

Blueprint for 50 Co-operatives (published 1985)

Introduction to Web-based Copy (2006)

This booklet was originally written at the request of the national Co-operative Development Agency (CDA) which wanted 'something based on practical co-operative management experience' to put into the hands of potential co-operative entrepreneurs. The CDA published it in 1985 and the Introduction ends with the words 'By 1995, the market will have moved on . . . the information in this publication will be out of date; it should then be torn up and re-written'. Now, in 2006, the figures are certainly out of date. Daily Bread Co-operative is still in the same funny old building where we started in 1980 but the turnover is now £1½ million, four times that of 1985. However the booklet has not yet been re-written but, to the surprise of the author, is being re-printed, presumably because the practicalities of developing a sustainable co-operative business are broadly unchanged.

The climate for co-operatives has changed for better and for worse. The Conservative Government closed the national CDA in 1990 and the ensuing Labour Government has not seen fit to re-instate it. Most of the local CDAs which mushroomed in the 1980s have also ceased to exist. However, Co-operatives UK, the national body of the wider Co-operative Movement, has shifted away from its century-old pre-occupation only with retail co-operatives owned by their customers, a declining sector, and now hesitatingly embraces employee-owned co-operative businesses, a sector which will be very relevant to the 21st century.

For the UK, gone are the days of huge workforces shaping metal or digging coal. A service economy using information technology quite unknown in 1980, favours small businesses and the co-operative option will become steadily more attractive to an educated workforce which rejects both the authoritarian employer and the overbearing Trade Union. It will always be necessary to make a surplus rather than a loss to stay in business but the objective will no longer be that of maximising profit but of creating sustainable good quality working life. Participation in decision-making will be more widespread and social objectives, such as minimising carbon emission and trade justice for developing countries, will be higher up the agenda.

Well-trying constitutional structures for employee-owned co-operative businesses are available and so is loan capital and management experience. The present need is for more co-operative entrepreneurs to emerge. I hope this re-printed booklet will be some help to them.

Roger Sawtell
Northampton July 2006

Blueprint for 50 Co-operatives

By Roger Sawtell



*An occasional paper giving
information about wholefood warehouses*



CO-OPERATIVE
DEVELOPMENT
AGENCY

About the CDA: The Co-operative Development Agency was set up by Act of Parliament in 1978, with all-party support, to represent the interests of the Co-operative sector of the economy.

Since its inception the Agency's principal activities have been concerned with the promotion of the co-operative option and carrying out advisory, research and educational functions.

It has also stimulated the establishment of local co-operative development agencies and supported them and other organisations concerned with co-operative development. In addition, the Agency publishes a small selection of booklets about the co-operative option, as well as a directory of co-operatives.

**Published by
Co-operative Development Agency Broadmead House
21 Panton Street
London SW1 Y 4DR
01-839 2988**

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*An Occasional Paper Giving Information About
Wholefood Warehouses*

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INTRODUCTION

During the years 1975-1985 the number of worker co-operatives in the UK has increased from less than ten to just over a thousand. The procedures for registering a co-operative and for funding the working capital have been well documented (see Appendix 4) but because the growth has been so recent, there are few case studies about co-operatives which have survived the critical early years and become well-established people-centred businesses.

Based on practice not on theory, this publication sets out some of the factors which have caused Daily Bread Co-operative to develop as a wholefood warehouse and packing business with fifteen people and a turnover of £350,000, serving the Northampton area. It is clear from this five year experience that similar businesses will be viable in locations where there are 500,000 people within a 20 mile radius. There are more than 50 places which fulfil these criteria and only a handful of warehouses already in operation so there is room for 50 more co-operatives, creating about 700 jobs for a total initial capital of less than £1m. to meet the steadily expanding demand for wholefoods.

In terms of co-operative development, the opportunities are remarkably similar to those of a hundred years ago. At that time, locally-owned retail societies owned by their customers who received “the divi”, were springing up in every locality. Each was independent but linked by the co-operative movement so that good practice in one society was soon adopted by others. This led to the strong high-street co-operative presence which changed the face of food retailing long before the era of supermarkets.

The opportunity now is again in the food business but there the comparison ends, because the new co-operatives will be out-of-town warehouses open to the public, rather than high street shops, and they will be worker co-operatives owned and controlled by their working members rather than retail societies owned by their customers.

Each co-operative will be different because it will reflect the particular experience and social concerns of its founder members, but the commercial climate described will be the same for all. By 1995, the market will have moved on, the opportunities will be different and the information in this publication will be out of date; it should then be torn up and re-written.

Roger Sawtell

THE MARKET – WHOLEFOOD AND HIGH-FIBRE

Sales of packaged highly-processed "convenience" foods have increased enormously during the last twenty years. They contain numerous additives to "improve" the colour, flavour and shelf-life. Much of the dietary fibre (¹) has been removed in processing and a diet consisting mainly of processed food leads to bowel troubles such as diverticulitis. They are sold in most supermarkets, often backed up by heavy TV advertising which makes them expensive.

The gradual return to wholefoods is a reaction against the spread of "convenience" foods. Wholefood is defined as food as near as possible to its natural state, with as little as possible added to it and as little as possible taken away from it. For example, brown rice is a wholefood, white rice is less so because the husk has been removed, and rice as part of a carton-packed instant meal is not a whole food because the packet includes various additives and preservatives. Examples of wholefoods are grains, honey, beans, fruit juices, dried fruit, wholemeal flour, nuts.

Wholefoods are nutritious and promote good health rather than claiming to cure ill-health. In this respect they differ from health foods, many of which have medicinal properties, like vitamin supplements or herbal remedies. This is an important distinction because the sales outlets for wholefoods are not the same as for health foods.

The health food shop is not new. It is usually a small retail shop on a high street site, selling small quantities of semi-medicinal foods at comparatively high prices. There are also chains of health food shops, backed up by specialist health food wholesalers and manufacturers of vitamin supplements.

The retail wholefood shop is much more recent. It is more down-market, often selling beans direct from sacks, and dried fruit direct from boxes like every grocer did in the 1930's. It is concerned with promoting good health rather than curing bad health. It is steadily growing out of its original image of "beards and sandals" and becoming accepted as part of the shopping scene of any town.

WHOLE FOOD WAREHOUSE – NOT A HIGH STREET HEALTH FOOD SHOP

The wholefood warehouse is deliberately different from either the retail health food shop or the small wholefood shop. It is a cash and carry warehouse, open to the public. It is much bigger than the typical wholefood shop, but its aims are the same, to sell natural food for a well-balanced diet including plenty of fibre, such as beans, muesli and grains. In contrast to the small retail shop, it is organised to sell large quantities at lower prices and it sells to retail shops and also direct to the public; it is therefore both wholesale and retail, selling any quantity to any person or organisation at the lowest possible price.

To achieve this, it is planned with low overheads and its location (see page 6)

(¹) Suffixes refer to notes on page 14.

and equipment will reflect this. The premises will be functional rather than lavish, the shelves or racks can be rugged ⁽²⁾ rather than glossy and the floor is unlikely to be carpeted. Pack sizes are larger than the retail shop so that the price per kg is as low as possible; for example dried fruit will be sold in 500g., 1kg, 5kg or full boxes of 12½kg.

