify numerically. Pay attention to the signals – do the loan officers at your bank change every week? Does your lender seem interested in your business, or just in your deposit balance? Does she ask you good questions? Does she offer you ideas about other resources? Remember, your lender is going to be part of your life for the next 5-10-15 years, through thick and thin. Your choice of a lending partner is going to have a big impact, particularly if things do get a little thin at some point. A good lender sees many different proposals, and more importantly they follow the progress of the projects they finance — as a partner — for many years. They are as interested as you are in the success of your business. A good lender can serve as a resource for your questions, a mentor as you present your proposal and a knowledgeable critic of your financial plan. This is customer service, and you know what that costs!

Before you start interviewing lenders however, you must be able to present a clear vision for the project, articulate what you need from them and present lots of documentation to back up your proposal. The vehicle for this presentation is the Business Plan.

Creating a business plan is a bit like going into therapy. You are forced to examine your every motive and action — past, present and future. Your relationships with others (staff, members, board, vendors, lenders, the government, etc) are all held up for scrutiny and your plan for growth will depend on improving upon the past. It sounds daunting, but once you've gathered and assembled all of the information you will be able to present your co-op and its plans in a professional and credible manner.

There is a world of resources available to help you write your business plan. Libraries, the Internet, small business associations and bookstores offer countless models and templates. Other co-ops who have successfully completed an expansion may be willing to share their plan with you, and of course you can also use a consultant to help guide you through the process. But it's always best to prepare the business plan yourself. A potential lender or equity investor wants to see not only that the numbers look good, but also that you understand them inside and out. If you can't answer highly detailed or thorny questions about how you arrived at your numbers, you aren't going to get your funding.

All of the sections in this Toolbox contain tips and suggestions that will help you create a business plan. In addition, you will need to get current data for grocery stores in your industry-perhaps from an industry association. Sometimes trade magazines and newsletters publish statistics for their industries, and the *Cooperative Grocer* magazine publishes an annual survey of operational figures from natural food co-ops. Compare your numbers with firms of similar size in the same industry. Some specific resources are listed in Appendix A. Your job is to gather the information that relates to your project and assemble it in a format that lenders can review. Make sure that you are clear about the specific industry to which your market data is referring. For example, the natural foods segment of the grocery industry tends to have much higher labor costs, and much stronger historic sales growth patterns than does the grocery industry in general. If your lender is not familiar with the natural foods market, she may find some of your projections unrealistic. It will be your job to educate her. Seek review and critique of your plan by professionals and/or respected peers before you trudge into the lender's office. A second or third opinion could save you many months of work.

Basically, all business plans answer certain questions and follow a general format. Keep the tone of your writing professional and avoid hyperbole or generalizations. Lenders don't want to hear phrases like "this co-op has incredible potential." They want to use the more factual information you present to reach their own conclusions. Remember to communicate concisely and clearly, and articulate your understanding of the business opportunity. Lastly, keep in mind that all lenders don't look at things the same way you do — Lenders primarily look at the security of the loan, and the likelihood of repayment.

What Goes Into A Business Plan?

1. **Executive summary**

   This is a one page cover letter, introducing your co-op, your request and a brief statement that touches on each of the major sections in the business plan. Be up front and clear from the very beginning about what you are asking for and why.

2. **A detailed description of your co-op** (suggested length, one to two pages)

   Most lenders are unfamiliar with how co-ops operate. They may have a great deal of trouble understanding cooperative ownership (lenders want to know exactly who to go after if there is a loan default), and they are skeptical about our ability or commitment to make profits. Each section of your plan should refer to some aspect of the cooperative way of business, and why your co-op will be successful:

   - Describe your business form: proprietorship, partnership or corporation,
   - List the licenses or permits you will need,
   - Describe the business type: merchandising, retail, wholesale, etc.,
   - Illustrate where your co-op is located,
   - Tell them who your customers are,
   - Describe what is unique about your product or service,
   - Is it a new business, an expansion, relocation?
   - Explain why your business will be profitable: what are the growth opportunities?
   - Tell what you have learned about your kind of business from outside sources (trade suppliers, bankers, other cooperators, publications).

3. **The marketing plan** (three to five pages)

   This is an area where you will need to spend money up front. At the minimum you must have a recent customer survey that could be done by the co-op itself, perhaps with some advice from other co-ops and/or marketing professionals. On the other hand a professional firm typically does the Market Study/Analysis. Make sure you pick someone who has done studies of natural food stores. Ask your peers in the co-op world for references. Articulate clearly the wants, needs, and buying decisions of your membership and target market. Create a clear picture of your member/customer for a lender who has no idea what you're trying to sell.

   - Who are your customers? Define your target market(s). Here is a good place to describe cooperative ownership, the commitment of your members to the co-op and the potential in your community to gain more members.
   - Write a brief summary of the concept for the new store, especially highlighting new departments.
   - Identify which products/services are in demand.

- Describe what you are selling.
- Explain what is different about the product or service your business is offering.
- Tell how your product or service will benefit the customer.
- Define when your business will be open (days, hours).
- Is your market share growing? Steady? Declining? Explain why or why not?
- Explain how will you attract, hold, increase your market share.
- Describe the kinds of advertising and promotions you will do.
- Explain the pricing strategy you have devised.
- Provide a description of your competitors and where they are located in relation to your business.
- Include projections of customer counts and average sale per customer. Compare these to current figures.

You may want to attach the full text of the market plan to your business plan, but within the business plan itself, just offer a succinct summary of the market opportunity and impediments (if any).

4. **The management plan** (two pages)

The "people" part of your plan is as important as the financial plan. Lenders may come to accept the cooperative ownership of your business, but they still want a point person, and, unless you have a strong management team, that point person is the General Manager. Your background, abilities and successful history running a business will be very important. And because your project will very probably involve a larger and more professional staff, they will want to know about the management-level people you have picked to help. This section should answer the following questions:

- How does your background/business experience help you in this business?
- What are your weaknesses and how can/do you compensate for them?
- Who will be on the management team?
- What are their strengths/weaknesses?
- What are their duties?
- Are these duties clearly defined?
- What are your current personnel needs?
- What are your plans for hiring and training personnel?
- What salaries, benefits, vacations, holidays will you offer?
- What benefits, if any, can you afford at this point?

(At this point in the Business Plan, you should have roughly 8–10 pages.)

5. **The Financial Plan**

This is another area where many people find they need professional help. Unless you, or someone in your organization is a whiz at creating complicated spreadsheets, a consultant who specializes in expansion-related pro formas could save you a great deal of time and maybe even help you avoid errors in calculations. A lender will then, most likely, take the numbers you give them and run them through their own financial analysis programs.

Presenting the financial feasibility of a proposed expansion/relocation of your cooperative involves the following steps:

a. **Create the "Sources and Uses" Development Budget and Key Assumptions**. (one page)

- List the Key Assumptions as part of the Sources and Uses budget including:

  1) square feet of retail space and total space for both the current and future sites.

2) projected opening date for the new store.
3) lease rates for both current and future sites, expressed as cost per square foot per year, including base rent and combined cost for real estate taxes, insurance, and common area maintenance. If the current site or future site is owned, provide the estimated selling and purchase price, respectively, plus estimated real estate taxes.
4) projected sales for year one, plus the percent of increase for years two through five.
5) projected sales and operating budget for your current store for the period extending from the last fiscal year end until the opening date for the new store.
6) interest rates and terms of all sources of debt.
7) asset disposal: will current equipment be sold, brought to new store or written off? Specify how much in terms of dollars.

- List out the "Uses" with a brief note explaining each line item and assumption.
- List out the "Sources" with a brief note explaining each line item and assumption.
- Don't forget to add a "use" for first year working capital.
- Don't forget to add at least a 10% overrun allowance on to the subtotal of all your "uses."
- Have your "Sources and Uses" Budget reviewed and critiqued by a lender, or professional consultant and other general managers who have survived a successful expansion project.
- Set up your historical financial model showing the last 3 years of income statements, cash flow, and balance sheet. Be sure to show each line item on the income statement as a percent of sales (preferably gross sales). Calculate the historical averages based on the percent of sales.

b. **Create projections of your income statement (profit & loss statements), cash flow, and balance sheet for Years 1 through 5.**

- Include the assumptions upon which your projections were based.
- Show reconciliation in changes in member equity for each of the yearly statements.
- Create a pro-forma cash flow.
- Utilize historical averages on items that are tied to sales. Document deviations from the historical average when you have a strong case of a recent irreversible trend (For instance, a giant competitor just opened up next door, or your street was just made a "one-way") or other, pertinent new information.
- Remember, rent and utilities are not tied to sales; however, utilities might be tied to square feet, with an allowance for increased efficiency.
- Use sales projections from a professional market analysis.
- Be sure to adjust those projections downward in Year 1 to allow for a reasonable start-up curve in the first 6 months. Also be sure to plan for possibly "less than efficient" labor usage in the first six to nine months or so.
- Integrate the "Sources and Uses" Budget into the balance sheet as though it happened "overnight" between the last day in the old store and the first day in the new store.
- Make sure that every important assumption is explained; you do not want to leave your reader wondering, "Where did they get that number?"

c. **Create a page of ratio analyses that shows the key ratios both for the current store and the future store**.

d. **Analyze the key financial indicators, including profitability, cash flow, working capital, proposed debt-service coverage, current ratio, debt-to equity ratio,**

return on assets, and return on equity. Explain significant deviations from the desirable. Manipulate the pro forma by altering key assumptions. Examine worst-case scenarios. Examine best-case scenarios.

e. **Develop a monthly "cash flow" monitoring tool for your "Sources and Uses" budget**. (See Appendix F, page 64.)

f. If the basic 5 year pro forma is looking feasible, develop supporting schedules that support the key assumptions from the "Sources and Uses" Budget and the operating pro forma:

- Sales by Department (current store and new store) in dollars ($) and percents (%)
- Gross Margin by Department (current store and new store) $ and %
- Labor by Department (and by position) in both the current store and new store, in both $, %, and sales per labor hour
- Projections by month for the first year or two.
- Projections by quarters for the subsequent two years.
- Lease-hold improvements or construction costs
- Equipment list that shows actual and projected costs for each item, including installation, freight and sales tax
- Fees & Consultant costs
- Debt Service by source

6. **Addenda to the business plan should include the supporting documents and financial projections**.
   - Articles and By-laws
   - Loan applications
   - Capital equipment and supply list
   - Copies of historical annual financial statements (3-5 years) preferably audited statements
   - Copy of latest income tax return
   - Copy of proposed lease or purchase agreement for building space
   - Copy of licenses and other legal documents
   - Copy of resumes of all principals including the Board of Directors
   - Member loan documents
   - Copies of letters of intent from suppliers, etc.
   - Promotional materials for membership sales and a good sample of current product promotions
   - Recent customer survey
   - Formal market study, and any other outside data or market/location analysis that is relevant to your proposal. Present as much of this information as possible in the form of graphs, maps, etc.
7. And one last word from your lender: If you are looking for a sizable loan you may need to budget for the cost of a full financial audit for at least two consecutive years. After that, you may be able to alternate a professionally done "review" with an audit for subsequent years, for the term of the loan.

   An audit provides a degree of monitoring and oversight that lenders insist upon, but an audit also signals a new phase in your co-op's maturity. Audits are expensive, running into the thousands of dollars, but a good auditor will make observations and recommendations that will help you understand and develop the financial systems required to track and manage the more complicated financial aspects of an expanded business.

Portions of this section have been developed by Northcountry Cooperative Development Fund

VII. LEASE OR BUY? RENOVATE OR BUILD NEW?

As part of a site search, the question is often asked whether it is best to lease or buy, whether to build new or to renovate. The general wisdom in the grocery industry has been that it not wise to tie up your capital in real estate, but to use it instead for equipment, inventory, and maybe leasehold improvements. Leasing often provides a greater degree of flexibility, and a potential additional source of financing and site development assistance — the landlord. The ideal site might be one that you can lease and that was previously a grocery store.

