

The Farmer's Cooperative Yardstick: Cooperative Food Buying Organizations

College of Agriculture Extension Publication No. AEC-61
July 1987

By:

Lionel Williamson and Forest Stegelin

University of Kentucky
Department of Agricultural Economics
400 Charles E. Barnhart Bldg.
Lexington, KY 40546-0276

Phone: 859-257-5762

Fax: 859-323-1913

<http://www.uky.edu/Ag/AgEcon/>

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A food buying club is one way people can buy food as a group and save money. You need to consider a number of questions about food buying clubs before you decide to organize one. Sometimes these food buying clubs incorporate, which legally allows them to call themselves a cooperative.

Food cooperatives also represent a structure through which members may pool food purchases and realize lower food prices with volume purchases. Both food buying clubs and food co-ops offer advantages to their members. The first section of this fact sheet discusses Food Buying Clubs, while Section 2 deals with Food Co-ops.

Section One: Food Buying Club Decisions

What is the most important goal for a food buying club?

If most of the group's members don't agree on a common goal, seeds of discontent are sown from the start. Possible goals might include:

- i. to save money;
- ii. to get better quality, fresher food;
- iii. to socialize with group members;
- iv. to buy health/organic/ethnic foods not readily available elsewhere;
- v. to support personal/religious beliefs (such as vegetarianism);
- vi. to support political views;
- vii. to learn more about the food marketing system.

Organizers should specify or list other goals for a food buying club.

Can enough people be drawn together to buy in volume? Can these people work together as a group?

To get the most saving on food costs, the club must buy in large volumes (measured in either dollar purchases, number of items or weight). Total cash savings from buying food cooperatively can be 15 to 25%, depending upon the kinds of food purchased and the operating expenses. Keeping operating costs down means using all or nearly all volunteer help, trying to find a rent-free place to operate, recycling grocery bags or boxes, etc.

Most likely, at least 5 families or households will be needed to sufficiently organize a food buying club, although probably not more than 20 families or households will be necessary. The people in the club should:

- live reasonably close together;
- like working and socializing with each other;
- be willing to make joint plans and decisions on food buying, including abiding by the majority decisions and accepting others' tastes and preferences;
- be willing to do their fair share of the club's work;
- be willing to abide by the club's rules;
- be willing and able to pay membership fees; and
- be able to pay promptly and in advance for food and a share of the club's expenses.

***Is there a source of lower priced food nearby?
Have you compared that source's current prices
with retail store prices?***

Some sources of food might be wholesale food dealers, restaurant or institutional food suppliers, food packers or processors, local farmers, or other food buying organizations. Wholesale dealers are the source usually used by food buying clubs. but wholesale food dealers are normally strictly cash-and-carry and sell only in case lots.

When comparing wholesale and retail prices, retail markups are usually larger on the more perishable foods (fruits and vegetables, dairy products, eggs, meat, bakery items). Potential savings also vary depending upon which store prices are checked for comparison--nationally advertised brands, store brands, generics, or advertised specials. **A word of caution:** *items having the largest markups are generally more difficult to handle and their perishability requires refrigeration, or the losses and reduced quality will quickly eliminate potential savings.*

Some points to check about food sources include:

- Is a wholesale market or dealer nearby?
- Is a dealer(s) willing to sell to the buying group?
- Is the dealer reliable?
- Are the dealer's quality standards satisfactory?
- What is the minimum size order?
- How do these prices compare with other sellers?
- Does the dealer offer credit?
- How and when are orders to be placed?
- Does the dealer deliver or what arrangements must be made for pick-up?

***Is a rent-free, centrally-located distribution point,
such as a member's garage or basement, or a
room in a church or community center available
where the food can be brought or delivered and
broken down into individual orders for pick-up?***

The location selected must have suitable work-space for weighing produce, cutting

cheese, and bagging food. It also needs refrigeration for perishables. Besides the expense associated with renting a facility (if a rent-free one is not available), expenses to be defrayed by the members could include utilities, equipment rental, licenses, taxes and transportation-items which are not directly tied to the price of purchased foodstuff item.

***Does the club have, or can it get, the necessary
equipment to operate the distribution facility
(scales, calculator, bags and boxes, accounting
ledgers, hand lift truck)?***

Can members provide transportation to haul food?

***Has the club checked with local agencies about
requirements for business licenses, zoning,
collecting sales tax, sanitation, weights and
measures, insurance, health permits, and
rights-of-way?***

Compliance with many of these legal concerns and restrictions vary in different counties and urban areas. Confer with County Planning and Zoning Committees, local Police Departments, the Division of Licensing and Regulation, the Occupational Licenses Department, the Department of Human Resources (Food Branch), the Department of Revenue in the Commerce Cabinet, the Kentucky Department of Agriculture, the local utilities companies, and the Cooperative Extension Service on procedures and needs applicable to the particular situation. In some urban areas, a food handlers' permit may be all that is required for the club.