Small shops and market traders will buy 5kg or a full box for re-packing and re-selling. Institutions such as hospitals or residential homes will also buy in bulk to save money, and so will groups of families who may join together to buy a box of sultanas and then distribute it amongst themselves at cost price. Individual customers are more likely to buy smaller packs such as 1kg, but still expect to save money; those wanting smaller sizes than this are more likely to buy in the town centre or the corner shop and will be prepared to pay more.

WORKER CO-OPERATIVE – AN APPROPRIATE STRUCTURE

A small business directly serving the public needs to be flexible and to react quickly to the customers' requirements. The high level of mutual trust and helping each other to get the work done, which is part of being a co-operative, makes this an appropriate structure for a wholefood warehouse. It may be necessary for a packing person to write out a cheque for a cash-on-delivery supplier, or for the manager to unload a lorry, or a till person to pack a kilo of apricots. The working members own and control the business and have a strong motivation to run it efficiently so that each turns his or her hand to the most urgent task. The more hierarchical structure of an employer/employee business is likely to lead to higher costs and less flexibility, whereas in a co-operative each member is both an employer and an employee.

The sovereign body is the meeting of members of the co-operative, usually weekly. Some areas of decision-making will be delegated to individuals by the meeting to ensure the speed and flexibility that a small business needs, and to avoid the dead hand of bureaucracy where even the smallest matter may be endlessly discussed by all the members.

It is important to distinguish between decisions which should be delegated and those which need the approval of the meeting. The dividing point will not be the same as that of employer/employee business. For example, the buying person will be authorised to spend considerable sums without reference to the meeting, as swift decisions about a tonne of raisins are needed to obtain the best value (see appendix 3) but the manager is not authorised to engage or dismiss any worker without the direct sanction of the meeting. In summary it may be said that "people decisions" such as hiring and firing may be taken only by the meeting, they are seldom urgent, whereas commercial decisions regarding buying and selling are delegated to individuals. It goes without saying that any co-operative operating in this manner must take great care in selecting members; having been selected, the member is then given more freedom, more responsibility and much more security of employment than the equivalent job in a conventional business. To update Napoleon's phrase ⁽³⁾, "every working member carries a manager's rolled umbrella in his sandwich

box”. This is not the grace and favour of a few shares, nor the slightly patronising participation in meetings organised by management about clean towels in the washroom, nor yet the constructive compromise of trade union/management conflict, but it is the essential corporate decision making of the owners of the business who are also the workers. The chairman and secretary of the meeting are appointed by members at the AGM, and so are the manager and deputy manager. The chairman's task is to guide and control the meeting to take decisions without undue haste or delay, and to prevent it from becoming boring, particularly to those who are unused to taking part in decision-making meetings. Given a competent chairman, who should not be the manager, a weekly meeting of one hour is a good target, together with the flexibility to call a short meeting – sometimes called a “coffee-break meeting” to make a decision on any urgent matters.

A co-operative has the useful advantage over the employer/employee business that the decision-making group can be called together at ten minutes notice. In contrast, small companies with non-working family directors sometimes fail for no other reason than the difficulty of getting the directors together in the same room at short notice.

In summary, the co-operative structure is appropriate for this kind of business. Productivity is high because all working members are highly motivated to run the enterprise efficiently, and there is no necessity to make profits for outside shareholders because there are none. The business cannot be taken over nor sold without the corporate agreement of the working members.

PREMISES – LOCATION AND SPACE REQUIRED

Low-cost warehouse packs are only attractive if they can easily be loaded into a vehicle. Staggering along the high street to the multi-storey car park with 5kg of sultanas is nobody's idea of good shopping, even if the sultanas are more plump and better value than you've ever bought before. Customers plan their warehouse shopping in advance and there will be little passing trade, so there is no marketing advantage in being in the town centre. It is much better to be a mile from the town centre, preferably near a main road and with integral off-street parking and loading. The ability to park without trouble and to load directly from a shopping truck or trolley straight into the boot of the car is an important factor. Thus the best buildings may be a Victorian warehouse with parking space alongside (⁴), in a down-market suburb, or possibly a trading estate if no suitable old buildings are available. In either case the rent should be less than half that payable in the town centre and this will be an important figure in keeping overhead costs to a minimum. For the suggested break-even turnover of £250,000 the area required will be: selling 1,500 sq. ft., packing 1,500 sq. ft., storage 1,500 sq. ft., office etc. 500 sq. ft. Total 5,000 sq. ft.

PACKING FROM BULK GIVES ADDED VALUE

Compared with a high street shop, a warehouse must have more floor space and some of this can be used for packing down from bulk to smaller quantities.

For example:–

1 tonne of rice in 50kg sacks costs, say £500

If sold in sacks without re-packing, the mark-up might be 15 per cent giving an added value of £75.

If re-packed into 5kg packs, a mark-up of 30 per cent gives added value of £150

If re-packed into 1kg packs, a mark-up of 50 per cent gives added value of £250.

Compared with buying pre-packed food, the advantages of re-packing at the warehouse are:–

1. generates employment and ensures that there is always productive work to do, whether there are customers to be served or not,
2. reduces the cost per kg of storage stocks,
3. helps to keep the products on the shelves for customers, because packs of any size can be made up within minutes, from the same storage stocks.

Some wholefoods do not lend themselves to re-packing at the warehouse, such as fruit juice and sugar-free jams which require air-tight containers. However, there is a long list which can be effectively bought in bulk and re-packed, such as grains, nuts, dried fruit, beans and pulses, tea, herbs and spices. For most of these the only equipment needed is: –

Semi-auto scales to 10kg. For example

Avery, second-hand, “stamped” for commercial use	£150
Table, 4' x 8' with formica/wearite surface	£150
Polythene mixing tubs 2 @ £10	£20
Equipment cost per each packing station	<hr/> £320

Honey and yeast extract can also be re-packed from bulk using a holding tank, with a thermostatically controlled water jacket, which costs about £1,000.

For a co-operative business in which friendly relations between customers and workers is encouraged, the best place for the packing area where most of the working group are occupied, is adjacent to the selling area. Customers are able to see work in progress, discuss the products on sale, and ask for anything which is not on the shelves. Correspondingly the working group all learn at first hand what the customer's requirements are. This is deliberately less impersonal than the high street store or supermarket where only the sales people talk to the customers because the store and office staff are somewhere at the back, out of sight. It can lead to a cheerful interchange which makes the warehouse a relaxed and interesting place for customers to visit.

GROWTH ON A HUMAN SCALE – SMALL IS BEAUTIFUL

The co-operative must stand and survive in the market place. Though it will have more clearly defined social objectives than the employer/employee business, it is not a charity and no one owes it a living. The break-even point for commercial viability of a wholefood warehouse will depend particularly on the amount of re-packing from bulk and mixing of its own products. (5) The higher this added value, the lower the sales required for break-even. An average figure is that break-even will be achieved with 12/14 people and a turnover of £250,000 (see Appendix 2).

Gradual rather than rapid growth towards break-even is appropriate for a co-operative as most people who have previously worked in an employer/employee business need time to get used to co-operative working, with its greater freedom from imposed authority, its emphasis on self-discipline and its expectation of shared responsibility for the corporate life of the enterprise. Experience indicates that adding 3/4 people per year to the working group is about the right human scale, and therefore it will take four years to reach 12 people, representing the required turnover of £250,000.