While this general wisdom should prevail in many situations (especially for undercapitalized cooperatives), retail natural food cooperatives bring a new dimension to the question. As a community-owned business grounded in its community, and with widespread options for raising capital from its members, it can be financially feasible and advantageous for the co-op to purchase the building it will be located in. Additionally, local commercial real estate markets differ dramatically, and this will affect the lease-or-buy question for any individual co-op. In some smaller markets, for example, a good lease situation may simply not be an available option, whereas in some urban markets, co-ops will have their choice of several acceptable sites. Cooperative Grocer surveys show that less than one-third of the natural food co-ops own their building.

On the other hand, some of the co-ops who have owned their site for a number of years have much lower occupancy costs than those who lease, especially after they have paid down portions of the initial debt. In the current real estate market it is probable that a co-op will be able to sell its building or other real estate as part of a relocation project … usually with a good gain. But there are a few co-ops that have been unable to sell in a timely manner.

Leasing a site is costly. Rental costs, especially for prime sites, are escalating faster than inflation. Leases usually require annual rent increases, and sometimes an added percentage rate (based on sales, once a threshold is reached).

Create and compare different financial pro formas: one based on the assumption of leasing, the other based on the assumption of buying. Talk with your banker. It is often easier to finance an expansion/relocation project when you own the real estate, as there is more collateral available. No bank is eager to finance a lot of leasehold improvements, because those improvements benefit another party. Therefore they are not viewed as strong collateral. On the other hand, a lease situation where the landlord takes the lead in financing leasehold improvements may provide a superior combination of long-term flexibility and near-term cash flow.

Whether to build a whole new building or to renovate an existing space is a question that has more complexities. Whether you are leasing or buying, you will likely have to face this question.

Aside from financing and financial feasibility, the primary question becomes how will the project be managed. If it’s a new building, who will the developer be? Will you (the co-op) be the developer? In other words, will it be self-developed (relying upon and supervising a variety of outside services), or will there be a developer that you lease from or contract with? There are a lot of developers out there, and many of them desire and work best with national tenants. If you are able to find a supportive developer with an understanding and liking for local businesses, your project may be very attractive to them. Most of the new construction and major renovation projects that co-ops have undertaken are basically self-developed. Of course this brings a huge challenge to the co-op, which is, very likely, inexperienced as a developer. However with proper management and support, a natural foods co-op can navigate its way through these perilous waters.

All of these options (lease, buy, build, major renovation) should be explored. Look seriously to your members as a source of capital. Build your balance sheet so that you will be able to take advantage of the best options that you encounter. Seek appropriate professional advice as you consider your options and assess feasibility.

Negotiations

Negotiations happen continuously during your expansion project. It is important to be aware of that fact and to develop a comfort level and effective approach to those negotiations, whether they are with your landlord, the property owner, lenders, vendors, or members.

- Recognize all opportunities.
- Establish credibility.
- Know what you want. Anticipate their needs.
- Prepare.
- Prioritize.
- Listen.
- Communicate clearly.
- Establish good faith, honesty, and trust.
- Play your cards, eventually. Don't hold them all.
- Know your walk-away point.
- Build the relationship.
- Build the agreement.
- Do your part to make timely progress.
- Be a decision-maker and negotiate with a decision-maker.
- Use professional help if needed.

Remember, if there is a way for a deal to fall apart, it will, until the deal is done!

VIII. PLAYERS, PARTICIPANTS, STAKEHOLDERS IN A COOPERATIVE EXPANSION or RELOCATION PROJECT

Cultivating Stakeholder Support

A cooperative expansion/relocation project involves a great deal of what might be called community organizing. A very important aspect of that process involves identifying potential stakeholders and then cultivating their support. This is the tried and true way of building a viable project. By definition, stakeholders have a stake in your success and will work to help you achieve it. The more stakeholders you can identify and cultivate, the better your chances for success. If you can gain widespread buy-in and support from your stakeholders, you will have cleared some of the more difficult hurdles.

Stakeholders are either internal (members, staff, etc.) or external (banks, landlord, suppliers).

Internal/External Stakeholders

Internal	*External*
Member/Owners, Customers	Wholesalers
Board of Directors	Manufacturers
General Manager	Consultants
Project Manager	Attorneys
Management Team or Department	Architects, Engineers, Designers
Managers	Contractors
Staff	Equipment Suppliers
Steering Committee, Move Team	Lenders
	City/Community
	Environment

A. **Internal Stakeholders**

Begin early to create a sense of trust and shared vision with these key players:

1. **Members and Staff**

In a cooperatively owned business, it is doubly important to involve the community of people who own and work in the business. The main reason co-ops consider expansion is because the store is too small, inconvenient or inadequate to serve their present members, and may even be a hazard, if not simply difficult for staff to work in. Each of these groups has opinions about a new store, and all of them can bring energy, enthusiasm, new product and design ideas, and money in the form of new member equity and member loans. These stakeholders can, and should, be the strongest advocates for your project.

Change is difficult however, no matter how necessary it seems, and building trust and a shared vision are very important. Each of these groups can effectively derail a perfectly viable project if trust and vision are not shared. Members (and staff) may express fears about the loss of the small, neighborhood feel of the old store. Some may feel that a new and expanded product line means the end of your carefully chosen natural foods image. Even though it may not be "politically correct," some may fear "new" customers who bring new ideas, needs and demands that will be very different from their own. Without carefully listening to and involving these very important players at each stage of the game, you run the risk of alienating some of them. Members who are angry and mistrustful of management decisions may take their cause to other members, the staff and even the press. Staff who have been left out of the planning process, likewise may sew mistrust and faulty information about the project – and about the real intentions of your board and manager— to the membership and customers of your co-op.

Begin early to create a sense of trust and shared vision with these key players. It is important to cultivate organizational alignment around your co-op's vision, mission, values, and goals. This will result in a clear focus and a cohesive team:

a. Early on, consider a planning session to revisit your Mission Statement. Does it accurately reflect your co-op today? Does it contain wording that limits your ability to grow and change with your membership, the times and the community? If so, make sure you update it, and then post, publish and be proud of it. The Mission Statement can be one of your most powerful marketing tools. It sets you apart from other businesses, it tells members and non-members alike what your co-op is, why it exists, and where it is going.

b. Promote an open and scheduled system of communication amongst staff and members, while safeguarding the need for confidentiality on issues that are sensitive due to real estate, personnel, or competitive factors.

c. Seek feedback and advice from members and staff. **Remember that unless your by-laws state that an expansion or relocation is subject to a vote, your members have already empowered the Board of Directors to make major decisions related to expansion/relocation projects**.

d. Survey both members and staff to gather information and build support.

e. Inform and involve staff in planning for the expansion project to the extent that confidentiality limitations allow, so that they can be a positive source of communication to members, customers, and the larger community.

f. Seek the valuable input of the current staff in the design of the new store.

g. Continually strengthen the initial level of member and staff commitment for the relocation/expansion project as the project continues.

h. Address and promote staff morale, especially when the project hits challenging roadblocks or is delayed. The cheerleaders and champions of the project will need to encourage everyone to keep their energy up in a sustained and growing way through, and beyond, the opening of the new store.

2. **Effective Public Relations**

As part of your cooperative's plan for expansion/relocation, and in order to draw in stakeholders, it is important to create and implement a plan for effective member and public relations.

a. What are the primary messages that you wish to communicate? For instance, you may want people to know that the food you sell is as pure as can be, or that your co-op is member (community) owned and that profits generated by your co-op stay in the community.

b. How can you most clearly communicate those messages?

c. Practice by writing out your messages in short sentences with a subject and a verb. Seek feedback on what you've written. Does it communicate effectively to another person? What might they (or you) suggest are the primary message/s you are currently communicating? Review, revise, and rewrite. Try these messages out on skeptical members and analyze the responses.

d. Prioritize your three primary messages.

e. Which is the most important?

f. What are your best vehicles or opportunities for communicating these messages?

g. Does your staff have the tools they need to support and communicate these messages?

3. **Building Member Equity**

The importance of raising member equity cannot be overemphasized. Today, more than ever, member equity must form the base of your expansion/relocation project, ongoing store operations, and the long-term sustainability of your cooperative. A co-op cannot have too much equity. Member equity represents your members' support. It is a grass-roots method of building broad-

"We should have had a stronger marketing effort for members and the community about image and to raise visibility."

based community support from a large number of people. Adequate member equity is also essential for leveraging money from outside lenders.

Cooperatives are chronically undercapitalized. Members have a responsibility to capitalize their co-op on an ongoing basis, especially prior to and during an expansion/relocation project. Natural food co-ops that have only had a membership fee system, often decide to convert to a member equity system as a way to prepare for a major expansion/relocation. (This is typically a member decision, subject to a vote). Under a member equity system, members contribute capital that goes directly to the equity section of the balance sheet. Member equity is not viewed as income to the cooperative (as membership fees are) and thus it is not taxed. There is no interest charge on member equity, and it is refundable to members under certain conditions, while membership fees are not refundable.

Some cooperatives set a limit on member equity from each individual member, while others require an annual equity contribution with no cap. Setting a limit has been the most popular option, but also probably the most shortsighted. Typically, changing the limits of member equity requirements will require a by-law change, and by-law changes typically require a member vote.

Make sure that managers, board, and staff understand the difference between fees and equity: EQUITY = OWNERSHIP. Oftentimes, special training sessions are necessary to help educate the leaders and members of the co-op on this important issue.

Do not use the phrase "life-time membership" or "life-time membership fee" or "lifetime membership share." At any time, your members may vote and decide to increase the financial requirement to be a member. More correctly, you might say that "Your member share requirement is $_____" or "Your member equity share is $______" or "Your member share requirement is $______ per year."

The decision to convert from a fee to an equity system as part of preparing for a major expansion can be viewed as a symbolic decision by your members that supports the long-term direction of expansion/relocation, without actually voting on the specific relocation project.

Raising member equity as part of preparing for a major expansion/relocation involves planning and a good deal of strategy.

- Begin by setting a financial goal that fits within your overall financial projections for the project. (Remember, member investments, including equity, and member loans, plus the co-op's cash reserve should cover at least 30% of the total project costs.)
- Next, determine how much additional new equity you can raise over the amount that comes in on a normal monthly basis. (Here is where you start planning a new member campaign.)
- Determine how much of the equity you need to raise will be from current members. Consider asking members who are on a payment plan to accelerate their payments.
- Don't forget the on-going need for increased member equity AFTER the project has been completed. Happily, most co-ops find that a new store, or new space is the best advertising for membership. Plan on a new member campaign that coincides with your new space. You may be surprised how many new shoppers will become members.

"If I had it to do over again, I would have worked much harder on member capitalization. I'd have paid someone to do it."

- Your plan for new memberships should specifically reflect your goals, as in the following example.

Assuming a member equity requirement of $200, we can view the following illustration.

ABC Cooperative has 2000 members of which 800 have paid in their $200 member share requirement. The remaining 1200 have paid in on average $80.

Current members:	1200 at an average of $60 = (assuming they will collect half of the remaining $120)	$72,000
New members:	500 at an average of $100 = (1/2 of the $200)	$50,000
Goal for membership drive (new equity):		$122,000
New member equity in year before new store:	30 members/month at $50/member at 12 mo. =	$18,000
New Member equity in year one of new store:	45 members/month at $75/memberat 12 mo. =	$40,500
Total equity raised over a 2 year period:		$180,500

Note: In your financial pro forma, the "sources & uses" statement will show new member equity of $122,000. In addition, the pro forma for the current year will show $18,000 of new member equity. And the pro forma for Year 1 in the new store will show $40,500 of new member equity.

- Coordinate your member equity drive for an expansion/relocation project with other fundraising and financing activities. For example, depending on circumstances, you may wish to do your member loan drive before your member equity drive, but definitely not at the same time because that will be too confusing. The member equity drive may be timed to coincide with the announcement of the co-op's new site, or it may be done well in advance of that as a way to determine or build member support for expansion/relocation in general.
- A member equity drive connected to an expansion/relocation project can take 3-9 months.

4. **Raising Member Loans**

Member loan programs can be complex undertakings to plan and implement. The following comments give an introduction to the basic concepts. Outside experts and other co-ops that have implemented loan programs can provide valuable consultation and advice if you choose to proceed with a member loan drive.

