

BAILIWICK NEWS

Reporting and critical analysis of State College public affairs

September 2, 2016

Governing Board of Friends & Farmers Co-op Facing Key Decisions at October Annual Meeting.

By Katherine Watt

DISCLOSURES

I served as Friends & Farmers Board Treasurer from Nov. 2013 to Oct. 2014, and as online market manager from July 2014 to Jan. 2015. I'm a member-owner, and an online market volunteer. By email Aug. 9, I asked for board minutes from January 2015 to the present, to review the record of business decisions made during that time, and for financial records for the same period; under co-op bylaws, this information is available to members upon request. Response to date: a Profit & Loss Comparison and Balance Sheet Comparison, both received by email Aug. 25.

REPORT

At the Aug. 3 co-op board meeting, vice-president Grace Emmerling announced she was starting to work on a strategic plan for the co-op, as part of her final project for an academic program in food hub management. Emmerling said she hopes to have the plan completed by the 2016 annual meeting, which is scheduled for Oct. 14, according to board member Chris Rand.

With the exception of a draft executive summary document prepared by then-President Sarah Potter and then-board member Christine Least in May 2014, and a 2016 budget prepared by Rand in early 2016, the co-op board has not internally drafted, or shared with members, any business planning documents specific to State College area conditions, including population demographics and inflated commercial rents.

Friends & Farmers Co-op History

Friends & Farmers Co-op is a community nonprofit corporation. It began as an idea discussed at a Spring Creek Homesteading Fund community potluck in Nov. 2011. In early 2012, a steering committee formed, to work on bylaws and researching co-op development.

One basic premise of co-ops is that they enable members to share the entrepreneurial risk of startup business failure among a group of people. In this case, each household's risk is losing \$300 in startup capital (equity investment), rather than one or two families' risk of losing hundreds of thousands of dollars.

During Winter 2012-2013, the steering committee began working with the Penn State Rural Development

Law Clinic, led by Ross Pifer, to incorporate. The co-op incorporated in March 2013, and the interim board of directors then worked with the law clinic to draft and adopt a membership agreement.

In late 2013 or early 2014, the interim board informally endorsed a general timeline for business development, which is available to view at the co-op website.

The timeline was adapted from models advocated by national cooperative development consulting firms for establishing 4,000-square-foot, fully staffed, full-time, fully stocked grocery stores. It includes benchmarks aligned with business start-up activities: at 600 member-owner households, the board can explore site options and draft a business plan. At 800, the board can sign a lease, hire a general manager, and begin soliciting member loans. At 1,000 members, the co-op can finalize construction contracts and apply for bank loans. At 1,200 members, the co-op can complete construction, hire and train staff, order and stock inventory, and open the store.

In line with this model, a Nov. 2013 Keystone Development Corporation study estimated that the co-op would need 1,300 member-owner households by opening day. (In August 2014, a study by the Minnesota-based Cooperative Development Services firm estimated the co-op needed \$1.4 to \$2.5 million in start-up capital – including \$300,000 to \$400,000 in member equity investments and at least \$1.1 million in bank and member loans. One CDS analysis projected a need for 1,700 member-owner households by opening day, and that the co-op still wouldn't break even until eight years after opening, at the earliest, due in part to loan repayments.)

By roughly Feb. 2014, this "Trader Joe's-but-local" model was firmly entrenched in board culture, although it had not been discussed or voted on, and even though national consultants also cautioned that the models were primarily based on sourcing products through national food suppliers, not from local farmers and food processors, which is a crucial piece of the Friends & Farmers mission.

As the board prepared to launch the membership campaign in March 2014, I suggested an alternative business model: starting at roughly 10% of the scale of the ultimate goal for the store, with limited retail space, hours and inventory, to develop vendor and customer networks and learn how to open and run a local food business on a small, lower-risk scale first, rather than try to jump directly to a full-size grocery store. At that time, the rest of the board expressed little interest in the small-start approach, preferring to give the State College community an opportunity to support rapid membership growth.

The membership campaign launched in March 2014, to strong initial response; by the end of May 2014, 234

founding member-owner households had committed to the \$300 lifetime membership equity contribution. However, the growth rate quickly leveled off. As of late May 2016, the co-op had about 445 member-owner households – an average growth rate of just under nine households per month over two years.