This deliberately measured rate of development may be achieved with very little expenditure on advertising, which helps to keep overheads low. The expensive local publicity campaigns which some shops use to draw attention to their new presence in a locality are inappropriate for a low-overhead people-centred business which does better to achieve recognition more slowly, by recommendation from one customer to another. Such economies on a human scale gives slower growth, but the commercial roots will go deeper and the business will be more able to withstand the drought of recession and the gales of competition

COMPETITION FROM SUPERMARKETS – ECONOMIES OF SCALE NOT SIGNIFICANT

For more than twenty years the large supermarket chains (Tesco, Sainsburys, Asda etc.) have been gradually increasing their market share of food, partly due to the convenience of car parking and having everything under one roof, and partly due to their huge buying power. However, just as Asian shopkeepers are showing that the corner shop is still commercially viable, so the wholefood warehouse is another exception to the trend towards supermarket shopping.

Average weekly household expenditure on food in 1984 was approximately £8 per person, so the total expenditure for a population of 500,000 (see Introduction on page 3) is £4m per week or £208m per year. Thus the break-even sales of £250,000 for the wholefood warehouse (see Appendix 2) represents 0.12 per cent of the total food expenditure, or 50p per person per year. If everyone in the area visited the warehouse just once a year and brought nothing but 500g of raisins, the breakeven turnover would be

achieved. In fact, the £250,000 turnover is typically accounted for by 2,000 customers, many of whom visit the warehouse regularly every month, and some every week.

The wholefood warehouse has several cost advantages over the supermarket:-

- (i) Packaging is cheaper because the warehouse packs are simpler with less printing and less cardboard. ⁽⁶⁾
- (ii) Transport costs from the docks to one delivery point are less costly than the inevitably long distribution chain of the supermarkets.
- (iii) The productivity of the working members of the co-operative is higher than their counterparts in the large employer/employee business, because the working members own and control the co-operative and are highly motivated to run it efficiently.
- (iv) The co-operative has no outside shareholders and therefore does not have to make a profit in order to pay a dividend, or fend off a take-over threat.

These advantages more than outweigh the economies of scale of the supermarket, and enable the wholefood warehouse to sell at lower prices. (See Appendix 3).

There is also a quality advantage because the one-site wholefood warehouse with quicker stock turn, means fresher food. For example, it is possible to be selling Australian sultanas less than a week after their arrival at London Docks, but these same sultanas reach their last resting place on the supermarket shelves after a long chain of dockside storage, processing, packaging, regional storage, and sometimes they may be up to a year old when they are eventually sold to the public. ⁽⁷⁾

From the supermarkets position, the competition from wholefood shops is negligible, but they are aware of the market opportunities for wholefoods and are selling them. However, their true prices will be higher than the well-organised independent co-operative warehouse.

SALARIES – MAY BE ACCORDING TO NEED

For a deliberately labour intensive low-overhead business, the salary levels are critically important for viability because salaries are a relatively high proportion of total costs. Just as a co-operative is not trying to make the maximum profit, so the working members are not trying to maximise their salaries. There is a concern for quality of life at work and for security of employment, neither of which are consistent with a policy of paying the highest possible salaries

The salary policy is entirely in the hands of the working members, there is no other body to decide it. It may be a conventional policy of paying according to the individual's contribution to the commercial objectives of the business, a pyramid structure with the appointed manager at the top; alternatively it may be agreed policy to pay by need rather than contribution. Although individual

effort and responsibility will vary, working members will be more self-disciplined in a co-operative situation in which their livelihood depends directly on each other, than in the conventional confrontation situation between the employer who is trying to minimise salaries and the employees who are trying to maximise them. Such an alternative salary policy is not new; a well known group of pioneers wrote nearly two thousand years ago “The group of believers was one in mind and heart ... they all shared with one another ... money was distributed to each one according to his need”.⁽⁸⁾ Each person in the co-operative may be paid the same salary with an additional allowance for each dependent, such as children or old people, and a simple discussion procedure for anyone who wishes to be paid more or less than standard salary.⁽⁹⁾

Some co-operatives have adopted a mutual security policy of no enforced redundancy. Any member may choose to leave at any time but no one can be made redundant and each is free to remain a working member, subject to fulfilling the obligations of membership. If business declines members may agree to take a cut in salaries, or a voluntary redundancy scheme, and because this decision is shared by all working members, it enables a co-operative to get through a bad patch more successfully than the employer/employee company. The owner/employer may reduce his salary to save his own business, but he cannot expect his employees to do the same.

MINIMUM INITIAL CAPITAL AND MAXIMUM CASH FLOW

By using borrowed money an inefficient business can hide its deficiencies and show a paper profit in the annual accounts. But the acid test is whether or not it can gradually get rid of borrowed money and begin to generate cash. This is particularly important in the case of a co-operative which claims the fundamental principle of control by the working members. To maintain this principle initial borrowing for seed capital should be kept to a minimum.⁽¹¹⁾ Even if this entails some sacrifices in the critical early years, it is preferable to the alternative of major decisions being unduly influenced by the bank or other outside lender. For sources of loan finance see Appendix 6.

The working members will wish to remain free to make decisions, and as there is more shared responsibility in a co-operative compared with an employer/employee business, they may offer to make loans in order to reduce borrowing from outside lenders. These loans should be short-term, immediately repayable in times of need, and must never influence the “one person one vote” democratic principle of the co-operative.

A warehouse is well placed to maintain a good cash position because it can operate on a “cash and carry” basis. Individual customers and small wholefood shops expect to pay in cash or by cheque on collection. Trade customers cheques cannot often be supported by cheque guarantee cards but as most of them will be in the locality, it is not too difficult to verify references by telephone, and hence to avoid bad cheques and bad debts.⁽¹⁰⁾ Another advantage of cash and

carry is that it avoids the necessity of an invoicing system which can be time-consuming and unproductive.

Packaging machinery is widely available for most wholefood products but careful cost analysis indicates that it is not cost-effective at present in the kind of business described. The machine needs long production runs to justify the setting up and cleaning down time, whereas a packing person can be more flexible, and may pack twenty different products during one day's work, matching immediate supply and demand from the customer, and keeping intermediate stocks as low as possible. As sales grow beyond the typical break-even of £250,000 the costs are likely to change more in favour of packaging machines, and should be kept under regular review; the decision to pack by hand is not a Luddite attitude but merely the most cost-effective way to organise a small co-operative wholefood warehouse. The argument will not necessarily be the same for other businesses or other times.

Hand packing brings some added advantage as it reduces the initial capital required (11) and provides the opportunity for working together as a group instead of watching machines. As the business is to be people-centred, it is important that people should work alongside each other and be able to talk among themselves and with visitors, as they work. (12)

Bulk food from importers and major wholesalers can usually be bought on 30 days credit which assists cash flow because the stock turn should be fast enough to sell much of the delivery within this 30 days. However, as soon as the cash situation permits payment on collection or by return of post, an additional discount can often be obtained, and this is preferable to continuing to trade on supplier's funds.

A reputation for paying very promptly will be helpful when suppliers are being asked to make a special effort to deliver quickly, or provide some other extra service.

If the policy of the co-operative is to grow steadily but not fast (see Appendix 2) there is little risk of over-trading but the cash flow situation will be finely balanced during its first few years and maintaining this balance will be a job which the members meeting should delegate to one competent person, as quick decisions are needed. For example, an importer offers a tonne of brazil nuts at an advantageous price for cash on collection; is it justified to layout the cash to buy them for christmas sales, or better to buy a few boxes as required and pay more for them?

