# COOPERATION WORKS!

How people are using cooperative action to rebuild communities and revitalize the economy.

E. G. NADEAU
&
DAVID J. THOMPSON

Lone Oak Press

In some parts of the country there is a co-op fever not seen since the 1930s. ***Cooperation Works!*** describes these new types of cooperatives and their role in solving both urban and rural problems.

Charles Snyder, President
National Cooperative Bank

***Cooperation Works!*** tells of the success stories of new types of cooperatives emerging to meet the changing needs of rural America.

Richard Rominger, Deputy Secretary of Agriculture,
U.S. Department of Agriculture, Washington, D.C.

The key to sustainability and growth opportunities for rural communities is the development of partnerships where businesses, local governments, key community leaders, agricultural producers and elected officials pool their resources and pursue common goals– especially across community boundaries.

Kathy Beery, Division Administrator
Iowa Department of Economic Development

***Cooperation Works!*** highlights successful cooperative projects across a broad spectrum of American society and introduces creative ideas for implementation. Cooperative leaders will find ***Cooperation Works!*** enlightening and stimulating reading.

Tom Lyon, CEO, Cooperative Resources International
President, National Cooperative Business Association

Long ago, farmers organized cooperatively to control the cost of their feed, seed and supplies and to improve their bargaining power over the sale price of their products. Since then, cooperatives have formed in many other sectors, providing millions of people with better access to essential goods and services. I expect the role of cooperatives will become even more important in the coming years.

Russ Feingold, U.S. Senator, Wisconsin

# *Cooperation Works!*

How People Are Using Cooperative Action
to Rebuild Communities and Revitalize the Economy

E. G. Nadeau
&
David J. Thompson

Lone Oak Press, Ltd.

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to Rebuild Communities and Revitalize the Economy

BY
E. G. NADEAU & DAVID J. THOMPSON

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COVER PHOTO BY E. G. NADEAU
The colors in the cover picture represent the
colors of the rainbow, a symbol of cooperation.

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CDS is a non-profit organization that provides professional business development and planning services to cooperatives and communities in the Upper Midwest.

Since its start in 1985, CDS has conducted hundreds of cooperative, community and economic development projects in areas as diverse as agriculture, business, the environment, housing, child care, and the arts.

For further information contact:

Cooperative Development Services
30 W. Mifflin St., Suite 401
Madison, WI 53703
608-258-4396

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*COOPERATION WORKS!*

# Contents

# FOREWORD

The tradition of democratic economic enterprise reaches far back into American history. Formally organized cooperatives, such as mutual fire insurance societies, date back to colonial times. Informal cooperative action pervades our early history in the form of barn raisings, threshing bees and the mutually supportive activities of neighborhood, town and village life.

But this tradition is much broader than most people realize – well beyond farmers and food consumers, to include people with disabilities and local governments, neighborhood organizations and hardware store wholesalers, all together claiming a membership of 100 million Americans.

The stories in ***Cooperation Works!*** describe the breadth of cooperative action in the United States. Most importantly, the book charts future opportunities for building on these examples.

The diversity that is America is reflected by the diversity of cooperative examples presented in ***Cooperation Works!***. This should not be surprising because cooperative organizations serve the economic and social needs of their members.

Words like "self-help" and "empowerment" have lost much of their meaning through overuse and misuse as platitudes rather than calls to action.

That's not the case in this book. Real stories of real people taking action, taking risks and getting things done remind us of what self-help and empowerment genuinely mean. The story of Ed Roberts and the other pioneers of the disability movement provide incredible examples of vision and perseverance.

Our society faces enormous economic uncertainties and challenges as we approach the turn of the century. This book reminds us that previous generations and many in our current generation also faced daunting problems – and found cooperative solutions to them. This should give us all hope that, just as in the past, working together collaboratively will help us solve the problems we are facing now and will face in the future.

The funding of this book was based on the same spirit of people and organizations working together as the cooperative stories the book describes. Four foundations and a university center, all with strong historical roots in the cooperative community, pooled their resources to make the writing of ***Cooperation Works!*** possible.

We hope that this successful example of collaborative funding by foundations will be replicated in the future. There are many wonderful stories to tell about the social and economic benefits of cooperative action and many media through which to tell them – books, radio, television, videos, the internet, cd roms, etc.

Cooperatively-oriented foundations, university programs and other organizations can play a critical role in getting this story out. And they can do it cooperatively.

William Nelson, President,
The Cooperative Foundation
& Cooperative Education Specialist, Cenex Foundation

Judy Ziewacz
Executive Director,
Cooperative Development Foundation

# INTRODUCTION

If you are concerned that our society is becoming increasingly depersonalized or that it's getting harder and harder to get "good things" done, then this book will lift your spirits. ***Cooperation Works!*** is filled with stories of how people all over the United States are improving their lives and their communities by joining together in cooperative action.

In recent decades, roughly since the end of World War II, Americans have ceased to be united by a common cause. We have lost some of the cooperative values that sustained us in the past. We have lost the ability to work together to tackle the most pressing problems of our times. This book reacquaints us with the powerful things that cooperative action can accomplish – and *is* accomplishing in the United States today.

Through more than 50 examples, ***Cooperation Works!*** shows what people have done cooperatively to take more control over their lives, and it provides ideas on how the reader can take similar action.

## COOPERATION AND COOPERATIVES

A cooperative (or co-op) is a business owned and controlled by the people who use its services. All co-ops share four additional features:

• **Service at cost.** This means that co-ops are not designed to maximize profits, but rather to provide goods and services to members at a reasonable price.

• **Benefits proportional to use.** Unlike for-profit businesses, co-ops distribute profits to member-owners on the basis of the *amount of business transacted* with the co-op during the year rather than on the *amount of capital invested* in the co-op. Credit unions and some co-ops plow profits back into the business each year to reduce costs or improve services instead of distributing them to members.

• **Democratic control.** In most cooperatives and credit unions, each member has one vote in decision-making regardless of the number of shares owned or the amount of business done with the co-op. Members elect the board of directors and vote on other issues at annual meetings or at other meetings held during the course of the year.

• **Limited return on equity.** The significance of this cooperative principle is that people buy equity in co-ops not to make a lot of money on their investments, but rather to enable the co-op to provide the products or services they want. They may get a return on their investment (usually 8 percent or less), but these dividends are a secondary issue.

Co-ops are different from for-profit businesses, which are owned by one or more investors whose intent is to make a profit by selling goods and services to other businesses and individuals. Co-ops are also distinct from non-profit organizations, which aim to provide educational, charitable and other services and which must reinvest any profits they make in their own operations or donate them to other non-profits or to government agencies.

