

# **Ideas about Karma membership structure**

**For discussion at the members' forum on February 21, 2010**

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## **Background:**

Karma is in a position where, in order to be financially sustainable, it needs to make more money. In fact, there have been many consecutive losing months.

Three ways to increase our profitability are to increase membership size, to increase income per member, and to get income from non-members, assuming we do not make any changes to the price of the goods. There is very little more we can do to increase profitability by reducing expenses.

Membership size depends on how well we attract new members to learn about Karma, how attractive our orientation process and fee structures make it to join Karma, and how well the experience of being a member encourages staying a member.

An increase in sales per member would mean that members shop for more of their groceries at Karma. It is a function of price, convenience (including location and hours of operation), product selection, and more. We might also get more income without substantially increasing sales by adjusting our markup structure to sell goods more profitably. While those issues are important, they are not the subject of this discussion – we will save them for another discussion.

What we want to focus on today are possible changes to our membership structure at Karma. We could see important benefits from changing the membership fees structure and/or changing the pricing structure at Karma. The ideas below present some possibilities for this – note that they are not necessarily exclusive options and can be considered in combination with each other.

Each of the ideas about membership listed below is meant to solicit member feedback and to help us understand which ideas and/or combinations of ideas are worthy of pursuing. They are also meant to spur discussion and consideration of any other potential ideas about changes to membership structure that members may have.

## **Membership Ideas:**

### **Idea #1**

Currently members can work more than two hours per month. These hours are 'banked' for future months when the members are not working. The idea is to allow members to redeem each banked hour for a \$10 shopping credit, if they'd rather not bank the hour. Shifts worked would be limited to shifts available, and management would have the right to restrict extra hours worked by individual members to allow others to meet their monthly requirements. We could even extend this system to properly-trained members who ordinarily pay the 10% surcharge but want to work on occasional tasks such as inventory or renovations – in such cases, the credits could offset the surcharge.

**Pros:**

- More likely to appeal to current and potential members who have flexible schedules and find it appealing to perform extra work shifts for credit (compared to members with families, jobs, etc.)
- Would increase member participation
- Would help us run the store at a lower cost than the current starting wage rate. (That's a fairer comparison to \$10 an hour than is the wage rate of our fully-trained staff, who can perform many tasks not suitable for member labour, as well as performing the same tasks more efficiently.)

**Cons:**

- Need for administration/tracking to ensure that all members have the opportunity to fulfill their required monthly hours before additional shifts are given out for credit
- Need to create a workable system for issuing and redeeming \$10 credit slips

**Idea #2**

Allow sales to be made to non-members, likely at a fixed surcharge that would have to be above the current 10% flat fee – perhaps 15%. The Treasurer estimates that this 15% figure would slightly more than compensate Karma for the membership fees not being paid.

**Pros:**

- Could increase sales without requiring commitments to join, and could lead to an increase in members as these people become more interested in joining.
- Even with a 15% surcharge, prices would in many cases still be lower than at other stores, and furthermore, we carry items (such as bulk items) that are simply not available elsewhere

**Cons**

- At a surcharge above 10% the prices that non-members would face would be quite high compared to local competition. This would discourage shoppers who are primarily driven by price rather than by availability of specific products.
- Sales made to non-members who have never undergone orientation could create stresses because the shoppers don't know how to use the scales. (There may be ways to overcome this that are do-able, such as having a scale at the

cash.)

-The ability to shop without making a commitment could also be a con – it could lead to lower membership, especially among very casual shoppers who use Karma only for a few hard-to-get products, because membership wouldn't be a prerequisite to shopping

- We would need to have some clear but non-intimidating signage warning non-members that 15% would be added to the marked prices, which are available only to working members

### **Idea #3**

Eliminate the \$18 building fee and \$18 membership fee by making a small increase in product costs. This would be an estimated 2% - 3%: The average member is currently spending about \$120 per month. The two fees together come to \$3 per month, or about 2.5% of the amount currently spent on food. The idea here is to reduce barriers to entry as a new member.

Pros:

- It would eliminate the many organizational headaches associated with billing and collecting the fees.

- It would make the costs better tied to benefits (if benefits are measured by purchases).

- It would make Karma look more appealing to outsiders, since there will be less sunk costs to paid when joining (although there would still be the member loan).

Cons:

- The two fees account for a substantial amount of revenue and help to pad any losses Karma faces or improves gains made.

- Increased prices are almost always met by decreased demand (basic economic theory). How much demand will decrease (or how price elastic customers are) is definitely hard to know with certainty.

- It would also be difficult to understand how members will perceive this structural change - good or bad?

- If there is no membership fee, then there may be no legally acceptable way to identify current members in good standing for purposes such as sending AGM notices. Beyond the legalities, it is good to limit democratic decision making to those people who have made a commitment to Karma. That would be a good argument for having some kind of membership fee, but not necessarily \$18.

- Some of the services financed by the fees, in particular the democratic services such as the AGM and the newsletter, cost us the same per member regardless of purchases.

- The \$70 membership loan may be a larger barrier to joining than the \$36 annual fees.

### **Idea #4**

Drawing on Ideas 2 and 3 above, and based on MEC-style model: Reduce, but do not eliminate, the membership fee, setting up a small membership fee so that

shopping at Karma is accessible to everyone. Have a separate group of members who are working or who have participated in the loan structure who receive a discount while shopping (ie. 10%). Everyone would see the standard price for items, but members who have invested and/or are working members would get a discount off of this price.

#### **Idea #5**

Introduce a provision for 'additional shoppers' associated with members (eg. family members or roommates). Our by-laws do not allow a family to be a member (only an individual may be a member), nor do they allow voting by proxy, but there's nothing to prevent shopping by proxy. We could allow a member to add additional household members as shoppers, but not as co-op members, for some kind of greatly-reduced loan and fee. For instance, the starting costs for a single person are now \$70+\$36, or \$106. Perhaps adding a second shopper ought to cost \$25 per year. That shopper would need to undergo orientation but would not technically be a member – instead, the second shopper would be shopping on behalf of a member unable to come to the co-op that day. Second shoppers would not necessarily be allowed to do work shifts, write IOUs, or write cheques. The second shopper would definitely not get an AGM vote – anyone who gets to vote must be a full member.

#### Pros:

- Addresses concerns about costs of membership and appeal of membership for couples and families
- Increases convenience of shopping at Karma

#### Cons:

- Does not make our membership structure any less complex