BUYING WHOLEFOOD IN BULK

For a business which is selling at a deliberately small profit margin, good buying is essential. The high street healthfood shop selling at a high price has considerable margin for error, but the wholefood warehouse has little to spare to cover the extra storage cost of food which is not selling, or to dispose of stock which is below quality standard by reducing the price. Therefore the co-operative must give time and energy to effective buying, particularly as the knowledge required is not easy to acquire except by experience.

As the number of small retail wholefood shops have grown, so have the regional wholesalers who supply them. ⁽¹³⁾ Three of the best known are:–

1. Community Foods, North London. Wholefood only; no sugar, no supplements. Competitive prices. Collection only, no delivery service. Not a registered co-operative but run on participating principles.
2. Suma Foods, Leeds. Similar but wider range than Community. Deliver to retailers all over the north of England. ICOM Model Rules Co-operative.
3. Green City Wholefoods, Glasgow. Wholesale distribution throughout Scotland. ICOM Model Rules Co-operative.

Depending on the geographical location of the wholefood warehouse, one or other of these regional wholesalers will be the right place for buying small quantities or topping-up, but to ensure a reasonable margin the wholefood warehouse must go one step further back in the distribution chain, and buy in bulk wherever possible, from direct importers or UK growers or whatever source is nearest to the crop itself.

For example, for flour which is bulky and expensive to transport, it is necessary to find the nearest good quality miller of 100 per cent wholemeal flour, from home grown wheat, preferably organic. ⁽⁷⁾ For beans and pulses, UK producers sell dried peas in bulk and direct importers can be found for lentils, soya beans etc. Buying beans in tonne lots and packing them down into 1 kg at the warehouse, it is possible to sell at prices well below supermarket levels. Similarly dried fruit and nuts should be bought wherever possible in bulk from the importer. Wholesalers, like Community Foods and Suma, are also importers in their own right and will quote for tonne lots at about 7 per cent below the list price per sack; their prices are usually competitive with the specialist importers, particularly if the food is collected directly from the container at the docks.

Some of the bulk buying considerations are:–

1. Quality – samples are usually available from importers but for new crop it may be necessary to buy without sample, in which case the integrity and trade reputation of the supplier is vitally important. (See Appendix 9).
2. Delivery – Availability often depends on shipping conditions, dock strikes and weather conditions, all of which are unpredictable but must be predicted by the buyer!
3. Credit terms - may be anything between cash on collection to 30 days credit. Lower prices go with shorter credit and there is often room for negotiation.
4. Continuity - unlike manufactured products wholefood varies considerably due to weather conditions in the country of origin, and storage in hot climates or damp conditions. Sometimes it is better to buy a crop which is average but continuously available for six months, rather than one which may be above average but cannot be repeated.

Effective buying in a new business trying to use the minimum of initial capital is a week-to-week tightrope act, balancing stocks against cash available at the bank, and against price and discounts offered by importers. This work is

time-consuming and involves risk and commercial judgement, but it is a foundation stone of the successful wholefood warehouse. The easiest course is to buy everything at list price from one of the wholefood wholesalers, but there will then be little marginal advantage to pass on to the small local wholefood retailer.

CO-OPERATION BETWEEN CO-OPERATIVES – A PRINCIPLE

Having proved the viability of a wholefood warehouse in one locality, the conventional wisdom of the employer/employee business is to set up a chain of similar warehouses up and down the country. Before long there might be a head office, full of executives and computers. Then the directors would sell the whole business to Gigantic Supermarkets Ltd., retire to their country estates and write letters to the Times about the importance of being entrepreneurs

For the co-operative owned and controlled by the people working in it, the pattern is different. Every co-operative, whatever its state of development, must remain totally commercially viable, but within this limitation, many will choose to remain small businesses because they will consider it more possible to achieve their agreed social objectives as a small group. There is contemporary evidence that when a co-operative grows too large, it finds the greatest difficulty in retaining its co-operative ideals and fails to remain a peoplefentred business. The growth of co-operative working is therefore likely to be a continuing increase in the number of small businesses, each independent but linked together by the co-operative movement.

Just as the 19th century retail societies remained local and independent but passed on their accumulated experience to one another through the co-operative movement, so could wholefood warehouse worker co-operatives do the same in the latter years of the 20th century.

This would be in tune with co-operative history. The Rochdale Pioneers who started their manufacturing and retailing business in 1844, established seven practicable principles of co-operation which stood the test of time and served the co-operative movement well for over a hundred years. These principles were reviewed and revised by the International Co-operative Alliance in 1966 and the final principle remained unchanged in essence: “All co-operatives in the best interests of their members and their communities, co-operate in practical ways with other co-operatives”. This is one of the ways in which a co-operative differs from an employer/employee business.

Some areas of co-operation between wholefood warehouses are:–

- (i) Exchange of practical information as contained in this publication.
- (ii) Exchange of percentage operating ratios such as those given in Appendix 2.
- (iii) Exchange of working members to compare experience.

- (iv) Shared buying; for example a container of 18 tonnes of raisins costs about £15,000 and could be jointly purchased by several warehouses. Similarly shared buying of one tonne of a comparatively expensive commodity like cashew nuts for £3,000 could result in a useful cost saving without involving too much transport.

NOTES

1. "Fibre" Leaflet No. 3 of a series of free information leaflets published by DBC. Others are Soup Mixes, Beans Peas and Lentils, Third World, Seeds, Gluten-free products.
2. DBC bought a lorry load of 100-year old oak fencing posts and made display racks with them. They look right for a warehouse and will last for another hundred years.
3. "Every French soldier carries in his cartridge-pouch the baton of a marshal of France". Napoleon I, quoted in "La Vie Militaire sans l'Empire".
4. DBC is close to a main access road, one mile from the centre of Northampton which has a population of 160,000. There is off-street car-parking space for 15 customers and a covered loading bay. The building was a hospital laundry built over 100 years ago and empty for 10 years until 1980. It is draughty and difficult to heat, but has interesting features such as huge wooden roof beams. The areas in use are: selling 2,100 sq. ft., packing 1,800 sq. ft. storage 1,900 sq. ft. office and meeting room etc. 700 sq. ft. Total 6,500 sq. ft. It is anticipated that this will house a working group of up to 20 people and a turnover of £½m.
5. DBC muesli prepared and mixed on the premises creates added value and may be sold at well below supermarket prices for a similar high quality mix. Also various mixes of beans for soup, nuts and raisins, mixed nuts, mixed herbs, mixed fruits are all mixed on the premises.
6. Over a four year period 1981-1985 the cost of packaging materials is approximately 2112 per cent of sales. This includes labels, polythene bag!;, glass jars and bottles. Most bottles and jars are re-cycled on the premises. No comparative figures are available for the average cost of packaging materials for supermarket food but it is likely to be nearer to 10 per cent than 2112 per cent.
7. Another example is flour. DBC sell locally grown 100 per cent wholemeal flour. In August 1983, customers were eating bread which less than a week previously had been standing corn in fields near Milton Keynes. The farmer, on his own premises, had harvested, milled, packed and delivered the flour to DBC all within a few days. The freshest possible bread! Contrast this with "shop" bread made mostly with hard wheat imported from Canada and often held in store for months, sometimes for years, waiting for the right price.
8. Good News Bible page 155 Acts Chapter 4 verses 32-35.