Cooperatives can be divided into four main categories. **Producer cooperatives** are formed by farmers, craftspeople and other producers to purchase supplies or services and to market products. People form **consumer cooperatives** to buy groceries, financial services (e.g. credit unions) and other goods and services. **Employee-owned cooperatives** are owned by the people who work for the co-ops. For example, many cab companies in the United States are employee-owned. **Business cooperatives** are owned by for-profit businesses, cooperatives or non-profit organizations. Examples include wholesalers owned by retail hardware stores or fast-food franchisees.

Some businesses operate in a similar manner to cooperatives but are incorporated as for-profit businesses or non-profits. For example, many businesses have employee stock ownership plans (ESOPs), in which workers own a piece of the business. Many non-profit child care centers are controlled by parents and community representatives and operate in a "cooperative" manner.

*The stories in this book are about cooperative action occurring in a wide variety of settings. Some involve formally organized cooperatives. Others don't.* All describe people working together in a democratic manner toward a shared goal – and being successful at it.

## COOPERATION, COMMUNITY, COMPETITION AND CONFLICT

The words cooperation and community connote teamwork or partnership. Conflict and competition indicate an adversarial relationship. *The authors believe that we would be healthier and happier as individuals and would function more effectively as a society if we treated one another primarily as partners rather than as adversaries.* We are still a long way from a society in which cooperation is the dominant ethic. But, as ***Cooperation Works!*** illustrates, there are many exciting examples in the United States today of cooperative action chipping away at old antagonisms and apathy.

There's no guarantee we will opt for new and better ways to work together in our communities, workplaces, schools and other institutions as we approach the 21st century. We could escalate current trends toward more conflictual relationships, such as the increasing violence and fear in some communities. Or we could withdraw into greater isolationism – in front of our television sets and computer screens – abdicating our roles as citizens and neighbors.

But, as this book suggests, we could make another choice and become better cooperators and community members. One of the reasons we think this a possible, and even likely, direction is that working together taps a deep human longing. Most of us have been fortunate enough at one time or another to be a member of a work group, a sports team, a community or church project, an educational experience, an extended family event or a similar effort in which the participants worked effectively together to get the job done. We know the special feelings of camaraderie and satisfaction that have come from these group efforts. Why can't we work to increase the likelihood that these experiences occur more frequently in our personal lives and in our society?

There's another reason why we believe that cooperative action has excellent potential to be the dominant way in which we relate to one another in the 21st century. *It works!* Judge for yourself whether the examples described on the following pages make a convincing case and whether there are ways in which the ideas and information presented can be of use to you.

# PART I: COOPERATIVE APPROACHES TO BUSINESS

# CHAPTER 1.

# VALUE-ADDED AGRICULTURAL COOPERATIVES:
## REVITALIZING THE FAMILY FARM

*Since the last half of the 19th century, cooperatives have been a means for farmers to get a better deal in the marketplace. By purchasing supplies, borrowing money and selling farm products through co-ops, producers have been able to create a more equitable relationship with large agricultural companies and banks. But despite the bargaining power of agricultural cooperatives, family farms are on the endangered list in the United States – and so are the small communities that depend on them.*

*The value-added cooperatives that have emerged in North Dakota and Minnesota in the past two decades provide renewed hope for family farms, for agricultural towns and villages, and for all of us who value self-reliance and a sense of community. This chapter provides some background information on trends in American agriculture and some examples of how the value-added co-op model works.*

### ONE MAN LOOKS AT THE "NEW PHASE" OF AGRICULTURE

Dennis Gibson is a soft-spoken, thoughtful man. People listen to what he has to say. Gibson and his wife farm 1,800 acres in western Minnesota with his son, his sister and her husband. He grows sugar beets, corn and soybeans and also raises some deer in converted cattle pens.

Gibson joined the Southern Minnesota Beet Sugar Cooperative when it was first formed in 1975. "I guess I joined because I was young and a risk-taker," he says, "and because I trusted my neighbors who were organizing the co-op." His neighbors already had been growing sugar beets profitably for a number of years and had decided that a farmer-owned sugar processing plant would provide area farmers with an even better return than just growing the beets as a commodity.

The sugar beet co-op is just one of four value-added cooperatives of which Gibson is member. He also belongs to Minnesota Valley Alfalfa

Producers and Minnesota Corn Processors and is a founder of Prairieland Producers, a deer processing and marketing cooperative.

Gibson says he "kind of backed into the venison business." He got out of cattle feeding in 1981. In 1988, he decided he didn't want his cattle pens sitting idle anymore, so he began to raise deer. Soon he realized it would be more effective for a group of farmers to process and market deer meat together than for each producer to try to do it on his own. With some help from the Agricultural Utilization Research Institute (AURI) – a Minnesota non-profit organization that helps farmers and agricultural processors improve their access to markets and new technologies – Gibson and nine other deer farmers incorporated Prairieland Producers in 1992. The co-op is still in an experimental phase. It contracts with a private processor and deliberately has restricted its membership and production. As a result, the co-op has no debt and is gradually growing to meet new market demand.

Gibson had been interested in joining Minnesota Corn Producers (MCP) for a long time because, he says, "the co-op wasn't just producing ethanol but a wide variety of corn products, including fructose and starch." The co-op was originally formed in 1980 and began producing corn syrup, corn starch and byproducts at its $40 million plant in Marshall, MN, in 1983. It didn't become profitable until a few years later, but has prospered since then, building a $70 million plant in Columbus, NE, in 1992. Gibson purchased stock in the co-op in early 1995 when MCP offered an additional $150 million in stock to corn producers in Minnesota, Iowa, South Dakota and Nebraska in order to finance expansions at the cooperative's two plants.

"I got involved in the Minnesota Valley Alfalfa Producers Cooperative (MNVAP) for a different reason from the other co-ops," Gibson reflects. He's on the board of CURE (Cleaning Up our River Environment), which has as its primary goal to improve the water quality of the Minnesota River, the most polluted riverway in Minnesota. According to Gibson, "There are two ways to get farmers to change the way they farm: moral persuasion and economic incentives. I think the second way is much more likely to succeed. Alfalfa is a crop that's good for the soil and good for waterways. If the alfalfa co-op can find a way for farmers to make some money on their alfalfa, this will have a tremendous impact on the environment."

In the mid-1990s, MNVAP is collaborating with Northern States Power (Minnesota's largest utility), the University of Minnesota, Westinghouse, the United States Department of Energy and others to determine whether it makes sense to establish a large-scale alfalfa processing facility and an electricity generating plant fueled by alfalfa stems in western Minnesota. A key part of this analysis is to test the market for a wide array of alfalfa products ranging from different kinds of animal feeds to human food ingredients, pharmaceuticals and cosmetics.