The member loan program plays a critical role in an expansion/relocation project. Besides the capital it brings to your project, it is an appropriate way to test your members' support of the co-op and its plan. It is an effective strategy for bringing your members further into the project as serious stakeholders, and, if successful, it is a strong statement of member support to convey to your bank(s).

a. As opposed to a member equity drive, a member loan drive can raise a large amount of money from a small number of people in a short period of time.
b. Plan the member loan drive so that it is ready to launch at the appropriate time (e.g. when you secure a site, or just prior to securing a site). It typically takes 4-6 weeks to plan the member loan drive and get it to the point of

"Board and management should have been stronger about changes to equity increases. We would be in a better financial position today if they had."

launching. Once launched, the drive should be able to be completed within 4 weeks plus a 2-week grace period if necessary, assuming it is launched at an appropriate time of the year (e.g. not between Nov. 15th and Jan. 6th) and that it is properly conducted.

c. Seek appropriate legal advice in planning a member loan drive. There are important securities issues that need to be considered, and laws vary from state to state. Seek legal advice from someone who has experience with cooperatives and securities.

d. Set the goal for how much you wish to raise. Make the goal achievable and exceedable. This will likely take a lot of thought and discussion. At first you might think you can only raise $5,000 and your project may require that you raise $200,000. As you examine the situation and find out what other similar size co-ops have been able to raise, you will probably gain comfort with the larger number. Once the goal is set, determine the amount you wish to promote as the "average size loan," as a way of communicating to your members and stretching their thinking. (Don't just communicate the minimum size loan.)

e. Set the basic parameters and policies for your member loan program:

- Minimum size loan: We suggest $1000 or $1500.
- Term (length): We suggest 4, 5, and 6 yr. terms with one third in each category.
- Interest rate: We suggest setting a ceiling (5.5%-6% in today's market) and offering loans from 0% to that ceiling, and then have it be negotiable between the co-op and each member, essentially allowing the member to choose his or her interest rate within that range. This makes it simpler for the member to make a decision to lend to the co-op.
- When is the interest paid out? We suggest either having all interest paid out at the end of the term when the principle is paid back (thus accruing the interest annually and adding it to the principle) or offering a choice of annual pay-out of simple interest.
- Residency: Member loans will likely need to be from members residing in your state.
- The interest rate should not be set at such a high rate that it could be viewed as speculative. This attracts the wrong kind of investor.

f. A key indicator of success for your member loan program is the commitment level of your board. To what extent will your board support the member loan program in a tangible and visible way? Not that every board member should be expected to make a member loan, but your board as a whole should be expected to lend at least 10% of the total needed. It is important to test the waters and seek and gain your board members commitment before launching the member loan drive. If your board members (as a group) choose not to participate in the member loan program, it is our experience that you will not be successful in reaching your total goal for member loans.

g. The most successful approach to raising member loans involves creating a target list of names (four names for every loan needed) from the membership list. Ask staff, and especially cashiers, whom they think (or know!) might have money to invest. Send out a personalized one-page letter and follow it up with a phone call. A large committee could do this, but a small committed group with selling skills is usually more focused and more successful. It is best to have one or two people call the target list as a follow-up to the mailing. The full strategic guidelines for doing this are beyond the scope of this toolbox, and it is suggested that you seek appropriate consultation in addition to legal advice. (See Cooperative Grocer, #86, January-February, 2000: Conducting Member Loan Campaigns by Bill Gessner)

h. Collect the member loans in a timely way following the verbal commitments, as, under the best of circumstances, at least 10% of those commitments will not translate into loans.

i. It is important to understand that member loans are unsecured and subordinated to the primary and secondary debt. And it is important that your members understand these concepts, including how subordination really will work in your specific instance. Members need to understand that there is a level of risk in making a member loan.

Examples

Belfast Co-op – Belfast, ME

Called it an "investment," not a "loan."
Took in $200,000.
Terms ranged from 0% interest to 6%:
Three year terms = 5%. Six year terms = 6%. This was slightly higher than local banks. Some members chose 0% return on their loan.
$500.00 minimum loan size.

Natural Harvest Co-op – Virginia, MN

Goal was $25,000; they received $13,000 in loans, $24,000 in Class C stock and $7,500 in gifts.
Interest ranged from 0% – 8% for seven years, or interest twice per year.
Only three members requested interest. Within two years, three members had requested their money back.

Lakewinds Natural Foods – Minnetonka, MN

Received $181,000 in loans at 6 – 7% interest for four to five years. Interest is paid quarterly.
$1,000 minimum.
"Would have liked more member loans. Are currently looking at restructuring debt and asking for MORE member loans".

Puget Consumer Co-op – Seattle, WA

Did not need member loans.

Hunger Mountain Co-op – Montpelier, VT

$85,000 for 4 to 6 years with variable interest.
Vermont law made getting member loans nearly impossible. The co-op could not solicit, advertise, market. All was done by word of mouth. They raised $15,000 through auctions and selling plaques for the new store.

Centre Inn Co-op- Goshen, IN

$45,000 for two to ten years with varying rates of interest. Used other co-ops' loan programs to design theirs. "Consistent phone campaigning was the key to the success."

B. **External Stakeholders** — An Outside Perspective

No expansion project happens in a vacuum. Your community-centered business relies on the participation and good will of a host of "External Stakeholders" – among them are the landlord, the city, attorneys, architects, engineers, designers, contractors, equipment suppliers, lenders, wholesalers, manufacturers, consultants and environmental agencies.

Gaining the support of these outside players, as stakeholders will ensure a stronger project. Securing their trust and participation serves as an important test: If you are unable to draw outsiders into your project to share some of the risk (in exchange for a gain that they will receive,) your project is in effect not able to withstand the scrutiny of outsiders. In their own ways, each of these entities acts as a filter as you explore the feasibility of your plans. Their perspective is valuable and they often become advisors and mentors to your board and managers throughout the various stages of work. These "outsiders" bring a new set of eyes not attached to the assumptions with which you've become comfortable. If they are not convinced of the viability of your project, you will have to change some things or do a better job of explaining in order to convince them. Having to explain and adjust your plans is great practice and an acid test for your project's feasibility.

An important source of advice, critical review and support comes from other natural food co-ops that have been through expansion/relocation projects.

One of the most important outside stakeholders is your cooperative wholesaler.

- Draw your wholesaler in early to your expansion/relocation project. Retails cannot successfully expand without the strong support of their wholesaler.
- Commit to a primary supplier relationship with your preferred wholesaler —this is not the time to shop around for a lower price on certain items.
- Build the relationship on trust, over time, for the long-term.
- Know what you want from your supplier and ask for it. Ask them what services they can provide. Seek their support.
- Encourage your wholesaler to develop and expand their retail services.
- Be loyal and honest. Give them volume, feedback, thanks and support. Unlike some other external stakeholders, your wholesaler is in it for the long haul. You will experience the benefits of a strong partnership with the warehouse every day in the store and in your business office.

Assembling external stakeholders and building a team is a skill requiring good communication skills, the ability to sell in a positive way, the ability to listen, and effectively follow-up. The more the merrier.

IX. STAFF DEVELOPMENT

A. **Organizational Chart and Staffing Plan**
(See Appendix C – Sample Organizational Charts)

What does your organizational chart look like now? If you don't have one, draw one out. Then have someone else in your organization draw what she or he might think it looks like. Notice the differences. What might they mean? Settle on what your current organizational chart looks like. Include the whole organization in the chart, including members and board. During the feasibility stage of expansion planning you should create an organizational chart for your new store.

- This is the time to begin creating that new staffing structure, and determine how and when you will make the transition to the new structure.
- Think carefully about how your staffing structure and organizational chart will change with your expansion project and your new store.
- Develop a timeline that shows how and when you will hire and train people for each position.
- Identify a specific transition period whenever possible that has a beginning, at least one mid-point assessment, and a conclusion. A formal, defined transition period should include a structured training program for the new or changing positions, a safe and supportive learning environment, and opportunity for ongoing feedback.
- Your staffing plans for the new store should show in detail the different departments, positions, pay ranges, average pay and hours and labor dollars by department.
- Review, critique, and revise these plans until you reach a comfort level. Make sure that it ties in and supports your financial pro forma. This is a good place to seek input from other co-ops that have expanded from stores your size.
- Pay special attention to the changing role of the General Manager and make sure that those changes are clearly understood and accepted by both staff and board members.

Include enough details in the plans so that you, or your department mangers can monitor progress. For example, you may include a statement similar to the following: "Job descriptions will be created for staff. A new management structure for the deli will take effect on the first of the month. We will allow a 3-month period to transition into the structure. During that time a deli consultant will work with the department manager, counter manager and head cook to analyze menu selections, costing, and hours needed for staffing. Hiring will begin in the third month. We will all work together to provide support to one another as current and new staff members take on their new positions. During the transition period we will provide ongoing feedback and support and have a formal progress evaluation after every six weeks."

As part of expansion planning and staff development, it is important to anticipate and plan for the changes that will occur operationally. Those changes can be grouped into 4 broad areas:

1. **Equipment**: including registers, computers, refrigeration equipment, food service. Will you need staff members who are specialists? (For example, a scanning coordinator, a heating and ventilation guru, a person who is trained and certified for food service management.)
2. **Systems**: including buying, receiving, scanning, merchandising, marketing, stocking, accounting, front end, personnel, budgeting, planning, training, customer service, (and the list goes on.) Do your current staff members need additional training now, in order to be able to perform efficiently in the new store?
3. **Production**: How are jobs going to be affected and what new tools or accommodations will staff need to do the job at peak efficiency?

4. **Support**: what administrative changes will the organization need to address? Will you have to increase the size of the bookkeeping staff to facilitate the increased volume? Will you need to hire or increase the skill level of your Human Resources manager? Are you aware of new levels of legal compliance, now that your staffing has increased? If you are expanding into a two-store operation, define jobs that overlap, such as merchandising, and develop a system to deal with decision-making and accountability.

B. **Job Descriptions**

As part of the planning process create job descriptions for each position in your new store. This is another good place to seek outside advice from other co-ops and consultants. Involve your current staff and ask for their input in creating the job descriptions. Job descriptions are not carved in stone. They are somewhat fluid documents that evolve over time. Keep them to a reasonable length, such as one page.

C. **Recruitment, Hiring and Training**

Prior to developing a recruitment plan for attracting new staff, do a review of your current performance as an employer. This could include an employee satisfaction survey, a comparison with industry practices and averages, and a comparison with other businesses in your area. (Your local region is of greatest import here.)

- How do you rate?
- What do you want to improve in order to attract the type of staff that you desire?
- Are you an employer of choice in your market?
- If you are not, what will it take to become an employer of choice?

Develop a hiring and training timeline for all staff positions, working backward from the projected date of store opening. Recruitment is an important component of a hiring plan, and means more than just advertising or mailing out flyers. It means actively seeking out the best employees you can find, especially for your key positions. (And, of course, all your positions are key positions!) In a tight labor market, if newspaper ads or signs posted in the store don't draw a selection of qualified applicants, try radio ads, job fairs, an open house, the internet recruiting services and for-profit (as opposed to government-run) employment agencies.

What is the value (in dollars) of a good hire to your cooperative? Think about that. Your answer should give you sufficient incentive to put the appropriate planning and resources into making good hires. A good manager spends at least ____% of their time training and developing staff. We suggest that number should be at least 25%, thinking of training in a broad context. Developing good hiring skills (recruiting, screening, and interviewing) and, in turn, making good hires will pay infinite dividends to you and your cooperative.

As our survey respondents indicated, training is an area of great importance that is too often forgotten or under-budgeted. Make a commitment to developing training programs for all positions. Establish your training program/s before you move into your new store. A training program includes a written outline, to be given to trainer and trainee, listing all the topics to be covered and listing the means by which the trainee will demonstrate that he or she has successfully learned what you wanted to teach. Other co-ops and consultants may be able to give you models to adapt. Establish an environment that make working in a natural food co-op a genuine career opportunity by letting employees know about development and promotion opportunities.

