

Buying Clubs & Online Markets



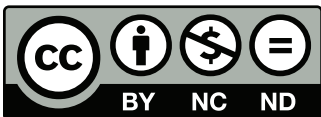
FOOD CO-OP
INITIATIVE

New co-ops start here.

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What are buying clubs and online markets?

A buying club is any group of people that combines their purchasing power to order goods. Members' orders are compiled so that case quantities and minimum orders can be met for suppliers. Order cycles are often on a monthly schedule but could be more frequent for larger clubs. When the orders are delivered to a central distribution point, volunteers (or staff) of the club divide up the products according to the orders placed and members come to pick up their goods. Buying Clubs can range in size from a few households to hundreds. Many clubs, especially smaller ones, operate informally rather than incorporating as a business.



Online Markets differ from buying clubs in that they are more often run by an incorporated business, either a co-op or privately-owned. A web site is used to provide a catalog of available products and the customers place their orders online as they would for any other web business. Orders may be delivered or are picked up at a central location. This model is increasingly being used by for-profit companies that may call their operation a buying club and charge a membership fee, but the users or members have no real stake in the business.

Co-ops that run online markets would organize under cooperative principles and have a more democratic relationship with their members, including owner equity and voting rights.

While a buying club or online market can organize to purchase almost anything, we will limit our discussion to those that order food and typical grocery store items. To keep things simple, we will also refer to both forms as buying clubs, unless there is a distinct difference to call attention to.

However you choose to operate, you need to pay attention to state regulations. Some states require buying clubs to formally register, even if they are not setting up as a corporation, LLC, or other business entity. This is mainly to protect the members of the club should it fold after members have paid their fees. [This example](#) from Wisconsin also includes good advice on determining the value of participating in a club. Note that most of these concerns are more relevant to for-profit buying clubs than co-ops, but still worth considering.



Is a Buying Club a Good Stepping Stone to Retail?

Co-ops that are working on opening a retail (brick and mortar) storefront often consider running some form of buying club or online market to start providing service to the community before a store can be opened. There are several issues to consider before going forward with this.

The Co-op's Brand Image

A well-run buying club provides lower prices for the products it offers because it doesn't have to cover the costs of a storefront and most labor. Overhead is usually minimal, and the savings can be passed on. The downside is that a buying club cannot provide anything to members outside of its regular order cycle. Members will almost certainly be buying groceries from a retail outlet in addition to the club. For people who can plan their core grocery needs in advance and can store larger quantities, the cost savings may be a big incentive. However, once the co-op moves on to its retail storefront, those cost savings will disappear, and the members of the buying club may not remain loyal. Thus, a buying club may help meet some community needs in the short run, but it may not attract the members you need to support and patronize your retail store. Planning for, and educating your members, for this transition is crucial.

Another consideration is that the co-op's image in the community will be defined by the buying club rather than the planned retail store. This can be confusing to potential members, supporters, and funders.

Buying Club as a Source of Income

Since buying clubs offer less convenience and service than retail stores, lower prices are an essential selling point. If the co-op expects to raise money to support their future retail store, then a meaningful profit margin must be added to the cost of goods. Buying clubs pay higher prices to distributors than retail stores do, so there is a limit to how much margin you can add and still be attractive. Joining a purchasing group (a collection of retailers pooling their purchasing power) or establishing relationships with brokers (agents that handle specific brands for your main distributor) can often get you better prices from a national distributor and increase your margins. Of course, there is time and effort needed to maintain those relationships.



Generally, co-ops sign people up as owners with a one-time equity investment. This would be the best option for a club that plans to eventually have a retail space. An additional annual membership fee for participation in the buying club could provide some needed capital for general operations and future expansion. However, most buying clubs contribute very little to the startup capital of the storefront co-op.

Organizational Capacity

Starting a retail food co-op takes thousands of volunteer hours and a lot of commitment. So does running a buying club. Can you realistically do both at the same time? Many co-ops have found that their plans to open a retail store end up on the back burner when trying to run a buying club. We recommend that a separate committee or group take responsibility for the buying club and that the board and volunteers working on the retail store continue at full capacity. Make sure that everyone continues to support the ultimate goals and visions of the co-op and do not end up going in different directions.

