

Frequently Asked Questions from the Owners of Durango Natural Foods Co-op to the Board of Directors

Q1. Did the DNF Board try to sell the Coop to La Montanita Food Cooperative and do this behind the backs of the owners?

A1. Absolutely not!

What we did was formulate a recommendation to consider merging DNF with LMFC along with a plan to put it in front of the owners for discussion and a vote.

The Board strictly follows Policy Governance and the Cooperative principles as outlined in our Bylaws and in the Congress and General Assembly of the International Co-operative Alliance of 1995. These principles state, “Cooperatives do not belong to elected officials any more than they belong to employees who report to these officials.” Cooperatives are democratic organizations controlled by their members, who actively participate in setting policies and making decisions”. While the Bylaws outline Cooperative principles, Policy Governance defines and guides appropriate relationships between an organization's owners, its board of directors, and its general manager.

Q2. Why did the board even consider a merger with La Montanita?

A2. When a merger appeared as a real possibility, the Board gave it serious consideration because it would have 1) improved DNF's ability to compete in the current Durango “natural foods” market; 2) helped farmers sell their products locally and regionally (into NM); 3) offered more training and a career path for staff as well as monetary based performance incentives; 4) stabilized the store's operations for years to come; and 5) positioned the business to provide an annual dividend to its owners.

While our financial performance can be defined as “doing well,” this means we are breaking even or making a few percentage points before taxes. Over the years, this is as good as it gets while occasionally swinging toward insolvency on the other end. Even as we are doing well, we are still one major refrigerator breakdown away from being back in the red. A merger would change this precarious reality dramatically and improve our market share at the same time.

Also, when we are doing well is exactly when we should be considering such an opportunity as we can negotiate from a strong position. The Board felt it was worth bringing the idea to membership, which is why we signed a Non-Binding Letter of Intent.

Q3. What is the purpose of a Letter of Intent.

A3. What we signed was a NON-BINDING Letter of Intent, which establishes 1) agreement on the macro details that are necessary to warrant time and resources to have a more detailed discussion; 2) some criteria that both DNF and La Montanita would insist upon, and 3) other areas that are negotiable. This was designed to frame a process of discussion between Owners and with management of LMFC.

Q4. Is DNF currently making money?

A4. For the first time in many years, DNF is operating in the black. Once the Board got rid of the rental house next door, we got rid of an exorbitant expense that was draining the Coop bank account. Now the store has improved its look, renovated the deli, and is experiencing slow but steady growth. All these changes were under the direction of the current Board of Directors.

Q5. Is it prudent to dismiss the entire board for an unfortunate misunderstanding?

A5. No. It usually takes a new Board member a year or more to get the hang of things and understand how the Policy Governance process works. With an entire Board being replaced at once, it is the fear of the GM and the Board that it would absolutely not be in the best interests of DNF.

Q6. What is the real problem between the board and the dissenting group, and are these claims valid?

A6. The main problem seems to be that this group thinks that the Board was selling out the DNF Coop to La Montanita Coop behind the backs of the Owners. This was due to an initial press release that was released before it was finalized or approved by the Board that ended up being the basis for an article in the Durango Herald without Board knowledge. There was an error in how the information was handled. The Communication Plan was not executed as intended resulting in a presentation of our recommendation as a “done deal.” We also circulated a FAQ as early as August 14th, which explained the unfortunate early release as well as answering questions about the recommendation more clearly. That FAQ is attached [here](#). It was after this additional information was provided that the petition was circulated. The dissenting group did not contact the Board directly to communicate their dissatisfaction. We heard of it through the petition.

The International Co-operative Alliance agreement states: “Members control the capital of their cooperatives. The final authority for ALL decisions must rest with the membership”. The board knows this is how things work and respected this entering into only a NON BINDING Letter of Intent. However, the dissenting group is committed to

their point of view, regardless of what the Bylaws, Policy Governance, or the Board says.

Q7. Is there another solution besides firing the entire board?

A7. Yes, mediation is another solution. As stated in our Bylaws, “In any dispute between the Co-op and any of its owners which cannot be resolved through informal negotiation, it shall be the policy of the Co-op to prefer the use of mediation.” The Bylaws further state: “Neither party with a grievance against the other shall have recourse to litigation until the matter is submitted to mediation and attempted to be resolved in good faith.” Mediation is the best solution for the problems facing the Co-op AND the DNF Bylaws require it.

Q8. The Co-op functions according to its guiding principles. Which Cooperative principles are applicable in this dispute?