9. DBC 1984. In a working group of fifteen, eleven chose to be paid standard salary, two chose below standard because they each had an earning wife or husband, and two above standard. Of the latter two, one was repaying a debt for house renovation, and the other was to cushion the change from higher paid previous employment. Over the group of fifteen, the average wage was £100 per week.
10. In 4½ years trading DBC has had to chase up a handful of cheques "returned to sender" but has not incurred a single bad debt from any customer. About 100 cheques per week are received.
11. DBC borrowed initial capital of £9,000 in 1980 and repaid it in full in 1983. This was exceptional and a working figure for a typical wholefood warehouse would be an initial loan of £20,000 to be repaid after 5 years, and overdraft facilities. See Appendix 5.
12. It is not unusual for visitors to DBC to be invited to join in some straightforward manual task and, at the same time, to discuss the purpose of their visit. It is sometimes easier to understand the business by this means, than by talking in a back office.
13. Addresses of wholefood wholesalers:-

Community Foods Ltd.,
Unit 1, Brunswick Industrial Park,
New Southgate,
London N11 1JL.
01-368 9215

SUMA
46 The Calls
Leeds,
West Yorkshire LS2 7EY.
(0532) 442569.

Green City Wholefoods,
23 Fleming Street,
Dennistown,
Glasgow G31 1PH
(041-554) 7633.

APPENDIX 1

A NOTE ON THE FORMATION OF DAILY BREAD CO-OPERATIVE

In 1974, in the Church of England Parish of St. Peter's, Weston Favell, Northampton, nine people met together and formed a group to share worship in each other's houses, to share some possessions and to share in depth the hopes, fears and experiences of trying to live the Christian life.

The subject of work was often discussed and eventually led to the nine becoming founder members of a newly-registered co-operative society, Daily Bread Co-operative Ltd. in 1976. The intention was to clear the way for some of the group to work together, whenever the time seemed right to do so. Four years later, after many hours of reflection and discussion, two of the founder members became the first working members of a wholefood warehouse which opened its doors to the public on 1st October 1980. Seed capital of £9,000 had been borrowed from the Commonwork Trust and a twenty year lease taken on a near-derelict Victorian building which was renovated with the help of a Manpower Services Commission Scheme.

The commercial progress of the venture is shown in Appendix 2. New working members joined as the business grew and the remaining non-working founder members were able to resign in 1984, so that the enterprise is wholly owned and controlled by the people who work in it.

Daily Bread Co-operative is not a charity and it must earn its living in the market place or go out of business just like any other commercial enterprise. However, the heart of the matter is that it is an attempt to live out the Christian gospel in a commercial framework and it can only be understood by reference to its objectives. These are that members worship together every working day, have a special concern for people recovering from mental illness some of whom are working in the co-operative, and make links with appropriate projects in Third World countries.

As the economist Alfred Marshall said:

“The economist, like everyone else, must concern himself with the ultimate aims of man”.

Discussion of these fundamental aspects of the enterprise are beyond the scope of this publication, but further information is available. See Appendix 8.

APPENDIX 2

DAILY BREAD CO-OPERATIVE LTD – SUMMARY OF AUDITED ACCOUNTS 1980-1984

Year ended December 31st.	1980 ¹		1981		1982		1983		1984		Estimated 1985	
No. Of People at December 31st.	4		7		10		12		15		18?	
Nett Sales	£8,899	100% ²	£70,383	100%	£133,420	100%	£212,430	100%	£304,240	100%	£400,000	100%
Closing Stock	5,338	60%	10,490	15%	10,550	8%	17,350	8%	21,154	7%	24,000	6%
Gross Profit	2,533	28%	20,656	29%	37,793	28%	59,352	28%	85,926	28%	112,000	28%
Donations/interest etc.	669		539		496		102		11		—	
Salaries	1,057	12%	13,050	19%	28,086	21%	48,024	23%	60,295	20%	80,000	20%
Rent of Premises	—		—		1,250 ³	1%	2,500	1%	2,500	1%	2,500	1%
Printing/postage/publicity stationery/food information	339	4%	883	1%	1,621	1%	1,852	1%	2,892	1%	3,500	1%
Overhead expenses/heat/ light/'phone/insurance/ depreciation etc.	1,780	20%	4,113	6%	7,358	5%	8,736	4%	9,722	4%	13,000	3%
Total costs	3,176		17,996		37,065		58,612		75,634		99,000?	
Nett surplus before tax	26 ⁴		3,199		1,224		843		10,303 ⁴		13,000?	

NOTES (1) Warehouse opened on October 1st 1980. This column is for three months October/December.

(2) All percentages are of nett sales.

(3) Premises were rent-free for first two years.

(4) It was agreed policy to try to make a small surplus each year to establish commercial viability without incurring corporation tax. This policy was relaxed in 1984 in order to strengthen the balance sheet by making a larger surplus and transferring it to reserve.

APPENDIX 3

PRICE COMPARISON

A spot check of 22 products with Sainsburys on 4th February 1985 comparing like quality and similar or identical pack sizes, shows that 20 were cheaper at DBC and two more expensive, with an overall saving of 17 per cent. Foods packed by DBC show savings of 22 per cent for beans, 20 per cent for nuts and 8 per cent for dried fruit. DBC Muesli which is prepared, mixed and packed on the premises is 42 per cent less than similar "de-luxe" mueslis. Herbs and spices also show savings of 40 per cent. The two products which were cheaper at Sainsburys were Figs (5 per cent) and Sunflower oil (3 per cent). The DBC price for figs has just increased and Sainsburys will probably increase also when the new crop of figs from Turkey eventually reaches their shelves. Sunflower oil appears to be a genuine saving, not a loss leader.

Another price comparison was made at Tesco on February 28th. 1985 with remarkably similar results. From a total of 20 products, including porridge oats, honey, lentils, peanut butter, dried fruit, 18 were cheaper at DBC for the same pack size, and two more expensive, with an overall savings of 18 per cent. Wholewheat macaroni was 4 per cent more expensive and sunflower oil, as at Sainsbury, was 18 per cent more. A further comparison of 13 herbs and spices showed that the average price per gram at Tesco was a staggering three times that of DBC. Although the DBC pack sizes were considerably larger, for 10 herbs out of 13 the price of the DBC large pack was less than the price at Tesco for the small pack.

Supermarkets or their suppliers buy the original food at the same price as DBC, or lower as they buy larger quantities. The reason for the lower selling prices at DBC is that selling expenses are less and, in particular, the elimination of the loading, storage, transport, unloading, from one depot to another, for processing and packaging. There is no economy of scale and small is the appropriate size for a wholefood warehouse open to the public.

Most customers at DBC buy some larger packs and therefore make an additional cost saving over and above the average of 17 per cent. Hence the best estimate is that food is 20 per cent cheaper at DBC. Food which costs £5 at the supermarket will cost £4 at DBC. However it must be remembered that supermarkets carry a much wider range of food, and not many people can eliminate supermarkets from their food buying.

APPENDIX 4

SOURCES OF FURTHER INFORMATION

1. Two national co-ordinating bodies:-

Co-operative Development Agency (CDA) Broadmead House, 21 Panton Street, London SW1Y 4DR. Tel. 01-839 2987. Government sponsored organisation with a special concern for worker co-operatives.

Industrial Common Ownership Movement (ICOM) 7 Corn Exchange, Leeds, LS1 7BP. Tel. (0532) 461737. Membership-based national organisation to promote worker co-operatives.

