Cooperatives and Food Hubs

NORTH CAROLINA COOPERATIVE EXTENSION SERVICE
CAROLINA COMMON ENTERPRISE

What is a co-op?

A cooperative is a ***business*** owned and controlled by the people who use its services.

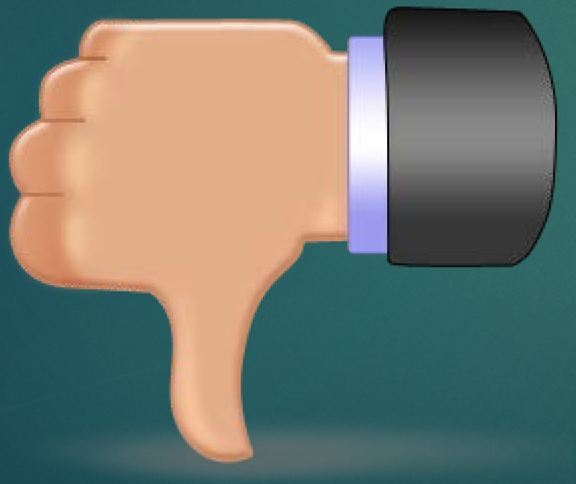
Co-ops Follow the 3 U's

- User-owned
- User-controlled
- User-benefitted

Co-ops vs. Corporations

Co-ops serve their members.

Service-driven



Corporations serve their shareholders.

Profit-driven

Adapted from the University of Wisconsin Center for Cooperatives website: www.uwcc.wisc.edu/whatisacoop/BusinessStructureComparison

	Cooperative Corporation	C Corporation	Sole Proprietorship	Nonprofit organization
Who are the owners?	Members	One or more shareholders.	Individual	No ownership
What is the business purpose?	To meet member needs for goods or services	To earn a return on owner investment	To provide owner employment a return on owner's investment	To provide services or information
How is the business financed?	stock/shares to members, and sometimes outside investors; retained profits	Sale of stock; retained profits	Proprietor's investment; retained profits	Grants, individual contributions, fees for services
Who receives profits?	Members in proportion to use; preferred stockholders in proportion to investment, up to 8%	Stockholders in proportion to investment	Proprietor	Retained within the organization
What is owner legal liability?	Limited to members' investment	Limited to stockholders' investment	Unlimited for proprietor	Limited to assets of the organization

Who forms a co-op?

Community leaders, small business owners, manufacturers, growers, artisans, and citizens

ANYONE, with the passion and smarts to better their communities!

Co-ops Arise from Need

Market Failure

Lack of Access

Social and Economic Injustices

Co-ops Are Rooted in Community

Create Community-Anchored Assets

Owned and Operated by Community Members

Focused on Meeting Needs vs. Generating Profits

7 Cooperative Principles

"Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others."

