

# Multi-Stakeholder Co-ops:

## *New Strategies for New Times*



## Telelearning Webinar

*February 22, 2011*

*Sponsored by:*

**USDA Rural Development and  
Cooperation Works!**

*Presenters:*

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USDA Rural Development – WI*

**Ashley Hernandez**

*Program Coordinator  
Cooperative Development Center  
at Kent State University, Ohio*

# Presentation Overview

- **Overview of the multi-stakeholder model**
- **Examples, short case studies**
- **Structural elements**
- **Resources**



# What is a Multi-Stakeholder Co-op?

*a.k.a. Solidarity Co-op*

- **Co-op with at least two membership classes**
  - **Users**
  - **Workers**
  - **Supporters**
- **Solidarity - Bolster commonalities rather than solidify differences**
- **Solidarity as a business model**



# *Why add complexity to the co-op model?*



- **For systems where ongoing relationships are critical**
  - Social service delivery – goal of inclusion
  - Rebuilding the local food system
- **New twist on typical co-op model**
  - Questions assumption of a homogeneous membership
  - Can varied stakeholders have a shared goal?
    - But - each stakeholder group should have significant “skin in the game”

# An inspiration...

- **Organic Maple Cooperative**
  - Incorporated 2007
  - WI, Great Lakes, Appalachia in US & Canada
- **Multi-stakeholder approach**
  - Arose out of thinking by folks associated with Organic Valley in southwest Wisconsin
  - Preferred stock (currently 6.5% return)
- **Membership structure**
  - Producers – 4 board seats
  - Customers – 1 seat
  - Investors – 1 seat
  - Employees – 1 seat
- [www.maplevalleysyrup.com](http://www.maplevalleysyrup.com)





# Fond du Lac Synergy Co-op

- **Social entrepreneurship**
- **People living with mental illness**
  - Blemished work records
- **Creating work**
  - “Get the job done” services
  - Mutual support
- **2 membership levels**
  - Employee-owners
  - Support members
- **Incorporated 2008, dissolved 2010**
- **PACE in Canada**  
<http://pacecoop.ca>



**On to our case study...**



# The Situation

- **Low quality, cheap food in institutions**
  - Get whatever you want, when you want
  - Mystery food trucked from distant shores
- **Risk management issue**
  - Flu pandemic or oil embargo - hospitals still must feed patients
  - Tracing food borne pathogens – problem for critically ill patients





# Bright Idea

**Spend 10% of  
\$2 million food  
budget on local  
food**

– **Sacred Heart Hospital CEO,  
Stephen Ronstrom**



# Explore the Idea

**Rick Beckler, Director of  
Hospitality Services**



- **Contacted several farmers**
  - “You’re scaring them!”
  - One farmer can’t fill demand
- **Value Added Ag conference**
  - January, 2008
  - Long conversation with Pam Herdrich of River Country RC&D
  - Stood up at conference – “Who wants a piece of \$200K?”

# Gather Information

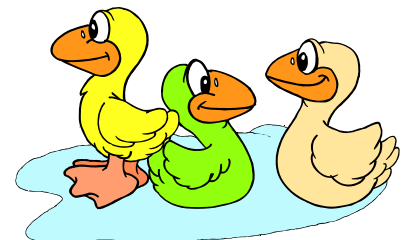
## Barriers to purchasing local food:

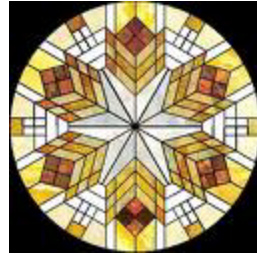
- Seasonal production
- Quantity
- Transportation
- Processing
- Pricing
- Delivery



# Exploratory Meetings & Trial Runs

- **Farmers, RC&D, and Sacred Heart**
  - **February, 2008, met at hospital; formed a steering committee**
  - **RC&D received \$40K grant July, 2008**
  - **Fall test runs with beef, chicken via RC&D**
  - **Farmers reluctant with co-op model**
    - **“Quack like a duck, call it a duck.”**
    - **Co-op developer contacted in January, 2009**