In May 2014, Sarah Potter and Christine Least worked with the Penn State Small Business Development Center to create a short overview of the cooperative business model, a draft “executive summary.” Potter corresponded the following month with SBDC business analyst Michael Ryan, who wrote: “as they stand now in the feasibility study document, they aren’t even close to bankable...[banks and lenders]...want to see a ton of equity going in...positive cash flow within twelve months...strong three year projections, and they want a ton of good, tangible collateral for a project.”

That same month (June 2014), I met with Michael Scott at SPE Federal Credit Union to discuss the executive summary and prospects for borrowing substantial funds. Scott said that the co-op would be a “high-risk” loan for a bank, as a small start-up with no personal guarantors and minimal collateral. He said banks would be unlikely to lend large amounts directly, but mentioned federal government programs that might act as loan guarantors.

During spring and summer 2014, I also worked on a committee with fellow board member Jim Eisenstein and others, gathering information to inform board debate on the risks and benefits of opening an online market as a “clicks-to-bricks” bridge approach. The board ultimately voted to invest in starting the online market, which launched in November 2014, operating from Church of the Good Shepherd in Grays Woods.

At the first annual meeting in October 2014, the general membership elected the first official board.

Friends & Farmers Online Market

In January 2015, the board hired the first paid online market manager: Melanie Rosenberger.

In the last 18 months, Rosenberger, without a business plan from the board, but with support from assistant online market manager Jessie Pierce, volunteer bookkeeper Maria Meyer, and a small but strong group of order-packing volunteers, has coordinated inventory, accounting and banking; recruited, trained and supervised dozens of local vendors and volunteers; and maintained the Local Food Marketplace online ordering system. She’s overseen the addition of home delivery service, and moved Tuesday operations from Good Shepherd to the Meetinghouse on Atherton and a second customer pick-up hub at the State College Friends School.

The online market has also received and begun implementing a \$92,000 USDA Local Food Promotion Program grant (applied for by Eisenstein), including wholesales to restaurants and other institutional buyers.

Under Rosenberger’s leadership, the online market sold \$97,706 of local food during 2015, its first full year of operation, and was on track to sell roughly \$167,000 of local food by the end of 2016, according to an August 2016

financial report prepared by Rosenberger and Jennifer Landry (USDA grant administrator). Monthly sales have consistently been about 50% higher in 2016, than 2015.

In the process, Rosenberger and her team have learned that, with current space, volunteer base, vendor product availability, refrigeration, transportation and staff time, the online market can handle about 80 retail orders and a handful of wholesale orders per week.

CRITICAL ANALYSIS

At roughly 10 new member households per month – the co-op’s demonstrated growth rate – the co-op could seek bank loans and finalize construction contracts on the “Trader Joe’s-but-local” vision in March 2021, and open at the earliest (with 1,200 member households) around Nov. 2022.

However, if the board develops a solid business plan based on the online market’s financial track record, the co-op is in excellent position to invest in growing operations now, by supporting increased vendor production capacity, and adding refrigerated storage capacity, non-perishable staple products such as grains, a second weekly ordering cycle, and eventually, a small store open for ten to 20 hours per week.

At the October 14, 2016 Annual Meeting, the Friends & Farmers Co-op board should present the business case, with data-supported financial and membership growth projections, for three different options for moving forward, to the full membership for a vote on whether the board should:

1. Pursue a 4,000-square-foot, full-time, full inventory “Trader Joe’s-but-local” grocery store;
2. Pursue a 500-square-foot, part-time, limited inventory store through equity investment in online market growth; or
3. Close the online market, dissolve the cooperative, and return remaining member equity to members.

Once the members have voted to select one of those three alternatives, the incoming board will have a clear mandate to pursue a member-supported business development path.

UPCOMING COVERAGE

September 9 – Update on Nittany Valley Water Coalition lawsuit against Ferguson Township and Toll Brothers to protect State College Borough Water Authority Harter-Thomas wells, and how a July 18 court ruling catalyzed a regional planning discussion centered on the proposed Whitehall Road Regional Sports Complex.

Bailiwick News is an independent newspaper published Fridays in State College, Pennsylvania.

COPYRIGHT 2016
KW INVESTIGATIONS LLC
156 W. Hamilton Ave.
State College PA 16801
(814) 237-0996