Either CDA or ICOM will provide addresses of about 80 local Co-operative Development Agencies, mostly initiated by local authorities.

2. Three reference books and guides:-

“RUNNING YOUR OWN CO-OPERATIVE” by John Pearce. Practice and problems of worker co-operatives. Chapter 4, Raising Finance, is full of useful information. Published September 1984 by Kogan Page, 120 Pentonville Road, London N1. (£4.95)

“WORKER CO-OPS – A HANDBOOK” by Anna Wyatt and Peter Cockerton. New edition of a comprehensive guide and commentary. Published by ICOM 1984. Available from Corner House Bookshop, 14 Endell Street, London WC2. (£4.20 post free).

“THE NEW CO-OPERATIVES – A DIRECTORY AND RESOURCE GUIDE”. 3rd Edition. Edited by Catherine Luyster. Lists over 900 worker co-operatives in UK and over 100 local CDA’s and advisory groups. Published September 1984 and available from CDA, address above. (£4.95 post free).

3. Two "launching kits":-

“HOW TO FORM AN INDUSTRIAL CO-OPERATIVE” Contains a guide to the ICOM Model Rules with which nearly 1,000 co-operatives have been registered, and all the forms necessary for registration. Published by and available from ICOM, address above (£12.50 + postage £1.20).

“HOW TO SET UP A CO-OPERATIVE BUSINESS” Includes several alternative sets of Model Rules, etc. Published 1985 by CDA, address above (£3.50 post free).

4. Four economists over a span of sixty years point the way towards co-operatives:-

“THE ACQUISITIVE SOCIETY” by R. H. Tawney. Bell. 1920.

“A CONTRIBUTIVE SOCIETY” by J. R. Bellerby. Education Services. 1931.

“THE AFFLUENT SOCIETY” by J. K. Galbraith. USA 1958.

“SMALL IS BEAUTIFUL” by E. F. Schumacher. Bland & Briggs 1973.

5. Co-ordinating body of the wider co-operative movement:–

Co-operative Union, Holyoake House, Hanover Street, Manchester M60 0AS.
Tel. 061-832 4300. The national federation of the retail co-operative movement. Also advises and helps new co-operatives including worker co-operatives. Publishes a comprehensive booklist.

6. Finance and accountancy for worker co-operatives:–

“WORKER CO-OPERATIVES” by Tony Marris FCA. Accountants Digest No. 162 (1984) published by Institute of Chartered Accountants, PO Box 433, Moorgate Place, London EC2P 2BJ.

“SOURCES OF FINANCE FOR SMALL CO-OPERATIVES” by John Pearce. Available from ICOM, address above.

“WORKER CO-OPERATIVES – HOW LOCAL AUTHORITIES CAN HELP” – by Alan Taylor. Available from ICOM, address above.

“HOW MUCH MONEY WILL WE NEED?” – by Tony Marris FCA, Available from Co-operative Development Agency, address above.

APPENDIX 5

BUSINESS PROSPECTUS

Potential lenders such as banks, ICOF, local authorities will be much influenced by the business experience and determination of the founder members of the co-operative. They will also require a description of the proposed business and the estimated profit or loss over the first few years. Even more important, they will want a cash flow projection to indicate whether or not the co-operative will be capable of repaying a loan satisfactorily.

For a new business such estimated figures are sometimes little more than guesswork and sales figures for the critical first two years may be over-estimated to impress the lender. However, for a co-operative wholefood warehouse, wherever it is located, the performance data from Daily Bread Co-operative enables more reliable figures to be prepared. New co-operatives may wish to use the following tables as a guide for their business prospectus, and lenders may find them useful to compare with business plans submitted to them.

TRADING ACCOUNT AND PROFIT AND LOSS ACCOUNT YEARS 1 to 5 (page 24)

This shows that after small initial losses which are normal for nearly any new business, the co-operative moves into profit in year 3, and the annual surplus thenceforward indicates that the business is viable.

1. The sales figures and gross profit at 28 per cent of sales are taken directly from Daily Bread Co-operative figures for 1980-1985. It is significant that the gross profit has remained remarkably constant over five years and is therefore a reliable figure for this kind of business.
2. Opening and closing stocks have a direct bearing on cash flow, and depend on the amount of bulk buying. 13 per cent of sales is high and 5 per cent is low but not impossible to achieve after a few years.
3. Cost of packaging materials averages 2½ per cent of sales. This is for low-cost packaging such as plain paper sacks or polythene bags with simple labels. A customer survey in 1982 showed clearly that people who shop at a warehouse do not want to pay for more elaborate packaging.
4. Similarly, warehouse trading requires low overheads and items like advertising, stationery, travelling, should be controlled to a low figure.
5. Salaries are the dominate expense of a labour-intensive packing business like wholefood. Expenses like heating or insurance are relatively fixed but salaries are very flexible because they are whatever the working members decide to pay themselves. The higher the initial salaries, the higher will be the burden of loans to pay for them and the longer it will be before the co-operative becomes independent of loan capital. The salary bill may be kept appropriately small in several ways:—
 - (a) by making use of any current Government schemes such as Enterprise Allowance, which pays £40 per week for 12 months to people starting new businesses under certain conditions,

(b) by a work equity scheme, described on page 28 which defers salaries from the difficult early years to more prosperous later years,

(c) by accepting voluntary workers, usually in connection with the social objectives of the co-operative,

(d) by choosing founder members whose financial needs are not large. To take an extreme example, a person with five young children and a granny to support, needs to earn substantially more than a single person without dependents. The trading account is based as an *average* salary of £80 per-week in year 1, £90 in year 2 and £100 thereafter.

(e) by reducing the amount of packing work, and buying more pre-packs, but this will also reduce the gross profit percentage.

The trading account shows clearly, and it cannot be said too often, that salaries are the high expense of this kind of business, and can make or break the co-operative in years one and two. Correspondingly salaries are an area in which a co-operative has a great advantage over the employer/employee business, because the whole working group is committed to share the good times and the bad, whereas the conventional employer is on his own.

6. Rent is a high expense and finding premises at an appropriate rent will sometimes be the deciding factor in whether or not to start the business.

The table is based on premises which are rent-free or rent-deferred for two years. In government designated "assisted areas" rent-free premises are available for two years, and in all areas local authorities encourage locally-based businesses to start-up and stay put, as opposed to incoming businesses which have a nasty habit of taking advantage of initial rent concessions and then moving elsewhere when the concessions have been used up.

CASH FLOW YEAR ONE PAGE YEARS ONE TO FIVE (page 26)

The tables show that the loan requirement reaches a maximum of £19,800 at the end of year three and then falls away rapidly as the business becomes established. After five to six years the co-operative can expect to be entirely independent of loan finance and it is this beneficial situation which makes a wholefood warehouse such a good business.

Capital expenditure for a wholefood warehouse is small and this makes it an appropriate business for a co-operative structure with loan capital instead of shares. For example a one-tonne pallet truck, a selection of wheeled trucks and trolleys, several packing benches and weighing machines can all be bought for a total of £3,000 as shown in year one. Experience indicates that more expensive equipment such as fork-lift trucks and electronic weighing scales are extras which can be added later if needed.