**“Form follows function.”**

**“Form and function should be one,  
joined in a spiritual union.”**

**-Frank Lloyd Wright**

# So what co-op model (form) to use?



- **Traditionally either:**
  - Producer co-op: just of farmers
  - Purchasing co-op: just of institutions
- **Inclusive steering committee**
  - Meeting for over a year
  - Built trust, overcame sour memories
- **Realized we need all stakeholders**
  - Ongoing learning and trust
  - Mere customer relationship not sufficient



# The Stakeholders

- **Producers**

- Strict requirements on feed, handling, safety, sustainability

- **Buyers**

- hospitals, technical colleges, nursing homes, schools
- pledge to buy 10% local foods

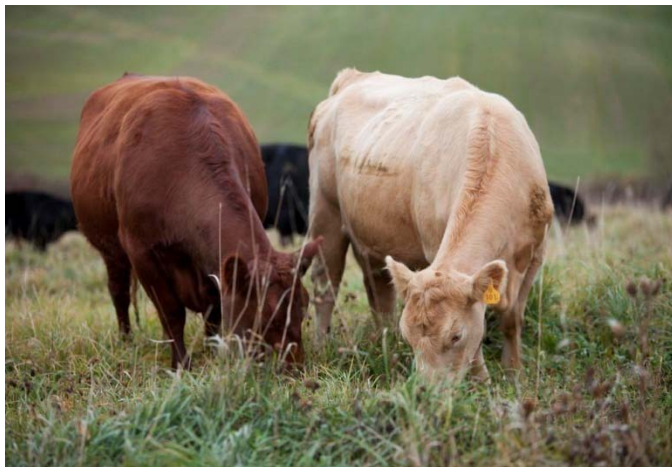
- **Processors**

- be picky – no mixing mystery meat

- **Distributors and local transportation**

- **“Friends and family”**

- Nonvoting
- patient capital investors – want to support local food
- access to product overrun specials



# Financing the Co-op

- **Membership equity - \$50**
  - Provision for buyers, producers who can't be members
  - Don't provide price list; it's about relationship
  - *Advice – consider higher member equity amount*
- **Transaction fee – 5% from each party in exchange**
- **Preferred stock – \$500/share; closely held (in state)**
  - *Advice – consider \$100/share*
- **Grants - for organizing**
  - \$40K state ag grant to RC&D
  - \$8K for feasibility study/biz plan-Cooperative Foundation
  - \$50K VAPG
- **No loans – no collateral**





# Legal and Policy Work

- **Decision making in committees**
  - **Product (subgroups of beef, poultry, produce)**
    - Pricing, feed and handling standards, review applicants
  - **Finance and Operations**
    - Membership agreements
    - Accounting checks and balances
    - Personnel policy handbook
    - Board policies
  - **Marketing**
- **Draft bylaws – special for multi-stakeholder**
- **Incorporated March 26, 2009**
  - Lawyer knowledgeable about co-ops and preferred stock



# Feasibility Study and Biz Plan

- **Summer of 2009**
- **3<sup>rd</sup> party**
  - **Local institutional food chef who is an accountant**
- **Drove everyone nuts**
  - **Passionate issues**
- **Thank you to The Cooperative Foundation**



# Annual Meetings



- **First annual meeting**
  - **Adopted bylaws**
  - **Elected board to replace interim board (the signers of articles of incorporation)**
- **Board of Directors elections**
  - **Four membership groups caucus and choose their representative**
  - **3 at large seats voted upon by all members**

# Fifth Season Cooperative



- **Institutional members**
  - Gundersen Lutheran Hospital
  - UW-La Crosse
  - Viroqua school district
  - Western Tech College
- **Sustainable and organic farmers**
  - Veggie focused, many at scale
  - Question of veggie processing, storage, transport
- **Established and new processors**
  - Westby Co-op Creamery
  - Premier Meats
- <http://fifthseason.coop>

# Structural Elements of the Multi-stakeholder Co-op

*Ashley Hernandez*  
*Program Coordinator*  
*Cooperative Development Center at*  
*Kent State University*

