A Model for Ownership Succession

Franklin Community Cooperative expands

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As Franklin Community Co-op celebrated its 30th anniversary in 2007, "managing growth" had become a repeated refrain and a way of life, as we worked to creatively use the 5,000 square feet in our Greenfield, Mass. store. But accommodating our annual growth of about 10 percent and continuing our commitment to being a downtown food store left limited options for growth.

In Shelburne Falls, a charming village about 10 miles west of Greenfield, the owner of McCusker's Market (a respected natural foods retail and small-town country store) was thinking of retiring but was concerned about finding the right buyer to ensure the store would keep its place as an anchor in the community's small downtown.

For years, many co-op members often remarked that McCusker's Market had a similar mission to the co-op's, and some had inquired whether we would ever consider buying it. They pointed out that, since nearly one-third of our membership resides in the towns immediately surrounding Shelburne Falls, offering a co-op location closer to home would be meeting members' needs. A local business owner and co-op member brought up the idea with the co-op and the McCusker's Market owner and facilitated a slow and steady conversation.

As discussions advanced and the possibility of the co-op purchasing McCusker's became more realistic, the issue arose of balancing the current owner's desire for confidentiality with our practice and history of transparency. We initiated a two-stage process. First, we sought feedback through board-sponsored forums on the direction of the co-op, including the possibility of expanding by adding other storefronts. Without specifically mentioning McCusker's, we were forthcoming about the reality that if we kept growing, we would need to do something. While the board of directors and management team took the membership's pulse, the management team was exploring the possible purchase of McCusker's. We conducted a feasibility study, looking at criteria such as organizational fit, organizational readiness, financial pro formas and a business plan for a two-store operation.

Having come to a preliminary agreement with the owner, we negotiated for the right to go public, giving our members three weeks before the closing date in order to provide information and solicit feedback. We were clear to members that it wasn't a "done deal" and that we were prepared to back out if there was significant objection. We did a mailing to our members including letters from the board and Mike McCusker, the store's owner. The board had scheduled three member forums ahead of time, thus serving as venues to answer questions and outline details of the purchase and its ramifications. We had anticipated many questions and concerns and put our FAQ sheets and informational displays at both stores.

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McCusker's was a community asset whose owner wanted it to continue.

Greenfield's Market and McCusker's Market

STORE COMPARISON AT TIME OF PURCHASE

	Greenfield's	McCusker's
Retail square feet:	5,000	1,000
Annual sales:	$6 Million	$1.2 million
Employees:	51	14

(Total co-op staff now 72)

In August of 2007, we closed the deal. We bought the existing business for $180,000 and its inventory for $50,000, then we put in $90,000 of improvements (shelving, cabinetry, new floors, produce case and sink, and small equipment). This used about half of our co-op's cash reserves. We did not acquire the building, which we share with other tenants; after 14 years of owning our own building in Greenfield, we became renters in Shelburne Falls.

When we took on this expansion to a second store, we knew we had a challenge ahead of us. McCusker's had been a landmark in Shelburne Falls for 30 years. Our job was to retain the store's unique qualities while integrating it with our Greenfield store and co-op identity.

We engaged Bill Gessner of CDS Consulting Co-op for expansion planning, and he emphasized the importance of a prepared communication plan. It was excellent advice! Throughout the many media and member interactions that

followed, both management and the board found confidence in utilizing the messages we had developed.

The immediate message concerned this specific project, but the situation also presented an opportunity to discuss more generally our co-op identity. Members were encouraged to shift from thinking of the co-op as a single store to seeing it as a member-owned economic enterprise conducting various activities.

Some members expressed concern that they saw the purchase as a "secretive" process and at the next annual meeting (March 2008) brought forth a member resolution supporting the decision but asking that, in the future, "momentous decisions" be made at a general membership meetings rather than at board meetings.

Another issue was: how would our purchase affect McCusker's staff? The current owner's concern for retaining all of his employees' positions conflicted with our need to follow a process of re-hiring those who would be able to fill the positions available and to allow some of the labor budget to be allocated to our existing management talent.

We were proactive in having position descriptions ready and posted information about the plan for closing and reopening, as well as hiring procedures. While some employees' responsibilities shifted and others chose not to apply, in the end, almost everyone who wanted a job was rehired as a co-op employee.

What we learned

We had needed help with expansion planning whether we ultimately purchased McCusker's or not, so working with Bill Gessner was valuable in outlining the steps and clarifying our process. Organizational fit, leadership, involving community and staff, and public support of the former owner all played parts.

A few key people took ownership of the project. On the board, our board president's support was invaluable. While the expansion was an initiative of our general management team, my co-managers Patti Waters and John Eichholz were the bulk of the talent and leadership that made it happen.

As we prepared for the closing of the old McCusker's store, we surveyed both co-op members and regular patrons, followed up on some of the suggestions, and then communicated what we were doing through our newsletter. We explained the principles of the co-op model and gained the trust of McCusker's shoppers by showing that we were listening. Cooperative ownership and control were key mechanisms for developing customer loyalty.

Our systems and management structure differed from the previous owner's. Interviewing staff and rehiring them was vital, both to ensure that we had the right people on the team and that they were in the right place. In hindsight, we were perhaps too accommodating in rehiring and could have avoided some difficult situations that resulted.

As simple as it sounds, one of the most helpful pointers was from Peg Nolan—for us to acknowledge that we were in a transition period. And that, yes, some things take time, sometimes longer than we'd like. We requested everyone's patience and support.

In the weeks after the store was reopened, one of our biggest challenges was continuing our communication plan well. The project was exhausting. We failed to anticipate additional resources needed to have someone focused on keeping the planned changes communicated and concerns responded to in a timely way. This caused us undue stress.

The challenges of a two-store operation were anticipated and yet still new. We were told that a two-store operation has a negative balance between the cost of developing new systems and the benefits of economy of scale. In considering the "four cornerstones of expansion success"—Talent, Capital, Vision, and Systems—it was clear that talent and systems were our shortcomings. We responded by focusing on training McCusker's staff, working closely with Greenfield's managers, who took on new responsibilities, and revising our staff structure throughout our co-op. This included reworking position descriptions for top management. We also redeveloped our financial templates to allow for multiple business units and a consolidated view.

We had a spike in new membership in the year after purchase. Sales at McCusker's are up 15 percent compared to last year, though sales at our Greenfield store have hit a plateau.

Small business owners who have created a community asset want it to continue, and while there's a popular image of a small business getting passed from generation to generation, this isn't always feasible. We've provided an example of a co-op—community-owned and controlled, and guided by values and principles—as an effective model of succession for such an enterprise.

We know it was difficult for Mike McCusker to let go of his store, but publicly he was always positive and supportive. He became a member and underwent a transformation from a sole proprietor to a cooperator.

It is a mind-shift to incorporate thinking and planning for longevity. We've begun to make this shift, not only for perpetuation of the co-op, but also of local economic infrastructure that might otherwise have been lost. The co-op model is more appropriate to the long-term sustainability of a store as a community asset.

Despite some bumps along the way, the value of McCusker's as a community hub and their natural foods product mix made it as good a fit as we could have imagined.

It was the clarification of our Ends, our long-range goals, that moved us to consider a second store in this location, and it has become clear that preserving a community-owned natural foods store is helping us meet these Ends. Upon hearing the news of the co-op's purchasing McCusker's, the reaction of numerous members who live in communities east of Greenfield has been, "Next, how about a store in *our* town!" ■