If the business planning process identifies a profitable way to process and market the various alfalfa products, the co-op is projected to have an estimated 2,000 members and 180,000 acres of alfalfa in production by 1999. The biomass power plant fueled by alfalfa stems would generate 75 megawatts of electricity – enough power to meet the energy needs of a community of 45,000 people.

Gibson has been involved in the new value-added cooperatives for 20 years. His commitment is based on several factors: These co-ops make good economic sense for farmers; farmers reduce risks when they "diversify beyond corn and beans"; and the new co-ops help farmers become better stewards of the land.

"These cooperatives are just beginning a new phase in the evolution of agriculture," Gibson concludes. "There are going to be mistakes. Some co-ops will fail. Some people will try to take advantage of the current co-op mania. But I'm confident that there are many good co-op business opportunities out there that will succeed."

## GETTING BEYOND THE COST-PRICE SQUEEZE

With a few minor deviations along the way, the history of U.S. agriculture in the 20th century has been one of rising costs of agricultural production and decreasing prices for agricultural products. The shorthand for this trend is "the cost-price squeeze." What it means is that for the past 90 years or more, family farmers have been getting squeezed out of farming. No matter how hard they have run to keep up, they have been gradually losing ground – literally.

In 1910, 15 cents of every dollar generated in the agricultural system went to the suppliers of agricultural inputs – seed, equipment, fertilizer and chemical companies, and lenders. The farm share was 41 cents; the remaining 44 cents went to marketing – transportation, processing, distribution, wholesale and retail businesses. By 1990, the farmers' share had plummeted to 9 cents, agricultural suppliers received 24 cents and the marketing share rose to 67 cents. In other words, the farmers' share of agricultural return in 1990 was less than one quarter of what it had been in 1910.

Family farmers have attempted to stay competitive in the marketplace by increasing their productivity; by introducing bigger and better farm equipment; by using more expensive and more effective chemical fertilizers and pesticides; and by attempting to increase the size of their farms. This strategy hasn't worked for most family farms. Since the end of the World War II, the number of farms in the United States has dropped from roughly 6 million to about 2 million. The average size of these farms has increased from about 190 to 480 acres. Both in 1980 and in 1992, approximately half the farms in the United States had gross sales of less than $10,000. The big difference is that the cost of living went up by 40 percent over those 12 years. In other words, the real income of these smaller farms dropped dramatically during this time.

The loss of two-thirds of the nation's farms in the past 50 years has been a problem not only for the farm families who have been displaced. It's also been devastating for many of the communities where they lived. In most rural communities, farms are the pump that primes the local economy. Farm loss has meant rural retail and service businesses going under, rising unemployment rates, outmigration, and the less quantifiable but equally destructive erosion of a community's social fabric and spirit.

There are urban consequences as well. As Sir James Goldsmith, a member of the European Parliament, states so clearly in his book, **The Trap**: "When people leave the land, they gravitate to the cities in search of work. But throughout the world there are not enough urban jobs and the infrastructure ... is already insufficient ... These are the indirect costs of intensive agriculture and they must be taken into account."

Why has this happened? The simple answer is that most farmers have been in a weak competitive position in the marketplace. They have had little or no economic clout in controlling the costs of inputs nor the value of outputs. Antitrust legislation in the late 1800s and early 1900s alleviated some of the most extreme distortions in the economic positions of farmers and agribusinesses. This legislation limited the ability of large companies to monopolize markets. It also prohibited the formation of cartels that had allowed groups of companies to collude on prices. Both of these practices put farmers at a terrible disadvantage in buying supplies or in selling farm products.

The growth of supply, marketing and agricultural finance cooperatives in the 1930s through the mid-1990s also has mitigated some of the worst aspects of farmers' vulnerability in the marketplace. In 1994, 2,200 marketing co-ops sold 31 percent of all U.S. farm commodities. In the same year, 1,600 supply co-ops sold 29 percent of the nation's farm supplies. The 240 farm credit cooperative banks and associations loaned 25 percent of all the money in U.S. agriculture in 1993. These co-ops provide a strong marketplace presence for American farmers.

Despite this presence, however, continuing trends throughout the 20th century clearly indicate that the cost-price squeeze persists. Some new mechanism to provide farmers with a greater role in the marketing of their farm commodities is needed if the family farm is to be more than a passing phase in American history.

## VALUE-ADDED AGRICULTURAL COOPERATIVES

The value-added agricultural cooperative movement demonstrates that there is a way for producers to ease the pressure of the cost-price squeeze without leaving the farm. As the name indicates, the goal of these cooperatives is to add value to the raw materials produced on the farm and to return that added value to producers rather than to turn it over to "middlemen" – brokers, buyers, processors and distributors.

Value-added cooperatives are not a new phenomenon in the United States. Dairy cooperatives – including "Fortune 500" co-ops such as Associated Milk Producers, Land O'Lakes and Mid-America Dairymen – have been producing value-added dairy products on behalf of their farmer members for decades. Sunkist Growers, the large California-based cooperative that markets and processes citrus fruits, was started in 1895. Ocean Spray, with grower members in Massachusetts, Wisconsin, New Jersey, Florida, Oregon and Canada has long been a successful, creative processor and marketer of cranberry and other fruit products.

What is new is the unprecedented number of value-added co-ops that have formed or are in the process of being formed during the past few years. Most of these new co-ops are in North Dakota and Minnesota, two of the states hit hardest by farm losses in the 1980s.

Rather than acquiescing to the decline in the number of farms in the post-war period, some producers are investing in the long-term future of their farms and communities. Their strategy for making their farms profitable is to own post-production processing and marketing cooperatives. This strategy is not without risk. If farmers pool their funds and build a state-of-the-art pasta plant, as in one of the examples given below, the plant may or may not be profitable. Thus, producers can share in losses as well as profits. More and more farmers in the Upper Midwest are willing to take that chance.

So far, this "quiet revolution" on the Plains has been dramatically successful. None of the approximately 50 value-added co-ops financed by the St. Paul Bank for Cooperatives since 1973 has gone out of business. These new co-ops are owned by about 10,000 farm families; represent close to $2 billion in new rural investments; have created in the range of 5,000 direct new jobs and many times that number of indirect jobs; and have had a strong positive economic impact on dozens of rural communities and at least a minor positive impact on hundreds of others.

Besides "value-added," the second most applicable adjective for these co-ops is "diverse." In addition to the co-ops mentioned above and others to be discussed in more detail below, there are a bison cooperative; a number of corn processing co-ops that produce ethanol (a clean-burning alcohol used to boost the octane level of gasoline) and several others that make fructose (the primary sweetener in soft drinks and many other products); potato, pea, sweet corn and carrot co-ops; a hybrid poplar co-op that plans to market this fast-growing tree to the paper and pulp industry; soybean and pinto bean co-ops; pork, lamb and beef co-ops; an ostrich co-op, an emu co-op (a flightless bird imported from South America) and a tilapia co-op (a type of fish that grows well in aquaculture), all three in the development stage; and dozens more in operation or on the drawing boards.