Potential Positives

If you can successfully differentiate the buying club from the future storefront, you can indeed help people gain access to food at reasonable prices. You may find people that join the co-op for access to the buying club will remain loyal customers after the transition (but don't assume they all will.) It can also be a good way to introduce local producers and their products to the community. Your buying club could generate more interest in the co-op and even some local media coverage if you have good outreach systems.

Potential Negatives

Transitioning from a buying club model to opening a retail store will probably not be universally popular. Some patrons may be just fine with the existing structure and fear the higher costs of retail. Be transparent and clear about your plans right from the start, and be sure to emphasize all the positive benefits of having a retail outlet with more variety, daily access, etc.

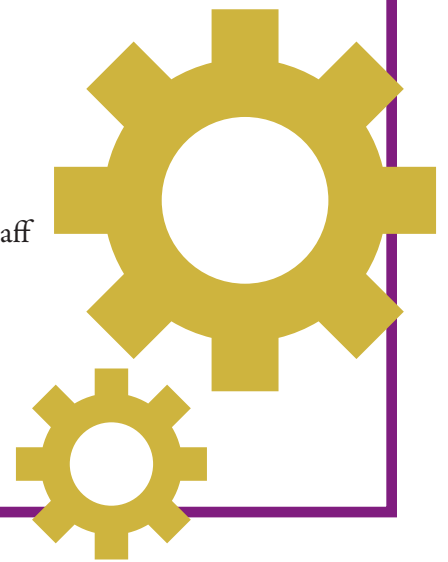
Another area of concern is volunteer burnout. As your club grows so will the amount of time required to administer and operate it. Building a deep bench of volunteers is important to avoid burnout and provide for continuity. Be aware that at some point you may need to start hiring staff.

If your co-op is considering a buying club as a transitional step and you have a distribution site (or future storefront) with enough room, you can keep a modest amount of extra inventory on hand. This could be the extra cans of tomatoes in a full case if member orders did not make up the full quantity, or popular nonperishable items that can be sold on pickup days even if they were not pre-ordered. These retail sales can be priced at typical store levels, adding a little extra profit to your operations. However, if you are selling from a permanent location, you must also ensure that you have the proper business licenses for retail operations.

How to get started

Here is a partial checklist of things to research before going forward:

- ❑ Clearly define the goals you have for your club
- ❑ Check your state's regulations and registration requirements for buying clubs
- ❑ Identify who will coordinate and promote your buying club
- ❑ Find a suitable location to accept deliveries and sort orders. You will need to have a clean area for repacking bulk items and produce and it should be indoors and heated or cooled as needed.
- ❑ Research ordering and billing software designed for buying clubs
- ❑ Contact potential national and regional distributors and local suppliers
- ❑ Consider a survey of your members to determine their interest level
- ❑ Create a budget for getting started and one for ongoing operations — include website fees, space rental, packaging equipment and supplies, scales, office expenses, etc.
- ❑ Promote the new service and ensure that you have volunteers or paid staff to manage deliveries and order breakdown
- ❑ Set up a payment system
- ❑ Set up a banking account to handle funds (usually requires a business license)



Resource Links

National Distributors for Natural Foods

United Natural Foods, Inc. (UNFI)

www.unfi.com

The largest and most comprehensive distributor of natural foods. They supply most of the retail food co-ops in the U.S. and have a complete line of products, including perishables. However, they have moved away from serving buying clubs. Talk to one of their sales representatives to find out if you could qualify for a private business account. UNFI also has a newer program, *Easy Options*, which anyone can use to order a popular subset of the full catalog. There is a maximum order size of 280 units and the orders are shipped by UPS or postal carriers. Prices are generally higher than when ordering through a standard UNFI account. This option would probably not be attractive to larger buying clubs.

KeHE

www.kehe.com

Another large, national distributor with a full assortment for natural/organic markets. We were unable to confirm their policies for serving buying clubs at the time of publication.

Azure Standard

www.azurestandard.com

Azure Standard has been expanding its distribution routes eastward for some time and now covers most of the country. They also remain committed to serving buying clubs!

www.azurestandard.com/healthy-living/about-us/how-to-start-an-azure-drop

C&S Wholesale Grocers

www.cswg.com

C&S services customers of all sizes, supplying more than 7,500 independent supermarkets, chain stores, military bases and institutions, with over 100,000 different products.

