



Pinchot Cooperative Brewery

“If we buy beer from a worker-owned cooperative, we’re actually reversing the flow of wealth.” -Janelle Orsi, Executive Director of [Sustainable Economies Law Center](#)

Pinchot University
MGTC 562 Cooperative Management
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Intro

It is commonly accepted that cooperatives form to repair some failure in the market place. Currently, there are inequitable structures in manufacturing; meaning most of the wealth is concentrated at the top. Could a cooperative structure spread the wealth, and if so, which cooperative structure would fit the best? What financing options would be available?

In exploring these questions, a fast growing sector of cooperatives stood out, craft breweries. Cooperative breweries are a nexus of community fun, complex manufacturing, and the Rochdale Principles. This paper explores various brewery case studies to learn more about the governance and finance of such models. The potential to educate both the general public and cooperative enthusiasts about the benefits and inner workings of a co-op over beers is very promising.

Cooperative Brewery Landscape

Craft brewing in the US is a stunning success story for local, independent businesses. For about 10 years, craft beer volume and sales have grown at double digit rates from about 5 million barrels in 2005 to close to 25 million in 2015¹ brewed at over 4000 breweries in every state. Total economic impact is estimated at \$55.7 Billion to the U.S. Economy in 2014, and more than 424,000 jobs. Over this time a culture of collaboration has existed and flourished alongside business success to create a community of brewers who eagerly brew at one another's brewery, share operating knowledge, trade raw materials and exchange schwag at every encounter to demonstrate their membership as part of a brewery's wider community. Examples of collaboration between craft brewers abound in beer festivals like the recent Washington Beer Collaboration Festival² and special releases like Sierra Nevada Beer Camp which features 31 brewers chosen by regional peers to work together and brew 6 beers for a one-off 12 pack³.

Relating the craft brewing movement to the cooperative movement yields many parallels when examining the International Cooperative Alliance principles. The Brewer's Association represents craft brewers as a membership organization of and for craft brewers. Their values reflect those of the community and in many ways resemble those of the ICA as compared in Table 1. On the whole, craft brewers seem to be primed with the right culture to adopt the more specifically cooperative principles of Democratic Control and Member Economic Participation.

¹ 1 barrel = 31 gallons; <https://www.brewersassociation.org/statistics/national-beer-sales-production-data/>

² <http://washingtonbeer.com/festivals/washington-beer-collaboration-festival.php>

³ <http://www.beercamp.sierranevada.com/beers/>

Table 1. Cooperative Principles compared to those of the Craft Brewing Movement

Coop Principle	Principle in practice in Craft Brewing
1. Voluntary and Open Membership	Welcoming to new entrants even as market gets crowded.
2. Democratic Member Control	Rarely seen in breweries. The Brewer's Association, as a membership organization, is governed by breweries.
3. Member Economic Participation	As small businesses the owners are often very involved in the business. ESOPs are familiar and becoming more common among larger brewers.
4. Autonomy and Independence	Highly valued. Great debate over ownership, authenticity and the effect of large international brewers buying brands to participate in craft profits.
5. Education, Training and Information	Education and learning is central with employee development being essential because growth has outstripped experienced talent. Consumer education is also front and center as brewers teach people about new beers and processes.
6. Co-operation among Co-operatives	Brewers enjoy competing on quality not price or market access. This leads to a continual sharing of how to do it best in areas which in most industries would be trade secrets.
7. Concern for Community	Extremely common. With sustainability and B Corp pioneers, craft breweries are a prominent example to other businesses of how businesses (with good margins) can support their communities.

Besides cultural fit, craft is seeing a surge of high profile acquisitions and ownership changes as capital flocks to a profitable sector and owners of established breweries need to get out or liquidate equity. AB-Inbev in particular has been very active in buying prominent regional and microbrewers and incorporating them into their "High-End" portfolio⁴. This angers some craft brewers while confusing many consumers. One likely reason for craft's success, besides its flavor, is the value it has provided communities and the opportunity for a drinker to live vicariously through the work of a local craftsperson they in some ways wish they could be: a person supporting themselves and their family with good, tangible work. When a giant corporation buys a well-loved brand and obscures ownership it undermines the authenticity of the craft movement while they attempt to commodify the taste, flavor and style of small independent businesses. Because of the emerging debate about what's so special about craft beer (the flavor or its values) and ownership

⁴ <https://consumerist.com/2016/04/13/here-are-the-8-u-s-craft-brewers-bought-by-anheuser-busch-since-2011/>; <http://www.craftbrewingbusiness.com/business-marketing/craft-beer-mergers-acquisitions-esops-liquidity-transactions/>

within the industry, there is a need for alternatives for owners to leave the business and pass on the reigns to those who will keep the business' purpose in mind.

Cooperative Ownership of Breweries

ESOPs have had a place in craft breweries for sometime⁵. New Belgium is one of the best-known examples as they've tied their social and environmental message to employee ownership through an ESOP. ESOPs in breweries typically do not entail formal participation in governance but only the retirement plan-type economic participation. However, because of cultural fit, breweries are likely to formally engage employees in decision-making and profit sharing even in the absence of ESOPs or cooperative ownership.