#1
Open and Voluntary Membership

#2
Democratic Member Control

#3
Member Economic Participation

#4
Autonomy and Independence

#5
Education, Training and Information

#6
Cooperation Among Cooperatives

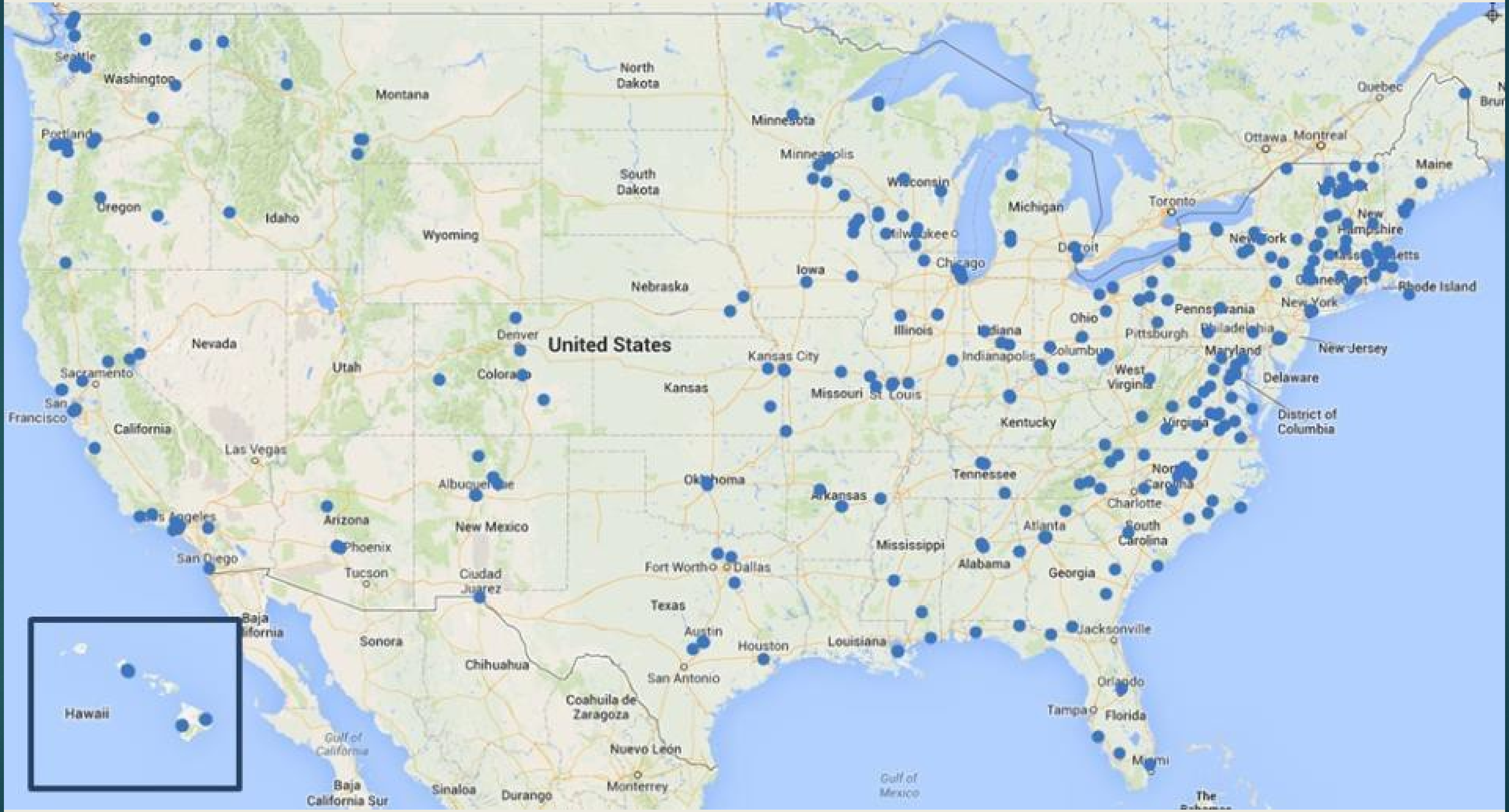
#7
Concern for Community

Regional Food Hubs

Producer Services	Operational Services	Community Services
✓ Actively linking producers to markets	✓ Aggregation	✓ "Buy Local" campaigns
✓ On-farm pick up	✓ Distribution	✓ Distributing to "food deserts"
✓ Production and post-harvest handling training	✓ Brokering	✓ Food bank donations
✓ Business management services and guidance	✓ Branding and market development	✓ Health screenings, cooking demonstrations
✓ Value-added product development	✓ Packaging and repacking	✓ SNAP redemptions
✓ Food safety and GAP training	✓ Light processing (trimming, cutting, freezing)	✓ Educational programs
✓ Liability insurance	✓ Product Storage	✓ Youth and community employment opportunities