Frontier Co-op

www.frontiercoop.com

Frontier is a cooperative wholesaler specializing in herbs and spices along with some specialty food products. They are also happy to supply buying clubs and offer advice at this link:

<https://wholesale.frontiercoop.com/how-to-start-buying-club>

Equal Exchange

www.equalexchange.coop

Equal Exchange is a for-profit Fairtrade, worker-owned cooperative. Equal Exchange distributes organic, gourmet coffee, tea, sugar, bananas, avocados, nuts, dried fruit, cocoa, and chocolate bars produced by farmer cooperatives in Latin America, Africa, and Asia. They support buying clubs and have information here:

www.equalexchange.coop/ee-and-you/buying-clubs

Organically Grown Company

www.organicgrown.com

A full-service organic produce wholesaler, providing a wide range of services including sourcing, distribution, logistics, planning and merchandising. Serves areas west of the Mississippi River.

PRO*ACT

www.proactusa.com

PRO*ACT is a “fresh food supply chain management network,” delivering innovative fresh food products to traditional and non-traditional channels to meet the changing fresh demands of today’s consumers.

Regional and Local Farmers and Wholesalers

There are many excellent regional suppliers that you may consider. Some are specialized in for a given kind of inventory, such as meat, produce, nuts, cheese, etc. These sources can provide local flavor and extra draw for the buying club but require your ordering process to be flexible and robust enough to include their products. Many small family-owned businesses will ship orders via USPS flat-rate boxes directly to your group for less cost than purchasing the same item from a national or regional distributor. Likewise, offering locally grown farm products can be a big draw for your members, but will entail extra work in keeping track of what is available at what price.

Guidance on Starting a Buying Club

Start a Buying Club

www.startabuyingclub.com

General information & software

The Rural Grocer’s Guide to E-Commerce

www.ruralgrocery.org/publications/resources/Ecommerce_Guide_Rural_Grocery_Final.pdf

A guide to using on-line apps for grocery sales

Bulk Buying Club Toolkit

www.hungercenter.org/wp-content/uploads/2015/07/HFCR_Albuquerque_NM_2015_Malow.pdf

Manage My Co-op

www.managemy.coop

How to Start a Buying Club book

CoFED’s Bulk Buying Club Guide

https://d3n8a8pro7vhmx.cloudfront.net/cofed/pages/404/attachments/original/1442525560/CoFEDs_Bulk_Buying_Club_Guide.pdf?1442525560

Buying Club Software

We provide these links with no endorsement of the software. Please review their offers carefully and get references from current users if possible:

www.buyingclubsoftware.com

www.foodclub.org

Sample Regulations

These are examples of the kinds of requirements states may impose on buying clubs. If you are operating a buying club under your co-op's incorporation and bylaws, these may not apply. Be sure to check with your attorney.

Minnesota law requires health, dating, and buying clubs to register with the Attorney General's Office and renew their registration annually. Minn. Stat. § 325G.23-.28. Such clubs register by completing and filing the required forms (see below), paying a registration fee, and filing a surety bond if they accept prepayments from members of \$50 or more. Members of a club who lose a portion of their pre-paid membership fee because, for example, the club closes or declares bankruptcy may file a claim with the entity that provided the club with its surety bond. The Minnesota Attorney General's Office may also file a claim on behalf of any member who loses a portion of their pre-paid membership fee.

Wisconsin Consumer fact sheet: datcp.wi.gov/Pages/Publications/BuyingClubs195.aspx

In Summary

Starting a buying club is much easier and quicker than opening a retail storefront, but it is not always the right solution. Like any other business, you need to do your due diligence before striking out. Make sure there are enough people interested to make minimum order requirements. Do you have people with time and commitment to manage the ordering and delivery processes? Will a buying club meet your long-term needs and goals? This guide is only an overview. Read some of the other guides we referenced and try to talk to people with experience running other buying clubs or cooperative online markets.





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Our Mission

FCI aims to increase the number, success and sustainability of new food cooperatives delivering access to healthy food in diverse communities across this country. It provides information, training and technical assistance, as well as seed capital, and engages in research to blaze, maintain and improve the development path for new food coops.

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