
CDS | Cooperative Development Services
consulting services for food cooperatives

foodco-op500



Creating a Development Budget

Presented by: Bill Gessner

Wednesday, February 6, 2008

Resource packet: <http://cgsfood.centraldesktop.com/fc500registration/>

Sponsored by: Cooperative Development Services www.cgsfood.coop/
Food Co-op 500 <http://www.foodcoop500.coop/>

Presenter contact: **612-823-4509** BillGessner@cgsfood.coop

Agenda: February 6, 2008

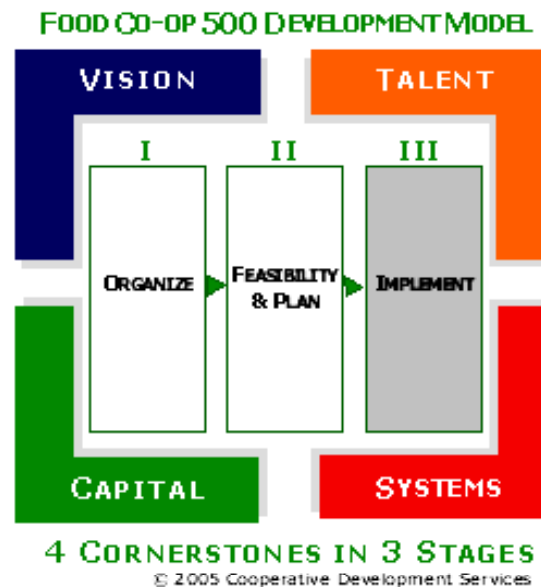
12:00 – 1:30 pm CST

1. Welcome, Introduction and Process (5 min.)
2. The Sources & Uses Development Budget (30 min.)
 - includes time for Questions
3. Breaking it down by Stages (30 min.)
 - Stage 1 - Organizing
 - Stage 2 - Feasibility/Planning
 - Stage 3 - Implementation
 - Sub-stages 2A, 2B, 3A, 3B, 3C, 3D
4. Questions/Discussion (15 min.)
5. Wrap-up and Conclusion (10 min.)

3 Learning Goals for this Webinar

- ❶ Understand the format and function of a Sources & Uses budget within the scope of the whole Financial Pro Forma.
- ❷ Understand the Sources & Uses budget in the context of the “4 Cornerstones in 3 Stages” Development Model.
- ❸ Understand the Key Decision Points for when to use Member Equity and Member Loans, including assessing risk level.

Four Cornerstones in Three Stages



An overview article of the Food Co-op 500 Model is available at:
<http://cdfsfood.coop/fourcorner>

Three Stages: An Overview

- ❶ Stage 1: Organizing
 - ❷ Stage 2: Feasibility/Planning
 - 2A: Feasibility
 - 2B: Planning
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- ❸ Stage 3: Implementation
 - 3A: Preconstruction
 - 3B: Construction & Renovation
 - 3C: Preparation for Opening
 - 3D: Sustaining - First Year & Beyond


Note: Dotted Line = Site secured w/Contingencies; Solid Line = Contingencies Removed

Three Stages: Time Range

 **Stage 1: Organizing (6-12+ months)**

 **Stage 2: Feasibility/Planning**
2A: Feasibility (3-6 months)
2B: Planning (3-6 months)

 **Stage 3: Implementation**
3A: Preconstruction (3-6 months)
3B: Construction & Renovation (3-6 months)
3C: Preparation for Opening (1 month)
3D: Sustaining - First Year & Beyond (forever!)

 **Approximately 19 – 37+ months from Stage 1 - 3C**

Three Stages: Key Decision Points for ending each Stage

 **Stage 1: Organizing** – organization is formed, with ___ members, an assessment of preliminary feasibility (informal)

 **Stage 2: Feasibility/Planning**

2A: Feasibility - market and financial feasibility are positive, organizational readiness/capacity are positive, with ___ members

2B: Planning - site is secured with contingencies, and made public, ___ members

 **Stage 3: Implementation**

3A: Preconstruction- all financing (internal & external) in place tied to finalized construction/renovation contracts, ___ members, contingencies removed, final “no turning back” decision point!

3B: Construction & Renovation - construction ~98% complete

3C: Preparation for Opening – construction finalized, all equipment, inventory and trained staff in place, with ___ members

3D: Sustaining - First Year & Beyond- monitor and support




Sources & Uses Development Budget

- ❶ Provides a clear one page financial picture of the Start-Up of a Food Co-op.
- ❶ Includes a listing of Key Assumptions.
- ❶ Lists the Uses of Funds.
- ❶ Lists the Sources of Funds.
- ❶ Sources = Uses
- ❶ There will be many drafts.

