



## Prairie Roots Food Cooperative FAQs

1/12/2020

Due to ongoing financial constraints of the Prairie Roots Food Cooperative (Co-op) store, the Co-op's Board of Directors (Board) informed the staff and member-owners Sunday, January 5 of its plans to begin operations to close the store. The Board of Prairie Roots Food Co-op is providing this FAQ for you to read and share with your friends, family and neighbors, in hopes that it will help to answer some of your questions surrounding the decision. Please feel free to provide the Board with feedback on this document and any additional questions you feel would be beneficial for us to answer. The Board email address is: [board@prairieroots.coop](mailto:board@prairieroots.coop).

### **The document is formatted in three sections:**

- About cooperatives and Prairie Roots Food Cooperative
- Factors and logistics related to closing the store
- What about the Co-op's future?

## **About cooperatives and Prairie Roots Food Cooperative**

### **What is a co-op?**

A co-op is a member-owned and member-controlled business that operates for the mutual benefit of all owners (in this case, great local food and a healthy community). Co-ops around the world look to seven internationally recognized principles to guide them: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; cooperation among cooperatives; and concern for community. By adhering to these principles, a co-op stays connected to its owners, its community, and to the global cooperative movement.

### **What does it mean to be a member-owner of Prairie Roots Food Co-op?**

Ownership with Prairie Roots Food Co-op brings together many missions and benefits. Reaping the 'dividends' with the Co-op includes pride of ownership, a democratic voice, community support, distribution of success and other member-owner incentives. Ownership of a local business dedicated to strengthening our local food system comes with great pride. Member-owners have the opportunity to be heard and cast votes, thereby impacting the future direction

of the Co-op. With the store open, member-owners received consumer-related benefits such as owner discounts, owner-only specials and incentives on pre-ordered items by the bulk case. As well, with a business model focused on local partnerships, member-owners were provided with opportunities to participate in classes and events focused on healthy food/a healthy lifestyle. Prairie Roots Food Co-op has 2300 member-owners.

### **What is the history of Prairie Roots Food Co-op?**

Local community members with interest in healthy food and the desire to see community ownership as part of the food industry began meeting in 2010. In addition to raising money for operations and consultants, this group established working committees which did the groundwork necessary to conclude that opening a grocery store with a corporate cooperative model would be the best way to meet the desired outcomes. The legal incorporation of Prairie Roots Food Co-op was completed in 2011. Intensive fundraising, research and design on store operations began at that time, as well as recruitment of member-owners, with the one-time membership fee at \$300 per household. Along with that, a system of identifying local farmers was completed and an online store operated by connecting consumers with these farmers to facilitate the purchase of natural foods. Feasibility studies were conducted by professional and business organizations which guided fundraising campaigns and site selection, with the store opening in July 2017. The store's focus was to provide access to natural, organic and locally produced food while offering member-owners and other shoppers a choice of products and information that promote personal, economic and environmental health and sustainability.

### **What were the purchasing guidelines for the Prairie Roots Food Co-op store?**

The product policy for the Prairie Roots Food Co-op store was quite detailed and it guided the store's management in making buying decisions, while informing consumers about what they could expect from the products. The store's products were to be natural, containing no artificial flavors, artificial colors, artificial preservatives, artificial sweeteners, high fructose corn syrup or hydrogenated oils. Strong preference was given to products that were locally produced, certified organic, produced utilizing practices that support environmentally sustainable agriculture, fair-trade certified and free of growth hormones, antibiotics, or genetically modified organisms. The store also provided a wide selection of items pertaining to specialty diets such as products that were wheat-free, gluten-free, dairy-free, vegan, etc.

### **How is Prairie Roots Food Co-op structured?**

The Board is the governing body of the Co-op. The Board manages the organization, setting the strategic direction and monitoring its financial health, while developing policies that reflect the shared values of member-owners. Since the store opened in 2017, the Board also had the responsibility of hiring the general manager. The Co-op's bylaws call for a five to nine-member Board, elected by persons from the Co-op's membership. Currently, Board meetings are held at 7 p.m. the first and third Monday of the month.

### **Did a person need to be a member-owner in order to shop at the store? How much was a membership and how many member-owners does the Co-op have?**

A membership was not required in order to shop at the store. Since 2011 the Co-op has grown to 2300 members, with a one-time member-owner fee of \$300 per household.

**Since a membership wasn't required to make purchases at the store, why would someone want to be a member-owner?**

Whether a person became a member-owner of Prairie Roots Food Co-op prior to the store opening in 2017, or after, the main purpose was to support an organization that focused on healthy foods for the community as well as cooperatives values. The Co-op also supports a non-profit organization called Prairie Roots Community Fund, which focuses on helping to assure persons with lower incomes have access to quality food. Voluntary donations called "Roundup" dollars by Prairie Roots Food Co-op shoppers helped to support the Community Fund. For many, the Co-op provides a sense of community for those passionate about healthy food/a healthy lifestyle. Different than the traditional business model, the Co-op offers—and really relies on—its member-owners to be active participants in the operation and direction of the organization. So, member-owners are able to be present at all Board meetings and are invited to attend annual member-owner meetings as well as other business-related meetings. With the store open, member-owners were able to participate in special discount days and other activities such as community gatherings focused on healthy food/a healthy lifestyle.