It's too early to reach any grand conclusions about this quiet revolution. But its potential implications are enormous. These value-added co-ops may be showing the way to end or dramatically slow down the century-long death march of the family farm in the United States. Their economic and social impacts are substantial in the Upper Midwest, even though most are less than five years old. If producers in other parts of the country become cooperative entrepreneurs and increase the profits they receive from their farm products through this value-added model, this would signal a national shift away from what had, until recently, appeared to be an inevitable tightening of the vice on the family farm.

The next part of this chapter provides four examples of value-added cooperatives: the Southern Minnesota Beet Sugar Cooperative, the Dakota Growers Pasta Company, Organic Valley and Prairie Organic Cooperative.

## Southern Minnesota Beet Sugar Cooperative

The Southern Minnesota Beet Sugar Cooperative was incorporated in 1975. It's one of four pioneering value-added co-ops formed during the 1970s and early '80s in Minnesota and North Dakota. American Crystal Sugar and Minn-Dak Farmers Cooperative – both sugar beet co-ops – were formed in 1972. Minnesota Corn Processors started in 1980.

During the first few years, Southern Minnesota Beet Sugar Cooperative didn't do nearly as well as its organizers had projected. Because of heavy losses and ineffective management, the banks foreclosed on the co-op's loan in 1978. Faced with two unfavorable choices – selling off the assets or selling the plant back to the farmers at a greatly reduced price – the banks chose the latter option. The co-op was thus able to get a second start with a much smaller debt burden because the value of its assets had been written down from $63 million to $19 million. The co-op has been profitable ever since.

When Dennis Gibson joined the co-op in 1975, he paid $200 an acre to purchase stock in the co-op. This stock purchase did three things: It provided capital for the co-op to begin operations; it committed Gibson to growing sugar beets for the co-op on the acres for which he purchased stock; and it committed the co-op to purchasing an agreed-upon acreage of sugar beets from him.

Thus, core financing and agreements on supply and demand were all taken care of in one simple membership contract. Each share Gibson purchased for $200 in 1975 is worth about $2,500 today. This means that another farmer interested in producing beets for the cooperative is willing to buy a share from Gibson – and thus the right to sell an acre of beets to the co-op – for 12.5 times the price Gibson paid. There are three main reasons why these shares have increased so much in value.

First, Southern Minnesota Sugar, American Crystal and Minn-Dak, all located in the Red River Valley, which forms the Minnesota-North Dakota border, have done a very effective job in cooperatively marketing sugar and byproducts from the sugar beet industry. Second, the United States government has had restrictions on sugar imports dating back to the early 1930s, including a sugar import quota that has been in effect since 1982. This quota has contributed to prices for domestically grown sugar that are well above the world price. And third, the three sugar beet cooperatives have maintained limits on membership and production, which have helped prevent a glut of domestic sugar in the marketplace.

### THE DAKOTA GROWERS PASTA COMPANY

The Dakota Growers Pasta Company is owned by about 1,000 wheat farmers from North Dakota, western Minnesota and eastern Montana. The co-op built a state-of-the-art, $40 million pasta factory outside of Carrington, ND (population 2,700). The plant began operation in November 1993. Farmer-members provide all of the wheat processed at the plant.

In 1995, Dakota Growers produced about 100 million pounds of pasta in 50 different varieties for the private label, food service and ingredient markets. The plant employs 230 people. After only its second year of operation, the co-op generated $.46 per share profit, distributing $.31 in cash to farmer shareholders and retaining the remainder for operating reserves. What this means is that members not only received the current market price for the durum wheat they sold to the co-op, but they also earned a 20 percent annual return on their investment in the co-op. It's this combination of production earnings and sharing in the profits of milling and pasta processing that makes this value-added co-op a good investment for its farmer-members.

In early 1996, Dakota Growers issued new equity stock in order to finance a $5 million expansion to double the milling capacity of the plant. Confidence by wheat farmers in the co-op was so high that sales of stock far exceeded the stock sales target. The cooperative will use the additional capital as a reserve for future expansion of pasta production.

This farmer-owned enterprise represents a down-to-earth variation on "Field of Dreams." Farmers appeared to be building a factory in the middle of nowhere. In reality, they built it in the middle of durum wheat country – the wheat used to make spaghetti, ravioli, lasagna and other pasta noodles. The co-op allowed the members to shift from being commodity grain producers to processors of their raw products – and to reap the financial benefits from this expanded role.

There are community and population impacts as well. North Dakota lost 10 percent of its rural population between 1980 and 1990. Employment at the pasta plant in Carrington alone equals about 9 percent of the city's population, and this doesn't take into account the on-farm, construction, transportation, service and retail jobs created directly and indirectly by the plant.

## Organic Dairy and Grain Products

Organic farming has a special niche within value-added agriculture. "Organic" means that agricultural products are grown without the use of synthetic fertilizers, herbicides and pesticides, and, in the case of animals, without antibiotics or hormones. Most states have regulations defining what is and what is not organic. There are also private agencies which certify that farms and processors meet organic standards. In 1996 or 1997, the small variations in state and private criteria for organic will be replaced by a uniform set of national organic standards administered by the United States Department of Agriculture.

Up until the end of World War II, the vast majority of farmers in the United States farmed organically. They just didn't call it that. Over the last 50 years, however, about 99 percent of U.S. farmland has become chemically dependent. In the past decade or so, farmers have begun to explore ways to reduce their use of chemicals for a variety of different reasons: environmental or health concerns, reduction of input costs, market opportunities, and stricter state and federal environmental regulations.

Organic farming is part of a broader movement called sustainable agriculture, which means using farming techniques that can be carried out for the indefinite future without degrading the land and water. Sustainable agricultural practices generally involve one or more of the following: reduced chemical use (sometimes called integrated pest management), increased use of plant and animal manures, reduced tillage, and rotational grazing of livestock. All these practices have in common a reduction in purchased inputs: petroleum products, other chemicals and machinery.

Sustainable agriculture in general and organic farming in particular have the potential to challenge the "cost-price squeeze" discussed above on the input side as well as the output side. For example, an organic farmer may reduce his or her cost of farming by substituting green manure and animal manure produced on the farm for chemical fertilizer. Crop rotation and nonchemical weed and insect management can replace herbicides and pesticides. Rotational grazing of animals reduces the amount of feed and the cost of hay harvesting and storage. At the same time, animals fertilize the fields while they graze, thus reducing manure handling and application costs. Organic farming is generally more labor-intensive and may have lower yields than conventional farming. Thus, increased labor and lower volume of production need to be balanced off against reduced input costs.

