JUMPING INTO OPPORTUNITIES TO COOPERATE

Using Cooperatives to Boost Rural Economic Development

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My role as Executive Director with Regenerative Business Institute (RBI) keeps me in close conversation with entrepreneurs and business owners in a variety of industries. I have walked with many through increasing and nearly impossible barriers to entry. I have also seen first-hand the struggles existing businesses and families are experiencing in efforts to keep their doors open. Over the last couple of years, more and more of my conversations about starting a business are with Social Security-eligible clients who are now realizing that Social Security benefits alone will not carry them financially through what has been the industrial age concept of retirement.

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The challenges faced by our aging Baby Boomer population are just the beginning. Young entrepreneurs regularly approach RBI with challenges overcoming access to capital in order to realize their dream of business ownership while current business owners cite a lack of qualified buyers in the market as one of the top stressors relating to the succession of their business. I regularly interact with many economic development professionals and civic leaders, who stress that business retention and expansion (BR&E) along with access to a talented, qualified workforce, are their top constraints in economic development efforts. It has become increasingly clear that each of these issues stem from a common source. My time spent traveling throughout New Zealand and other parts of the globe have taught me, "the solution to a problem lies within the problem itself" (Mollison, 1988). This guiding principle has led to the approach of addressing these economic challenges by instituting collaborative competition through cooperative and employee stock ownership program (ESOP) business models.

COOPERATIVE BEGINNINGS

Cooperation through cooperatives reaches back to examples like the Rochdale Pioneers in 1844, and even further back to the Fenwick Weavers Society in 1761. (Holyoake, 1893). One of the key principles of cooperatives is the notion of self-help, whereby the members of a community take it upon themselves to create, operate, and manage enterprises that serve the common interests of those members. Cooperatives usually form in one of three ownership structures: consumer owned, producer/worker owned, or a combination of consumer and worker ownership.

Cooperatives have proven to be powerful economic impact creators, often experiencing incredible stability and staying power, especially when compared to their privately- or investor-owned counterparts, all while placing priority on benefit for the cooperative membership over a narrow focus on profit. (Deller, et al. 2009). The Quebec Ministry of Industry and Commerce reports that Cooperatives have a 27% greater likelihood of surviving beyond the critical fifth year. Cooperatives still exist today and, according to the National Cooperative Business Association (NCBA), most often take the form of housing cooperatives, utility cooperatives, credit unions, value-added agriculture production, and manufacturing companies.

OUR FIRST CASE STUDY-FAMILY ENTERTAINMENT

In a small rural town between Phoenix and Tucson, a cooperative project, unlike any in current existence, is underway. A couple that owns a small business in the family entertainment industry approached RBI in early 2017, citing concerns with declining sales trends and an inability to attract and retain a labor force that would allow them to grow and develop the business. RBI worked them through an intensive feasibility analysis to determine that a cooperatively owned family entertainment center would solve the problems experienced by the current business model. Additionally, this model would have the benefit of bringing a family entertainment venue to an area that does not meet real estate or demographic requirements usually required by large, investor-owned family entertainment firms.

This project required an evaluation of risk associated with the investment of a multi-million dollar, 40,000 square-foot indoor trampoline and extreme sports park. We needed to identify where a small family-owned business would gain access to that level of capital and what the transition would look like. Importantly, if the large investor-owned firms set requirements for themselves that prevent pursuit of projects in this type of demographic, we had to ensure our venture would be viable.

By signing the membership forms and investing financially through the Member Investor Share Offering (MISO) the proof of viability is present and the capital needed to build the center becomes available. The U.S. Department of Agriculture (USDA) also supports the financing of cooperatively-structured businesses using a program that is similar to the Small Business Administration's (SBA) 7(a) and 504 loan guarantee programs. Giving ownership of the family entertainment center to the community that will ultimately benefit from its existence while also encouraging patronage in the center by declaring patronage dividends is a sound economic development strategy. This encourages households to start thinking about alternative ways to participate in the economy, producing regenerative results from their spending.