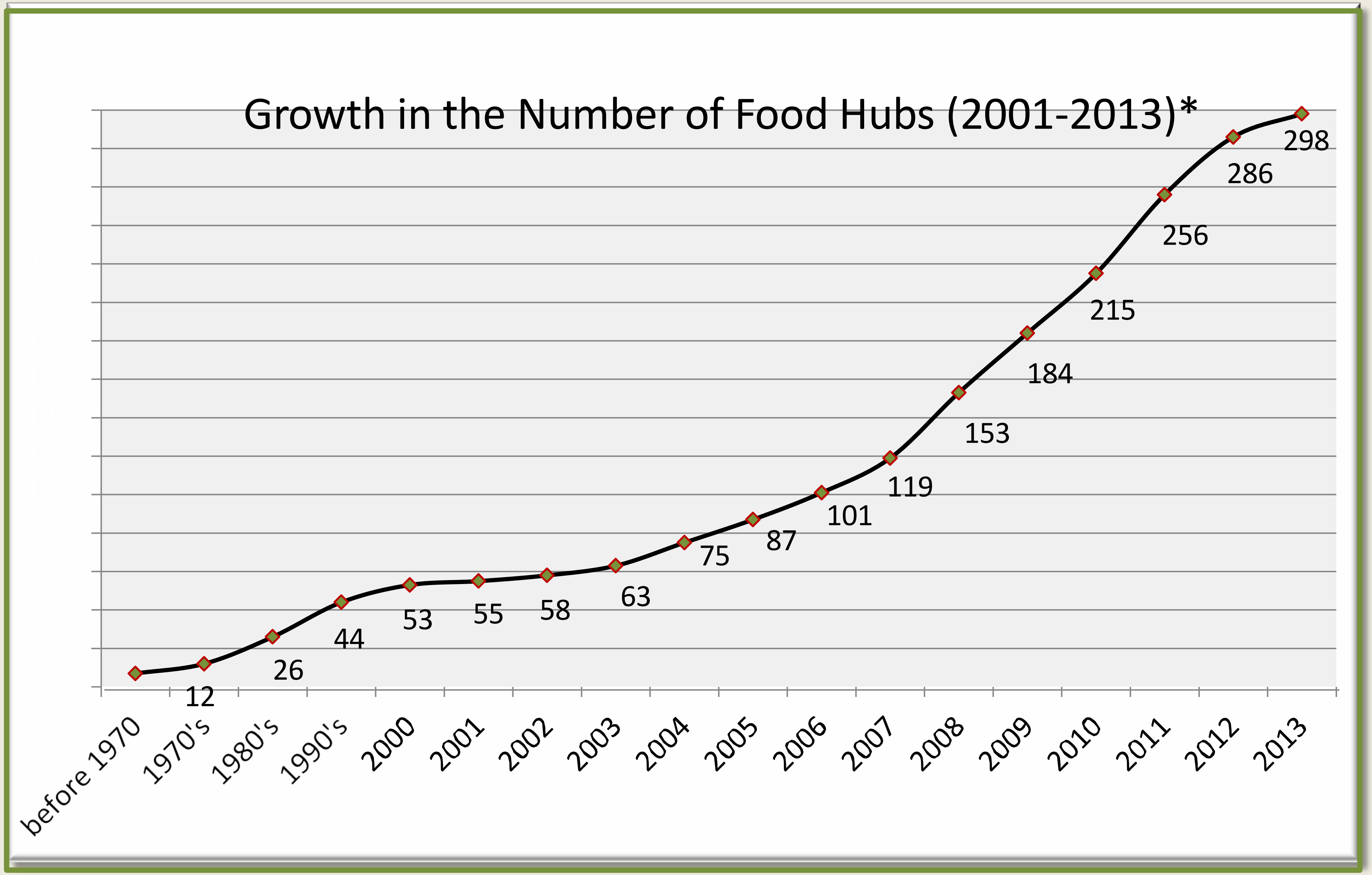
USDA

Regional Food Hubs



*Based on a working list of 302 food hubs identified by the USDA's Agricultural Marketing Service (April 2014)

USDA



At least 145 food hubs have started in the past five years (2009-2013), as well as *at least* 83 in the past three years (2011-2013)

**Based on a working list of 302 food hubs identified by the USDA's Agricultural Marketing Service (April 2014)*

Regional Food Hubs by Legal Status*

Food Hub Legal Status	Number	Percentage
Privately Held	144	48%
Nonprofit	87	29%
Cooperative	61	20%
Publicly Held	7	2%
Informal	3	1%