In general, however, organic farming helps producers beat the cost-price squeeze in two ways: They can spend less on the things they need to run their farms; and they can get a premium price because some consumers are willing to pay more for organic vegetables, fruits, dairy and grain products, and meats for reasons of health, nutrition and the environment. On top of these economic incentives to producers, the added benefit is an environmental one: Organic farmers are stewards of sustainable farmsteads.

Some of the organically grown grains and beans produced in the United States are exported to Western Europe and Japan. However, most organic foods are consumed domestically. Even though organic foods are less than one percent of all food consumed in the United States, their consumption has been rising by 20 percent per year or more during the past few years. Organic food cooperatives are playing a big role in this rapid increase. Because of the way they are grown, organic products have "added value" before they even leave the farm. To the extent that producers join together to process and market their products, they can add value to value.

Coulee Region Organic Produce Pool (CROPP) is a dairy, egg and vegetable cooperative headquartered in southwestern Wisconsin. Dairy products account for about 90 percent of the co-op's sales. As of early 1996, CROPP had about 80 family farm members in Wisconsin, Iowa and Minnesota producing about 3.5 million pounds of milk per month. CROPP has had some growing pains since its start-up nine years ago, but during the past few years the co-op has been profitable, while at the same time paying a premium price to its members about 25 percent above the going rate for raw milk. The co-op produces a wide array of organic dairy products: milk, 20 kinds of cheese, yogurt, ice cream, spreads and butter – at 11 small dairy plants scattered around the Upper Midwest and at two plants in California. Most of CROPP's dairy products are marketed nationally and under its own brand name, "Organic Valley."

CROPP's current plan is to double its production during the next four years. The increasing consumer demand for organic products and the soon-to-be-announced national organic standards will make organic dairy products and other organic foods a rapidly growing industry well into the 21st century.

Prairie Organic Cooperative completed its first full year of operation in the spring of 1996. At that time, the co-op had 50 members with about 20,000 acres of organic grains that were committed to be marketed through the co-op. Prairie Organic is headquartered in Bismarck, ND, near the center of the state. In addition to North Dakota, the co-op's membership is from Montana, South Dakota and Minnesota.

In 1995 and early 1996, the co-op sold a little more than $1 million worth of organic grain – 60 percent from members and 40 percent from nonmembers. The co-op's goal is to double its membership and acreage in 1996 so that it will cover all its operating expenses through its grain sales. A second goal is to expand into organic meat processing and marketing. Prairie Organic is negotiating with North American Bison Cooperative to have organic beef processed at the bison co-op's plant in North Dakota.

The two biggest obstacles in the marketing of organic grains have been inconsistent supply and unreliable quality. Food companies and retailers will not make major commitments to organic cereals, bread products, pastas and other grain-based products unless the supply and quality can be guaranteed. They don't want to go through the expensive process of testing, promoting, packaging and securing shelf space for new product lines and then run out of stock or receive quality complaints from consumers.

Solving supply and quality problems is exactly where Prairie Organic comes into the picture. The co-op is developing close working relationships with key organic grain buyers and works out agreements with them on types and quantities of grains to be grown by co-op members. The co-op also negotiates prices and quality requirements. Eventually the co-op wants to develop a reserve system in which grain will be set aside from year to year in order to address shortages that may result from bad weather or higher-than-expected demand.

As a farmer-owned co-op, Prairie Organic is in a unique position to solve these marketplace problems. The co-op can coordinate the kinds and amounts of grain production of its members. It can establish quality standards and provide training and inspection services to make sure the standards are met. The co-op also can address a unique logistical problem of organic grains. They cannot be commingled with conventional grains because they would lose their organic premium. The separate storage, transportation and processing of organic grains is necessary to avoid infestation by pests or contamination by synthetic chemicals. Thus, for the most part, organic grains are stored on the producer's farm until they are ready for shipment to the processor. Coordinating grain inventories on dozens of farms and arranging for just-in-time delivery from these diverse storage points requires a complex computer system not unlike that used by long-distance delivery services. Prairie Organic is in the process of developing such a system.

## CONCLUSION

In the past two decades, and particularly in the first half of the 1990s, value-added agricultural cooperatives have provided a glimmer of hope after decades of family farm decline and depopulation of rural communities. Through these co-ops, producers have shifted from defense to offense. Instead of being dependent on marketing agents and processors, they have become their own "middlemen," taking on additional risks, but also sharing in the increased value of their products.

Rising costs of agricultural production and declining or stagnant prices for farm commodities have been more than offset for these co-op members because they are no longer selling commodities, but rather processed products with higher profit margins. Organic co-op members and other sustainable farmers are reducing their costs of production, as well, by replacing purchased inputs with on-farm resources.

Does this mean that the cost-price squeeze that has put 4 million family farms out of business in the past 50 years is a thing of the past? Not at all. It does mean, however, that the value-added cooperative model may provide a strategy for family farms to become more profitable and, thus, for their operators to have a greater incentive to stay in farming. It also may provide a means for the revitalization of thousands of rural communities that benefit from increased producer income and from locally owned marketing and processing facilities.

The use of this strategy is increasing rapidly in the Upper Midwest. But is it a passing fad that will fade away quickly, especially if there is a big failure or two? Can it work in other parts of the country? How can information on the do's and don'ts of this model be transferred from one part of the country to another? From one group of producers to another?

There are no easy answers to these questions. There are, however, a couple of underlying points about the value-added agricultural co-op model that should be stressed. First of all, they have worked well so far. The older value-added co-ops – such as Land O'Lakes, Sunkist and Ocean Spray – and the sugar beet co-ops are proof of their ability to endure and prosper. Second, the economic premises on which they are organized are sound. They have reduced farmers' dependency on "middlemen." In addition, tying equity investments by producers to an internal system that controls supply and demand of products within the co-op has worked well to maintain the cooperatives' profitability over the long term.

Thus, the strategy is a proven one. Whether it will continue to be applied effectively in the Upper Midwest and to spread to other parts of the country remains to be seen. But there is no question that these value-added cooperatives have the potential to bring about a profound shift in American agriculture and to reinvigorate thousands of agriculturally based rural communities. It's up to family farmers themselves and to those who work with them as cooperative, agricultural and rural advocates and developers to realize this potential.


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# CHAPTER 2.

