

# Food Co-op Feasibility

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## *FAQ and Checklist*

### **Overview**

Every new retail food co-op organizing group needs to know whether their project is feasible or not; but what exactly does “feasible” mean? This publication is intended to help you to understand what it means for a new co-op to be feasible, which factors must be considered to determine whether or not it is feasible, and how to find the people and resources needed to create a reliable assessment.

### **What is “Feasibility?”**

The dictionary defines feasibility as the degree to which something can be done or carried out successfully. So, for your co-op to be feasible, an impartial assessment should indicate that it will be possible to open a successful store in your community.

### **What determines whether or not a store can be feasible?**

There are many factors that come into play. Some can be measured very accurately; others will depend on how well you carry out your plans and how well your co-op is managed. Even when everything indicates a good outcome, events beyond your control can cause a good project to fail—for example, a strong new competitor in the market, political or economic crises, etc. When you have collected all of the necessary information, evaluated it and made plans accordingly, you will also have the basis for your business plan.

The key components in a full feasibility study include:

- A formal market study
- A community survey
- Supplier and vendor assessment
- Evaluation of available talent, both for organizing and operations
- Financial budgets and projections
- Availability of capital and willingness of members and lenders to invest

### **What is a market study and how is it different from a feasibility study?**

This can be confusing, since the terms are sometimes used interchangeably. For our purposes, a feasibility study includes all the components that must be evaluated to predict the likelihood that a new food co-op will be successful. A market study is one piece of the feasibility study. Usually conducted by

an experienced professional, the market study researches demographic information, competitors, geographic barriers, demand for the co-op's proposed goods and services, and the impact of any sites under consideration. By analyzing this data and comparing it to a database of other co-ops in similar market areas, the marketing consultant can project the future sales volume of the co-op and make site recommendations. It is important to note that a strong sales forecast and great site are not enough to ensure feasibility. Your costs to start the business, operating expenses, store management and many other factors will also impact success and are essential parts of the feasibility study and business plan. For a PowerPoint presentation on market research, go to:

<https://www.centraldesktop.com/home/viewfile?guid=101823192FE013946E82E836B5EFCF70324A31B5&id=2626984>

### **How does a community survey help to assess feasibility?**

Community surveys can serve several purposes. Primarily, they collect data about the level of interest and support for a new food co-op and the needs and wants of the people you plan to serve. If the results of the survey indicate that your plans for the co-op are not what most people are looking for, you will need to change your vision of the co-op or consider dropping the project. You may also collect data on the relative strength of local competition, specific goods and services that are desired, how people prefer to get information, etc. A second benefit of conducting a community survey is the awareness it generates about the effort to start a co-op. For more information about surveys, see our Community Survey FAQ at:

[http://www.foodcoop500.coop/uploadedFiles/Home/Content\\_Items/Microsoft%20Word%20-%20Survey%20FAQ%2010-07.pdf](http://www.foodcoop500.coop/uploadedFiles/Home/Content_Items/Microsoft%20Word%20-%20Survey%20FAQ%2010-07.pdf)

and the Users' Manual for Community and Member Surveys at:

[http://www.foodcoop500.coop/uploadedFiles/Home/Content\\_Items/FC500SurveyManual\(2\).doc](http://www.foodcoop500.coop/uploadedFiles/Home/Content_Items/FC500SurveyManual(2).doc)

### **What is the purpose of a supplier and vendor assessment?**

Once you have determined the kinds of goods and services that you will offer, it is important to confirm that they are available to you. For example, in smaller, rural communities it can be difficult for stores to meet minimum order requirements of grocery distributors. If you want to have a strong emphasis on local, organic, or ethnic foods; can you get a steady supply?

A good first step is to contact other stores that operate in your area, particularly co-ops, which have a similar product mix. Find out who their major suppliers are and then contact those suppliers directly to determine whether or not they will be a good fit for your co-op. You can also find grocery distributors in the yellow pages or on the internet. To assess the availability of locally produced goods, you can talk to vendors at nearby farmers markets, check listings of local producers that many states publish to promote their farmers, or talk to consumer supported agriculture (CSA) farms. These conversations can help introduce the co-op to people who often become strong supporters as well as vendors.

## **What are we looking for when we evaluate available talent?**

The talent that your co-op needs will change as you move through the development stages, the skills typically becoming more specialized as you go forward. During the early stages, almost all of your work will be done by volunteers. As you begin planning and feasibility research, you will need people who understand how to analyze information and prepare business plans. Often this will require hiring a Project Manager or consultants. In the implementation stage you will be working with architects, contractors, equipment and inventory vendors, service providers, etc.