If the club has members who want to use food stamps, the club will also need to check with the nearest office of the Food and Nutrition Service, USDA, to apply for food stamp authorization.

***What should members be charged for club
membership?***

Food buying clubs often charge \$10 to \$20 per family or household as a membership or starting up fee. This money helps to pay for the

costs of organizing and starting the club (licenses, fees, preparing forms, transportation, telephone service, deposits on utilities or equipment, establishing an emergency fund, etc.). Some clubs also charge annual dues to help maintain some working capital for the club's operations. This money might be used to buy extra food where an extra special bargain appears, or to buy and stock larger amounts of nonperishable items (such as toilet paper, paper towels or Kleenex) to get a larger saving per unit, or for emergency expenses.

Have you explored member charges to cover the club's operating costs (duplicating price lists and other necessary forms, telephone bills, spoilage, breakage, transportation, supplies, and maintaining an emergency fund)?

Many food buying clubs add 5 to 10% to their food cost bill to cover their operating costs.

Have policies been considered for:

- ***frequency of orders--weekly, bi-weekly, monthly;***
- ***extra food when members order less than a case lot;***
- ***shortages when members order a little more than a case lot;***
- ***members who don't show up when they are scheduled to work;***
- ***money problems and who will handle the money; and***
- ***substitutions when the item ordered wasn't available?***

Some clubs handle excess food from orders by having a bargain table. They put the extra food on a table when members come to pick up their orders so that those who can use the extra have a chance to buy it.

Have you considered how to organize the club, how to divide up the work fairly, and how to train new members?

Many food buying clubs organize their members into four or more committees to manage their operations, such as ordering, packaging, finance, and membership and education. The ordering committee oversees

such jobs as making up order forms, collecting and adding up orders, buying food and seeing that it is delivered to the distribution center. The packaging committee divides up the food and bags individual orders, collects the money (if necessary), and cleans up the center afterwards. The finance committee keeps records of the club's finances and determines the markup* for operating costs, as well as collecting the money in some clubs. The membership and education committee is responsible for training new members (as the membership may change very rapidly), setting up the club meetings, and keeping members informed about the club's activities.

In addition to committees, buying clubs often have a manager or coordinator to oversee the club's operations and keep things running smoothly.

Members of food buying clubs should expect to volunteer at least 5 hours per month, depending upon how often the club buys food, the volume handled, number of members, etc. Work should be scheduled so that people who work during the day can also help and so that family members can work together.

How can members keep feeling good about the group?

Some possible aids to communication and goodwill are having regular, open business meetings, handling problems and complaints, informing members (newsletter or bulletin board) about the club news and business, and socializing.

Will the club be incorporated as a cooperative?

Although a group may start as a food buying club, members may eventually want to incorporate as a cooperative when the group becomes larger and the club's operations become more complex. The matters of incorporation and related organizational and managerial issues are discussed in Section 2.

Section Two: How to Form A Food Co-op

Cooperatives are business organizations voluntarily owned and controlled by member-patrons and operated for them or by them on a non-profit or cost basis. This definition fits both agricultural and consumer cooperatives. A food co-op might be viewed as a non-profit organization consisting of a group of people (neighbors, friends, or members of another group) who get together to provide themselves with food and related items that they all need and use.

A food co-op may offer several positive advantages to members:

- It could save member-patrons money by buying in bulk (large volume) directly from the supplier and passing savings on to members;
- It could reduce the cost of shipping, storing, packaging, selling, overhead, and the cost of borrowed capital, because members provide the capital and perform many of the marketing functions themselves;
- It could improve competition in the delivery of services offered;
- It could provide goods not currently provided; and
- It could provide members with some degree of market power in purchasing.

Types of Food Co-ops

Food cooperatives differ in the number of members involved and the level of services available. As memberships increase so does the complexity of the organizational structure and the number of functions performed. Major types of food co-ops are:

Food Buying Clubs: Usually composed of 10 to 15 families who purchase foodstuffs cooperatively from farmers, wholesalers or other sources.

Consumer Stores: A combination of several buying clubs. The stores may be very small and carry just a few items or they may have supermarket type operations, depending upon members needs.

Co-op Grocery Depots: Selling at wholesale cost and only to its members. Members pay a small service charge each week, no matter how much they buy. Requires 500 to 1,500 families and from \$50,000 to \$75,000 in capital, depending on whether buildings are rented or owned.