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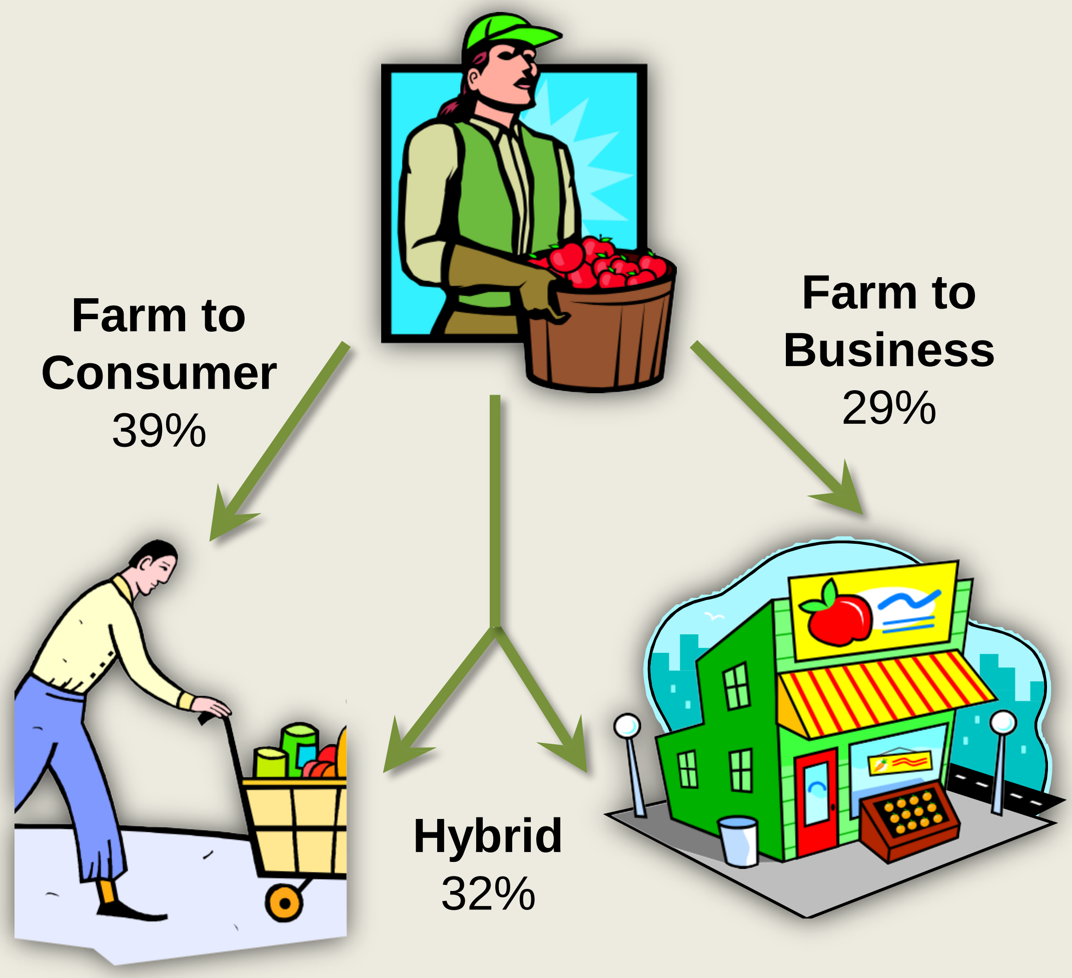
Regional Food Hub Models*



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All Hubs vs Cooperative Hubs

Market Model Type and Age	All Hubs	Cooperative Hubs only
Farm to Consumer (F2C) - Average Age	39% 6 years	39% 7 years
Farm to Business (F2B) - Average Age	29% 10 years	31% 11 years
Hybrid (F2C & F2B) - Average Age	32% 7 years	30% 9 years

Tuscarora Organic Growers (TOG) Cooperative

Established in 1988 in Hustontown, PA

Current operations

- 44 member farmers
- 4 Full-time staff and 12-18 PT/Seasonal
- 10,000 sq. ft. warehouse facility
- Over 1200 SKUs
- Markets: retailers, restaurants, institutions, and TOG farmer members
- 2013 gross annual sales - over $4 million
- 75% of sales revenue goes back to farmer members