Groups of independent breweries are also beginning to emerge which could lay groundwork for producer co-ops. An original example is the Utah Brewers Co-op formed by Wasatch and Squatters to jointly produce and market their beers. Recently a handful of craft brewers have bought other craft brewers (Green Flash and Alpine), or have entered into partnerships (Firestone, Boulevard and Duvel⁶, or Southern Tier and Victory⁷). Even larger partnership deals like Heineken's purchase of 50% of Lagunitas in 2015 for upwards of \$800 million further complicate the ownership landscape and stoke the debate over what's craft⁸.

Coops have a very recent history in craft brewing beginning in 2010 with Black Star Cooperative Brewery in Austin, Texas. Since then there have been openings of about 15 cooperative breweries of various forms in the US. Recently a craft brewing blog and podcast, Microbrewr, produced a series of episodes based on forming cooperative breweries⁹ which involved staff from the Sustainable Economies Law Center, Black Star Brewing/4th Tap, and a startup in San Jose, CA. With two breweries openings per day in the US (seriously), now is prime time to iterate on ownership structures and design in the brewing community. Aligning values and business structures as new entrants come on the scene and veterans seek to start their own operations may serve to create the opportunity to put coops in the public spotlight.

Brewery Case Studies

In order to better understand the fit of the cooperative model to the craft brewing industry, five case studies were conducted. Interviews and research were done on

⁵ <https://www.dorsey.com/newsresources/publications/2014/07/untapped-potential-craft-beer-ma-esops-and-other>

⁶ <http://fortune.com/2015/07/17/duvel-moortgat-firestone-walker-craft-beer-empire-deal/>

⁷ <http://www.stbcbeer.com/capabilities-view/victory-brewing-company-and-southern-tier-brewing-unite-under-new-holding-company/>

⁸ <http://www.wsj.com/articles/heineken-buys-50-stake-in-lagunitas-brewing-1441744398>

⁹ <http://microbrewr.com/for-brewery-truly-rooted-community-consider-forming-cooperative/>

breweries from around the US already operating under the cooperative model. Key questions included, but were not limited to:

Membership

- What were the motivations for cooperative model?
- What challenges you see ahead because of the model?
- What changes do you see for membership needs over the next 3-5 years or longer?
- Do you consciously plan for that?
- Do the co-operative principles come into play in your decision making or guiding strategy?
- One of the readings for our class suggested linking the co-ops value to its members is key to the co-ops success. How do you communicate the value that you bring to your members? (Linkage/Transparency)



Democratic Process

- How do members participate in governance?
- What would you change if you did it again?

Patronage

- How do members receive financial benefits?

Capital

- Did you raise capital?
- Do you have different share classes, e.g., voting/non-voting?
- Do you utilize the ability to raise funds through patronage?



Governance Structure

- Do you use policy-based governance?
- Are your bylaws available for public viewing?



This exercise proved insightful. There are numerous variances to the cooperative model even within the same niche industry and given the same starting principles. Creativity is demonstrated through the various mechanisms each co-op used to overcome specific challenges to starting a member-owned business.

Black Star Brewery



Black Star Cooperative Brewery, formed in 2010 in Austin, Texas, is the original and model to many forming co-op breweries in the US. Above and beyond most co-op breweries, they exhibit strong democratic principles in their structure and operations. Their story began at least five years before their opening as a grassroots

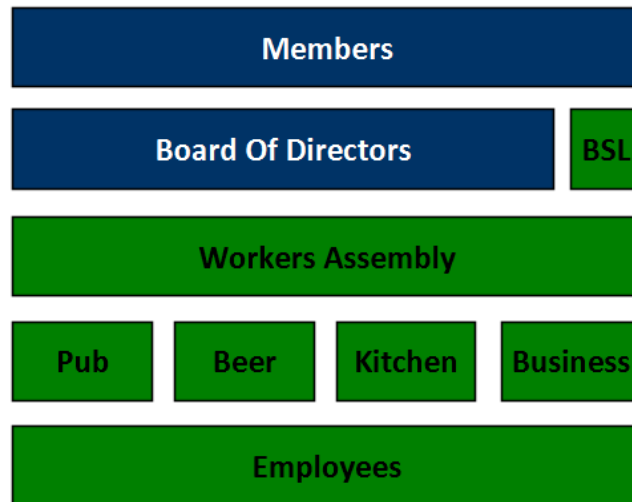
community effort to open a co-op brewery, much in the same way as might be seen in the food co-op world.

Governance

The co-op is exclusively a consumer co-op with one share class. These members, which may be employees, elect a 9 member board of directors who serve three year terms¹⁰.

In addition, the co-op is managed democratically through worker “self-management” utilizing a Worker’s Assembly elected by the employees. The worker’s assembly acts as the management for day to day activities of the co-op with no single GM/CEO or leader. The assembly operates as the counterpart to the member elected board of directors. Both groups follow cooperative principles including democratic control and member participation. This makes Black Star a very cooperative coop. Management is split up into four teams covering the brewery, restaurant, administration, pub (Figure 1). The assembly is responsible for approving purchases (anything over \$500) and hiring/firing through voting which may be passive consensus to allow anonymity in cases of sensitive personnel topics (like in the case of voting to fire your friend, silence would indicate consent).

Figure 1. The governance structure of Black Star reflects cooperative principles at the board and employee levels. All consumer members elect the board of directors. Eligible employees elect the Worker’s Assembly to manage day-to-day operations and choose the Board Staff Liaison (BSL) to represent them on the Board of Directors. Four Teams (Pub, Beer, Kitchen, Business) act as departments with their leaders elected by employees.



