The Co-operator
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Financial Planning for Expansion

by Mike Collura, Board of Directors

As you may know, the Co-op has been strategically paying down its debt for several years now. In the last fiscal year we were able to eliminate 200K. By itself this may not seem like it tells much of a story, but it actually is one of the first actions that the Co-op took to begin its expansion journey.

Debt, and the management of debt, tells us a lot about a company and how it performs. The tricky thing is that you can't just look at one snapshot in time to see the whole picture. Currently we have very little debt compared to our assets. If we only know that much, it is hard to tell if this position is beneficial. It could be showing signs that a business is being run too conservatively, and not taking on any risk in order to grow. In our case, however, we see a trend of paying down our debt over time in anticipation of taking on a larger new project. The efforts that we have put forth have put us in a position of having a debt to equity ratio of .33. This is a great number for a business looking to take on some new debt to finance its growth! In addition, our current ratio is quite high at 2.95. This is the comparison of our short term assets to our debt that is coming due in the next year. It shows that we are very capable of paying off our short term obligations with assets like cash, receivables, or inventory.

Lenders that we engage will see our success in paying down our debt while maintaining a very strong cash position. The Co-op has the ability operate for 42 days off of its cash reserves. That's around an 800K buffer of cash. To compare that number, the National Co-operative Grocers requires us to maintain 193K. That comes out to about 10 days of operation. Why the big difference? It's not exactly like having a giant savings account for expansion funds. The Co-op is pooling this cash so that it can leverage against it and request a larger loan amount. Banks consider businesses with a strong cash position to be less of a risk, so they are willing to lend more.

Another big item that the Co-op is able to leverage against is member equity. We have had a very steady increase of members which not only impacts the amount of business we do, but our member equity in the form of a member's $100 equity share. Banks treat this as if it were cash, so it adds to the pool of money we are able to leverage against. The board is looking into modifying the bylaws to allow members to invest additional money into the Co-op and increase our member's equity with either member loans or additional equity-only shares. This would allow members to more actively participate in the financial success of our Co-op, while receiving the possibility of some type of interest or dividend in the future.

Our financial story has been one of patience, planning and timing. Because of the actions that we set in motion years ago, we were not only able to weather a recession, but come out of it strong and prepared. While other business are just getting back "in the black", we are ready to take the expansion opportunities that we encounter with confidence.

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You can read *The Co-operator* online at www.eastendfood.coop/co-op/newsletter.