Loan interest is shown paid in full right from the start on bank overdraft. It is averaged each year at an estimated interest rate of 15 per cent. The advantage of arranging a bank overdraft is that the co-operative is never borrowing more than its immediate needs, and the rate of interest is comparatively low. An alternative method of financing is to take out an initial loan of £20,000 to cover the total loan requirement, to be re-paid in year four to seven; this would involve higher interest payments than an overdraft but

would maintain a credit balance at the bank. Often the loan package will be a combination of a medium-term loan and an overdraft arrangement.

There is no VAT on wholefood, apart from fruit juices. The co-operative will pay VAT on capital items and non-food purchases and will reclaim this each quarter. The VAT which has to be charged on sales is likely to be of the order of 1 per cent of sales, and the figures in all the tables are shown exclusive of VAT.

Some co-operatives raise part of their loan capital from working members, either from savings or by voluntary 'deduction from salaries. Interest paid on money borrowed by members to invest in their co-operative can be offset against earnings for income tax.

BALANCE SHEET. YEARS ONE TO FIVE. (page 26)

A company with shares is controlled by its shareholders who are often not working in the business. A co-operative has its working capital in the form of loans so that the business is owned and controlled by the people working in it. When the loans are paid off, as illustrated in year five, the co-operative is not dependent on any outside source of finance. However, this happy situation is unlikely to come about without a great deal of hard work, and the burden of loan capital may create financial problems in the early years due to the difficulty of building-up assets. The loans are shown as a liability on the balance sheet which gives a net deficit of £3,900 at the end of year one and £1,300 at the end of year two. These deficits would need to be covered, by guarantee from working members or others, and may be looked upon as the inevitable development expenses of creating a new business. The build up of assets in years four to five and thereafter shows that the business is viable.

The warehouse is mainly a cash business and for simplicity, it is assumed that trade debtors and creditors will cancel each other out.

Corporation Tax is omitted. The losses for years one and two can be carried forward to offset against Corporation Tax, and tax allowances can be claimed on capital equipment. Some tax is likely to be payable from year four onwards and this will reduce the nett assets shown for years four and five. The substantial figure of £27,600 for nett assets at the end of year five is the commercial justification for initiating the co-operative. Much more important than the commercial aspect, fourteen long-term jobs have been created, and the annual surplus may be used for the social objectives of the business.

WHOLE FOOD WAREHOUSE CO-OPERATIVE
PROJECTED TRADING ACCOUNT AND PROFIT AND LOSS ACCOUNT FOR YEARS ONE TO FIVE

	YEAR 1		YEAR 2		YEAR 3		YEAR 4		YEAR 5	
SALES	£53,300		113,900		193,200		279,700		360,000	
COST OF SALES										
Opening Stock			7,000		10,000		16,000		20,000	
Purchases - Food	44,000		82,100		140,400		198,700		252,000	
- Packaging	1,300		2,800		4,800		7,000		9,000	
Total Purchases + Stock	45,300		91,900		155,200		221,700		281,000	
Less Closing Stock	7,000		38,300		10,000		81,900		16,000	
GROSS PROFIT	15,000		32,000		54,000		78,000		101,000	
Gross Profit as % of Sales	28%		28%		28%		28%		28%	
EXPENSES										
Salaries + National Insurance	13,500		22,800		40,700		56,000		72,000	
% of Sales	25%		20%		21%		20%		20%	
Heat, Light, Power	1,000		1,300		1,500		1,700		1,800	
Rent and Rates	500		500		3,500		3,500		3,500	
Insurance	300		400		500		600		700	
Advertising, Postage, Telephone, Stationary	600		1,200		2,000		2,800		3,600	
Audit, Accountancy, Depreciation, Bank Charges	1,000		700		800		900		1,000	
Interest on Bank Overdraft	1,500		4,900		2,000		6,100		2,500	
Total Expenses	18,400		28,900		51,500		67,500		83,600	
NETT PROFIT OR LOSS	Loss -3,400		Profit +3,100		+2,500		+10,500		+17,400	
Cumulative Profit or Loss	-3,400		-300		+2,200		+12,700		+30,100	
Number of Working Members at Year End	4		6		8		11		14	

WHOLE FOOD WAREHOUSE CO-OPERATIVE PROJECTED CASH FLOW FOR YEAR ONE

MONTH	PRE START-UP	1	2	3	4	5	6	7	8	9	10	11	12	TOTAL
Purchases	£3,000	2,000	3,000	3,000	3,000	3,000	3,000	4,000	5,000	5,000	4,000	3,000	4,300	45,300
Salaries + NI	—	900	900	900	900	900	900	1,100	1,400	1,400	1,400	1,400	1,400	13,500
Expenses	500	—	400	400	400	400	400	400	400	400	400	400	400	4,900
Capital Expenditure	3,000													3,000
Total Payments	6,500	2,900	4,300	4,300	4,300	4,300	4,300	5,500	6,800	6,800	5,800	4,800	6,100	66,700
Sales	—	2,300	2,900	3,500	2,800	3,000	3,800	5,900	4,900	4,600	5,700	5,900	8,000	53,300
Sales Less Payments	-6,500	-600	-1,400	-800	-1,500	-1,300	-500	+400	-1,900	-2,200	-100	+1,100	+1,900	-13,400
Overdraft at Month End	6,500	7,100	8,500	9,300	10,800	12,100	12,600	12,200	14,100	16,300	16,400	15,300	13,400	

Stock at end of year one is £7,000 = 13% of sales

Gross profit is 28% of sales = £15,000

Therefore cost of sales is 72% of sales = opening stock + purchases - closing stock
 $72\% \times £53,300 = 0 + £45,300 - £7,000 = £38,300$

**WHOLE FOOD WAREHOUSE CO-OPERATIVE
PROJECTED CASH FLOW FOR YEARS ONE TO FIVE**

YEAR	1	2	3	4	5
	£	£	£	£	£
Purchases	45,300	84,900	145,200	205,700	261,000
Salaries + NI	13,500	22,800	40,700	56,000	72,000
Expenses	4,900	6,100	10,800	11,500	11,600
Capital expenditure	3,000	2,000	1,000	1,000	2,000
Total Payments	66,700	115,800	197,700	274,200	346,600
Sales	53,300	113,900	193,200	279,700	360,000
Sales Less Payments = Cash Flow	-13,400	-1,900	-4,500	+5,500	+13,400
Overdraft At Year End	13,400	15,300	19,800	14,300	900
Stock At Year End	7,000	10,000	16,000	20,000	22,000
Stock as % of Sales	13%	12%	8%	7%	6%
Salaries + NI as % of Sales	25%	27%	21%	20%	20%

**WHOLE FOOD WAREHOUSE CO-OPERATIVE
PROJECTED BALANCE SHEET (SUMMARY) FOR YEARS ONE TO FIVE**

YEAR	1	2	3	4	5
	£	£	£	£	£
ASSETS					
Fixed Assets (Depreciation Deducted)	2,500	4,000	4,500	5,000	6,500
Stock At Year End	7,000	10,000	16,000	20,000	22,000
Total Assets	9,500	14,000	20,500	25,000	28,500
LIABILITIES					
Bank Overdraft At Year End	13,400	15,300	19,800	14,300	900
Nett Assets	-3,900	-1,300	700	10,700	27,600

APPENDIX 6

SOURCES OF LOAN FINANCE FOR WHOLEFOOD WAREHOUSE CO-OPERATIVES

See also “Running Your Own Co-operative” by John Pearce (Appendix 4) Chapter 4, Raising Finance, and Chapter 5, Money and Financial Control.