¹⁰ <http://www.blackstar.coop/resource-library/>

Finance

It took over 5 years to raise capital and start the co-op through backyard fund raising and eventual engagement of a professional fundraiser for a capital campaign. There is one membership class with an additional option to invest in preferred Member Investor Shares. Lifetime membership is \$150.

Current Status

During an April 2016 interview with Andy Martinec, current Head Brewer at Black Star, he repeatedly stressed the importance of democratic control and the engagement culture it has created. He was very proud to be a 26-year-old owner of a successful business that he helped run.

As an example of the cooperative culture they've developed, he said they recently reviewed all compensation and collectively voted to reduce and redistribute salaries to create a more equitable pay structure based on job roles and responsibilities. The process began because some employees doing very similar work were making much higher wages due to tenure. He said that as a service industry employer they strive to pay above rate wages but they found themselves in an unsustainable position. They also do not collect tips and restaurant employees receive benefits. Andy indicated this attracts lots of prospective employees but only some are truly prepared for the additional responsibilities to engage with the business and not just collect a paycheck that are required to realize the effectiveness of their management system.

Flying Bike Cooperative Brewery



The first co-op brewery in Washington was formed in North Seattle's Greenwood neighborhood. It originated through a group of home brewers who wanted to brew in larger volumes and have a fun, shared space to brew together. They settled upon the coop model for their business and set out to develop the business with their community. Thus, the creation of [Flying Bike Cooperative Brewery](#).

Governance

As a Washington State registered consumer cooperative, each member/owner has one Class A share/ one vote. There is an eight person Board to govern the organization. The bylaws allow Board members to serve consecutive terms, however no more than eight years consecutively. In an interesting twist to standard practice for coops, one employee is permitted to serve on the Board at any given time.

Finance

After a couple years of governance defining and marketing, they raised enough capital through membership fees (originally \$150, then \$200) to purchase equipment, lease and remodel a space, and start operations. They raised

approximately \$300,000 and spent two-thirds getting to launch. The Flying Bike Cooperative Brewery opened for business in August 2015. To date, there are over 1670 member/owners, all of whom have Class A shares of the co-op. There are preferred shares with non-voting rights and an 8% annual dividend cap per state law. This second set of shares allows for capital contributions from investors without compromising the organization's cooperative values.

Current Status

Thus far, Flying Bike seems to be going quite well. They have constant events, social activities, and wonderful recipes brought in by the membership base. There are other benefits to membership including exclusive offerings, discounts, personalized mugs, and of course, if profitable, patronage dividends. These efforts to engage their membership base have resulted in an impressive 80% of sales coming from members/owners.

High Five Cooperative Brewery



Based in Grand Rapids, MI, High Five Co-Op Brewery aims to be Michigan's first cooperatively owned brewery. Their co-op brewery concept found early success in 2010, winning \$5,000 in startup capital through a business competition. Since then, they have grown their member base to 130 people.

However, it took them a couple of years to navigate the Michigan liquor board's laws which they believed required every owner to be vetted, a process they did not anticipate and which proved very difficult in a cooperative context. James Jones, a current High Five Board Member, recounts that this resulted in "astronomical legal fees from our efforts to incorporate properly and determine how to recruit members". This further resulted in lost momentum and the exodus of original founders and the first board members. Over the past couple of years, the existing group has rebooted High Five with a new business plan, logo, financial pro forma, and investment offering.

In the last two weeks, they have learned that "individual vetting is unnecessary unless a member owns 10% or more of the business."

Governance

High Five's governance mirrors much of Black Star's governance structure including both the member and worker assembly. They have a nine person Board comprised of seven directors elected by their entire membership and two directors elected solely by the workers assembly. High Five also plans to provide worker patronage.

Finance

In this capital funding stage, High Five is looking to raise \$250k (min of \$100k) through a combination of membership capital, preferred shares, and debt. Their

original business plan included an onsite kitchen, but the team has scaled back capital cost of their initial phase by inviting local food trucks to provide food options.

High Five membership fee is \$150 and they have a 12-month offering of \$1000 Class B non-Voting Membership Investment Units. Their Board is also exploring loans from more established cooperatives with strong leads on getting loans from local housing cooperatives. In their March Investment Campaign Launch, they raised \$17k.

Upon reflection, High Five's board member suggests two key pieces of advice. First, get all your ducks in a row before launching the investment drive. And more importantly, "recruit more members than we did before starting the investment campaign...as the capital from memberships is more flexible."

4th Tap Brewing Cooperative



Joining the brewery scene in Austin's warehouse district north late last year, [4th Tap Brewing Cooperative](#) is the only known 100% worker owned cooperative brewery in the US. "Born out of a shared passion for brewing delicious, interesting, and refreshing beers", 4th Tap Brewing was co-founded by Chris Hamje, a former head brewer at Black Star Co-Op. In their taproom, they employ ZERO bartenders, with everyone at the brewery sharing in serving beers. They love sharing that end user experience as they watch their customers taste their creations for the first time.¹¹

Governance

4th Tap Brewing's Board is comprised of five worker owners. Any worker in good standing is eligible to be nominated and voted onto the Board. Good standing means that they are consistently contributing towards their buy-in.