Sources & Uses Development Budget (continued)

- ❏ S&U Development Budget is a key management and communications tool for the leadership group
- ❏ The goal is to be conservative and estimate costs so there won't be unpleasant surprises.
- ❏ Listing a "Use of Funds" does not mean you automatically have an open allowance to spend that money. Cost containment should be practiced without compromising the quality of what you are trying to achieve. Yet you will need to spend to achieve your goal.
- ❏ Creating a S&U Budget is a stretching process. (Creating a co-op costs more than you think.) Limber up!

Sources & Uses Development Budget (continued)

 A sample Sources & Uses budget has been developed using what we view as a typical scenario for a start-up food co-op. Actual experiences will vary widely, yet the sample represents a typical range.

 The sample (an Excel file) can be found at:

<http://cdsfood.centraldesktop.com/fc500registration/>

(scroll down to Session 4)

Note: The Excel document has two tabs.

Sources & Uses Development Budget and the Financial Pro Forma

- ❶ The Sources & Uses Budget serves as the cover page to your Financial Pro Forma.
- ❷ The Sources & Uses Budget does not determine Financial Feasibility.
- ❸ The Financial Pro Forma is a tool to help determine Financial Feasibility.

Financial Pro Forma includes:

- ❶ Sources & Uses Budget (along with Key Assumptions)
- ❷ Income Statement (Profit & Loss), Balance Sheet, Cash Flow, and Debt Service Schedule projected for 10 Years
- ❸ Comparison of Expenses to Other Start-Up and Existing Food Co-ops
- ❹ Examination of Key Ratios in Years 1-10 including Debt to Equity Ratio and Current Ratio.


Financial Pro Forma

Key Indicators of Financial Feasibility assessed through Financial Pro Forma

-Cash Flow

-Profitability

-Key Ratios

 The content of this webinar does not include an illustration of a Financial Pro Forma. Contact CDS if you wish to learn more about Financial Pro Formas.

Stage 1 - Organizing

- ❏ **Funding Stage 1- The Organizing Stage is a challenging dilemma. Where do you start? How do you fund it?**
- ❏ **Stage 1 could last 6-12 months or longer, and require a budget of \$10,000 - \$20,000.**

Stage 1 - Organizing

- ❏ Sources of Funds include: fundraisers, donations, grants (if any), co-sponsorship, loans (from the leadership group), pro bono contributions (to conserve \$). Be creative.
- ❏ Member Equity can be raised in Stage 1 after incorporation as a cooperative, but the funds should be restricted if possible until Stage 2.
- ❏ Uses of Funds include: fundraising expenses, copying, postage, promotion, rent, legal fees, consulting fees, project management fees. Be realistic.
- ❏ Don't be dependent on grants, or you may get stalled.

Stage 2 – Feasibility/Planning

- ❏ After the organization has been formed and a certain level of community support has been built (e.g 300 members), Stage 1 concludes and the formal feasibility work begins.
- ❏ Stage 2 can last 6-12 months or longer, and require a budget of \$50,000 - \$60,000.
- ❏ Member equity will be used and put at risk in Stage 2.

Stage 2 – Feasibility/Planning

- ❶ Sources of Funds will primarily be member equity but will also include fundraisers, donations, grants (if any).
- ❶ Uses of Funds include project management, consulting, market analysis, financial pro forma, preliminary design, training, legal fees, hiring expenses, accounting fees, promotion, fundraising expenses, and rent (office space and/or meeting space).

Stage 3A – Implementation: Preconstruction

- ❶ Stage 2 concludes once a site has been secured (with contingencies).
- ❷ Stage 3A - Preconstruction can last 3-6 months or longer, and require a budget of \$80,000 - \$100,000. Stage 3A ends when the contingencies of the lease (or purchase) are removed, the sources & uses budget is fully financed, and the final decision point is reached and crossed over (no turning back).

Stage 3B, 3C, 3D – Implementation: Construction, Preparing for Opening, and Sustaining

- ❶ Stage 3B is the construction stage and typically lasts as long as the preconstruction stage (3-6 months).
- ❶ The budget for Stage 3B represents $\frac{1}{2}$ to $\frac{2}{3}$ of the total Sources & Uses budget.
- ❶ Stage 3C (one month) is Preparing for Opening and Stage 3D (forever) is Sustaining. The budget for these stages includes the remaining funds in the Sources & Uses budget.

Monitoring and Celebration

- ❏ Monitor the Sources & Uses budget as your organization goes through Stages 1, 2, and 3.
- ❏ Once Stage 3C is complete, be sure to do a final tally/report on the actual budget compared to the projected budget.
- ❏ Celebrate!!!
- ❏ And now the real work begins!!!!
- ❏ Good luck! Best wishes! Let us know if we can help. Thank you for your interest and commitment!
-Bill Gessner, 612-823-4509, BillGessner@cdsfood.coop