The Arizmendi Association model of financing draws on elements of successful European cooperative networks we studied (specifically the Mondragon and Italian models) as well as a business model native to the United States, franchising. Lessons we drew from the European networks were

* grow from success, rather than launching disparate enterprises
* recapture the resources you create (through a bank, or self-imposed fee like with the Italians) rather than letting them dissipate into the traditional economy
* leverage those resources to bring in additional capital
* create your own financing vehicles if you wish to maintain independence and sustained growth
* attach financing to cooperative-appropriate and industry-specific technical assistance

From franchises we learned the importance of sharing administrative, marketing, etc. costs over many enterprises. We wished to adapt some of franchising elements while leaving behind the top-down monolithic elements. We decided this was possible by turning a franchise model on its head with locally-rooted enterprises controlling shared services, or what we call central-services-without-central-control.

A revenue-based fee (typically between 5-7%) constitutes the primary income flow for franchises. The fee is revenue-based rather than profit-based because (1) the central franchisor would expect the individual franchise businesses to manipulate/minimize profit; and (2) the central franchisor wants to get its money whether or not the individual franchises are prospering. The Arizmendi Association founders preferred a profit-based fee (or perhaps more accurately in cooperative terms, a surplus-based fee) because we wished to operate on a principle of from each according to ability, to each according to need (with cooperatives having greater financial resources contributing more, but cooperatives with no positive cash flow receiving full support without contributing any money). But we appreciated the complexities of adopting a surplus-based fees formula and decided to start out with an adaption of the franchise finance mechanism: a 4% of revenue fee, but no fees due that would result in negative cash flow. It was trusted that the fee would be adapted based on experience (rather than being set in contract, the fee is adjusted upward or downward by the Association’s board of directors which is primarily comprised of community-store members…the board is currently comprised of a dozen representatives from our bakery cooperatives and two representatives from the Association’s staff collective).

After a few year’s experience an alternative fee formula was adopted, with the fee being the lower of 4% gross revenue or 25% of profit (more technically, “adjusted net income” rather than conventional “profit”…for those technically inclined/curious, we adjust the “profit” shown on a conventional accrual profit-and-loss statement to better reflect a cooperative’s real-world financial performance by adding in principal payments as an expense and deducting any depreciation expense tied to initial capitalization). While the Association was not much concerned with a member cooperative consciously adjusting their expenses/compensation to reduce profit/fees, we wanted the fee formula to apply equitably to member cooperatives regardless of whether, for instance, they increased wages/benefits as quickly as revenue allowed or kept wages/benefits as low to facilitate greater patronage; this was achieved by calculating the fee formula as though every cooperative paid its staff wages and benefits equal to 40% of revenue (this is a bit of a simplification; for those interested in the technicalities, you can find the details of the fee formula on the GEO website at…).

In addition to having the advantage of more accurately assessing a member cooperative based on its relative ability to contribute to the Association’s mission, a profit-based fee was more suited to the Association’s vision to expand into a variety of industries: contributing 4% of gross revenue might be sustainable for bakery-pizzerias (the Association’s initial project/industry for business “replication”), but too high (or low) for another industry. But, in theory, a bakery is just as capable of contributing 25% of its profits as a low-margin retail business or high-margin high-tech business. But there are still somewhat arbitrary or industry-specific assumptions in determining our 25% of profit (such as assuming 40% of revenue goes towards labor compensation, 40% being a typical distribution established by our earliest bakery cooperatives).

The Association has recently adopted a formula (that applies to our member cooperatives after their first 15 years) that may have broader industry-applicability and long-term sustainability, what might be termed the ‘solidarity worker’ formula or ‘ghost worker’ formula: a cooperative pays a fee equivalent to the compensation for one full-time worker…conceptualized a bit differently, you could say that a bakery with twenty bakers engaged in the daily labor of feeding their community is supporting one extra worker engaged in the work of spreading the benefits of cooperation to those who do not currently enjoy democratic employment . Technically, it’s the compensation related to one worker (wages, benefits, payroll expenses, and patronage) for every 20 workers employed; thus a bakery with 20 workers pays the compensation-related for one worker and a bakery with 30 workers pays the compensation for 1.5 workers. This adjustment will eventually make the formula more applicable to other industries where the average business might employ a couple dozen or hundreds. (Another technicality: in defining “full-time worker”, we use the number of hours the Bureau of Labor Statistics find is worked by the average U.S. worker with full-time employment; in practice, Arizmendi workers fall far below that number since – contradicting classical economic theory – individuals work less rather than more hours as compensation rises, and the point of the solidarity worker formula is to reach out to those workers who do not yet have and would crave full-time employment.)

So how are these fees used to support and expand democratic employment? First they cover support services (accounting, legal consulting, organizational training, etc.); any surplus beyond what is needed for support services goes into a fund for launching new cooperatives. The Association does not currently build enough of a surplus that it can completely self-fund a start-up; rather, we contribute technical as well as financial resources and use this contribution to leverage loans for the start-up. The example of our latest start-up: the Association paid for…

* labor of the Development & Support staff, who start market research, business planning, site search, and loan procurement approximately eighteen months prior to launch….and who continue with an intensive organizational/business training program through the first half-year of operation
* bakers from established bakeries to train recruits for the new bakery (it may be helpful to understand that the Association recruits folks to be founders about four months out from projected store opening and that many recruits have no background in artisan baking)
* internships for the new recruits at the established bakeries (the hosting bakeries pay for the labor of the new recruits once they have gone through initial weeks of training and the Association pays prior to that)
* about three weeks of dry-run operation prior to opening (the bakery begins to operate full-time before opening to the public – donating its product to community groups – with paid shifts as well as meetings/trainings)
* an additional $40,000 cash contribution to the start-up
* and a $25K certificate-of-deposit placed in the financing bank (our mission-aligned friends at OnePacific); a certificate that is forfeited if the start-up fails to pay back its half-million dollar loan, but is also freed after three consecutive of profitable quarters (ideally, freeing that money to be used for our next launch)

Putting aside matters of intellectual property and good name, all told the Association’s contribution in paid labor and cash for a start-up approaches a quarter-million dollars.