John Stecker, a co-founder and Board President, describes their operations as "a more standard hierarchical structure". He cites specialized training and knowledge to operate the very expensive and dangerous equipment as one of the main drivers for that hierarchy. However, they do have a workers-assembly that is responsible for making decisions and overseeing operations. Workers will typically discuss and vote on decisions that affect them, with smaller decisions voted by the direct team, and potentially larger decisions voted on by the member base.

All workers receive patronage based on paid hours worked, counted differently if you are part time or full time. Part time worker patronage is logged hourly while all full time workers are assigned patronage at 2,080 hours (40 hrs/wk, 52 wks/yr).

¹¹ <http://4thtap.coop/philosophy/>

John and 4th Tap highlight another reason to believe breweries are a great representative for cooperatives. Highly specialized manufacturing processes and hierarchical structures are points of similarity that relate to other sectors in the US such as material sciences, environmental technologies, and just-in time product infrastructures.¹²

Finance

4th Tap's capital financing is a combination of member capital, a creative outside investment entity, and debt. Member capital buy-in is set at \$10,000 but is not required upfront. Similar to Patty Pan, workers can apply their hours towards their buy-in. At 4th Tap, they consider it donating volunteer hours and assign a living wage rate of \$16 per hour.

Stecker shares that they “have outside investment funneled through a second entity, a single-purpose LLC whose single purpose is to raise capital and loan it to our cooperative” as well as “an SBA loan underwritten by a local credit union.”

Fair State Brewing Cooperative



Fair State Brewing Cooperative was formed in late 2014 in Minneapolis, Minnesota by three friends who wanted to start a brewery rooted in community. Their approach to forming a co-op took advantage of a “new-generation” co-op law in Minnesota that allows a hybrid business structure that is cooperative but has elements of a traditional limited liability corporation¹³.

The Minnesota Cooperative Law Chapter 308B allows for outside investors to own up to 99.99% of the equity in a co-op but maximally receive 85% of dividends and control less than 50% of voting rights. Patron members are required to hold more than 50% of voting power. In this way the law creates less economic participation for patrons but ensures proportionally greater, and indeed majority, control of governance. The theory behind the law is that outside investors will be more likely to contribute to a business they have some say in governing which is prohibited under classic cooperative laws. This type of law has been passed in 4 states, Minnesota, Wyoming, Wisconsin and Tennessee and formed the basis for the creation of model legislation by the Uniform Laws Commission known as “Limited

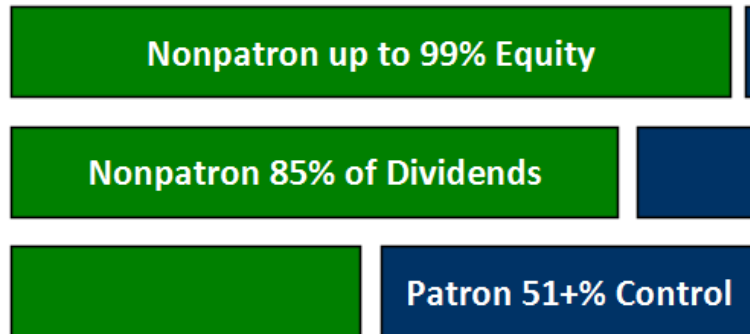
¹²

http://www.themanufacturinginstitute.org/~media/D45D1F9EE65C45B7BD17A8DB15AC00EC/2009_Facts_About_Modern_Manufacturing.pdf

¹³ https://www.dorsey.com/~media/files/newsresources/publications/2003/05/minnesota-legislature-adopts-new-cooperative-ass_files/tbls21publicationspdfupload141352mnlegislatureema_fileattachment/mnlegislaturemay2003.pdf

Cooperative Associations”¹⁴. This legislation has passed in 7 additional states: Utah, Colorado, Nebraska, Oklahoma, Kentucky, DC, and Vermont. Vermont, however, changed the name of the legislation to perhaps better reflect the purpose of the structure over its cooperative status and called it a “Mutual Benefit Enterprise”¹⁵.

Figure 2. A schematic representation of the ownership structure of a new-generation co-op formed under a “Limited Cooperative Association”-type law. Such laws create a way to retain majority control by members but allow for voting participation from investors. The law evolved primarily out of a need to finance value-added processing in agricultural co-ops.



Governance

Fair State has two classes of membership, Patron and Nonpatron. Nonpatrons may be any investor from any state. In their case they are non-accredited investors and at the time of filing their securities exemption notice there were 21 investors. Patron members are typical consumer members like would be found in another retail coop. In order to satisfy the requirement for majority control by members they have setup a system where patrons elect 4 Directors exclusively on a one-member one-vote basis and 3 additional Directors are elected at-large by all members. For at-large directors the patron membership votes as a block representing 15% of the vote while nonpatron votes are weighted according to their share. In this way patrons have some say in who the non-patrons elect but it’s limited. In practice, Evan Sallee, Fair State’s CEO, indicates this works well and does not so far create divisions within the board. Each cooperative operating under this type of co-op law may define the governance structure as they wish to satisfy the law, their purpose, and attract their desired investors. It is possible to setup a new-generation co-op with greater control by patron members and even less by nonpatrons while still giving investors some say in governance. This will depend on the requirements of investors and how important democracy and trust in members are to the founders.