Grocery Wholesalers: Quasi-cooperatives whose members include small grocery stores, independent retailers and co-op groups.

Major Functions

- **Find Food Sources:** Determine what wholesale suppliers can provide what food items and for what price.
- **Take orders:** Finding what each patron--family needs, and pooling orders to meet minimum order requirements.
- **Handle Money:** Collecting money and keeping records of each patron's purchases.
- **Get The Food:** Buying and bringing foods to a central place for distribution.
- **Distribute Food:** Making sure what is ordered gets to the right purchaser.
- **Coordinate the Work:** Seeing the jobs get done. Jobs may be done by individuals or by work teams.

Features of Food Co-op

Food co-ops have many features similar to food buying clubs. For example, each performs similar functions and each has the overall objective of saving members money through volume food purchases or of providing members with food items not currently available through existing outlets. In food buying clubs usually 10 to 20 families are necessary. Food co-ops usually consist of several food buying clubs although many food co-ops operate successfully with 15 to 20 families. Other distinguishing features of food co-ops are:

- They may be small (10-20 families) or consist of supermarket type operations.
- Large food co-ops could need from \$150,000 to \$250,000 in capital and from 2,000 to 3,000 family members to operate successfully.
- Co-ops may conduct business with both members and non-members. Patronage refunds are paid whenever possible.

- Co-ops get equity capital from members when they purchase shares of stock in the co-op. The co-op may also require that members pay a weekly service charge to cover operating costs.
- Food co-ops usually incorporate under appropriate state statutes to limit member--patrons' liability.
- Many food co-ops operate strictly on a merchandise cost plus service-cost per family basis. Savings are passed on to members as lower food prices.
- Depending on size, food co-ops require members to work 3 to 4 hours per month. Usually this requirement includes shifting from one task to another, so members can learn all tasks required by the co-op.
- Food co-ops are usually formally organized with articles of incorporation, bylaws and operating procedures well defined.

Organizing the Food Co-op

Procedures for organizing a food cooperative are quite similar to those recommended for organizing any co-op (see Cooperative Extension publication, AEC-43). Therefore, only a brief step by step procedure is provided here:

Step 1. Have a meeting of families who have expressed an interest in organizing a food co-op. Questions that should be addressed at this meeting include:

- What is a food co-op and why do we want to organize one?
- What kind of food are we most likely to want to buy in bulk? How does our food preference affect the potential volume purchased?
- How does our food preference influence facility, equipment and personnel needs? How will such cost affect the cost of food purchased through the cooperative?

Step 2. Hold a second meeting if enough interest exists.

- Invite anyone interested to come and learn what your initial group has found out.
- Sign up interested members. Obtain

names, addresses, phone numbers, number of people in household, special skills, time available, etc.

- Develop a food preference survey before the second meeting and distribute it at the meeting. The survey should ask: What foods do members want most? How often? In what quantity?
- Appoint a survey committee to compare food prices. They need to determine how retail prices of the same foods from one or more sources compare with wholesale prices, in quantity.

Step 3. The survey committee reports to interested families the result of their price comparison study.

- Additional questions may need to be addressed based on the survey committee's report. Additional meetings may be necessary.

Step 4. Elect an organizational committee if family--patrons decide to go ahead with the co-op. The organizational committee's responsibilities include:

- Signing up members.
- Deciding what items the co-op will buy and potential volume.
- Drafting legal organization papers.
- Filing the articles of incorporation.

Step 5. Charter members meet to vote on adopting the bylaws and elect a board of directors if the bylaws are adopted.

Step 6. The board of directors conducts the first meeting and does the following:

- Elects officers.
- Adopts a form of membership application.
- Selects a bank to do business with.
- Determines who will be authorized to handle funds.
- Arranges for all members to receive copies of the Articles of Incorporation and bylaws.
- Arranges for securing a location and facilities for conducting business.

- Transacts other business such as:
 - ▶ determining a name for the co-op;
 - ▶ determining how often orders will be placed;
 - ▶ deciding on days of food distribution;
 - ▶ deciding on how food will be distributed;
 - ▶ deciding if perishable foods will be handled;
 - ▶ determining membership fees;
 - ▶ deciding on the frequency of meetings;
 - ▶ communicating between meetings; and
 - ▶ other questions that may affect the co-op's operations.

Food cooperatives enable members to save money through volume food purchases. The decision to organize should be made only after the procedures outlined have been carefully followed.

Other Publications about Cooperatives

The organization and operation of a successful cooperative requires detailed information, above average managers and informed, concerned decision makers. To help your cooperative succeed, the Kentucky Cooperative Extension Service publications will be available through your local Extension office.

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Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture.

Issued 7/87