

BUILDING THE SUCCESS OF FOOD HUBS THROUGH THE COOPERATIVE EXPERIENCE

SOURCE: Severson, R. M. and Schmit, T.M. 2015. Building the Success of Food Hubs through the Cooperative Experience. Cornell University, Charles H. Dyson School of Applied Economics and Management. Ithaca, NY. Extension Bulletin 15-04. April.

Access: <http://dyson.cornell.edu/outreach/extension-bulletins>

KEY CHALLENGE	SUCCESSFUL COOPERATIVES
Balancing supply and demand	<ul style="list-style-type: none"> • Work collaboratively with grower members to construct pre-season commitment plans identifying the level of available supplies and expected delivery dates to construct weekly sales forecasts. • Pulse the buyers in the off-season to evaluate their buying experience and gain knowledge of products needed in the next season.
Consistent product quality and food safety standards	<ul style="list-style-type: none"> • Farmer members wash, sort, grade, and pack at the farm prior to delivery to the aggregation facility. • Product inspected upon delivery and tracking number assigned. • Product handled to maintain quality and safety standards of the buyer and to minimize risk and liability of foodborne outbreaks.
Aggregating sufficient quantities of product to be sold at competitive prices	<ul style="list-style-type: none"> • Devote sufficient time to establish and maintain strong relationships with buyers AND their member-suppliers. Trust and reputation are important in both dimensions. Most buyers will not contract to purchase product. • Utilize sales staff to manage expectations of buyers as member-farmers may not have the capacity to deliver desired quantity at specified time. • Recognize long term growth requires the cooperative to encourage members to expand production along with securing more buyers or larger volume buyers. • Develop a brand for marketing purposes, recognizing the brand may not transcend the market channel in which the product is sold.
Changing consumer preferences	<ul style="list-style-type: none"> • Recognize the palate of the consumer is becoming more diverse. • Understand that farmers will grow limited quantities of new products until they gain experience in production and have confidence (through their cooperative) that there is sustained demand.
Accessing infrastructure at reasonable cost	<ul style="list-style-type: none"> • Operate cooling and refrigeration facilities with the capacity to adjust temperature and control moisture to levels that maintain product quality and extend shelf-life for a diverse range of products. • Understand that transportation costs are one of the largest costs to the business, especially long distances. • Conduct careful analysis of infrastructure costs when evaluating the investment in a building, purchase of a truck, or contracting for refrigeration space, long-hauls, and deliveries.
Business stability	<ul style="list-style-type: none"> • Recognize that the member's capacity to produce, the cooperative's capital, facilities and staff need to be in balance across the business. • Hire staff with expertise in the food system and provide training when necessary.

STEPS TO FORM A COOPERATIVE

SOURCE: Cooperative Development Institute, PO Box 1051, Northampton, MA 01061-1051
www.cdi.coop

1. WHY FORM THE COOPERATIVE? WHAT IS THE NEED?

- Identify preliminary needs or opportunities and resources
- Convene a core group of interested individuals

2. ORGANIZE:

- Hold a meeting of potential members to discuss needs and options
- Select a steering committee to coordinate the group

3. RESEARCH FEASIBILITY:

- Survey potential members
- Conduct market research
- Prepare feasibility study

4. REVIEW FINDINGS AND VOTE TO INCORPORATE:

- Report on the results of the feasibility study
- File articles of incorporation
- Elect board of directors and adopt by-laws

5. PLANNING AND FINANCING:

- Prepare a business plan
- Continue researching financing options
- Identify facility options, purchase and lease arrangements

6. RECRUIT MEMBERS:

- Prepare materials describing the co-op; hold meetings
- Establish member investment options
- Conduct a member equity drive

7. SECURE FINANCING:

- Finalize outside financing sources and terms

8. BEGIN OPERATIONS

- Hire a manager
- Establish the business

CHALLENGES TO BE OVERCOME:

- Lack of agreement on the true need to be addressed.
- A business not structured to meet the goals of its members or shareholders. Failure to recognize there are advantages and disadvantages to all business structures.
- Potential members may not understand their roles and responsibilities. Potential members lack confidence in the steering committee
- Feasibility analysis inadequately prepared
- Business plan that fails to recognize the economic reality of the cooperative, external forces (regulations, competition) or fails to realistically project income and expenses and labor costs.
- Failure on the members to have realistic expectations of the business
- Failure of members to do adequate volume of business with the co-op
- Poor quality of products or services provided
- Insufficient equity and operating capital
- Inappropriate pricing policies
- Poorly designed governance structure
- Ineffective board of directors
- Hire unqualified manager
- Under-invest in management compensation
- Lack of strategic plan
- Inadequate marketing plan

QUESTIONS TO ASK BEFORE PREPARING LEGAL DOCUMENTS

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IDENTITY

1. Who are your members?
2. What is the purpose of the cooperative?
3. Who will serve as the start-up board of directors to oversee the cooperative development activities?

MEMBERSHIP

1. What is the criteria for membership?
2. Who are the eligible members?
3. What equity will members contribute?
4. Will members each have one vote? Or will there be weighted voting?
5. Are their financial obligations for voting?
6. Are all members treated the same? Or are there classes of members?
7. How can a member terminate his/her membership? How can the cooperative terminate a member's membership?

