



board^{OF}directors

by Cynthia Moore

Patronage Dividends: a mutual beneficial model for consumer owned co-operatives. Article 3

The 3rd Cooperative Principle is Member Economic Participation. In a consumer-owned cooperative, members contribute equitably to and democratically control the capital of the cooperative.



By now you are all aware of the upcoming vote later this Spring regarding a bylaws change to eliminate the current 2% shareholder discount currently given at the cash register and to institute a Patronage Dividend system whereby a portion of profits earned on sales to shareholders will be redistributed to the shareholders in accordance with their annual patronage. If you have questions or concerns about the proposal please be sure to attend one of the information sessions that are being offered at the Co-op.

As I've mentioned in earlier *Food For Thought* articles, Patronage Dividends are now considered a "Best Practice" for Shareholder-owned Food Co-ops. In the course of educating ourselves about this matter, the Shareholder Economic Participation Committee researched other co-ops' experiences in making this transition. In this article, I'd like to share some of the anecdotal information we found that influenced our recommendation.

Wedge Community Co-op Minneapolis, Minnesota

"After several reorganizations, the current system was adopted in 1989, in preparation for building a new store in 1991. Central to the plan was the patronage refund system, which would keep the board of directors in charge of the growing percentage of co-op profit that was generated by sales to member owners. After each annual audit, board and management assess plans for the coming year. A formula is applied to determine the cash portion of the refund. The cash portion has been as little as 22 percent and as high as 60 percent. ... The Wedge board of directors has chosen to give low cash returns in years immediately following expansions, preferring to use the extra cash to retire loans. ... With 76 percent of sales to members, the patronage refund system allows the Wedge board and management to retain control of 76 percent of the profit- a considerable resource for advancing co-op values and services.

Membership director Elizabeth Archerd explains, "We thought more about how we could be our own economic engine... Now our co-op members can invest thousands of dollars in efforts they really want to support... We have an ethic of community wealth that's separate from corporate wealth. We can develop a base of stability for our community well being. Short term thinking impoverishes our community. We need to think about our co-ops the way we think about organic soil—we have to build it up."

Co-opportunity Consumer Co-op Santa Monica, California

"Co-opportunity implemented their patronage rebate system in 2004. The change was prompted by costly external realities: workers' compensation and health insurance costs skyrocketed. "We couldn't continue to give discounts with those kinds of expenses." said recently retired general manager Will Simon. "The membership has

to understand the co-op is their business. We explained to them what the discount was doing to the business. It wiped away our bottom line.”

Good Foods Co-op Lexington Kentucky

“In mid-2003, we were given a severe test when Wild Oats opened a store two miles from us. We took a big hit in sales and were very disappointed to not be able to give a patronage rebate our first year under the new system. Yet our owners took it in stride; as one commented, ‘Sure I would have liked to get a rebate, but I care more that this co-op continue and flourish.’ If we had not switched to the share/patronage system, we would have been in a deep hole. It was a perfect example of why it is essential that we have a solid equity system.”

Hendersonville Community Co-op Hendersonville, North Carolina

“For years the co-op had marginal finances, and in the last five years had been losing money consistently. It became clear that the 5% discount the co-op gave members at the register was leaching away profits. It was hindering the co-op’s ability to thrive and yet the board felt reluctant to change it. Would members stay happy and loyal if they got their co-op benefits through a patronage rebate system based on their purchases at the end of a profitable year, instead of a cash register discount? ... The change has rejuvenated their sagging bottom line and injected a level of energy and spirit into the co-op’s community that had been lacking. ‘The sense of ownership is getting stronger. We attribute it to the board communicating to the owners its dream for the co-op. ... We feel like we have real potential.’”

From the CDS (Cooperative Development Services)

Stephen Wolfe, a CDS consultant notes: “one of the most compelling reasons to institute a patronage rebate system is the ability to shelter profits made on business with members from tax liabilities. ‘One of the biggest benefits of the patronage rebate is the co-op’s ability to avoid taxation. It also keeps profits in the local co-op community.’ He also said that the patronage rebate system is a good way to build cash reserves for potential expansion, or other things co-op members want to do. Wolfe pointed out that the overall benefit to patronage rebates is that it makes the cooperative much more financially sound.”

Peg Nolan, also a CDS consultant asserts that “nearly everybody knows it’s time to change their system but it does take courage and clarity.”

Sources for this article include:

Elizabeth Archerd. “Patronage Refund Systems That Work.” Cooperative Grocer, September-October 2008

Ann Marx. “We Own It-At Last!” Cooperative Grocer, May-June 2005

Patricia Cumbie. “Create a Cooperative Legacy in Your Community” Solutions for Strengthening Your Cooperative Business (a publication of the CDS). January/February 2006, Volume 6, No.1

video/dvd rentals

VHS and DVD rentals—\$2.50 for 2 days

Some movies of note:

The Dutchess
Pineapple Express
Appaloosa
Brideshead Revisited
My Best Friend’s Girl
Swing Vote
City of Ember
Igor
Vicky Cristina Barcelona
Get Smart
Kung Fu Panda
Wall- E
Hancock
The Visitor
The Pirates Who Don’t Do Anything Veggie Tales
Journey to the Center of the Earth
Then She Found Me
Baby Mama
88 minutes
The Love Guru
Young @ Heart
Leatherheads
Sex and the City
Forgetting Sarah Marshall
Iron Man
Smart People
Miss Pettigrew Lives for a Day
The Counterfeiters
Penelope
Weeds Season 3
Persepolis

This month’s recommended movie is Kung Fu Panda. Jack Black is the voice of the Kung Fu Panda and Dustin Hoffman the voice of his Yoda like master. This is a fabulous animated tale that has lots of action sequences that are masterfully done and lots and lots of heart. The characters are wonderful and the life lessons learned are worthwhile for the whole family.

Notice to Shareholders

The Brattleboro Food Co-op will be discontinuing the Merchant to Member program, effective February 15, 2009.