OUR SECOND CASE STUDY-RESTAURANTS

In another rural community in Arizona, a different problem is taking shape. The Director of Economic Development engaged RBI to explore options for a struggling restaurant industry in this community. RBI met with twelve locally-owned, sit-down restaurant owners, separately, to learn about the concerns the owners have and the challenges they are experiencing. In each of the interviews, the following commonalities arose:

- Ownership is exhausted and wants to sell the business
- Ownership has tried to sell but was unsuccessful in finding a qualified buyer
- A lack of training for back-of-the-house staff was exponentially increasing direct costs
- Front-of-the-house issues were creating increased customer complaints
- Getting employees to show up to work was a real challenge
- A lack of public transportation greatly contributes to employees not showing up to work
- Proximity to the major metropolitan area creates retail leakage (patrons spending in neighboring communities)

Independent and isolated incentives often lead to outcomes that are unfavorable for the whole. (Bartlett, 2010) Each restaurant, independently competing for available "Food-Away-From-Home" dollars found that their individual costs of attracting and retaining sales were increasing while the available market size was decreasing. Food quality and dining experience in each restaurant began to suffer due to the lack of sales and profit, resulting in diners seeking opportunities elsewhere, in this case, in neighboring communities.

While there is growing interest in cooperatively-structured businesses, there remains much to be done in gaining the attention of business owners, municipal leaders, economic development professionals, consumers and producers, and providing education as to why they should consider the benefits of the co-op business model. For example, cooperatively-owned brewpubs are gaining in popularity across the U.S., primarily due to a co-ops ability to raise capital, in many cases, without having to register a securities offering. The benefits of the cooperative business model go well beyond a co-ops ability to raise capital and provide worker and patron ownership. Any community expected to adopt the co-op business model will

require these benefits to be clearly communicated and easily understood.

In this case, RBI is exploring a cooperatively-owned industry: twelve restaurants, assembled under a single co-op, owned by the restaurant employees and patrons of the restaurants. By sharing resources across the co-op, RBI anticipates that each restaurant will be able to overcome the issues identified in the interview by cross-scheduling staff between restaurants, co-op owned transportation to shuttle staff between restaurants and to and from home, and cooperatively-managed administrative functions like accounting, payroll, marketing, training, and promotional activities. Rather than each individual restaurant fighting for an increased share of a decreasing market, the co-op works to increase the market share and profitability of the entire industry, translating into higher wages for industry staff, democratic choice in service offering, and the Food-Away-From-Home portion of the household budget working as an investment.

A NEW PERSPECTIVE

The U.S. Bureau of Labor Statistics (BLS) publishes the Consumer Expenditures Survey, an analysis of how Americans spend their money, on the complete range of consumer expenditures by income and demographic characteristics. This type of data, along with the Retail Sales Per Capita metrics from the U.S. Census Bureau, provides perspective regarding the high retail leakage rate in the county of the proposed projects. In fact, due to the county's proximity to both of the largest metropolitan areas, the rate proves to be the highest in all of Arizona.

Residents who make up the membership of the family entertainment co-op spend, on average, $2,900 annually in the entertainment category. The Food-Away-From Home spend exceeds $3,000 annually. Each project's current prospectus anticipates that a family could realize a six percent return of their annual spend on family entertainment or dining out through patronage dividends. Established as a democratic organization, the cooperative would anticipate higher levels of patronage loyalty because members could see higher returns with higher participation levels. Moreover, the membership is the voice that determines the entertainment or dining mix offered.

RBI continues to develop programming to work with economic development professionals and civic leadership to expand beyond family entertainment dollars into other critical areas of the household budget like: Food-At-Home (cooperative grocery and direct farm sales), Food-Away-From-Home (cooperative restaurants and brewpubs), utilities, insurance, transportation, clothing, housing, manufacturing, and technology firms designed to increase the wage capacity in rural communities.

Furthermore, economic development professionals, incentivized to develop local, cooperatively-owned companies rather than recruiting nationally-branded companies, stand to create economies where 56% of consumer dollars stay in the local community compared to the 13% of consumer dollars non-locally owned, nationally-branded companies leave in the local economy. Depending on the tax structure of the municipality or rural community, this local spending can translate into exponential tax revenues critical to infrastructure and municipal services.

CONCLUSION

I believe that the positive and desirable aspects of capitalism can be married to a more socially-conscious business environment. In doing so, we should expect economic structures that incentivize self-help by the people, reward entrepreneurial and capitalistic endeavors, and provide for an economic environment where the components of the household budget go beyond consumerism and take on a much-needed investment and wealth-building purpose. As a father, business development professional and experienced accountant, I am excited to see and inspired by the possibilities that lie ahead for those communities that are prepared to embrace an era of collaborative competition through cooperative business structures. ✻