

Middlebury Natural Foods Cooperative
Board of Directors Meeting
October 23, 2013
Approved 11/20/13

Board Members Present: Daryl Benoit, Ilaria Brancoli Busdraghi, Ross Conrad, Francisca Drexel, Steve Getz, Mary Gill, Kevin Lehman, Jay Leshinsky, Sheila McGrory-Klyza, Tam Stewart, Louise Vojtisek.

Board Members Absent:

Others present: Kari Bradley (GM at Hunger Mountain Co-op), Victoria DeWind (staff liaison), Glenn Lower (GM).

Board Monitor: Louise

Call to Order: Jay called the meeting to order at 6:30 pm.

Member's Business: Ross reported a conversation with a member-owner who was upset about lower senior discount (should be offered every day), clamshell packaging and selling items that have been shipped long distances. She recommended selling fewer items rather than expanding. Tam suggested these kinds of comments should be posted on Basecamp.

Approval of Minutes: On a motion made by Ross, seconded by Ilaria, the minutes of Sept. 25, 2013 were approved as amended with all in favor and Daryl, Francisca and Kevin abstaining.

Kari-Bradley/ Patronage Dividend: Kari gave an overview of the Hunger Mountain Co-op's transition from discounts to patronage refunds (aka dividends) in 1997. After a huge expansion in a 12,000 sq. ft. building which led to heavy debt, their Council started a year-long member-owner engagement process about changing to patronage refunds as the best means to save the Co-op and become financially sound. He said that a co-op can refund a percentage of all retained earnings that is equal to the percentage of shoppers that are member-owners. Of that, 20-100% can be refunded. Refunds can be done as store credit or checks. They use un-cashed checks to fund their Co-op Community program. The retained earnings can be deducted from income thereby serving as a tax benefit for the co-op. Patronage refunds set the business apart as a co-op from other conventional businesses.

The premise supporting the use of patronage refunds is "don't give a discount until you know you can afford it". It retains money needed to build capital for projects and loan repayments before it is returned to member-owners instead of after. Loss of discounts can be made up with member-owner specials and member-owner appreciation days. Senior and working discounts can continue.

The success of the Hunger Mountain transition seems to have come from a thorough, inclusive engagement program with their member-owners. Presenting member-owners with a compelling reason for change and making them shift to thinking as owners, not members, is the core of the effort. This was a three phase process that they completed in a year. They hired a communications specialist. They included all stakeholders – member-owners, customers, staff and vendors. Any committees created included Board directors and staff as well member-owners.

Phase 1 was to communicate, explain and gather input. The important part of this phase was to share a strategic vision and options for the change. It included engaging in many ways – small

focus groups, store tours, forums, surveys, newsletter, displays, handouts, etc. It focused on creating sincere two way conversation.

Phase 2 was to draft a plan including what the input had been and how it responded to it. More feedback on the draft led them to revise it into a final plan.

Phase 3 was an education and persuasion effort before a by-law change vote for their patronage refund program.

Hunger Mountain bylaws require changes to be voted in person by a 2/3 majority. As a testament to the process they used, Hunger Mountain had impressive results with a 30% voter turnout with 91% approving the change. They found the benefits of their engagement process create better plans, more support and less backlash, better understanding of different perspectives and more trust in and loyalty to the co-operative model. This was such a success that they continue today to use this model for engaging on other issues.

In response to Board questions, Kari said they did not experience a reduction in membership with the change. He felt that the change would benefit if coupled with an expansion plan if created as a vision. The process works with one issue or multiple ones. The communication specialist was very helpful in getting people to be involved and how to best share financial information. There are challenges for a board to decide what refund can be afforded and how to make reasons transparent. The effort would be primarily operational with extra committees that could include board directors.

(Mary left the meeting at 7:30)

GM Report: Glenn mentioned a very successful networking event hosted by Kira and the produce department with about 20 representatives from 12 co-ops of the Neighboring Food Co-op Assoc. More department level education events will take place.

Jay announced a walk and hike meeting with the Rutland Co-op board in November if other directors want to join in.

NCGA's Cooperative Loan Fund: Glenn presented a new program through NCGA for the creation of a fund that is funded with loans made from individual co-ops. The fund would be used to support co-op startups and expansions but not bailouts. \$2 million raised from several co-ops would be matched with \$8 million from the National Co-operative Bank. Currently the first million has been raised and the goal is to raise the remaining money by March 31, 2014. Until that goal is reached money is held in escrow. Once reached NCGA would choose and provide oversight of projects with 7-10 year timelines. Loans would be at competitive rates and provide streamlined processing. Though the loan would be unsecured, Glenn feels NCGA understands co-ops and their risks. He asked the Board to consider authorizing MNFC to make a \$50,000 loan earning 3% interest, more than the 1% it is earning in CDs now. Ross asked how this would impact MFNC expansion plans. Glenn did not feel it would be a big impact and will research how long before the principle would be returned. The Board will consider this at their next meeting.

GP9: Postponed to next meeting

Member Survey: The Board discussed whether a member survey should be undertaken before the end of the year. The general consensus was that there was no pressing need now but would

likely be useful around Growth/Expansion and Patronage Dividends. The Communications Committee agreed to discuss it at their next meeting and make a recommendation about whether a member survey was needed in the short term.

Self-Monitoring: BGM Overview, BGM1, BGM2 all received minor word editing and approval for compliance. BGM3 received approval for compliance but #2 review standard needs clarification with Co-operative Development Services.

Next Meeting – November 20:

Ends report

Cooperative Loan Fund

GP9

Patronage Dividend – next step, calling it refund?

Executive Session – ½ hour

The Executive Committee will work on the GM evaluation. Jay requested Board feedback to Mary on the draft director recruitment packages.

Adjournment: The meeting was adjourned at 8:45 pm on a motion by Tam, seconded by Kevin. All voted in favor.

Respectfully submitted by Victoria DeWind