Finance

As opposed to Black Star and other consumer coops which began as grass roots community efforts, Fair State came together primarily by an entrepreneurial push by three friends. As a result, their initial membership was relatively small at about

¹⁴ https://www.dorsey.com/~media/files/newsresources/publications/2003/05/minnesota-legislature-adopts-new-cooperative-ass_/files/tbls21publicationspdfupload141352mnlegislaturema_/fileattachment/mnlegislaturemay2003.pdf

¹⁵ <http://www.grocer.coop/articles/more-new-co-op-laws>

125, each with a \$200 life-time buy-in¹⁶. They raised additional capital using a private exempt security offering complying with Rule 505 of Regulation D of the federal Securities and Exchange Commission. At the time of filing they had sold shares of \$212,000 to 21 investors out of the \$720,000 total offering. Under Rule 505 D the offering must be open for less than 1 year, be for under \$5 million and be sold to no more than 35 unqualified investors¹⁷. In our interviews and online¹⁸, Sallee indicated that setting up the financial structure this way was essential to opening in only 9 months and allowed them to be a cooperative business whereas if they had attempted a traditional cooperative they would not have made it off the ground. To raise similar amounts of capital exclusively through members would have required about 1200 members, an amount that after almost 2 years of operations they have yet to reach.

Current Status

Fair state appears to be doing very well. They have an excellent online presence promoting their brand and cooperative identity including receiving press coverage in Paste Magazine¹⁹ and through numerous brewing publications. They lease space from the Northeast Investment Coop, another novel cooperative in Minneapolis focused on community development (www.NEIC.coop), which gives both groups increased visibility. Membership has grown to over 700. Evan indicates they are developing a way to involve employees in ownership and expresses that not initially creating a mechanism for employee ownership is one of their regrets in how they started up.

Cooperatives in WA

“Washington State laws around cooperatives are simple and straightforward” says John McNamara, a cooperative development specialist at Northwest Cooperative Development Center. Housed under the Non Profit Miscellaneous and Mutual Corporations Act ([Chapter 24.06](#)) since January 2016, cooperative laws in WA follow most of the standards we have discussed in class. Organizations are able to legally register as a cooperative business, members can be from any state, patronage must be paid to its members in cash equivalent at a minimum of 20%, and investor capital can pay a dividend up to 8%. There is no known liquor control board member vetting process in WA.

¹⁶ <http://www.bizjournals.com/twincities/news/2013/11/18/new-brewery-coming-to-northeast-with.html>

¹⁷ <https://www.sec.gov/answers/rule505.htm>

¹⁸

https://www.reddit.com/r/minnesotabeer/comments/2j5wix/hello_we_are_evan_niko_matt_from_fair_state/

¹⁹ <http://www.pastemagazine.com/articles/2016/03/own-a-piece-of-fair-state-brewing-a-cooperative-br.htm>

How Does Place Affect a Co-op's Location?

While it is common to see establishments serving beer in most neighborhoods in some fashion or another, it does not mean that a cooperative brewery would be successful in every neighborhood. And as all coops are not the same, it was theorized that place could affect the type of coop best suited for the location. Through investigation and comparison of three unique cities, it was attempted to learn more about what characteristics of a community would support a co-op brewery and what type.

Yakima was chosen as a rural community already economically and socially connected with the hops industry. Seattle, as a hotbed of craft brewery fanatics and density, was also identified. Issaquah Highlands as a suburban middle ground was the third place investigated. Through interviews and research, characteristics compared included age, demographics, population, median income, unemployment, diversity, community need, and the current cooperative ecosystem. See Appendix A.

There are surprisingly many similarities between the three cities. Issaquah Highlands, as a master planned green community, holds many values that would potentially align with the cooperative principles. Nevertheless, it was eliminated from the list of potentials because of the high cost of commercial real estate, lack of commercial sites still available, and strict zoning restrictions.

Yakima, again because of the familiarity with the industry through hops cultivation and production, seems to be a good fit for a cooperative brewery. With space not as expensive, the brewery could have distribution channels and the co-op could be worker owned or a solidarity co-op in recognition of a community need for good year-round jobs.

For a simple taproom or brewpub, Seattle was the best choice. According to Forbes, Seattle is the fourth fastest growing city in the US²⁰. It has a high walkability score of 73, and a high proportion of the demographics are between 24-54 years of age. There are already over forty breweries in Seattle (1 brewery for every 14,000 people²¹). The brewery scene is thriving with numerous innovations and creative responses to the market demand. For example, Spinnaker Bay Brewery is the first 100% women founded and owned microbrewery in Washington. Fremont Brewing Company is currently installing a micro anaerobic digester to convert all organic waste to electricity²².

²⁰ <http://www.forbes.com/sites/erincarlyle/2016/03/08/americas-fastest-growing-cities-2016/#295255c47056>

²¹ <http://seattle.curbed.com/maps/seattle-breweries-map-list-beer-every-brewery>