OK Food Cooperative

Oklahoma Food Cooperative

- Member-owned cooperative business enterprise with over 90 producer members selling 4,000 different food and non-food products made in Oklahoma
- Operates as an online buying club with 3,800 consumer members
- Started in 2003 with 36 consumers and $3,500 in sales in its first month
- Gross annual sales for 2013: over $850,000

OK Food Cooperative

- Each producer has own page on coop website, post farm story, production practices, and **sets prices**
- Warehouse/order creation and route sorting system relies on “volunteer” labor system
- Monthly delivery to one of 43 pick-up sites
- Farmers get paid on delivery day.
- Producers retain ownership of product

- More than 20 online buying clubs have started based on the OK Food Coop model!!!

USDA

FOOD HUB FINANCES

$$\text{Business Efficiency Ratio} = \frac{\text{Expenses}}{\text{Revenue}}$$

Average business efficiency ratio = 1.07
(Range of .04 to 6.79)

39 hubs under 1.00, 14 right at 1.0 and 25 over 1.0.

Business efficiency ratio = 0.92 without two outliers

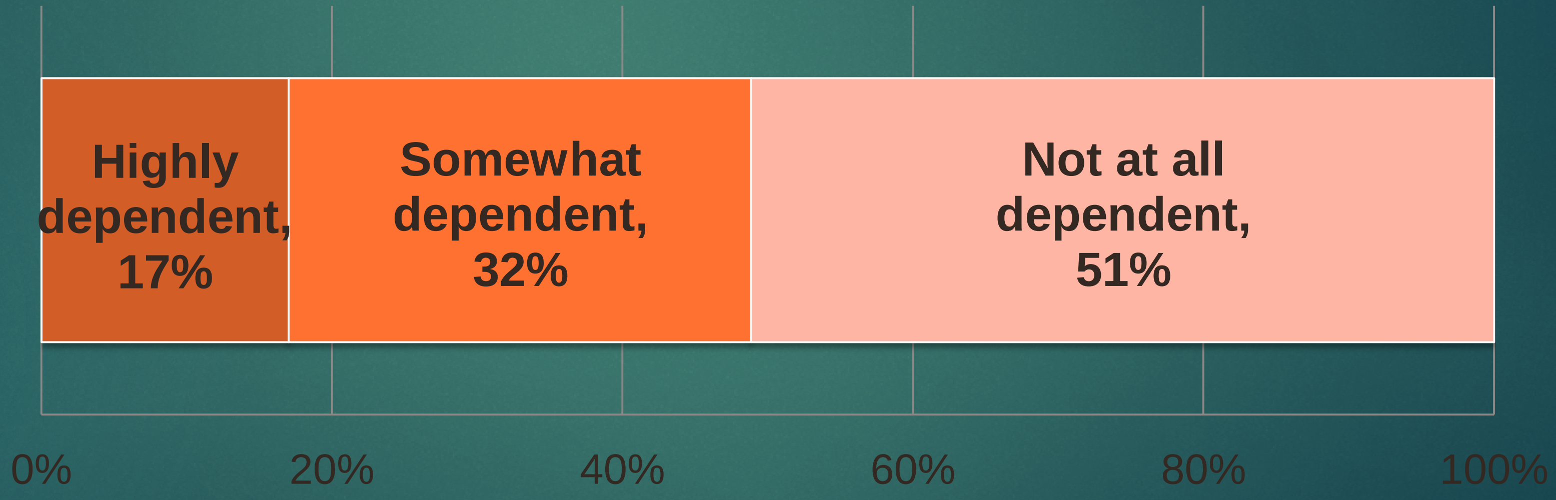
FOOD HUB FINANCES

Business efficiency ratios

Structure	N	Avg.	Median	Range
All hubs	75	1.09	1.00	0.04 – 6.79
Non-profits	29	1.20	1.00	0.04 – 6.79
Cooperatives	12	0.94	1.00	0.11 – 1.85
For-profits	34	1.06	1.00	0.33 – 3.53

RELIANCE ON GRANT FUNDING

How dependent are food hubs on grant funding from public and/or private sources to carry out core food hub functions (aggregation, distribution and marketing of local food products)?