Establish a training budget somewhere in the range of 3 to 10% of payroll and then, expect turnover! Hiring will become an ongoing activity. Develop and retain your strong performers.

D. **Wages & Benefits**

You can determine if the wages and benefits you offer are competitive enough to attract and retain desirable employees by researching your local retail market. Other sources for data include the office of Economic Resources Institute, Employment Security office, and your Chamber of Commerce. Develop a wage and benefit projection for your new store that ties into your financial pro forma. Seek feedback from other co-ops, and now that you have raised expectations for your staff, develop a bonus system, profit sharing, or gain-sharing program that complements an attractive wage/benefits package and that can be realistically implemented in your new store.

E. Basic Principles of Staffing for Expansion[1]

Respond to the Market

Your members may call for a deli or a meat department but can the market support it? Even if you think it can, start modestly with new departments. Hire a small staff with no more than two layers of hierarchy rather than a large department with manager, assistant manager, head cook, cook, etc.

On the other hand, say your market is ripe for a vitamin and supplement department. In that case, you could move from a single vitamin buyer in the old store to a full department with its own manager and with staffing throughout all store hours to provide the customer service that those products require.

If your co-op has traditionally included member labor as a strong part of its identity, you may find that available labor hours don't increase at the same rate as your sales. Be prepared to staff your departments accordingly.

Everyone Is Accountable to Someone

No one should report to the board except the general manager. If you have co-managers, then the duties for which they are individually accountable should be clearly delineated.

Ideally, except for the general manager, no one should have more than one supervisor. In small co-ops, people often work in several departments. In that case, either set up someone to be the supervisor of the cashier-stockers, or ensure that the supervisors of both departments collaborate on performance reviews and pay raise decisions.

Avoid Top-Heaviness ("Too Many Chiefs")

The place to save labor expense is in restricting the number of higher-paid management level jobs at the outset, until you can be sure the co-op is on the road to profitability. Unless your projected sales will be in the range of $8 to 10 million, you probably can't afford to have a manager for every function: merchandising, operations, marketing, member services, information systems, human resources.

Put your management labor dollars into department heads (grocery, HABA, deli, produce, meat), and into the positions that complement the general manager's strengths. If your general manager is strong in finance, you may not need a financial manager. On the other hand, if your general manager is strong in buying and merchandising, you may not need a merchandising manager but can have the general manager directly supervise all department heads.

Remember that buying is not in and of itself a management function. Unless your store is very large, you don't need a bulk manager or perishables manager on the same level as a grocery or produce manager. The buyers for bulk and perishables could report to the grocery manager. They don't have to serve on the management team or be paid a manager's salary.

[1] Carolee Colter, 1999

Keep Buyer Positions in Balance

Avoid atomizing the buying function among many different individuals buying for many small departments. At the same time, avoid over-consolidating so that all expertise (and a crushing workload) is concentrated on too few people. Above all, make sure that each buyer is individually accountable for the sales, margin and inventory turns of the departments they buy for.

Make It Work With Who You've Got

You know that people with retail natural foods experience don't grow on trees. With the tremendous expansion of the natural products industry and the impact of the "baby bust" on the labor market, you can't rely on the probability that there is someone out there ready and willing to fill a particular hole in your organizational chart. If at all possible, work around the strengths of the individuals who you expect to stay with the co-op for the long haul. If they don't have the qualifications needed to perform a job in the expanded co-op, but they have a strong desire to do it, invest in available resources for training them. That is a less risky path than hoping the right person will show up when you're ready to fill a position.

Suit the Co-op, Not the Individual

Working with who you've got does not mean letting each person have the job of their dreams. Each job should be designed for what works best for the co-op as a whole. If someone wants to be the vitamin manager but is only willing to work for 3 days a week, and never on weekends, the highest-sales period for vitamins, you don't have to set up the job that way to please her or him. Only build positions around individual preferences when doing so coincides with the needs of the business.

One Size Doesn't Fit All

What works for one co-op is not necessarily best for yours. Look at how other co-ops organize their labor, but don't feel limited by those models. The best staffing structure for your co-op will reflect your sales volume, your market and the talents of your current staff.

Staffing for Two Stores

- Have a strong role for the manager of each store.
- The general manager should not also be a store manager (that's not the place to save money on salaries).
- Department managers should be accountable to the store manager. (Possible exception: a food service manager could supervise deli managers in each store when there is a central kitchen at one store or at third location.)
- Put in place mechanisms for tying together pricing, promotions, deals and product mix.
- Form both in-store and co-op wide management teams.
- Ensure common personnel policies, pay scales and benefits, evaluation and pay raise systems in both stores.
- Prevent the "stepchild store" syndrome, where one store feels neglected.

X. THE FIFTH STAGE: OPEN FOR BUSINESS

So you have made it through all four stages of the expansion/relocation project and think, with good reason, that you have accomplished a minor miracle and it is time to celebrate. While that is undoubtedly true, the real work begins when you open the doors for business at your new store.

A. **Guidelines for 1st Year Operations**

1. The focus during your first year in your new store is on both the details and overview of building new systems. You will need to move quickly from putting out fires to building systems.
2. Training must be given high priority, or you will simply continue to put out fires.
3. Management must give strong support to the staff as they grapple with the challenges of retail chaos. Strong support includes setting clear goals, giving frequent feedback and responding promptly to employee suggestions and concerns.
4. While holding management accountable, the Board of Directors must provide strong support to management, especially when tough decisions must be made. Strong support includes providing continuity, setting clear goals and giving frequent feedback. While the Board provided strong leadership in the planning of the project, they need to fulfill their responsibility by seeing that the new store is successful. The most effective way to do that is by providing strong support to management and by building the board-management relationship. Typically, board turnover or a dysfunctional board only adds stress on the manager.
5. Adjusting current systems and developing new ones to monitor financial performance is especially important. A major project usually includes a new front-end system (cash registers and computer systems) and results in a much more complicated and extensive bookkeeping job. Financial statements that were produced in 2 weeks for the old store might take 3 or 4 weeks in the new store, and the first statements might take as much as 6 or 8 weeks because of the work overload. In addition, the information you now have to track has changed (interest and principle payments on loans, new departments with different margins, new vendors, expanded payroll, etc.)

   If you don't have timely and accurate financial statements, you will not be able to monitor cash flow, review performance and make decisions when they need to be made.
6. Managing gross margins is always a major challenge in a new store. Plan to conduct more frequent inventory counts (monthly instead of quarterly) until a stable margin appears in each department. This is especially important when adding new, and fresh/perishable departments.
7. Establishing and modeling good communication is a high priority. This includes systems of supervision (feedback and coaching with regular performance reviews), effective meetings, logbooks, mailboxes, bulletin boards, and an emphasis on direct communication skills, including good listening and respectful behavior

B. **Setting Priorities**

Setting priorities is an on-going priority! With two years of work to do in the next two days, what is most important for the short-term and for the long-term? As a guideline for managers of a new store, we suggest the following simplified priorities for store operation and for marketing:

1. **Sales**: Building sales to at least your projected sales level is your first priority. Customer service training for the staff and ongoing cheerleading on the part of management will help you to retain all those "curiosity seeking" new shoppers, and reassure old members that it's still their beloved co-op.

2. **Gross margin**: Once you have established the necessary sales level, your focus shifts to building the projected gross margin (while maintaining your sales level.)

3. **Labor**: Once you have established your projected gross margin level, your focus shifts to containing labor costs as a percentage of sales (while maintaining sales and gross margin.)

1. **Market from the inside**: That shiny new store may seem to lack a little personality. This is the perfect time to remind old shoppers and new ones, with signage throughout the store, that this is a co-op. On-going customer service training and support for staff is a critical piece of your internal marketing strategy.

2. **Market to the outside**: It can be a big mistake to begin external marketing (print and audio/video advertising) before you are sure the new cash registers and freezers won't crash on you. The last thing you want to do is to attract potential customers into the store just as you are experiencing a crisis. Plan on struggling with the crises for a while…then, when the dust has settled plan to draw in new folks. A good time for an official Grand Opening can be as long as two to three months after your "soft" opening.

"It's very hard on a good, experienced and competent staff to perform at the levels they expect from themselves in a new environment. Box knives disappear, new customers have questions you can't answer, routines are different and you always feel understaffed, even with too many people around. Staff burnout is a real factor."

—Manager of recently expanded co-op, with sales nearing $3.5 M

Note: These priorities are intended to offer overall guidelines and may not apply to every situation…but they will apply to most.

These last two priorities (market from the inside, then market to the outside) allow you to put the focus on building internal systems that will make a strong presentation and excellent service levels before you add the priority of attracting new customers (who might show up only to be disappointed.) Marketing from the inside puts the focus on satisfying your current customers first, and then "word of mouth" will be a positive, rather than negative advertising for you.

All of this activity consumes time and a great deal of money. Many co-op stores ruefully report that their budget for the first year operating losses was not sufficient to allow adequate time to build sales, build gross margin, and manage labor costs, without jeopardizing store presentation. (i.e. you don't want to have to cut back on inventory and labor to reduce costs three months after you have opened.)

C. **Have a Plan, Be Flexible & Responsive, Stay Calm**

At the center of the retail chaos, it is always important to have a plan to provide guidance and direction. The plan need not be perfect or overwhelming. Keep it simple! Find your center, and be ready for the unknown to come at you in all shapes and sizes.

- Your plan should allow a level of flexibility and responsiveness that promotes fluidity rather than rigidity. This takes practice.

- Develop the ability, the system, and the discipline to monitor your plan, assess the situation, and make revisions as necessary. When is it important to shift your course, as opposed to sticking to your original plan? Each situation and each day is different.
- Take care of yourself as an example to others in the organization.

Takoma Park Silver Spring Co-op

"Fact is, the reason so many co-ops having done a move/expansion are on the market for a GM is that the process is so intense that it really burns people out. Somewhere I've read that after a move/expansion a store has an employee turnover ratio of 1.5 in the first year after a move. It happened to us. We had a mass exodus of our management team within something like a six-month period, beginning 10 months after a VERY successful move/expansion. Often, the GM/Managers in question are not prepared for how different the new site will be in terms of volume of sales, staff training and retention, vendor relations and the thousand natural ills to which all community based projects are heir. Move/expansion often requires more support from the Board than business-as-usual, and once their hands are on in general, there's every likelihood that they'll get farther into operations issues than anyone could have foreseen. This is only one more thing for the GM in question, but it can often be the straw that breaks the camel's back. So how do you avoid burn-out?

1) Find someone to act as move co-coordinator (or whatever title you like). It can start as a p/t position and eventually work up to full time as the physical plant issues begin to require someone being in two places at once.

2) Make sure that your board is busy learning/implementing/monitoring Policy Governance so that they're not tempted to be too helpful when you're overwhelmed.

3) Don't add a POS system at the same time as you try to move! If you won't need the system 'til you're moved (because your volume doesn't justify it), get it in 6 months to one year ahead of the move anyway.

4) Don't try to do everything the committee way. Use professionals and not volunteers. You'll save time, stress, and ultimately money if you maximize the available move resources that are out there now. We didn't, and we're trying to figure out how to replace all the 'wrong' equipment and re-set the store to conform to site needs and industry recommendations. It would have been easier and cheaper to do it right the first time.

5) Get your primary supplier on board as early as possible to help you work out the logistics of your needs at the new site.

6) Adhere to all the recommended ratios for healthy co-op retail operations. Even with a move, those numbers are harder to change once they've soured than you might think.

7) Put raises in the budget for yourself and your other managers. If you're going to do all that extra work over all those extra hours, it'll be easier if you know that you're being compensated."

—Carrie Megginson
Takoma Park Silver Spring Co-op

D. **Building on Small Successes**

Once you have opened for business, don't expect that everything can be made perfect by tomorrow. It can easily take a year or more for the new store to feel like home and for all staff and for systems to function smoothly.

As you work with your staff, identify some small areas and tasks where the potential for success is good. For example, focus on one four-foot section in your grocery department and make it look great, create one attractive and effective sign, or plan and implement one stellar promotion for next month. Aim for small successes, and build on them. This reinforces confidence, morale, and teamwork.