BOARD OF DIRECTORS

1. Who is eligible to serve on the board?
2. What are the duties of board members?
3. How many seats should there be on the board?
4. Will you have board members from outside of the organization?
5. How long will a board member serve?
6. How are board members elected? Removed?
7. Are they paid? Are expenses reimbursed?
8. How will vacancies be filled?
9. How often will the board meet? What quorum is required? What meeting notice is required?
10. Will there be standing committees of the board? If yes, what are they and what are their functions?
11. Will there be officers? If yes, what offices, terms, duties, selection process?

CAPITAL STRUCTURE

1. What will the capital structure be? (Will you issue shares of stock? Membership/Common stock? Preferred stock? How many shares? At what value?)
2. What are the rights and responsibilities of each stockholder?
3. Will shares earn dividends?
4. What will the redemption procedure be?

PATRONAGE DIVIDENDS

1. What is the basis for distributing patronage dividends to members?

MEMBERSHIP MEETINGS

1. How often will members meet? Who can call a special meeting? What notice is required? What quorum is required?
2. What issues will members decide? (as opposed to policies/decisions made by the board of directors)
3. How will members vote (proxy, mail, electronically)?
4. How will by-laws be amended?

MEMBERSHIP AGREEMENTS

1. What will members receive for doing business with the cooperative?
2. What will members agree to give (examples: all of product produced from their farm, production practices stipulated by the cooperative)?
3. How will money change hands?
4. How will quality be evaluated?
5. How will the agreement be enforced?
6. How will the agreement be terminated or renewed?

ADDITIONAL RESOURCES

SELECTED WEBSITES:

Cooperative Development Institute: <http://www.cdi.coop/>

Cooperative Development Institute (CDI) is the source for cooperative business development in the Northeast. CDI's [mission](#) is to build a cooperative economy through the creation and development of successful cooperative enterprises and networks in diverse communities in Massachusetts, New Hampshire, Vermont, Connecticut, Maine, Rhode Island and New York. Cooperative Development Institute staff specialize in helping people work together to plan and launch a cooperatively owned business. We help existing privately held businesses convert to ones owned by their employees or the consumers of their products and services, we help start-up cooperatives, and we support existing cooperative businesses.

Cornell University Cooperative Enterprise Program: <http://cooperatives.dyson.cornell.edu/>

The program focuses on agriculture, food system, and rural-based businesses and associations. The program is a resource for people desiring to form a cooperative or learn more about the unique nature of a cooperative-structured business, and for cooperative leaders as they govern and manage these unique member-owned companies.

United States Department of Agriculture, Rural Development, Cooperative Services

<http://www.rd.usda.gov/publications/publications-cooperatives>

We provide many publications, reports and educational materials. These are primarily authored by USDA staff, but include publications by University partners and other cooperative specialists. Select the desired Category from the list above. Our publications are grouped into 3 series, Cooperative Information Reports (CIR-series), Research Reports (RR-series), and Service Reports (SR-series)

Wallace Center, National Good Food Network, Food Hub Resources:

<http://ngfn.org/resources/food-hubs>

Excellent food hub resource with numerous research reports, assessment tools, and benchmark studies related to food hub development. Includes a consultant database and Food Hub Community of Practice discussion group

SELECTED MATERIALS – FOOD HUB DEVELOPMENT:

Barham, James, Debra Tropp, Kathleen Enterline, Jeff Farbman, John Fisk, and Stacia Kiraly. *Regional Food Hub Resource Guide*. U.S. Dept. of Agriculture, Agricultural Marketing Service. Washington, DC. Service Report 73. April 2012.

<http://www.ams.usda.gov/sites/default/files/media/Regional%2520Food%2520Hub%2520Resource%2520Guide.pdf>

Matson, James, Jeremiah Thayer, and Jessica Shaw. *Running a Food Hub: Lessons Learned from the Field*. U. S. Dept. of Agriculture Rural Development. Washington, DC. Service Report 77. Vol. 1 April 2015.

http://www.rd.usda.gov/files/SR_77_Running_A_Food_Hub_Vol_1.pdf

Matson, James, Jeremiah Thayer, and Jessica Shaw. *Running a Food Hub: Lessons Learned from the Field*. U. S. Dept. of Agriculture Rural Development. Washington, DC. Service Report 77. Vol. 2 July 2015.

http://www.rd.usda.gov/files/SR_77_Running_A_Food_Hub_Vol_2.pdf

Barham, James and Fidel Delgado. *Building A Food Hub From the Ground Up: A Facility Design Case Study of Tuscarora Organic Growers*. U. S. Dept. of Agriculture Agricultural Marketing Service. Washington, DC. February 2015. <http://dx.doi.org/10.9752/CSG206.02-2015>>

SELECTED MATERIALS – COOPERATIVE ORGANIZATION:

Brockhouse, John W. and James J. Wadsworth. *Vital Steps: A Cooperative Feasibility Study Guide*. U. S. Dept. of Agriculture Rural Business-Cooperative Service. Washington, DC. Service Report 58. December 2010.

<http://www.rd.usda.gov/files/sr58.pdf>

Wadsworth, James. ed. *Co-op Essentials: What They Are and the Role of Members, Directors, Managers, and Employees*. U. S. Dept. of Agriculture Rural Business-Cooperative Service. Washington, DC. Cooperative Information Report 11. June 2001 revised August 2014.

<http://www.rd.usda.gov/files/publications/CIR%252011%2520%2520Co-op%2520Essentials.pdf>