²² <http://washingtonbeer.com/breweries/>

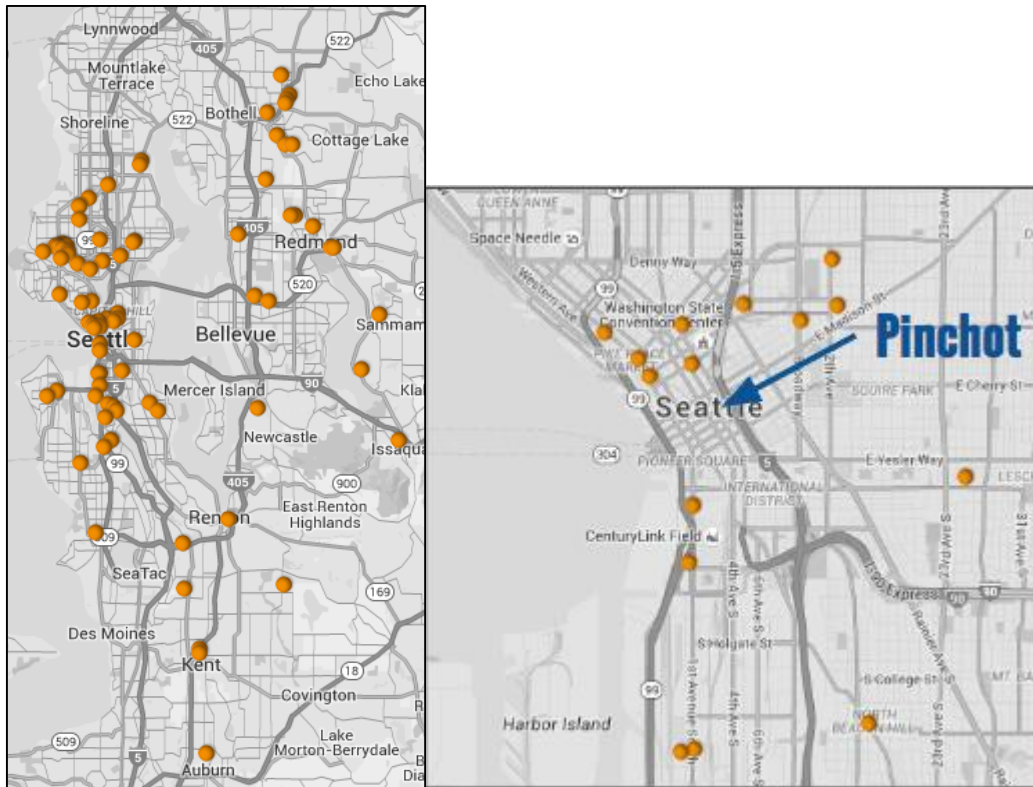


Figure 3 Locations of breweries in Seattle are shown by orange dots. The left shows the detail of downtown Seattle surrounding Pinchot.

Pinchot Brewery Co-Op

Owned by the Pinchot Community for the Benefit of the Common Good

To close Pinchot’s inaugural certificate offering in cooperative management, a proposal is on the table to launch a cooperative within the community. To support and celebrate the school’s mission to use business for good, the readers of this paper are being invited to be the first members to join the Pinchot Brewery Co-op (PBC).

Owned by the Pinchot community, the purpose of the new cooperative brewery will be to serve the needs of its members with delicious and responsibly sourced regional beverages with the goal to support Pinchot University. If Pinchot University ceases to exist, the surplus proceeds will be allocated to other organizations that use ‘business for good’.

The location is still to be determined, however the target areas are Pioneer Square, SODO, and Georgetown neighborhoods. Similar to Austin’s budding brewery district, there is potential for Seattle to house a craft beer ecosystem. Figures 3 illustrates the number of breweries. With cooperation (no pun intended), these 40+ breweries could experience economy of scale as well as put Seattle on the map as a craft beer city to complement its coffee reputation.

Linkage, Transparency, Cognition

In his paper “Three Strategic Concepts for Guidance of Co-Operatives”²³, Brett Fairbairn discusses relationships between cooperatives and their member-owners that are critical to a cooperative’s success. He uses the strategic terms of Linkage, Transparency, and Cognition.

Linkage - Described as “a close connection between the success of the co-op and of the member: if one does well, the others share in its success” and “the co-op’s products and services are tailored to specific member needs”, there is a direct relationship between PBC and its members. The target member audience is the Pinchot community at large. They have a vested interest in contributing to the school as well as believe in supporting sustainable business towards a more equitable world. The success of the brewery contributes to the success of Pinchot and its ability to put more ‘change makers’ out into the world.

Transparency - Described as a relationship where “members are well informed” and “members see the clusters of activity within their co-op, the incentives...that are built in, and accept the appropriateness of these”. Transparency will be a main focus of the PBC. With the PBC, there is an opportunity to showcase the cooperative model in action to a broader audience. Therefore, it is in all parties’ best interest for transparent governance and financial practices as well as education of its members.

Cognition - Described as co-op models “operat(ing) with a clear mental model of itself and its role in the wider sector...that is widely understood and shared among stakeholder groups”, “organized research activity is connected to the way the co-op regularly revisits, discusses, and revises its identity and mission”, and “encourages innovation”. PBC’s member base is familiar with these operating principles.

Historically, the Pinchot community has witnessed the university innovate and iterate on its curriculum, always staying on the cutting edge of sustainable business practices. With the direct support of the university the member base understands the coops role in supporting a sustainable MBA program. The member base will likely need more education on the benefits of regionally and sustainably sourced craft brew.