## THE COOPERATIVES BEHIND THE SMALL BUSINESSES ON MAIN STREET

*Walk down Main Street America and you'll see business cooperatives at work. For instance, your local newspaper gets fast-breaking news from the Associated Press. Your favorite supermarket may well get supplies, advertising support and other services from a wholesaler co-op. Your neighborhood pharmacy might belong to a purchasing co-op, which helps your local pharmacist compete in a marketplace that's become increasingly discount-store dominated.*

*These are but a few examples of business cooperatives that today move billions of dollars' worth of goods and services nationwide. Indeed, business co-ops are the backbone of support for many of this country's small businesses and their owners. This chapter takes an in-depth look at one family's experience as part of a hardware cooperative. It also describes co-ops in numerous other industries, especially the fast growing cooperatives serving many fast food franchisees.*

### THE ANDERSON FAMILY'S STORY

On any given day you'll find Jennifer Anderson, president of Davis Lumber and Hardware in Davis, CA, walking through her store, answering customers' questions as she goes. She's a trailblazer in a normally male-oriented business. Whether it's an inquiry about choosing a front door, or selecting the right type of outdoor light or finding the necessary part for a plumbing repair, Anderson knows the answer and where the item can be found in her store.

That's no small feat, considering that Davis Lumber and Hardware is housed in four buildings, stretching for two city blocks that run alongside the railroad tracks laid when Anderson's grandfather started the business in the early 1900s. The store has departments not only in hardware and lumber, but also electrical, plumbing, pet supplies, housewares, furniture, a nursery center, mill shop, a rock yard and a custom frame shop. Employing 100 people, Davis Lumber and Hardware is Davis' largest downtown business. Due to its size, longevity and use by thousands of loyal customers, it's not just a hardware store, it's a community institution.

Anderson's grandfather, A. Gordon Anderson, emigrated from Canada to the Davis area at the turn of the century. In 1914 he opened the hardware and general store, which also doubled as a bank of sorts for the community's cash-starved farmers and ranchers. Later, Gordon served as the city's mayor for 13 years. When he died in 1937, the family exchanged the store's inventory for stock in the Auburn Lumber Company, a chain of local lumber yards. Then in the early 1950s, the Auburn Lumber Company hired Gordon's son (and Jennifer's father), Donald Anderson, as manager for the Davis store. By 1962, Don Anderson had bought the business back into the family's hands.

Today you get a sense of this history as you climb the stairs to the company's main office, passing photos of the original store and turn-of-the-century Davis. Like many hardware stores throughout the country, Davis Lumber and Hardware is a time-honored family and community tradition. Looking at those photos, Anderson says, "I'm reminded that we wouldn't be regarded as we are now if each generation of the Anderson family hadn't committed themselves to being the best business of our kind in town."

Yet, like most family-run hardware stores today, their market share is under attack from the discount stores and national chains, which now account for more than 30 percent of the annual $120 billion sales of the hardware industry. The family-based owners can't rest on their laurels, as the next "big box" store could be just around the corner.

Jennifer Anderson is well aware of that. Her entrance into the hardware industry goes back to age 10, when she was ceremoniously placed "in charge" of dusting at her family's store. Soon her job expanded to include pricing and then cashiering. She loved working in the business, which she did through high school, saving her money to buy her first car.

Later, however, Anderson couldn't wait to get away from Davis. Smitten by the ideals of the 1960s, she traveled around the West Coast, attended three different universities looking for herself and studied all the in-vogue humanies courses. Then one day in a retailing class at the University of Montana, she found herself saying, "This is where I belong." Soon after, she enrolled at Wilkes University in Pennsylvania and earned a degree in marketing.

When it came time to do career planning, Anderson approached her father about working again for the family business. He advised her to get a job somewhere else first and test her wings. She landed a job at a major Sacramento department store, where she honed her retail skills. Then in 1980 her father was diagnosed with cancer, and a year later he asked her to join the business – with the idea that she'd take it over. By 1985, she was the company's president.

Anderson belongs to a new breed of hardware retailer. She knows the competition she's up against, and she's geared to continually improving and developing the business. The Sacramento regional market is hotly competitive, with many retail choices for the do-it-yourself consumer. Recognizing the limitations of a one-store operation, Davis Lumber and Hardware had joined Ace, one of the nation's leading hardware wholesalers back in March 1966, making it one of the first Ace stores on the West Coast.

Back then, of course, Anderson was still in college and was little aware of the benefits of Davis Lumber and Hardware's relationship with Ace. To her, Ace was just a supplier, like any other, except that her family had a sizable investment in the organization. But as Anderson's involvement in the family business grew, so did her appreciation of what Ace did for its customers. Ace itself shifted its focus in 1976, from being a privately owned wholesaler to being a retailer-owned support organization.

### THE ANDERSON/ACE PARTNERSHIP

Now Anderson uses her own retailing skills in partnership with an energized Ace organization. And she sees the results coming through loud and clear. Today her store is in the top 100 of Ace's 5,000 member stores. In June 1994, Anderson was elected to the 11-member Ace board of directors, becoming the first woman board member in Ace's history. She also chairs the company's Retail Success Committee and is a member of the Audit, International and MIS (Management Information Systems) Committees.

Clearly, Anderson is highly active in the Ace organization today. She cites the following key roles that Ace fulfills for its members:

- providing services beyond just product and buying power to help members become better retailers,
- assessing the right product for the right customer,
- providing multiple deliveries,
- providing leadership in the industry, making it the best of the hardware co-ops,
- keeping up with changes in the industry,
- supporting store planning, electronic ordering and leading-edge technology, and
- providing strong identification with the Ace name, through a national program focused on neighborhood stores.

An important element for the locally owned hardware dealers is how to differentiate oneself in a competitive market. "Not everyone wants to go to a 'big box' store," Anderson explains. Ace helps its members to create a distinct retail image, setting them apart from their competition, through a program called the Competitive Partnership Alliance. While participation is voluntary, Ace is striving for high member involvement. Because Ace focuses its efforts on member service, it has become the most efficient national wholesaler by industry standards. In 1996, Ace is working hard to pass True Value (another member co-op) as the nation's number one hardware wholesaler. In 1995, True Value did an annual volume of $2.437 million, and Ace had $2.436 in sales.

Anderson says she sees both strengths and weaknesses in the Ace relationship. On the one hand, Ace buys to meet local needs through its 14 strategically located distribution centers. The organization never tells members what to buy, what to stock or how to run their businesses. On the other hand, customers view Ace almost like a franchise, thus expecting to get the same things at every Ace store in the country. But, in fact, Ace members are so diverse in what they offer in the markets they serve and in their size that they can't be uniform in product or offer the same store layout. Nor would they want to. Customers' needs are different throughout the country. This presents a challenge for Ace as it grows: How does it to present itself nationally to its millions of customers?