E. **Minimizing Unpleasant Surprises**

So much of what happens in the struggle of the first year or two in a new store centers on dealing with the unexpected. This usually results in the "Fire Department" mentality — putting out fires —in other words, crisis management, with no time for building systems and making progress.

Each of our survey participants related unpleasant surprises, ranging from cash flow problems, to equipment breakdowns, high staff turnover, theft, staff conflict, problems with the deli, and the produce department. Many folks experienced more than one and some found themselves dealing with all of these and more!

Keep a chart of unexpected surprises for a one, two, or three month period. Also, keep a chart of the "energy drains" that you experience in a month. What is it telling you? Develop an approach that puts the emphasis on minimizing unpleasant surprises. Any progress will be noticeable and much appreciated.

F. **Building Your Management Team**

As your co-op grows, it becomes imperative that the management function broadens and deepens. No longer can this level of responsibility and work be concentrated in just one person, and as your project progresses you will need people in the store who are capable of performing parts of your job. An evolving general management structure should focus on the development of a talented and effective management team.

Building a strong management team takes time and often involves trial and error. In the press of daily responsibilities of running a cooperative grocery store, it is easy to put team development on the back burner. Ultimately, that only makes your overall job harder.

Even before work begins on your new project you should be developing a plan to build the team over a one or two year period. Use your internal assessment to help design the plan.

- Have a special focus for each quarter.
- Assess progress. Revise your plan as necessary.
- Your plan should contain goals and a timeline and criteria for monitoring them.
- Evaluate the team as a team, and each individual manager's problem solving abilities.
- Agree on operating rules for the team.
- Plan on doing fun things together outside of work.

Management teams function in a variety of ways, and meetings seem to be the glue that binds their work. Each team member must contribute to meetings of the whole team, meetings between portions of the team, meetings with the general manager, all the while attending to day to day operations on an ongoing basis. Develop a system/calendar of regular meetings that meets your needs and the needs of the team.

Dedicate a portion of meeting time to development issues and themes as opposed to daily and weekly business. Development issues/themes include training, planning, process, teamwork, and/or long-term vision. Now, more than ever before, is time to develop a management succession plan.

G. **Have Fun, Celebrate and Give Praise**

The challenge of an expansion/relocation project and operating a new store is immense and stressful. However, it is possible to introduce and sustain fun in the workplace. It should become a value of high priority.

You set high standards and you expect hard work from your staff. Allowing and encouraging a sense of fun can increase performance and help you hang onto individuals that you wish to retain. Develop a one-page plan that shows how you will introduce a heightened sense of fun and meaning into the daily workplace, without compromising professional performance and service. Include special activities, contests, celebrations and regular or unexpected weekly or monthly events.

The board of directors and the general manager do a lot to set the tone for a rewarding workplace that includes fun and meaningful work. Reinforce and give praise to those who do a great job and contribute to positive morale. **In a genuine manner, try to give at least five times more praise each day than you normally do**. Shoot for a 5 to 1 ratio of praise versus criticism. Do not get drawn in to negative energy cycles.

Developing camaraderie within the cooperative is a high priority as you open your new store. Order pizza for everyone who is working late. Plan a staff picnic. Buy a block of tickets for the ball game. Expansion projects and transitions to new stores can be so difficult and frustrating, that you will not last long unless you find a way to make it fun for yourself and for everyone else.

XI. ROLES & RESPONSIBILITIES IN EXPANSION AND RELOCATION PROJECTS

A. **Role of Board of Directors in an Expansion Project**

Although authority and overall responsibility lies with the board, a great deal of decision making is delegated to management, especially in an expansion project, for it is impossible for the board to be both board and manager.

Directors of a cooperative business have the same legal responsibilities as directors of any other corporation or business. Because of the unique nature of cooperative business, however, co-op board members must attend to some additional duties. Unlike investor-owned businesses that operate in order to make a profit, co-ops operate in order to meet the needs of their members first, and then, make a profit as well. Directors must ensure that the members are educated about cooperatives, and about their rights as members. The board has an official responsibility to communicate with members about the plans and vision of the board.

It is essential for successful functioning of your cooperative that you work as a team.

- Make a general decision to expand/relocate. (This is not the final decision point.) Develop initial commitment to the project and work to increase it as time goes by.
- Provide leadership for organizational alignment. Develop a shared vision and clearly articulate that vision to the membership and management.
- Develop an effective supportive and supervisory relationship with management, being clear on roles, responsibility, authority, and accountability.
- Establish guiding policy and parameters, and monitor effectively.
- Participate in planning by providing broad guidance and delegating to management and/or specially authorized committees. Review, analyze, and approve final plan.
- Communicate with and represent members in the project through newsletter, mailings, surveys, informational meetings, membership and member equity drives, member loan programs, and community relations/events.
- Uphold accountability through regular reporting and monitoring of plans including timeline, budget, design, and projections for new store. Insist upon receiving, and then review worst-case scenarios.
- Approve major contracts: leases, purchase agreements, financing agreements, contractor and architect agreements, and major decision points as listed in the development timeline. (Some contracts can be delegated to management, if clearly directed.)
- Honor and respect all requirements for confidentiality related to real estate issues, executive personnel issues, and competitive marketplace issues. (See Appendix E for sample Confidentiality Policies)
- Develop a strong governance system and a board with leadership and empowerment skills through recruitment and training. Make sure your budget includes funds for training and consultation for the board.
- Set the tone for commitment, focus, empowerment, good energy, leadership, and fun.

Role of Management in an Expansion Project (Broad Overview):

1. Manage the current store and build profitability

2. Plan for the new store.

3. Manage the actual project, including the development of a timeline, budget ("sources and uses") and financing plan.

B. **Role of Management**

Essential Tasks:

Managing the current store and building profitability will remain your major responsibility. However, it falls upon the manager to take a leadership role in planning for the new store. As your project moves through the various stages you will gradually shift the main portion of your time and energy from running the "old" store into managing the actual project, including the development of a timeline, budget ("Sources" and "Uses") and financing plan.

Project Management and Management Reporting:

Typically the Board will direct and empower management (i.e. the General Manager) to plan and implement the expansion project within certain limits/parameters and subject to key decision points that involve the Board. (See sample relocation policy.) You may wish to hire outside expertise and/or an assistant to help with the project management. This person would report directly to the General Manager, as opposed to reporting to the Board. It is, of course, a challenge to find the right person with the right set of skills that will be available at the time of your project and who will be affordable.

There are many ways that the Project Manager or Assistant Project Manager position can be structured. Some of these include: A contractual arrangement with a technical/ professional or an organization/process oriented individual, or even a full or part-time employee who has the skills necessary to manage all, or parts of the project.

Then you will have to determine the most effective way to organize and achieve the goals of the project within parameters and policy. This will involve building a strong team that includes people in and outside of the co-op. Internally, this is the board, staff, and members. Externally, it will include consultants, professional and technical resources, and community resources (banks, government, and property owners, etc.) The General Manager thus becomes the champion of the project, and will provide effective leadership while building enthusiasm for and further commitment to the project.

The Board must provide support and hold the General Manager accountable by requiring regular reporting. The primary tools mentioned in section V. provide a basis for regular management reporting to the Board.

The General Manager will begin to shift her or his time from "operations" into "project," initially to the point where 25% of time is devoted to the project and 75% to operations. As time goes on, the percentage of time devoted to the project will increase from 25% to 40% to 60% to 80%, and the time devoted to operations diminishes down to approximately 20%. This is a good test for the general manager and the organization as a whole. If the general manager lacks the capacity to make this shift, it is a very good indication that he or she lacks the capacity to manage a store a good deal larger than the current operation.

C. **Role of Staff**

Staff plays a very important and widely varying role in the planning and implementation of an expansion project. Initially, during the planning and feasibility stage, they will need to begin taking on additional responsibility for running the current store, as the General Manager shifts time into the project. As actual work begins on the new space you will be less visible, less available and certainly more distracted. Make sure that you communicate with your staff at all stages of the project. If they understand the growing importance of their jobs, and their responsibilities, they will be less likely to resent your absence and could become some of your strongest supporters.

Staff involvement is valuable in building the commitment level for the project goal. They need information at appropriate times and the opportunity to give feedback and advice during the planning and feasibility stages. Staff members will have valuable input into the design of the new store.

Staff will need to honor all confidentiality requirements related to the project including real estate, personnel, and competitive marketplace issues. In addition, they will need to take on additional responsibilities in preparing for and in operating the new store. There will likely be many opportunities for increased responsibilities and new positions and it is important that skills and systems throughout the organization be strengthened prior to opening in the expanded store.

Wedge Co-op[1]

When I was the project manager for the Wedge Co-op's expansion in the winter of 1996-97, I found that three basic things were essential to have good working relations with the people in the building trades. First was a good working relationship with the general contractor's "Supe" (site supervisor). After that was being able to understand the complexities of the blueprints and corresponding schedules, and making notes of any and all changes as they happened. The final important aspect of good relations with construction folks was providing clarity to them as to what our priorities were with the project timeline.

A good relationship with the Supe was the key to successful relationships with all the tradespeople who worked on our project. While I found the Supe to be very different from myself, I realized in short order that he and other tradespeople were united with the co-op in the common goal of getting the project done on time. Keeping this common goal in mind allowed me not to get bogged down by our differences.

When you develop a good relationship with the Supe, you will be able to deal better when the construction plans go wrong. Every project manager has at least one nightmarish experience to tell about his or her project. When something goes wrong with your plan, you've got to find a way to resolve the problem. While this might be your first project, they will have been through many others. Rely on them to help you when you're in the thick of it and have to make a quick decision that may alter the finished result of the project.

The biggest challenge I found when I started as the Expansion Project Manager was reading blueprints and their accompanying schedules. I had no prior experience working on a construction project. I recommend that you invest some time early in the project to learn how to read these if you are unfamiliar with them. Whether your store has been engineered or is to be "as built" your understanding of what is inside these schedules will help you to save money on your project.

One of the main causes of a project going over budget are the "adds," sometimes called "change orders," that occur on every project. I carried around a small notebook and every time something on the schedules was changed (either added or eliminated) I logged it down. By having a record of both the adds and deducts, I was often able to negotiate swaps with the Supe. I also made note of every time we made a compromise to original plan to accommodate the general contractor or one of the subs. As the project begins to wind down, often long after the additional work was done, the "adds" start to come in. Sometimes these are legitimate; often though they are the result of miscommunication between the front office and the front line. If you have good records you will be able to challenge and get costly "adds removed from the bill."

When you become familiar with reading the various scheduling devices that the general contractor uses, you may discover that their timeline may not be ideal from your perspective. It is important to be able to read their timeline and plot that into your own desired timeline. For example, if the floor covering of the sales floor is scheduled to happen at a time when you want to start setting up shelves, you will need to communicate that to the general contractor. If you're not clear with them about your needs, you could really set your project behind schedule.

—Sean Doyle

[1] Sean Doyle was Project Manager at the Wedge from November 1996 through the completion of their project in June, 1997.

Current staff will set the tone and provide leadership and training for the new staff that will be hired for the new store.

Your staff plays a key role in keeping members informed about, and building enthusiasm for, the new store. Staff has a critically important role in customer service and customer relations (including member relations) during and after the project. Excellent customer service can have a high impact on the transition period and the success of an expansion project.

D. **Role of Members**

An expansion project cannot be successful without the support of the members of the cooperative. Gaining that support is an important condition of an expansion project, yet members may not understand how important their roles are in an expansion project. Clear communication about their rights, the opportunity to give input, and their responsibilities should be part of the marketing campaign.