**What is the Prairie Roots Community Fund?**

The mission of Prairie Roots Food Co-op is to build a healthy community by providing access to natural, organic and local food. With that in mind, the Co-op created the Prairie Roots Community Fund, a 501c3 non-profit organization committed to bringing access to high-quality, delicious food to everyone in our community. The Community Fund is overseen by the same Board of Directors as the Co-op. Prairie Roots Community Fund has partnered with the AmeriCorps VISTA program to bring Volunteers in Service to America (VISTA's) to work on our three focus areas of gardening/outreach, education and development. VISTA members have been focusing on programs in the Golden Ridge Neighborhood, near Madison Elementary School. Although the store is closed, the Community Fund is still operational.

**Factors and logistics related to closing the store**

**When, and what were the precipitating factors that lead to the store closing?**

Due to ongoing financial constraints of the store, the Co-op's Board informed the store's staff and the Co-op's member-owners the evening of Sunday, January 5 of its plans to begin the process of closing the store. Earlier that day, during a special meeting of the Board, it was confirmed that the store would not have sufficient funds to pay its obligations to staff starting Monday, January 6. While the Board had been working tirelessly to secure a viable financial future for the store, the Board knew it could not, in good faith, continue to operate the store without being able to meet its financial responsibilities to the store's staff, the Co-op's member-owners and our broader community. In addition, it was clear we would be adding further burden to our creditors and not be able to make payments to our vendors.

**How aware were staff of the financial conditions of the store?**

Staff were invited to attend all Board meetings, had access to information regarding operations at the store, and had regular meetings with the manager. The date of closure was chosen to ensure that each and every staff person would be able to be paid for the work they performed. Staff members at a staff event were notified of the store-closing decision Sunday, January 5, prior to the e-mail notification going out to member-owners. Two staff are still employed to facilitate the closure process.

**What are some steps the Board took to find a more viable financial future for the store, prior to deciding to close it?**

The decision by the Board to close the store was not arrived at lightly. Over the past year, the Board worked tirelessly to try to secure a viable financial future for the store, with the following as examples:

- Decreasing inventory allowed us to “right-size” the store with only products that sold at a faster rate, giving us a better margin. With this action, margins came up, but the fixed costs for overhead continued to make the store not viable.
- A fundraising goal to raise \$250,000 was initiated in order to pay down accounts payable and provide runway for marketing and sales growth. Ninety-thousand dollars was raised through that effort, with every Board member putting money into the Co-op, allowing us to partially pay down the accounts payable.
- The Board explored the formation of a joint venture, alongside new investors, in order to meet the fundraising goal. This involved many long strategic conversations among Board members, the interested parties and the Co-op’s legal advisor, regarding the terms of the joint venture and the necessary cash flow position of the store for the investment to make a lasting change. While working with stakeholders, the Board was unable to find terms that met the business criteria for this investment.

**What were the operational costs of the store that made it financially unsustainable?**

Operational costs for the store included fixed items like loans to develop the space, equipment (coolers, registers, lighting, etc.), rent, insurance and variable costs such as utilities, staff and product/inventory management. The business model of the Co-op store was set at a high level. As a Co-op, we focused on selling locally grown organic foods; the building was designed as a pleasing space for patrons to spend time, whether that be to shop, grab a cup of coffee, hold a meeting, read a book or attend one of the many classes offered that supported the Co-op’s mission; and, employees were paid more than minimum wage, with full-time employees receiving a benefits package. Although the store began with a professionally prepared business plan, including two feasibility studies showing the strength of the location, that plan projected sales twice the amount the store was able to achieve, starting out in 2017. This ultimately resulted in too high of an expense-to-revenue ratio which could not be offset by selling more product or controlling labor and other variable costs.

**What are the Co-op's physical assets?**

The equipment and products remaining in the store. The Co-op does not own the building.

**What happens to the value of loans and stock purchases made by member-owners in light of the assets that are left with the store closing?**

The Co-op has commercial loans and obligations that are secured so any assets will go to those entities first. It is unlikely that the assets remaining will be more than those secured creditors receive and as such there would be no payment for the loans or stock purchases made by member-owners which are not secured.

**Will Co-op member-owners be held liable for any of the outstanding debt?**

No. The Board has sought legal counsel on this question and has received the following answer: *"No member of a cooperative is liable for cooperative debts by virtue of being a member. North Dakota Century Code 10-15-31(2) provides: "Members, stockholders, and patrons of a cooperative are neither obligated to pay, nor liable upon, any cooperative obligation." The members have no liability to lenders or other creditors. Those creditors are limited to proceeding against cooperative assets/any collateral."*

**What about the Co-op's future?****Even with the store closing now, what is the future of the Co-op?**

The Co-op's Board of Directors continues to work on the orderly steps of closing the store. The Board of the Co-op will also determine a process for involving members in defining its future. The Co-op's future might include other business activity or service to community in relation to the mission of the Co-op; however, that is yet to be determined.

**Can I still shop at the Co-op?**

The store closed effective 6:30 p.m., January 11, 2020. There is no saleable inventory remaining.

**What can I do now, as a community member?**

The Board encourages you to stay involved in organizations that support the mission of the Co-op, around the concern of healthy food and a healthy community. Share the Co-op story and mission with your family, friends, coworkers and community members. If you would like to speak with someone personally about the Co-op or learn more about how you may be able to help the Prairie Roots Community Fund, feel free to reach out to one of the Board members. Member-owners will continue to receive e-mail updates from the Board as it moves discussion forward that strategically addresses the Co-op's future. If you would like to be involved in a community conversation regarding the future of the Co-op, please e-mail the Board at [board@prairieroots.coop](mailto:board@prairieroots.coop) by February 1.

*In the cooperative spirit, thank you!*

*PRFC Board of Directors*