When Davis Lumber and Hardware first joined Ace, all its transactions were with the office and warehouses in Chicago. As Ace grew, it set up a regional system of support and delivery. The first regional warehouse was in Benicia, CA, which moved to Rocklin, near Sacramento, in 1988. Ace's Rocklin Distribution Center serves approximately 55 member stores in the Sacramento metropolitan region and 310 others in northern California and Nevada. Of these stores, owners of 30 of them meet quarterly to discuss problem solving, mystery shopping, and training and education. Each region has a retail consultant, whose job is to help the local members. The consultant works with store owners and suggests ways to improve standards and operations.

There are also 150 Ace advertising groups throughout the country that meet regularly to discuss their needs, advertising programs and advertising placement. This is the most active of the member dealer groups affiliated with Ace.

Today, the owner dealers have a shared vision of what they want to be and what they want Ace to be. They have a lot of confidence in the future because they believe they are meeting a community need. As Anderson notes, "There's plenty of business for the Ace dealers as long as we're committed to running a successful business. Ace has the capacity to help us to grow and achieve our goals."

## ACE LOOKS TO THE FUTURE

Ace was first formed by a small group of Chicago-area retailers in the early 1920s. Although privately owned, the organization utilized a number of cooperative practices to develop customer loyalty. Incorporated as Ace Stores, Inc., in 1928, the company named Richard Hesse as its first president, a position he held for 44 years.

Hesse introduced semiannual dealer conventions to bring Ace dealers together in one common marketplace, at one specified time, to see the products and promotions available to them. To this day, conventions remain a key activity Ace offers to its dealer-owners. Emphasizing its low-cost program and expanding its merchandise offerings, Ace grew dramatically, reaching sales of $25 million by 1958. By the time Ace became a fully dealer-owned cooperative in 1976, annual sales had soared to $382 million.

Since 1978, Ace has averaged about one new retail-support center per year. These centers are strategically located in 15 regions across the United States. Each center stocks some 60,000 items – carrying both national and Ace brands – giving the Ace dealer the type of inventory and local delivery service so vital to the dealer's business progress.

A strong Ace identity program, which included a new logo, was initiated in 1987. As part of that, Ace's national television, radio and print campaigns, along with Ace-identified stores and spokesperson John Madden, work together toward increasing the individual Ace dealer's sales. The Ace image is to support the concept of the neighborhood hardware store with the "helpful hardware man (or woman)." Other dealer services – including data processing systems and "store of the future" planning – serve to spell out more sales success for all Ace dealers.

Ace's policy of high-profit retailing and low-cost distribution continues to be the solid foundation upon which the company consistently grows and prospers. These policies and Ace's commitment to being a retail-support company to its dealers continue to attract the more progressive hardware stores and lumber dealers. Today Ace's dealers number 5,000 nationwide, with accounts in more than 55 countries and territories. But for Ace and its dealer-owners, such as Jennifer Anderson, this is just the beginning.

Today a program called Ace 2000 aims to enable Ace dealers to become the best retailers in their respective markets by the year 2000. "The New Age of Ace," announced in October 1994, is an acceleration of the Ace 2000 process. Its strategy utilizes advanced technology, improved store design, and top-of-the-line managerial and retail programs. The target objective is to grow Ace to $5 billion in wholesale sales by the end of this century.

## FROM HARDWARE TO HOTELS

Besides Ace, there are other hardware buying co-ops that serve the vast majority of the more than 22,000 independent hardware stores in the United States. True Value, ServiStar and Coast-to-Coast are but a few of these cooperatives. By pooling their annual sales of more than $10 billion, smaller hardware stores can use their buying power to attack the price advantage of the big chains and maintain a competitive edge. The training sessions and national conventions run by the wholesale co-ops strengthen the professional capacity of the member stores and their staffs. True-Value and Ace, in particular, run extensive national advertising campaigns that associate consumers with their local hardware store. Many of the hardware co-ops are now more proactive in helping their members develop their retail business to gain market share. To build volume in a highly competitive market, many of the co-ops have crossed borders to branch out into Canada and Mexico to develop retail partners.

Hardware co-ops are just one of many types of business cooperatives that are helping small businesses remain competitive in today's complex marketplace. Let's look at a few other industries in which co-ops play a key part.

## NEWS SERVICE

The oldest business cooperative in the United States is the Associated Press, which was launched in 1848 by six newspaper owners in New York City. Independently, each had been spending more and more each year to obtain news from around the world. By starting a cooperative and sharing the cost, they were able to obtain equal access to news. Thus, Associated Press sparked a revolution in both news gathering and business cooperation. Today, nearly 150 years later, Associated Press is the world's largest news-gathering service. From its headquarters in the Rockefeller Center in New York City, it sends news to the pages of its 15,000 member newspapers around the world.

## GROCERS

In the grocery industry, almost 20,000 supermarkets, food stores and convenience stores are members of regionally based wholesale cooperatives. There are 31 regional co-ops in the United States doing more than $50 billion in sales per year. One of these is New Jersey-based Wakefern, which is one of the largest co-ops by volume in this country. Having nearly $4 billion in annual sales, it serves its member Shoprite stores mainly in the mid-Atlantic states. Wakefern and the other wholesale cooperatives provide their members such services as advertising, inventory, insurance, and financing for equipment and expansion. The National Cooperative Bank works alongside many of the retailer owned cooperatives to provide a range of financing tools to meet the needs of the independent retailers.

Besides regional food wholesale co-ops, there are also national cooperatives. One of these is the nearly 50-year-old Shurfine, a private-label marketing and procurement co-op that supplies 33 wholesale warehouses, which in turn supply 12,000 retailers. Shurfine sales topped $1 billion in 1995, and it increased its market share to 9 percent. A similar national wholesaler is Topco, a buying co-op for 40-plus supermarket chains. Among the other buying co-ops are some that serve specialty markets for ethnic foods or convenience stores.

### SHIPPING

More than 100 shipping cooperatives deliver goods to their thousands of small- and mid-sized shipping company members. These cooperatives consolidate both truck and rail freight deliveries and obtain volume discounts. They began this activity more than 100 years ago when the completion of the Trans-Continental Railroad made national distribution possible. Some shipping cooperatives have a general membership, some are regional and some are specialized, such as those serving department stores, furniture stores, confectionery manufacturers and book publishers.

### PHARMACIES

The Independent Pharmacists' Cooperative based in Madison, WI, supplies its more than 1,800 member pharmacies in 20 states. The co-op contracts with the wholesaler for a cost-plus-percentage price, with all discounts passed on to the co-op members. The co-op brokers over $500 million annually and handles $60 million in volume directly. The co-op began in 1984 and now has 25 staff. There are other regional pharmacy co-ops, such as Legend in the East and Leader in northern California. Leader's ranks swelled to 42 members over the past few years and is now doing joint purchasing of more than $50 million for its members. In an industry that has had no new pharmacies open up in the past few years and with many having closed, cooperative purchasing is the only tool for survival. Community-based pharmacies are using their purchasing co-ops to battle the giant discount stores and to win HMO contracts, which generally exclude independent pharmacies.