- A member survey is an excellent way to start involving your membership. You may want to ask questions about their vision for the expansion, about new products or departments and, of course other typical survey questions such as price image, customer service and specific demographic information.
- Focus groups can also be useful as a way to gather member and customer input.
- Remind members that they can express their support for their cooperative and its expansion plans by shopping regularly at the co-op, by paying in their member equity in full or at additional levels, and by making a loan to the co-op through the co-op's member loan program.
- Volunteer activity and donations can also be very helpful and supportive.
- Members have a responsibility to elect and empower a capable board of directors, to support and monitor the performance of the board, and to consider serving on the board or a committee of the board.
- Members also have a responsibility to promote their cooperative in the community and to recruit new members.
- Members should provide feedback to the board, management, and staff of the cooperative, including constructive and positive comments on the cooperative's performance and plans. Some co-ops have scheduled regular informational meetings for members throughout the planning and implementation of an expansion project.
- Help your members stay informed about their cooperative and help them to learn about cooperatives, cooperative principles, and successful examples or models of cooperation by posting information in the store, through newsletter articles and new member orientations.

Unless the by-laws require a member vote, we do not recommend a member vote to approve or authorize a general or specific expansion plan. The members have elected and empowered the board to make these difficult decisions. Certainly, the board will need to seek and gain member support for an expansion plan, and the best ways to do that are through a member survey and by raising significant member equity and member loans. A member vote often complicates real estate dealings and endangers the co-op's competitive position.

XII. WORKING EFFECTIVELY WITH CONSULTANTS

Consultants bring resources to your organization that can help you solve problems and provide guidance for decision-making. While the ultimate decisions about a course of action, or financial, legal and operational commitments always rest with the board and/or manager of the co-op, the right consultant at the right time can prove invaluable during an expansion project. The time and money you spend seeking professional and experienced assistance can help control the overall cost of your project. (See Appendix B for a list of consultant related services.)

Guidelines:

1. Be open to seeking the help and advice that you may need.
2. Seek assistance in clarifying what your needs might be now and in the future. If you are not clear about your needs, be clear that you are not clear about your needs.
3. If you are hiring a consultant, look at potential payback and gain from your investment. Focus on gaining that payback as you work with a consultant, whether the gain is short-term or long-term or a combination of the two.
4. The cheapest form of assistance may not be the most cost effective for you. Sometimes you can do it yourself, but oftentimes consultants will bring new perspectives and past experience and will relieve you from having to reinvent the wheel.
5. Ask for a quote for services that you are seeking. Find out if the quote includes all fees and expenses. Attempt to establish a "not to exceed" amount for a specific scope or duration of services.
6. **Include an allowance for professional services in your operating budget for the new store**, as well as in your project budget.
7. Some professional services or consulting services are technically oriented, while other services are more general, process- and big-picture oriented. You will likely need a combination of these two basic types of services.
8. Don't try to do it all yourself. Build your team. Build your support system, both within and outside of the organization.
9. Give regular feedback. Be direct, honest, and timely in your communications.
10. Technical professionals associated with your suppliers or vendors can provide some services. Other services will come from attorneys, architects, and engineers.

"We should have done more personnel planning and had a better development budget. We started this work ourselves, but finally hired some help. We brought a consultant on too late."

XIII. SUMMARY

A. Essential Ingredients of a Major Expansion/Relocation Project.
Communicate with stakeholders and ask for input throughout the project.

Sequence:	Characteristics:
Build equity through member shares and retained earnings. Develop **strategic direction and a real commitment** (and decision) to growth/expansion/relocation. **Create alignment** within the organization between members, board, management, and staff.	All projects have and need a **champion** to lead the project through the good and bad times. Who will champion your project? A **process** that results in effective planning and direction, widespread involvement, defined authority, excitement, energy, action, results, success, and fun. **Time** (Lots of it, more than you plan on.)
Assess your organization and begin, **strengthening and positioning** the co-op to seize opportunities **Nurture leadership and motivate management** of the current store operation, the project, and the future store operation. **Clarify roles** and responsibilities within the organization: membership, board, management, and staff. Conduct a customer/member **survey**. **Secure a market & site analysis** (segments, trends, demographics, competition, niche, sales forecast).	**A process** that cultivates and draws in a diversity of **stakeholders**. *Communicate with members…ask for their input throughout the project.* **Clearing Hurdles**: you will be tested each step along the way. You will have minor and major hurdles to clear. Sometimes you will trip and fall, but you will certainly learn a lot. *Communicate with lenders and vendors and other co-op managers…ask for their input.* Make a **distinction between operations** (store) **and project**, so that you continue your successful store operation while you are planning for your expansion project.
Empower leadership and management. **Expand your membership development**. **Define Project Management** using a "Sources and Uses" Development Budget and a "4-Stage Development **Timeline**". **Select your "Move Team,"** Steering Committee, or Development Team that provides support to the project and the project manager. Keep the core of your team small in number so it can work effectively and in a timely manner. Seek additional support from other co-ops who have completed successful projects. Identify and hire appropriate outside expertise/consultants. **Create the Business Plan** and **financial pro formas**.	**Persistence** and **Perspective** **Decision Points** **Risk assessment and acceptance** *Communicate industry information, local business conditions and financial strategies to your directors. Find out what they need to make a decision.* Make sure your **financing strategy** includes a variety of sources such as member equity, member loans, the co-op's cash reserve, landlord contributions, vendor credit, vendor loans, city and community support, and bank financing (local bank, NCDF, NCBDC)
Begin the layout and design process including floor plan, site plan, interior design, architectural drawings/specifications, leasehold improvements, equipment/fixtures, and inventory expansion plans. Seek **bids**, review and sign contracts, obtain plan approval/permits from your city. **Begin serious promotion**. Work on visibility of the co-op and build your image. Create excitement and anticipation. **Negotiations**. **Contingencies**, removal of contingencies. Complete the "deal."	**Instinct, Intuition & Shared Vision** *Communicate with staff. How will departments change? How will their jobs change? What do they dream of? Ask for their input. Seek professional design help. Communicate with members. Draw a picture that reflects their input. continue to ask for their support* **Creativity & innovation… Fun** **The ability to maintain a multiple focus**. **Pace & Push**: be aware of when you need to set the pace of your project. Sometimes you will need to pace it, and, other times, push it. *Communicate with members…ask for their input.* **Community Organizing. Fun**

B. **Potential Pitfalls, Stumbling Blocks, & Barriers**

Every expansion project contains challenges that can drain enthusiasm, money and time, and every one of your stakeholders is affected by the challenges. It may be helpful to view a list of some these stumbling blocks before you get in too deeply. Just knowing that these things could happen in your project can help you design the systems that deal with them, build in the time to address and correct them, and maybe even avoid many of them…as they say, “Forewarned is forearmed.”

1. Lack of commitment - initially and sustaining.
2. Unclear, insufficient, or forgotten mission/vision
3. Lack of appropriate member input, commitment, or investment.
4. Lack of leadership, and/or leadership is undervalued in the organization
5. Lack of empowerment within the organization
6. Inability to accurately assess strengths and weaknesses of the organization and address them or build on them
7. Underestimation of time, work, and resources required
8. Prematurely attaching an Expansion Project to a specific site, or waiting for a site to happen before beginning to plan
9. Not acknowledging the process, the feasibility assessment, and the series of decision points that lead to a final decision on an expansion project
10. Inability to acknowledge limitations and seek appropriate assistance
11. Lack of clarity, acceptance of roles, and accountability within the organization
12. Lack of a team or unified teamwork
13. Ineffective management and/or ineffective board of directors
14. Lack of a sufficient overrun allowance for the project and lack of adequate first year working capital to cover initial operating losses
15. Divisive struggles, infighting within the organization
16. Lack of alignment within the organization between board, management, and staff
17. Failure to monitor and update (adjust) the “sources and uses” budget during the project.
18. Failure of board to establish guiding policy and monitoring procedures, and to establish effective accountability.
19. The 3–5% factor. When your project is 95% complete and you are nearing your opening date, and you open the store with 3–5% unfinished loose ends, that final 5% can take as much work to complete as the first 95%. Beware!
20. There are plenty more!

APPENDIX A: LIST OF RESOURCES

There are many resources available to help you in planning and implementing an expansion/relocation for your cooperative. The following list is a small sampling of people and places to consider. Finally, cooperative managers and board members who have completed and survived successful expansion projects can provide practical advise and loads of moral support.

Organizations

Cooperative Development Services (CDS)

CDS provides business consulting, planning and educational services to build and strengthen cooperative businesses, communities, and other organizations, which operate in a cooperative manner.

Services offered include: Expansion Planning and Support, Strategic Planning, Feasibility studies, Market Analysis, Business Plans, Financial Packaging, Financial Projections and Budgeting, Project Management, Organizational Audits, Leadership Development and Training, Improved Business Performance, Systems Development, and Membership Development

131 West Wilson Street, Suite 400
Madison, WI 53703
Ph (608) 258-4396, fax (608) 258-4394
www.co-opdevelopmentservices.com

Cooperative Fund of New England

The Cooperative Fund of New England is a community development loan fund that is a bridge between socially responsible investors and cooperatives, community oriented non-profits, and worker-owned businesses in New England (and parts of New York).

P.O. Box 412, Hartford, CT 06141-0412
Ph (910) 395-6008 / (800) 818-7833
Fax 910.397.2857
rebcfne@wilmington.net
www.cooperativefund.org

Cooperative Grocers' Information Network (CGIN)

The Cooperative Grocers' Information Network (CGIN) is a collaborative initiative formed by U.S.retail food co-ops to help them share information and resources.CGIN strengthen retail food cooperatives by providing a vehicle that facilitates the sharing of resources amongst its members.

P.O Box 399, Arcata, California
Contact: Karen Zimbelman
Ph (707) 445-4849, fax (707) 445-1808
info@cgin.org
www.cgin.org

National Cooperative Bank (NCB)

National Cooperative Bank is dedicated to helping cooperative endeavors throughout the United States adapt, grow and compete in an ever-changing environment. Headquartered in Washington, D.C., NCB's primary lines of business include: commercial, real estate and small business lending; community development expertise; and, retail banking services. NCB has offices in Anchorage, Chicago, New York and Oakland as well as a federally chartered savings bank in Ohio

1401 Eye Street, NW, Suite 700
Washington, DC 20005
(800) 955-9622 / (202) 336-7700
Fax (202) 366-7800
www.ncb.com

National Cooperative Bank Development Corporation (NCBDC)

NCBDC's goal is to help give rise to a business climate favorable to the start-up, operation and expansion of cooperatively oriented enterprises delivering new solutions in these markets.

Through a combination of financial and development services, NCBDC acts as a catalyst to change the systems for delivering affordable housing and essential community services to the nation's low-income and underserved communities. The primary focus is on affordable housing, healthcare, education, affordable assisted living, and consumer goods and services, specifically worker ownership and small business development.

1401 Eye Street, NW, Suite 700
Washington, DC 20005
(800) 955-9622 / (202) 336-7680
Fax (202) 366-780
www.ncbdc.org

National Cooperative Business Association (NCBA)

The National Cooperative Business Association (NCBA) is a national cross-industry membership and trade association. NCBA's membership includes cooperative businesses in the fields of housing, health care, finance, insurance, child care, agricultural marketing and supply, rural utilities and consumer goods and services as well as associations of cooperatives. NCBA represents cooperatives before Congress and the federal agencies and promotes and supports cooperatives in the U.S. and overseas through training and technical assistance publications and programs.

1401 New York Ave, NW, Suite 1100
Washington, DC 20005-2160
(202) 638-6222
Contact: Leta Mach, Director of Communications; Paul Hazen, CEO
www.ncba.org

National Cooperative Grocers Association (NCGA)

The regional and national Co-op Grocer Associations that formed in the 1990s serve as an important source of support and information for cooperative expansion projects. They exemplify the cooperative principle of "cooperation amongst cooperatives. Natural food retail co-ops have shown a great willingness to share information, thus not requiring each co-op to re-invent each new program or system
www.nationalcoopgrocers.com

Northcountry Cooperative Development Fund (NCDF)

Northcountry Cooperative Development Fund is a cooperatively owned and operated financial intermediary which exists to act as a catalyst for the development and growth of cooperatives. Founded in 1978 by a handful of Twin Cities food co-ops, for the past two decades NCDF has been providing access to capital to a range of small consumer, worker, housing and agricultural producer cooperatives across eleven states of the Upper Midwest.