Food Hub Impacts

Economic Impacts

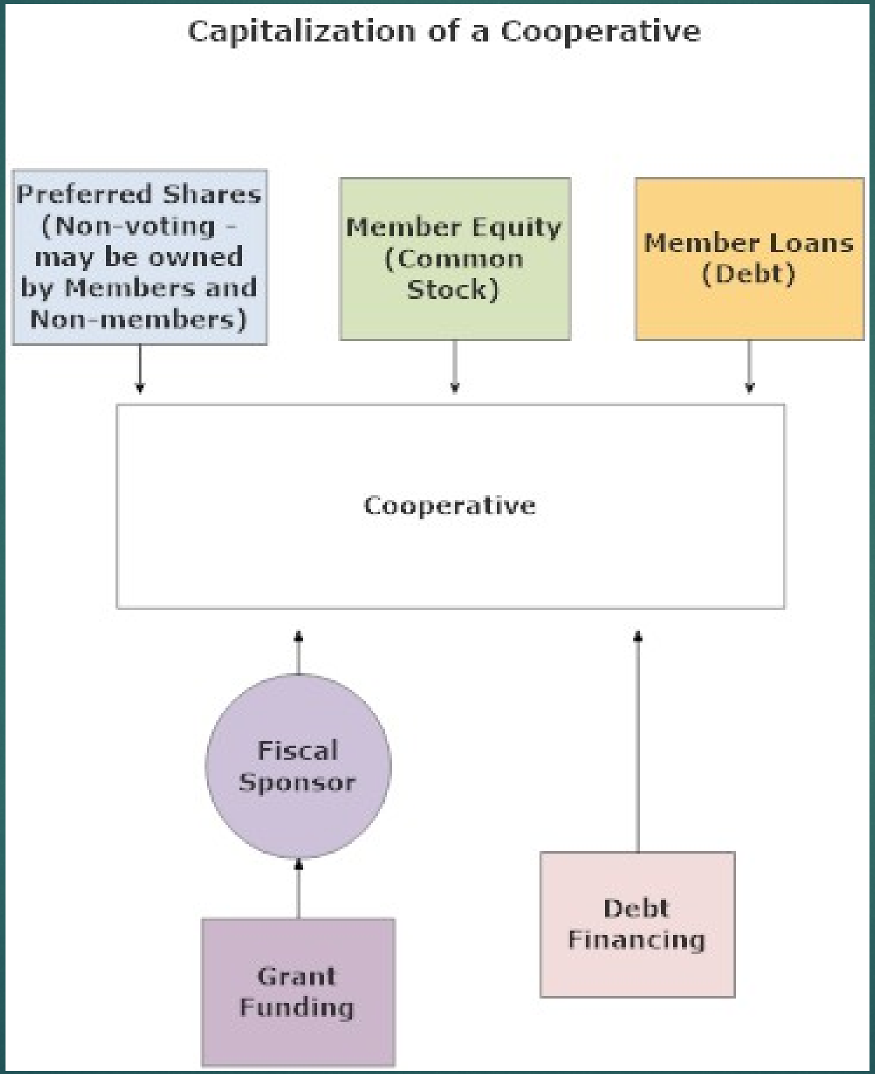
- Average food hubs sales in 2012 exceeded **$3.7 million***
- Average food hub has **19 paid employees***
- **Well over 12,000 producers** are marketing their products through food hubs

** Findings of the 2013 National Food Hub Survey, September 2013 –* MSU Center for Regional Food Systems and the Wallace Center

A cooperative is a legal structure, it is not a magic pill.

Like any other business, it will not succeed without sound planning, sufficient capitalization, and good management.

Ownership = Equity



What’s Next?

- Are you interested?
- Select a Steering Committee
- Conduct a Member-Use Analysis

- Hold a Second Exploratory Meeting
- Update the Feasibility Analysis

- Hold a Third Exploratory Meeting
- Prepare a Business Plan

- Draft Legal Papers and Incorporate

- Hold a Fourth Exploratory Meeting

Thank you!

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