A new food co-op usually takes at least two years of organizing before it will open for business. Since the owners of the store are its future patrons, there is no expectation that they have any experience in starting or running a grocery business. When you assemble a steering committee, organizing team and/or board of directors to oversee development, you depend on a group of volunteers with varied backgrounds, experience and interpersonal skills. Some of these people will donate hundreds or even thousands of hours of their time to make your co-op a reality. Here are some of the questions you should ask:

- Do we have a core group of supporters who are willing to lead this project through to completion? (typically 12-20 people)
- Do the members of this group have enough free time to dedicate to the co-op?
- Are there enough additional, committed supporters to help on committees, task forces and special events? (at least 20-30 more)
- Are there one or more persons who can lead, coordinate, and motivate an ever-changing group of volunteers?
- Do members of your group have specific experience or skills that will be needed? (accounting, legal, graphic arts, copywriting, grant writing, fundraising, etc.) If not, are these skills readily available in your community at a cost that you can afford?
- Can you raise enough funds to hire a Project Manager? (A project manager should bring experience and expertise to the organizing effort, help coordinate volunteer activities and reduce the burden on the core group.)

You will also need to evaluate the likelihood that your co-op will be able to attract and provide compensation for a well-qualified manager, staff, and an appropriate benefit package. Labor costs for most co-ops comprise 22-24% of the store's sales income. In your first year of operations those costs will probably be at least 2% points higher as your employees learn new systems and become more experienced.

## **What is needed for financial budgets and projections?**

A Sources & Uses (S&U) budget is the first formal financial plan that you will need. This budget describes all of the expenses that you will incur prior to opening. It should also include a 15% overrun allowance, a budget for post-opening support (consulting, training, etc.) and working capital to cover negative cash flow in the first year of operations. The second part of the S&U budget lists all of the income you plan to raise to pay for the expenses. Finally, the assumptions you used to come up with your estimates should also be documented. The early versions of your S&U budget can be created using standard estimates for costs and typical breakdowns of income sources. As your plans mature you will update the budget to reflect actual amounts and more accurate estimates; a process that will continue right up to opening.

For a recorded presentation about the S&U budget go to:

<https://www.centraldesktop.com/home/viewfile?guid=9865571AC0D9119AA8071DFFABEE4B0803C18F0&id=2576533>

For a slide presentation from the workshop:

<https://www.centraldesktop.com/home/viewfile?guid=9989541B9C54CC73ECFC94461268AFBBFA6A525&id=2591501>

And for a Sources & Uses Budget template that you can use:

<https://www.centraldesktop.com/home/viewfile?guid=97335845C8FF4B4D130A7C9E7D3EA3A42EDE786&id=2555360>

The second critical financial planning tool is the Pro Forma Budget. This is a 5-10 year budget projection for the co-op's performance once it opens. It should include a detailed income statement, balance sheet and cash flow statement. This budget is very complex to create and requires a lot of data about retail food co-op income and expenses. You will need to have completed your site negotiations (for lease and operating costs) and operational plans (for inventory allocation, margin plans, labor budgets, etc.) before you can finalize these projections. We recommend that you contract with a financial consultant to ensure the integrity of this budget. Do not be surprised to discover that your projections show losses for the first 2-3 years—this is typical of all new businesses. However, you do need to be able to maintain positive cash balances during this time and achieve profitability in a reasonable time. If the pro forma budgets do not indicate feasibility, you will have to adjust your plans and possibly reconsider whether or not a co-op is possible.

### **How do we evaluate the availability of capital and willingness of members and lenders to invest?**

Your ability to raise capital for your new co-op will depend in large part on the level of support that exists in your community. This support is generated by a real need for the co-op's products and services, by effective and enthusiastic leadership from the organizing team, and a vision and plan that excites potential supporters. You can begin to judge the potential for financial support by the willingness of the community to make early contributions toward the effort.

- Have members of the organizing team or board of directors made personal investments?
- Have you received community development support, either in grant funds or in-kind donations?
- If you have begun accepting memberships, how willing are people to sign up?
- Are local financial institutions interested in talking to you about loans?

It is never too early to start talking to local banks and/or credit unions. It may take some time for their loan officers to understand the cooperative business model and become comfortable with your project. In the meantime, they can offer you good advice and guidance on what you will need to accomplish before they would consider a loan application.

### **How soon should a start-up organizing team conduct a feasibility study?**

A full feasibility study can be relatively expensive and most co-op organizing groups struggle to build up funds during the early stages of development. Because of this, a less formal, *Organizing Stage* feasibility study is recommended as a first step. This should be conducted as early as possible after you begin the organization process. The more detailed formal study is usually begun during the *Feasibility and Planning Stage* when member equity is building and vision for the co-op is both clear and broadly supported.

## **What is involved in an Organizing Stage feasibility study?**

The early feasibility study is undertaken to justify the effort and expense of pursuing further development and to assure early supporters that there is a good chance of future success. However, the results of this work are not fully conclusive and cannot be substituted for the full study. This informal study will attempt to answer these questions:

- Do we have a vision that resonates in our community?
- Is there enough potential demand for the co-op's goods and services to be profitable?
- Do we have the people with time, skills and talent to see this project through to completion?
- Will we be able to raise enough capital through members and lenders to finance our co-op?
- Are there appropriate vendors, growers and distributors who are willing to sell to us?
- Are there suitable locations for a retail grocery store available at affordable costs?