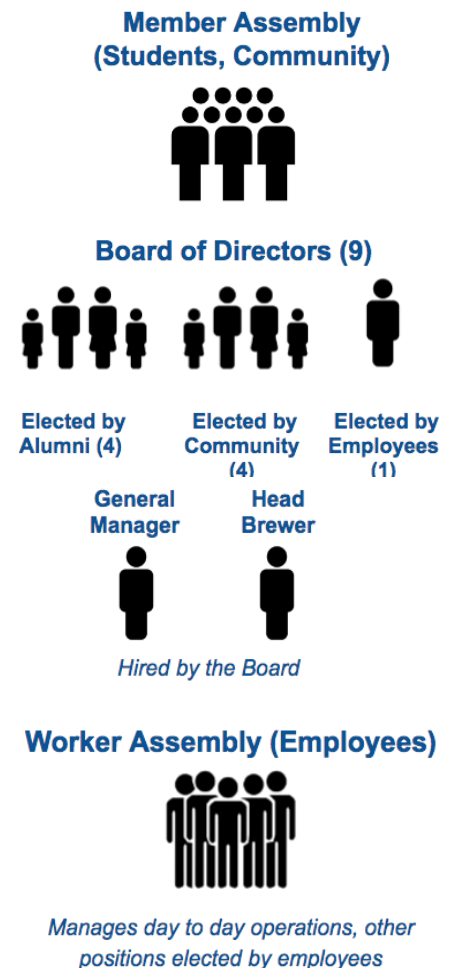
²³ Fairbairn, Brett. Three Strategic Concepts for the Guidance of Co-operatives Linkage, Transparency, and Cognition. (2003) Center for the Study of Co-operatives, University of Saskatchewan

Linkage	Believing in the social purpose of Pinchot, our members pledge to contribute all profits to Pinchot to support our collective mission.
Transparency	Democratic governance and open financials offer a way for the Pinchot community to learn about business while connecting communities over a pint.
Cognition	The cooperative embodies the mission and values of Pinchot to create an innovative, sustainable, community that transforms Pinchot and those around it.

Governance

The Pinchot Cooperative Brewery will be incorporated as a consumer cooperative in Washington. Two primary stakeholders, Students and Alumni of Pinchot and the community at large, will be recognized as two separate membership classes designed to engage both groups and balance the needs of Pinchot with those of the supporting community. Each membership class will elect 4 directors on a one member one vote basis that each serve 3 year terms on a staggered reelection cycle. In addition, employees, who may be consumer members, will also elect one representative to serve on the board for one year terms. The resulting 9-member board is responsible for hiring and delegating authority to the General Manager and Head Brewer who direct the day-to-day operations of the cooperative.

We have elected to not replicate the fully democratic management structure of Black Star but do want to implement a Worker's Assembly. The Worker's Assembly will be led by the GM and votes on critical issues of the cooperative related to carrying out the strategy set by the board of directors. The GM, with approval from the board, decides on which issues or organizational design and hiring questions employees have direct democratic input and which will reside in a more traditional organizational structure. The Assembly is also the



regular place for employee feedback and informing all employees about the state of the business through open book financials and open and honest communication.

Finance

Because the cooperative is formed to support Pinchot and the community all profits after reinvestment or savings for future needs are distributed 25% as employee profit sharing and 75% as donations to a dedicated 501c3 organization, "Beer for Good." Beer for Good then funds Pinchot or other non-profit organizations that support or enable 'business for good' as determined by Board of Directors. In our bylaws and membership agreements it will be clearly communicated that the cooperative does not intend to ever offer a patronage dividend to members and that their membership is solely for the purpose of supporting the coop and participating in governance and that they receive only indirect financial benefits through access to great beer, a vibrant community and changing business as usual. Memberships will be \$1000 for students and Alumni and \$150 for community members. Both are lifetime memberships that are non-refundable and non-transferrable. The higher cost for Students/Alumni reflects our hope that this mechanism can be another route for alumni to make meaningful contributions to the financial health of Pinchot.

There is a menu of potential options to finance the startup and continued operations of the Pinchot Brewery Cooperative.

Fundraising

Fundraising is the easiest given the already captured target audience. Potentially, in a similar way community supported agriculture operates, PBC could pre-sell beers. This option would also help to normalize revenues over time, helpful for budgeting purposes.

A Kickstarter campaign could assist in initializing the venture. Compensation could be in the form of membership to the brewery, swag such as special glasses, and/or even pre-selling beer as described above. It should be stressed that building a strong member base before launching the fundraiser is key to a successful campaign.

Equity

Membership to PBC would have a price. These funds contribute to member capital equity. A direct public offering for preferred shares is another option as Pinchot University has an excellent reputation in the broader community.

Debt

Utilizing one of the Pinchot Alum's own startups, [Community Sourced Capital](#), "squares" could be sold to raise funds. Again, this would leverage the reputation of the university in the broader community.

There may also be an option of a US Small Business Administration loan. Beneficial State Bank was interviewed for this possibility. While they would recognize the

value in the cooperative model more than traditional financial institutions, they would still require the business having two years of operations with one year of profitability under their Business Builder Program. There may be flexibility in these prerequisites through a USDA guaranteed loan given the agricultural impacts of the business.

FUNDING	<p>Community Supported Brewery, Pre-sell Beers</p> <p>Kickstarter - membership, special glass, pre-sell</p> <p>Barter for services (Technical/Contractor)</p>
EQUITY	<p>Member Capital Equity</p> <p>DPO - Preferred Stock</p>
DEBT	<p>Community Sourced Capital Squares</p> <p>SBA Loan</p> <p>USDA guaranteed Loan</p>

Summary

Cooperatives have a perception in today's society of being non-profits for farmers or community grocery stores. The fundamentals of how the cooperative model works, or that it can be applied to any sector, is not explored as part of typical business or law school curriculum. Nor does the coop movement itself do effective education to the general population.