A8. Of the seven principles of Cooperatives, the 2nd and 3rd and 4th principles are most applicable. Principle # 2 is called **Democratic Member Control**, which has been interpreted to mean: “The control of the cooperative is distributed among members on a democratic basis.” The 3rd principle is **Member Economic Participation**, which has been interpreted as: “Members have rights of participation,” “a right to be informed,” “a right to be heard,” and “a right to be involved in making decisions.” The 4th principle is **Autonomy and Community**, which has been interpreted as: “Cooperatives are autonomous self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so freely and on terms that ensure democratic control by their members and maintain their cooperative autonomy.”

Q9. What information do the Bylaws allow to be distributed publicly?

A9. Owners requests for information are "subject to such reasonable restrictions or conditions as is determined by the board of directors to be necessary to protect confidential or sensitive information" as stated in section 2.5 of our bylaws. The Bylaws allow for summary information to be released but not any data that the Board feels is proprietary and exposes the business or its Owners to any risk. We share any financial information in summary fashion with each annual report and when requested.

The value of DNF and what that looks like in a merger context would have been shared if the merger discussion had happened. We had not proceeded far enough along the recommendation process to get into those kinds of details, only speaking of very broad valuation concepts of ALL DNF assets and liabilities as they exist. The Board did not undertake an official appraisal of DNF property, only cursory evaluation of DNF financials.

Q10. What was the communication plan for education and discussion of the LMFC merger recommendation?

A10. There was a detailed plan to hold numerous Owner meetings both within our Owners as well as several with representatives of LMFC traveling here to join our conversations. These meetings would have allowed all of the DNF Co-op Owner voices to be heard. The initial time frame was a couple of months, although we realized quickly that this was too short a time and were setting a longer window for discussions when the merger was pulled off the table.

Q11. What are the responsibilities of the DNF Board of Directors?

A11. As per section 4.1 of the Bylaws, “The duties of the Board shall include, but not be limited to, overseeing the operations, and finances of the Co-op, establishing policies to govern operational decisions, engaging a general manager and monitoring and evaluating his or her performance, and assuring that the purpose and mission of the Co-op are properly carried out.”

The Board with the GM annually reviews a 5-year plan for the store that considers financial solvency, potential growth, capital improvements, and a vision for the store. Co-op Owners are welcome to share their thoughts at monthly Board meetings as well as the annual store meeting.

Q12. How do decisions of the board differ from those of the GM, and the ownership?

A12. The Board does not interfere with operations of the store. The Board is responsible for hiring and managing the GM. The Board carries this out through Policy Governance, a tedious yet effective way to guide the GM in the bigger vision of the Co-op. The Board decides on the vision of the Co-op. It currently reads:

DNF is a member-owned food cooperative committed to providing quality organic local products and educating our community on the value of healthful living.

We will:

- Engage the community in cooperative principles
- Participate in a sustainable local economy
- Educate consumers about the impact of their choices
- Provide tools for healthy lifestyle choices
- Respect the environment through our actions

The GM is responsible for hiring and oversight of department managers and making decisions on the specifics of store operations (i.e. tracking finances, maintaining

equipment, appropriating funds, structuring management, reporting to the board, abiding laws and policies etc.) The GM uses the vision set by the Board to carry out operations.

The Ownership can make suggestions to the GM or department managers in regards to operations and are more than welcome to communicate with the Board at monthly meetings, via email, or in person.

Q13. Why do you say that DNF, as a small business, is unable to survive in today's business environment?

A13. While it is true that some small businesses can flourish while staying small, this is only true for those with high gross profit margins. Gross profit margins define the cash that is left over after paying for the cost of goods sold. This money is used to pay for all the remaining costs in running the business (which are much higher today than in the past). This includes payroll, marketing and all fixed costs such as rent, utilities, insurance, etc. Only business models with high margins have enough cash left in the bank after costs of goods sold to survive today without cycles of running in the red. Retail grocery business is notorious for having low margins. It is also notable that competition has increased heavily in the past several years with the opening of Natural Grocers in 2008, and now even City Market and Wal Mart offer organic and natural products.

Q14. Is DNF a non-profit business?

A14. No, co-ops exist beyond the spectrum of the usual business models. "There is room for elaboration on this issue" and it gets a little sticky.

Since there is little mention of cooperatives in business schools or the business press, most people are under the impression that there are only two ends of the economic spectrum: profit-driven and non-profit. Cooperatives are neither fish nor fowl in that model.

What makes a cooperative business a 'different animal' from a profit-driven business is not a lack of profit, but rather the underlying purpose of the business and the way money is earned and controlled and distributed. Cooperative don't exist to maximize profit, but to serve the membership and community.

(www.wedge.coop/newsletter/february-march-1997/cooperatives-and-profit-what-is-the-relationship)

The Board wants to hear from its Owners! You can contact us at
board@durangonaturalfoods.coop.