## **How can we get the information for the Organizing Stage feasibility assessment?**

The organizing stage feasibility study is inherently more subjective than the formal study you will need later. Much of the information can be collected by surveying the community and an impartial look at the local market. This is the time to start building support and information networks. Here are some resources that you can turn to:

- Conduct a community survey
- Talk to established co-ops about what made them successful
- Research community, regional and state business development support options
- Meet with commercial lenders to discuss your ideas and get feedback
- Identify people and organizations with compatible missions that could become key supporters
- Talk to local realtors about business property availability and costs
- Tour all the local grocery stores and potential competitors, noting their strengths and weaknesses
- Hire a professional consultant to guide you through early organizing, planning and feasibility assessment. The expense may seem high, but the time and effort you will save and knowledge gained will give you a huge head start.

Once you have collected as much information as possible, summarize it in a clear, concise report that you can share with organizers and supporters. Get feedback on your conclusions and do not be afraid to admit it when you are not able to make a clear assessment of one or more factors.

# Organizing Stage Feasibility Checklist

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## ***Vision***

- The co-op has written a clear and inspiring vision statement
- The vision has been shared with potential supporters and they are aligned with it
- The planned co-op will address unmet needs in the community/market area
  - There is a strong demand for the co-op's planned offerings
  - Consumers do not currently have convenient access the co-op's planned offerings
  - Existing stores do not represent significant competition to the co-op

## ***Talent***

- There is a group of at least 10 people ("core team") willing to lead the effort to open a retail food co-op
- There are significantly more people willing to volunteer time on committees and special events
- The core team members are willing and able to spend several hours a week (or more) on behalf of the co-op
- High profile members of the community have expressed support for the co-op
- The co-op is willing to pay for the specialized expertise it will need
  - Legal review for incorporation
  - Community survey implementation/tabulation
  - Guidance for organizing and planning
- The co-op has the potential to attract and pay a skilled general manager and staff

## ***Capital***

- The co-op organizers have researched start-up costs and understand the financial requirements for a new retail food co-op
- A community survey indicates substantial interest in shopping at a new food co-op
- A community survey indicates significant willingness to invest in ownership
- The co-op is potentially eligible for business development grant or loan funds.
- Local lenders have expressed interest and/or support for the co-op.

## ***Systems***

- The core team has set up systems of accountability and reporting
- A contact and/or member database has been created and is maintained
- A business account has been set up and financial controls and records established
- There are distributors, vendors and local farms willing and able to supply the co-op with the types of products and services you intend to offer
- There are affordable sites available that are suitable for a retail grocery store

# Feasibility Checklist for Business Plans

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## ***Vision***

- The concept has been articulated and written. The common economic and/or social need for a co-op is clearly understood and defined. The steering committee has articulated who will be served by the co-op.
- A community/member survey has been conducted that validates the co-op's vision and plans.
- A professional market study has been commissioned and the results support the planned store size, location and product mix.

## ***Talent***

- An elected board of directors is overseeing the co-op organizing effort.
- The board and other key organizers have built strong ties to the community and garnered support from key sectors.
- Professional support has been obtained to supplement the skills of the organizing team.
- A project manager has been hired or is planned for the implementation stage.
- The board has established policies for overseeing the work of a general manager
- A general manager has been recruited or a formal plan and timeline are in place to hire.

## ***Capital***

- A *Sources & Uses Budget* has been drafted that accurately defines the capital requirements and projected funding needed to open the co-op.
- Pro Forma budgets accurately reflect realistic operating income, expenses and cash flow and show financial feasibility.
- A significant number of members-owners have joined the cooperative (at least ½ of the planned goal by opening.)
- Plans are in place to raise capital through member loans and/or non-voting shares.
- Member equity, member loans and subordinate community investments will comprise at least 60% of the total start-up budget.

- Institutional lenders have been introduced to the co-op's plans and have indicated potential interest.

## ***Systems***

- A site has been obtained (possibly with contingencies) that meets the operational needs of the co-op and its members. Market research confirms the desirability of the site.
- The co-op has established effective accounting systems that ensure fiscal accountability and accurate records.
- Formal records have been established to track members, lenders, volunteers and supporters.
- Outreach, advertising, education and PR efforts are cohesive, comprehensive and professional.
  - The co-op has a website with information on its vision, co-op principles, progress on the storefront, membership and investment opportunities, etc.
  - An electronic or printed newsletter is published on a regular schedule
  - Members receive progress updates at least once a month
  - Co-op membership and other information is readily available and easy to locate.
  - The co-op is conducting outreach and information-sharing at community events, civic organizations, schools, churches and other public venues.
  - Co-op activities are covered by the local press, bloggers and word of mouth.
- The co-op has identified potential suppliers and determined that they will be able to procure the inventory needed to fulfill the co-op's vision.