Breweries, on the other hand, are a fun gathering place for a wide range of demographics. Craft brewing is steadily growing across the US, and the industry offers value to the economy, sustainable agriculture in rural communities, and domestic manufacturing jobs.

Cooperative breweries are a mechanism for community engagement with little individual capital investment to create spaces for positive shared experiences. More importantly, they are an invitation to the cooperative conversation. As more and more breweries choose to start or convert to a co-op model, it will be an opportunity to educate the general public about how, what and why to start a cooperative. Essentially, cooperative breweries could act as a catalyst for the cooperative movement.

Appendix A- Co-op Brewery Scenarios

	Suburbs	Seattle	Yakima
Location Demographics and Sources	Recency centers (developer, land owner). 9th & high, DevCo management side, office of sustainability, 1000 sw home occup. District (25th and park)	http://www.seattle.gov/dpd/cityplanning/populationdemographics/ Neighborhood Demographics	http://www.bls.gov/eag/eag.wa_yakima_msa.htm http://www.bestplaces.net/economy/city/washington/yakima http://www.census.gov/quickfacts/table/PST040214/5380010

Short Summary of Place	Issaquah Highlands is a master-planned community providing a mix of single-family and multi-family residential, commercial, retail and recreational uses. Consisting of approximately 2,200 acres, the Issaquah Highlands includes about 490 acres in the city of Issaquah and 1,520 acres of publicly-dedicated open space in King County, as well as 185 acres in unincorporated King County for the rural, large	-Ranked 4th in Forbes' fastest growing cities. 48% owner occupied 52% renter occupied	Sperling's Best Places: Agriculture is the dominating influence in Yakima, a city located at the eastern base of the Cascade Range. Good soil, sunny days, and irrigation from the Yakima River support the area's many orchards, which produce apples, pears, peaches, and other fruits. The city has a plain small-town character, although a large Hispanic population attracted by farm labor adds a hint of cultural diversity. City is actively pursuing downtown economic revitalization through an effort to convert a central space to a
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	<p>scale homes of the Grand Ridge neighborhood. Issaquah Highlands has approximately 3,150 (approximately 3,500 homes when fully built out), 950 in rental communities, an elementary school, a first-class destination shopping district called Grand Ridge Plaza, Swedish hospital and other medical services and is expecting the esteemed Bellevue College to begin building here soon.</p>		<p>community plaza which has received 5+ million from private donations of a \$14 million total cost.</p> <p>Downtown master plan calls for anchor businesses. Downtown contains numerous vacant buildings. https://www.yakima.wa.gov/services/downtown/master-plan/</p>
Average Income	~\$96,926 (from zip codes, not specific to highlands)	Household median income: \$67,100 Family median income: \$91,279 Per capita income: \$39,886	Household median income: \$40,189 Cost of living
Unemployment Rate	2.9% entire City of Issaquah (April 2015)	Poverty rate: 15%	Unemployment January:11% Summer:7.5 Poverty Rate: 22.8%
Population	2015- 9,000	2016 - 662,400 8% growth each decade.	2014: 93,357 2.3 % from 2010-2014
Age Demographic	Median resident age: 37 (Issaquah)	75% between 18 and 64. High	0-18: 28.3 18-65:58.6

	total)	concentration (20%) between (25 to 34) and (35-44) (17%)	65+: 13.1 21-44: ~31%
Walkability	Walk score- 39 Transit score- 11 https://www.walkscore.com/WA/Issaquah/Issaquah_Highlands	https://www.walkscore.com/WA/Seattle	Walk Score: 50 Downtown score: 84 Mean commute: 17.8 min
Cultural/Diversity Landscape	70% white 16.5% asian 5.7% hispanic 2% black For population over 25: 98% high school diploma 58% bachelor's or higher 23% graduate degree (all from Issaquah total, not limited to highlands)	bachelor's degree or higher: 56% 54% work in management, business, science, and arts Race: White - 69.5% Black or African American - 7.9% Amer. Indian & Alaska Native - 0.8% Asian - 13.8% Native Hawaiian & Other Pac. Islander - 0.4% Other race - 2.4% Two or more races - 5.1% Hispanic or Latino ethnicity (of any race): 6.6% Persons of color: 33.7%	Latino: 41.3% White alone: 52.2% 37% speak a language other than english at home High school: 73.2% Bachelor's: 17.3 Farming: 9.4% Production, transport: 16% Sales, admin: 21%
Needs(s) of Community	Affordability, jobs,	(Could Ask Fremont Brewery)	Year-round jobs. Economic Development.
Ecosystem to Support Co-Op Business Model		more than 40 breweries - that is one brewery for every 14,000 people!	Major Co-op operate in county: ACE Hardware (distribution center), Tree Top, Darigold Regional: Bleyhl's

			<p>Farm Service (part of CHS and Land O Lakes), Yakima Co-op, Benton REA</p> <p>In development: Yakima Food Co-op</p> <p>Active USDA programs and county/WSU extensions programs</p>
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Market Analysis

Breweries per Capita	Only the RAM (thus 1 per 9,000)	1 per 14000 people	<p>Packaging: Bale Breaker</p> <p>Tap Rooms: Yakima Craft, Hop Nation</p> <p>County: Bron Yr Aur, Snipes Mountain, Horse Heaven Hills</p> <p>1 per 31,119</p>
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