1. Co-operative Bank plc, New Century House, Manchester M60 4ES Tel: 061-834 1212. The Head Office of the bank of the co-operative movement will give the address of the nearest Branch and person to approach.
2. Local Authority. Because worker co-operatives are seen to generate real new jobs, some local authorities, such as London, West Midlands, parts of Scotland, have ear-marked loan funds specially for co-operatives. The best approach is through the local CDA, whose address is in “The New Co-operatives” (see Appendix 4) as most CDAs are closely linked with local authorities.
3. Industrial Common Ownership Finance (ICOF), 4 St. Giles Street, Northampton NN1 1AA. Tel: 0604 37563. ICOF is a national revolving loan fund started in 1973 for worker co-operatives. Loans are usually between £2,500 and £10,000 repayable over about five years. Most borrowers are starter co-operatives and an ICOF loan is often the first step to helping a co-operative to obtain additional loans from local banks or local authorities.
4. Quaker Socialist Society, Meeting House Cottage, Sibford Gower, Banbury OX15 3XS. Tel: 029-578 701. Treasurer: John Endersby. QSS is a sub-group of the Religious Society of Friends (Quakers) and made an interest-free index-linked loan of £2,500 in 1984 to help to launch a co-operative wholefood business in Hastings, started by a group of Friends.
5. Department of Industry. Loan Guarantee scheme. The Government will guarantee 70 per cent of a medium-term loan, in return for an extra 3½ per cent added to the rate of interest. The higher interest rate makes it expensive and only useful if other sources are not available. The scheme is run by local high street banks and more detailed information is available from them.

APPENDIX 7

WORK EQUITY/CASH EQUITY – A MODEL FOR FINANCING WORKER CO-OPERATIVES

Potential members of an industrial worker co-operative seldom have valuable assets to offer as collateral for a loan for working capital, and even if they did, why should they put their houses in hock to the bank? What they do have is collective commitment to work hard to build up the assets of the business to ensure survival. The work equity/cash equity concept is a measured way of turning this commitment into collateral acceptable to cautious lending institutions.

WORK EQUITY

More colloquially called “sweat equity”, is defined as the difference between the salary paid and the market rate for the job. For example, if a co-operative member is paid £90 per week for a job which would attract £130 per week elsewhere, his work equity is £40 per week or about £2,000 per annum. This is recorded each week as a notional figure and, in effect, it is his contribution to the assets of the co-operative. Because it is notional and not formally credited to a loan account, it is not subject to PAYE or National Insurance contributions until such time as it is paid out, which is at the discretion of the working members who own and control the business.

WORK EQUITY FOR THE SOLE OWNER

There is nothing unusual in work equity for the sole-owner of a new conventional company. He is likely to take out of the business in its early years, much less than he could earn elsewhere as an employee. He does so to gain the satisfaction of creating his own business, and often in the hope of building up assets which can eventually be sold for a substantial capital sum; he will accept that this early deprivation is a price to be paid for wealth in due course, a deferred reward for his early efforts and risk.

WORK EQUITY FOR A CO-OPERATIVE

The situation is similar but instead of one sole owner there will be a group of working members who are the joint owners of the enterprise. They are unlikely to see it as a means of all achieving great wealth but they do want to gain the freedom to choose the objectives of the business, which may be social as well as financial. They know that they must survive in the market place like any other business, in order to gain this freedom of choice. They are prepared to accept salaries below market-rate; for example, instead of a total salary bill of, say, £30,000 they agree to pay themselves 25 per cent less, £22,500, and the balance of £7,500 represents the work equity which remains in the business as working capital.

CASH EQUITY

Shrewd bank managers realise that this measured, agreed and recorded

work equity is good collateral for a loan to the co-operative. The working group have an incentive to stay put, tighten their belts in hard times, and build the business. The banker may match the amount of work equity offered by the working members by an equivalent sum as "cash equity" represented by a loan to the co-operative; for example, the loan might be £15,000 on condition that the members will contribute £7,500 work equity for two years. The risks are shared between the lender and the working group on a carefully measured and recorded basis.

The work equity provides security for the cash equity by reducing the outside working capital required and strengthening the balance sheet in the critical early years.

NEED FOR CO-OPERATIVE ENTREPRENEURS

An objection may be raised that the sole owner will be an entrepreneur; he will have the imagination and drive to get the business into orbit, whereas the group of co-operative members are unlikely each to have this entrepreneurial attitude? Agreed, it is doubtful if there is such a thing as collective entrepreneurial activity, and agreed that it is just as important to have it in a co-operative as in any other form of business. Thus the wise working members will identify the co-operative entrepreneurs, just as they will identify other skills of hand or brain. They will appoint them to be co-ordinators, or enablers, or simply managers, and give them authority to develop the enterprise within a carefully defined democratic framework; their authority derives solely from the working members on the historic one person/one vote co-operative principle. The institution providing the cash equity will want evidence that such people have been duly appointed.

THE RIGHT TIMING

Worker co-operatives are a growth sector of the industrial scene and lending institutions will not be slow to realise that they need to develop experience of lending to them before others scoop the pool. Those remarkable working men, the Rochdale Pioneers who started a co-operative flour mill in the 1840s, might not have expressed work equity in quite these words but they nurtured the seed of an idea which makes more economic sense today than at any previous time.

APPENDIX 8

To Daily Bread Co-operative Ltd.,
The Old Laundry,
Bedford Road,
Northampton NN4 OAD.

Please send information about:–

- (1) Wholefood – 6 information leaflets while stocks last.
- (2) Selling prices
- (3) Social objectives

We have the following query:–

.....
.....

Leave blank for DBC answer:–

.....
.....
.....
.....
.....
.....
.....

From – Name of individual or business

.....

Address:

.....

Date:

APPENDIX 9

To Daily Bread Co-operative Ltd.,
The Old Laundry,
Bedford Road,
Northampton NN4 OAD.

Please send list of wholefood suppliers.

This list needs to be updated regularly as suppliers vary in efficiency, new ones appear and some disappear.

Our concern is to assist the development of co-operatives rather than privately-owned employer/employee businesses, so we send this updated list only to those who have taken the important step of registering as a co-operative society.

From – Name of Co-operative:

.....

Address:

.....

Co-operative Registration No.

Date of Registration

Date:

ROGER SAWTELL MA JP, served an engineering apprenticeship at English Electric Ltd., Rugby and then worked for sixteen years in the steel industry in Sheffield, latterly a Deputy Managing Director of Spear and Jackson Ltd., tool and steelmakers. In 1967 he returned to Clare College, Cambridge, to spend a term reading theology and then visited an industrial Kibbutz in Israel, coming back to this country fired with determination to develop a business owned and controlled by the people working in it. This became Trylon Ltd., now a leading supplier of plastics to schools and internationally known for glassfibre canoe construction.

He left Trylon after seven years and spent the following five years as a consultant to newly-emerging industrial co-operatives. He was also one of the first members of the national Co-operative Development Agency in 1978. In 1980 he returned to co-operative employment as elected manager of a new business in the food industry, Daily Bread Co-operative Ltd., which now has a working group of fifteen people and a turnover of £1/2m.

Roger Sawtell's fifteen years experience as a founder member and manager of two successful industrial co-operatives is probably unique in the UK. He is a practising manager, committed to the Christian faith and to the co-operative concept of democratic control of the business by those who work in it.