219 Main St. S.E., Suite 500
Minneapolis, MN 55414
Ph (612) 331-9103, fax (612) 331-9145
www.ncdf.org

Northcountry Cooperative Foundation (NCF)

NCF is a non-profit organization that was begun in 1999 by Northcountry Cooperative Development Fund in order to carry out educational and outreach activities. NCF provides training opportunities for retail and housing cooperatives in the upper Midwest through the Kris Olsen Traveling Cooperative Institute, and has published a series of "toolbox" manuals for retail cooperatives. Same address and telephone as NCDF.

219 Main St. S.E., Suite 500
Minneapolis, MN 55414
Ph (612) 331-9103, fax (612) 331-9145
www.ncdf.org

University of California— Davis Center for Cooperatives

Davis, CA 95616
Ph (530) 752-2408, fax (530) 752-5451
www.cooperatives.ucdavis.edu/index.html

University of Wisconsin— Madison Center for Cooperatives (UWCC)

230 Taylor Hall, 427 Lorch Street
Madison, WI 53706
Ph (608) 262-3981, fax (608) 262-3251
www.wisc.edu/uwcc

Natural Food Cooperative Warehouses

Blooming Prairie Natural Foods
510 Kasota Avenue SE
Minneapolis, MN 55414
(612) 378-9774

Blooming Prairie Warehouse
2340 Heinz Road
Iowa City, Iowa 52240
(319) 337-6448

Northeast Cooperatives
90 Technology Drive
Brattleboro, VT 05304-8188
(800) 334-9939 / (802) 257-5856

North Farm Cooperative
204 Regas Road
Madison, WI 53714
(800) 236-5880 / (608) 241-2667
Fax (608) 241-0688
nfcoop@northfarm.com

Ozark Cooperative Warehouse
1601 Pump Station RD
Fayetteville, AR 72701
(501) 521-4920

Tucson Cooperative Warehouse
350 S. Toole Avenue
Tucson, Arizona 85701
(520) 884-9951

Publications

Cooperative Grocer magazine (including back issues and "Challenges for Cooperative Board of Directors")

P.O. Box 597
Athens, OH 45701
(800) 878-7333 / (740) 592-1912
www.cooperativegrocer.com

Business Planning for Cooperatives

Available through Cooperative Development Services (CDS).

Equity Handbook

Available through Northeast Cooperatives Warehouse, NCDF and the *Cooperative Grocer* magazine.

Northcountry Cooperative Foundation (NCF) Toolbox Series:
- The Expansion Toolbox
- The Governance Toolbox
- Hiring A General Manager
- A Relationship Of Respect: Evaluating Your General Manager
- The Ownership Toolbox
- Toolbox for Financial Management for Directors and Managers of Natural Food Co-ops

Available through NCDF and the *Cooperative Grocer* magazine.

Expansion/Relocation Survey Participants

Belfast Food Co-op
67 Main St .
Belfast, ME 04915
(207) 338-2532

Boise Consumer Co-op
888 W. 4th St.
Boise, ID 83702
(208) 342-6652

Centre Inn Co-op
314 So. Main St.
Goshen, IN 46526
(219) 534-2355

Co-op Market
1300 El Paseo, Suite M
Las Cruces, NM 88001
(505) 523-0436

Co-opportunity Consumer Co-op
1525 Broadway
Santa Monica, CA 90404
(310) 451-8902

Lakewinds Natural Foods
17523 Minnetonka Bvld.
Minnetonka, MN 55345
(952) 473-7875

Linden Hills Co-op
2813 W. 43rd St.
Minneapolis, MN 55410
(612) 922-1159

Hunger Mt. Co-op
623 Stonecutters Way
Montpelier, VT 05602
(802) 223-6910

Natural Harvest Co-op
505 3rd St. No.
Virginia, MN 55792
(218) 741-4663

Peoples Food Co-op
216 N. 4th St.
Ann Arbor, MI 83702
(734)-769-0095

Puget Consumers Co-op
4201 Roosevelt Way NE
Seattle, WA 98105
(206) 547-1222

Wedge Co-op
2105 Lyndale Av So.
Minneapolis, MN 55405
(612) 874-7275

APPENDIX B: CONSULTANT SERVICES RELATED TO EXPANSION PLANNING & IMPLEMENTATION

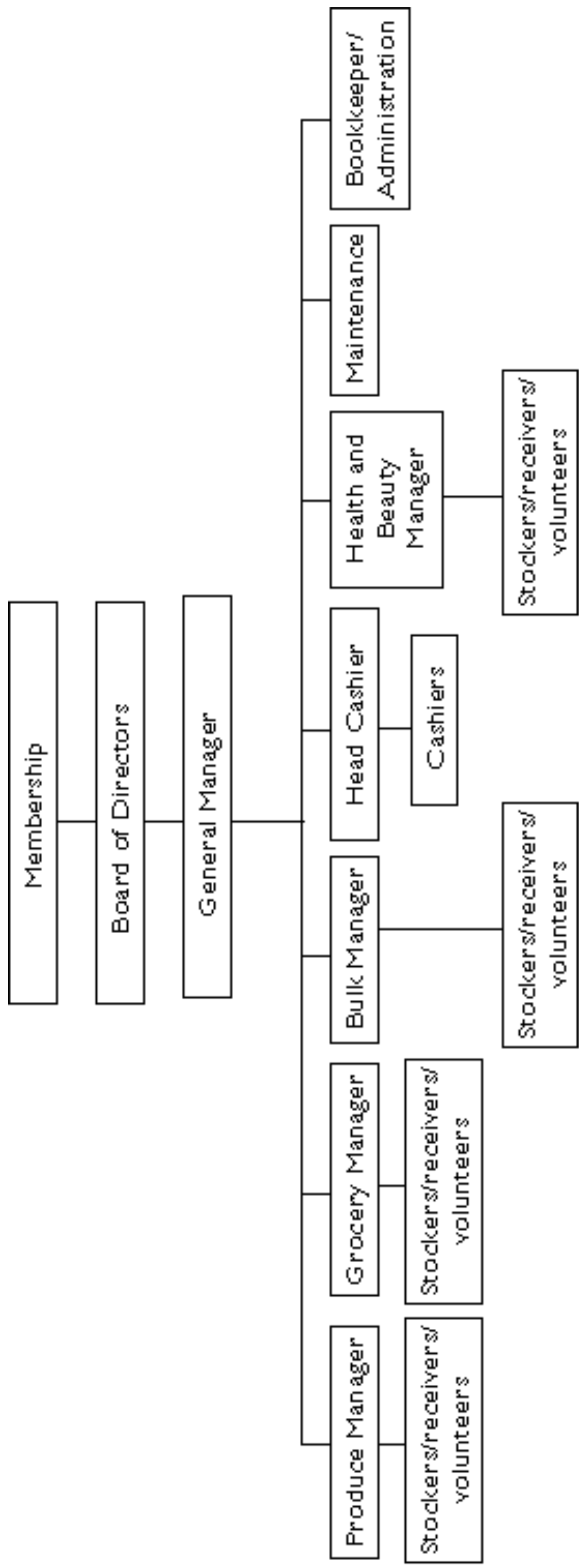
The following list of services is not comprehensive, but it should give you an idea of the scope of tasks, and of responsibilities that you must deal with in an expansion project. Your co-op may not need to get professional help with all of them, but it's a rare person or organization that can do it all. Consultants who understand cooperatives, the grocery business and expansion projects can help.

- Provide an overview to board and management of what is involved in the planning and implementation of expansion projects. A planning and/or training session can focus on timeline, "Sources and Uses", and roles and responsibilities. This can be done in evening sessions, full day, or a planning retreat.
- Offer critique/suggestions/feedback on initial drafts of timeline, "Sources and Uses" budget, concept (Business Plan), and relocation policy.
- Facilitate a strategic planning session, with the desired outcome of determining the co-op's strategic direction (3-5 years), promoting alignment and a shared vision within the organization, and getting everyone on the same page.
- Create a financial model based on a "Sources and Uses" project budget that shows income statement, cash flow, and balance sheet projections for 5 years. This model (or pro forma) can be later adapted and modified as new assumptions emerge, either by the consultant or by the co-op.
- Conduct a market/site analysis (location study) that projects sales for the preferred site/s, and provides a site evaluation, competitive analysis, trade area analysis, member/customer spotting, and a propensity-to-buy analysis. The analyst should be highly skilled and experienced in natural foods retailing.
- Conduct a market survey or assist the co-op with a market survey that gains information on the demographics of the co-op's customers, their assessment of the current store, and their desires for a new and larger store. Surveys can also include non-customers. Minimally, consultants can critique/suggest a draft of the survey instrument.
- Conduct an organizational audit/assessment that assesses the strengths and weaknesses of the current store operation and organization, suggests priority areas for strengthening, and recommends a plan for strengthening those areas. This can be a full-scale organizational audit or a miniature version.
- Conduct a Feasibility Study; provide an overall assessment of feasibility of the proposed project.
- Provide board training to strengthen the governance system, with a possible focus on policy governance.
- Assist the co-op with team building with a focus on management team development.
- Assist in the development of a Business Plan, minimally critique drafts of the plan.
- Assist with site search, provide real estate consultation, assist with lease negotiations, review and comment on drafts of lease agreements.
- Assist in the development of a staffing plan, including assistance with a staff survey, review of organizational chart, creation of job descriptions, review of compensation and benefits, and creation of appropriate training programs.
- Assist in the hiring/recruitment process of the general manager or other key manager positions.
- Assistance with store design, including layout, interior design, and site plan. Professional store designers and other managers should critique floor plans.
- Assist with pre-construction planning and equipment acquisition.
- Assist with an assessment of need for front end point of sale systems, computer systems, member database, security system and phone system.
- Assist in the expansion or start-up of perishable food departments, including food service/deli, bakery, meat and seafood.

- Assist with a promotions and merchandising plan, including opening orders, special terms with suppliers, and free fill planning.
- Assist with logo development and with public relations planning.
- Assist with the development of a customer service program and training.
- Assist with developing a financing strategy and pursuing financing from external sources.
- Assist with membership development/communication
- Assist with member capitalization including member loan drives and member equity drives.
- Provide ongoing consultation during the project that provides support to management and assists with timeline, financial, and planning issues.
- **Provide ongoing consultation in business development and organizational development during at least the first year of operations in the new store.**