# Transformational vs. Transactional

- **Built upon relationships**
- **Dependent upon**
  - transparency, free flow of information
- **Striving for**
  - mutual best long term interests as much as
  - short term gains
- **Systemic perspective**
  - allows for joint consideration of supply and demand
- **Patient**
- **Inclusive**



# Different potential classes of members:

- **USER membership classes**
  - **Consumers**
  - **Clients**
  - **Families of clients**
  - **Institutional purchasers**
  - **Producers**
  - **Groups of producers**
  - **Intermediaries – processors, distributors etc.**

# Different potential classes of members:

- **WORKER membership classes**
  - Workers
  - Professional employees (social workers, physicians etc.)
- **SUPPORTER membership classes**
  - Community members
  - investors



# Variations among membership classes

	Short Term Need	Long Term Objective	Non-financial Contribution	Equity Contribution	Stake in Outcome
Consumers	Accessible location and price	Access to specialized good or services; predictable pricing, supply	Purchasing power	Generally Low	Low-High depending on alternative supply sources
Producers	Production costs covered	Reduced risk; sustainable source of income; market development	Industry knowledge; specialized product	Medium – high	Low – High depending on alternate distribution channels
Workers	Reliable work; fair wage	Safe, respectful, gainful employment	Industry knowledge; firm specific knowledge	Low-medium	High
Community Members	Existence of resource in community	Healthy and vibrant local economy	Possible special expertise	Low – sometimes quite high	Low - Medium

# Balancing Interests

- **Allocation of governance rights**
- **Distribution of surplus**
- **Transfer rights**
- **Dissolution**



# **The Solidarity Difference –**

*How multi-stakeholder cooperatives  
are different from:*

- **Conventional corporations**
- **Nonprofit organizations**
- **Traditional cooperatives**
- **Limited cooperative associations (LCAs)**
- **Limited liability companies (LLCs)**

# Other ways to invite participation

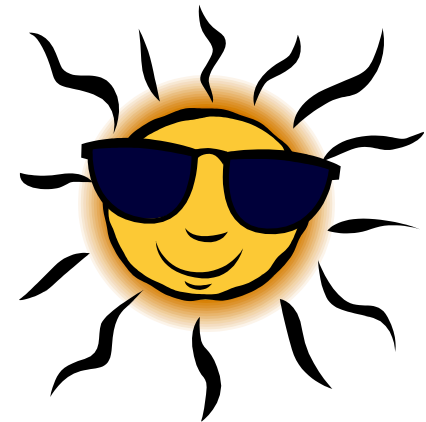
*(when membership in a co-op isn't a good fit)*

- **Preferred stock**
- **Advisory boards**
- **Labor/management committees/Works councils**
- **Partnerships**
- **Limited liability companies (LLCs)**



# Planning for success

- **Information**
- **Dialogue**
- **Sunshine**



# **Solidarity as a Business Model**

## **A Multi-Stakeholder Cooperative Manual**

*Free download available at:*

[www.oeockent.org](http://www.oeockent.org)

*Primary Author*

***Margaret Lund***

*Published by*



A program of the Ohio Employee Ownership Center

# In *Solidarity as a Business Model*, check out more case studies:

## *Industries*

- Local food production and distribution
- Brewing
- Healthcare
- Social services
- Arts, photography
- Retail grocery
- Forestry/lumber milling



## *Countries*

US – France – Spain – Italy - Canada

# Upcoming Training:

## *Cooperation Works!*

*The Art and Science of Starting a New Cooperative Business*  
*Session One: Effective Cooperative Development for*  
*Practitioners*

*April 18-22, 2011*

*Madison, Wisconsin*

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**Cooperation Works!**  
THE COOPERATIVE DEVELOPMENT NETWORK



# Something to ponder . . .

*“Co-ops reflect the triumph and struggle of democracy. . . . Disagreement and conflict are as much a part of democracy as the power of collective action. Managing disagreement and resolving conflict in a productive fashion are part of crafting an effective democracy.*

*While everyone knows the consequences of destructive conflict, the advantages of constructively managed conflict include greater understanding, enlightenment, and consensus”.*

# *For More Information*

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