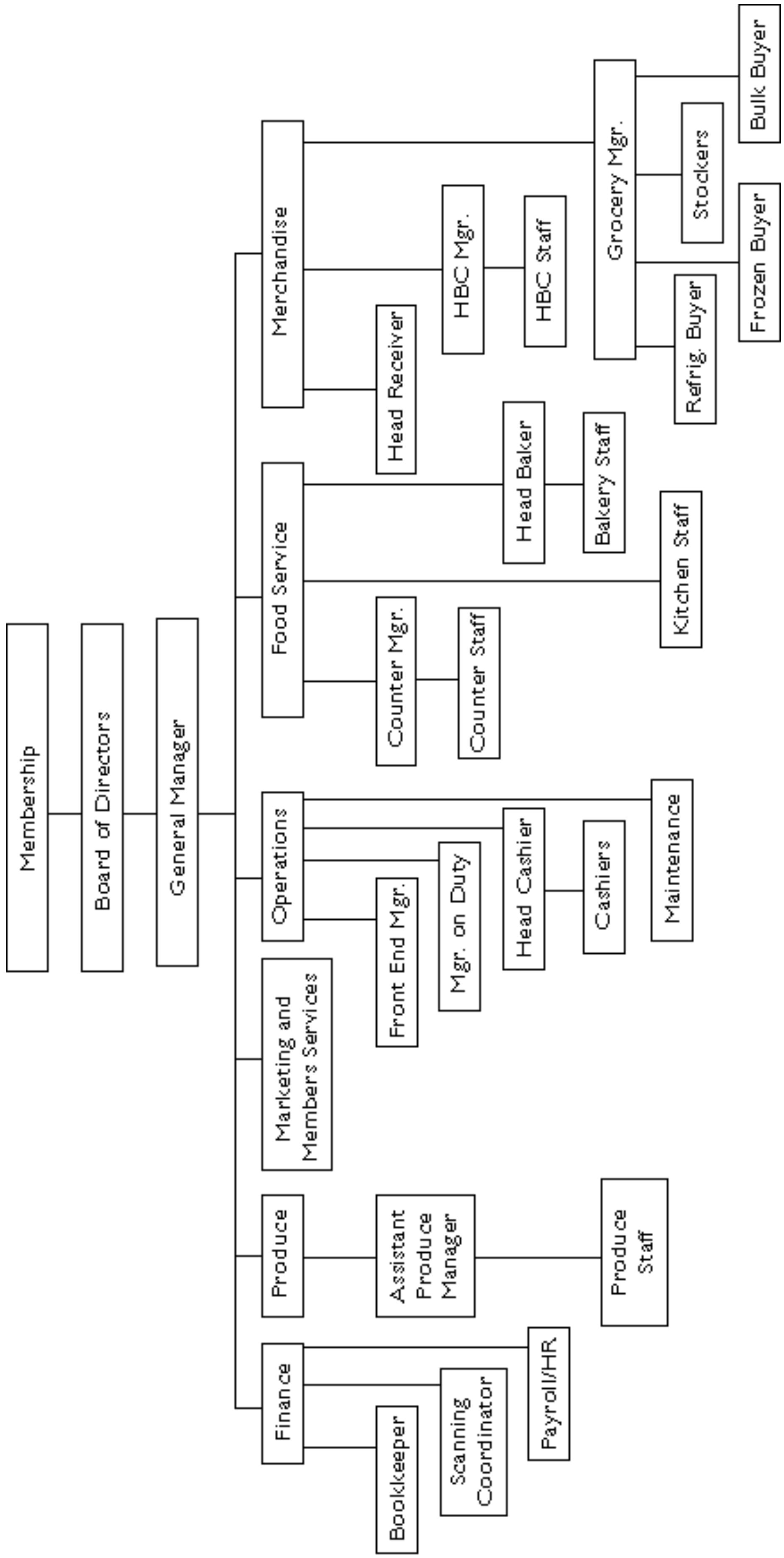
APPENDIX C: ORGANIZATIONAL CHART

Before Expansion
Store Sales of $2.5 Million Annually



This is a sample organizational chart. Every store will be different.

Post Expansion
Store Sales of $5 Million Annually



This is a sample organizational chart. Every store will be different.

APPENDIX D: BOARD CODE OF CONDUCT[1]

Board Code of Conduct: The board and its members shall act in compliance with all applicable laws and regulations, and shall act in an ethical and businesslike manner, when acting as board members, including appropriate use of authority, proper decorum, and adherence to the board's policies.

Accordingly,

1. Members must represent unconflicted loyalty to the interests of The Co-op's membership. This accountability requires disclosure of any conflicting loyalty such as that to advocacy or interest groups and membership on other boards or staff. A board member's responsibility to the organization as a whole outranks his or her personal interest as a consumer of the organization's services.
2. Members must avoid conflict of interest with respect to their fiduciary responsibility.
   a. No board member shall have any special privileges in his or her conduct of business with The Co-op.
   b. No board member shall participate in the discussion or vote on an issue in which he or she has a conflict of interest. He or she may upon request provide information.
   c. No board member may use his or her position to obtain employment for him or herself, family members, or close associates. If a board member seeks employment, he or she must first resign from the board; except that up to two staff members may be elected to and serve on the board, in accordance with the PCC Articles and Bylaws, if they have been serving as staff members prior to nomination for candidacy.
   d. Members shall disclose any conflict or potential conflict of interest as it arises, or at least annually.
3. Board members may not involve themselves with the day-to-day operations of the organization except as explicitly set forth in board Policies. No board member shall publicly state opinions in conflict with the Policies and decisions of the board as a whole.
4. Members will respect the confidentiality appropriate to issues of a sensitive nature.
5. Board members have the responsibility to participate effectively in board meetings. Specifically, each board member has the responsibility:
   a. To come to the board meeting prepared to participate responsibly.
   b. To express one's own opinions.
   c. To listen respectfully to the opinions of others; to honor divergent opinions.
   d. To accept group decisions as legitimate.
   e. To share responsibility for group behavior and productivity.
   f. Not to dominate board meeting time, nor expect the board to deal with topics that are not appropriate for the board.
   g. To support the board chair on board discipline and accountability.

[1] Provided by Puget Consumers Co-op.

APPENDIX E: CONFIDENTIALITY AGREEMENT[1]

Confidentiality Agreement Between
The Co-op and an Individual

____________________________________ Co-op and ____________________________________

____[Co-op], ____________________________

____ [address]

has agreed to share certain strategic or sensitive information at and in conjunction with the ____[name of committee or event] with ____ [name and identification of person], in order for ___________________________________ [that person] to _______________________________

[describe their role or function].

In order to assure full disclosure by The Co-op of all relevant information and to allow full and free discussion at ____ [the event or meeting(s)], ____ [that person] agrees that s/he shall maintain the confidentiality of all such information provided to him/her by [Co-op], use same solely for the above stated purpose and not for any other purpose, and safeguard the information and refrain from sharing same with any other person or entity without the advance written consent of ____ [Co-op].

[signed]

______________________________ ______________________________

[name of person] Date

[signed]

______________________________ ______________________________

CEO Date

____ Co-op

[1] Provided by Puget Consumers Co-op.

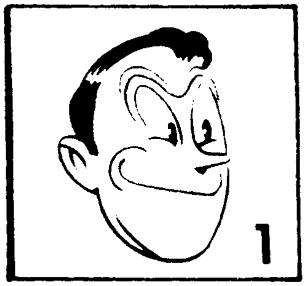
APPENDIX F: "SOURCES & USES" CASH FLOW[1]

	Previous Years	January	February	March	April	May	Total to Date	Original Budget	Remaining Budget
SOURCES									
Sale of current Site	0						0	0	
Cash Reserve, current	180,000						180,000	180,000	0
Cash from Operations, next 18 mo.	36,000	4,000	4,000	4,000	4,000	4,000	56,000	72,000	16,000
Donations & Sale of Equipment	0						0	10,000	10,000
New Member Equity	0						0	70,000	70,000
Member Loans	0			70,000	70,000	40,000	180,000	180,000	0
Owners Contribution	216,000	4,000	4,000	74,000	74,000	44,000	416,000	512,000	96,000
Vendor Credit	0						0	131,000	131,000
Free Fill	0						0	44,000	44,000
Vendor Loans	0						0	50,000	50,000
Landlord Contribution	0						0	120,000	120,000
Equipment Leasing	0						0	0	0
City/ Community	0						0	80,000	80,000
External, subordinated	0	0	0	0	0	0	0	425,000	425,000
Revolving Loan Fund (NCDF)	0						0	100,000	100,000
NCBDC and/or Local Bank	0						0	666,000	666,000
1st Position Debt	0	0	0	0	0	0	0	766,000	766,000
Total Sources	216,000	4,000	4,000	74,000	74,000	44,000	416,000	1,703,000	1,287,000
USES									
Acquisition—Land	0						0	0	0
Construction/Site Development	0						0	0	0
Leasehold Improvements	0						0	480,000	480,000
Equipment	0						0	540,000	540,000
Additional Inventory	0						0	175,000	175,000
Fees, Project Management	92,500	5,000	2,888	12,420	12,000	9,692	134,500	165,000	30,500
• consultants									
• architects, engineering, design									
• legal									
• financing									
• environmental									
• misc.									
Interest, during project	0						0	18,000	18,000
Business Disruptions	0						0	15,000	15,000
Start-up Promotion	0						0	20,000	20,000
Start-up Staffing	0						0	20,000	20,000
Holding Costs (site related,before open)	0				10,000		10,000	25,000	15,000
Working Capital 1st Year	0						0	90,000	90,000
Subtotal Uses	92,500	5,000	2,888	12,420	22,000	9,692	144,500	1,548,000	1,403,500
Overrun Allocation (10%)	0	0	0	0	0	0	0	155,000	155,000
Total Uses	92,500	5,000	2,888	12,420	22,000	9,692	144,500	1,703,000	1,558,500
Cash flow for the period	123,500	(1,000)	1,112	61,580	52,000	34,308	148,000		
Beginning cash flow	123,500	123,500	122,500	123,612	185,192	237,192	123,500		
Ending cash flow		122,500	123,612	185,192	237,192	271,500	271,500		

1 Template provided by Cooperative Development Services, Madison, Wisconsin.

	June	July	August	Sept.	Opening October	Nov.	December	Total Project	Original Budget	Variance
SOURCES										
Sale of current Site								0	0	
Cash Reserve, current								180,000	180,000	0
Cash from Operations	4,000	4,000	4,000	4,000				72,000	72,000	0
Donations & Sale of Equipment						10,000		10,000	10,000	0
New Member Equity		17,500	17,500		17,500	10,000	7,500	70,000	70,000	0
Member Loans								180,000	180,000	0
Owners Contribution	4,000	21,500	21,500	4,000	17,500	20,000	7,500	512,000	512,000	0
Vendor Credit					131,000			131,000	131,000	0
Free Fill					44,000			44,000	44,000	0
Vendor Loans				50,000				50,000	50,000	0
Landlord Contribution					120,000			120,000	120,000	0
Equipment Leasing								0	0	0
City/ Community				50,000	30,000			80,000	80,000	0
External, subordinated	0	0	0	100,000	325,000	0	0	425,000	425,000	0
Revolving Loan Fund (NCDF)				50,000	50,000			100,000	100,000	0
NCBDC and/or Local Bank			300,000	66,000	300,000			666,000	666,000	0
1st Position Debt	0	0	300,000	116,000	350,000	0	0	766,000	766,000	0
Total Sources	4,000	21,500	321,500	220,000	692,500	20,000	7,500	1,703,000	1,703,000	0
USES										
Acquisition—Land								0	0	0
Construction/Site Development								0	0	0
Leasehold Improvements	57,600	57,600	115,200	115,200	174,400			520,000	480,000	(40,000)
Equipment		40,000	200,000	140,000	100,000	20,000		500,000	540,000	40,000
Additional Inventory					175,000			175,000	175,000	0
Fees, Project Management	7,000	6,500	5,000	2,500	7,500	1,000	1,000	165,000	165,000	0
• consultants									0	
• architects, engineering, design									0	
• legal									0	
• financing									0	
• environmental									0	
• misc.									0	
Interest, during project	4,125	4,125	4,125	4,125	1,500			18,000	18,000	0
Business Disruptions				15,000				15,000	15,000	0
Start-up Promotion			10,000	10,000				20,000	20,000	0
Start-up Staffing		5,000	5,000	10,000				20,000	20,000	0
Holding Costs	3,750	3,750	3,750	3,750				25,000	25,000	0
Working Capital 1st Year					30,000	30,000	30,000	90,000	90,000	0
Subtotal Uses	72,475	116,975	343,075	300,575	488,400	51,000	31,000	1,548,000	1,548,000	0
Overrun Allocation (10%)	0	0	0	0	155,000	0	0	155,000	155,000	0
Total Uses	72,475	116,975	343,075	300,575	643,400	51,000	31,000	1,703,000	1,703,000	0
Cash flow for the period	(68,475)	(95,475)	(21,575)							
Beginning cash flow	271,500	203,025	107,550	85,975	5,400	54,500	23,500	0		
Ending cash flow	203,025	107,550	85,975	5,400	54,500	23,500	0	0		

6 PHASES OF A PROJECT



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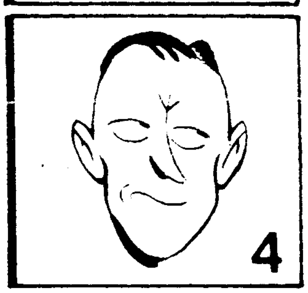
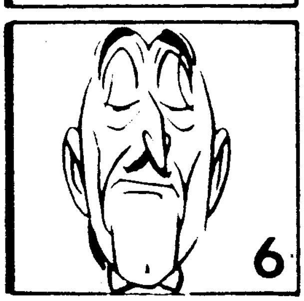


SEARCH FOR THE GUILTY

PUNISHMENT OF THE INNOCENT



PRAISE & HONORS FOR THE NONPARTICIPANTS