## CARPETING

Yet another business cooperative example is Carpet Co-op of America, commonly known as Carpet One. Since its founding in 1984 by 10 carpet retailers in an Atlanta hotel room, the co-op has grown to a staff of 100, with some 450 members serving 700-plus stores. Recently, the co-op opened its membership to retailers in Australia, Canada and New Zealand. The retail volume of its members in 1995 was $2.6 billion, and the co-op paid $15 million in dividends to its members last year. The founders felt that the lack of dealer organization put local retailers at a disadvantage against their competition. Carpet One arranges volume purchasing by the members who end up buying from 50 percent to 95 percent of their carpets from the co-op. Carpet One now owns worldwide rights to the Bigelow line, the oldest mill in the United States. Carpet One also has two wholly owned subsidiaries, which are both co-ops. Other member services include national advertising materials, research, improved merchandising and sales training.

## HOSPITALITY

Best Western began as a cooperative association in 1946 and is now the world's largest lodging brand. Its members operate more than 3,500 independently owned and operated hotels, motor inns and resorts, providing 283,374 guest rooms. The cooperative started out by providing a mutual referral business for its members. Today, Best Western International operates in 62 countries. The annual dues are applied to marketing and operational support services. Best Western's worldwide, toll-free reservation system handles more than 60,000 calls daily during the peak season and books approximately $725 million annually in room sales. In 1995, almost 52 million guests stayed at Best Western's member hotels and spent more than $7 billion at these hotels.

These business cooperatives are only a sampling of the co-ops playing a key role in building American business. There are hundreds more. Doctors, dentists, bakers, stationers and gasoline dealers are just some of the groups practicing the art of cooperation in business. The examples here point out the tangible benefits already obtained by visionary business leaders who saw where their industries could go. These leaders understood that they could only grow and improve through vertical integration to achieve economies of scale. Through their cooperatives, members can control their own specialized organization, compete effectively with the chains and work with their fellow members to enhance their professional capabilities.

## FRANCHISEE COOPERATIVES

Recently, franchisees discovered what independent businesses have practiced successfully since 1848: the small business cooperative. The first franchisee co-op was formed in 1955 when Dairy Queen Pacific NW, the regional distributor, was bought out by the local franchisees.

However, the real breakthrough for the concept of a business cooperative for fast-food franchisees began with Dunkin' Donuts. In 1974, it began a pilot project to test the idea of a franchisee-owned and controlled purchasing cooperative. The pilot program was a success, and by 1976 all five Dunkin' Donut regions had their own purchasing cooperatives. These co-ops protect their member store owners against product shortage, utilize volume leverage, consolidate distribution efforts and establish prices in advance so that store owners know what they'll have to pay in the future. About 95 percent of the more than 1,400 Dunkin' Donut shops are franchises, and almost all participate in the purchasing co-ops. When you're selling nearly 4 million donuts and more than 1 million cups of coffee a day, volume co-op purchasing greatly increases net margins.

Another franchisee co-op leader is the Food Service Cooperative, which began as the Kentucky Fried Chicken Purchasing Cooperative in 1978. The KFC cooperative emerged due to difficulties franchisees were having with their purchasing arrangements. Fortunately, one of the franchisees was James Cornett, a leader with more than 20 years of management experience in farm supply cooperatives. It was agreed to hire a management consulting firm to study the total system and determine how to supply the retail units at the lowest cost. The upshot was that a co-op was deemed the best option. The Food Service Cooperative now provides services to Taco Bell and Dairy Queen franchisees. Totally separate from the parent franchisers, the co-op supplies both company and franchised units. The co-op, which had revenues of $4.5 million in 1979, closed out 1994 with annual sales of $528 million. By 1995, the co-op was owned by more than 500 franchisees from all 50 states.

Threats, not just opportunities, can give birth to co-ops. Such was the case with the creation of Arcop, Inc., a co-op Arby's helped create as a way to protect the company during its chapter 11 proceedings in the 1970s. The concerned franchisees joined together to use the co-op to maintain control over their supplies. The co-op acts as the broker of purchases without taking title to supplies. The individual franchises pay the suppliers, yet benefit from the volume discounts negotiated by Arcop. Arcop uses only one distributor and has no role in shipping and warehousing.

In California, one franchise model went even further. When the Straw Hat Cooperative Corporation incorporated in 1987, it joined a long list of respected American companies that operate the cooperative way. What was unique about Straw Hat was that they were the first franchisees to also own the franchiser. The co-op originated out of the sale of the Saga Corporation to the Marriot Corporation. Not wanting the Straw Hat Pizza franchise component, Marriot arranged to sell Straw Hat to Pizza Hut. Most of the franchisees notified Pizza Hut they would not convert, and they then negotiated the creation of an independent co-op. The approximately 100 Straw Hat franchisees in California and Arizona take a great deal of pride in owning their franchise.

The recent spate of mega-mergers, acquisitions and leveraged buyouts is having an effect on the franchise world. Some franchise systems saddled with debt and a downturned market face a questionable future. Control over the future becomes a critical factor for franchisees whose life savings are at stake. In almost all cases, franchisees have a strong desire to form purchasing co-ops and replace Wall Street ownership with Main Street ownership.

## CONCLUSION

Business cooperatives serving independent businesses and franchisees are making a difference in the way this country does business. Their dynamism and entrepreneurial leadership on behalf of their thousands of members add a vibrant element to our complex economic system.

For small-business owners, cooperative membership offers distinct advantages, such as purchasing power, advertising clout, keeping up-to-date in the industry, sales training, new technology – to name a few. The National Cooperative Bank sees this as a tremendous niche for its services to cooperatives. As a result, the Bank has put together a number of financial services and loan products that can help the small business and franchise co-ops be financially strong in this competitive marketplace. Having a bank that understands their business provides these co-ops with an understanding financial partner. Business cooperatives also face challenges, a key one being: How do you keep the "hometown store" feel in a national-scale enterprise?.

Still, there's no question that without their cooperatives, thousands of small businesses would fade into extinction, unable to stand up against the national chains. Business cooperatives enable small businesses to thrive and be competitive in the marketplace. What's more, these co-ops are helping to preserve the special small-business qualities that make Main Street America a favorite place to shop.

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# CHAPTER 3.

## CONSUMER CO-OPS:
## AROUND THE CORNER & ACROSS THE COUNTRY

*City dwellers and farmers alike can drive to a co-op in Scottsbluff, NE, to do their weekly food shopping, buy a new car muffler or get their car washed. Government employees in Los Angeles shop at any of 11 outlets of a membership department store to buy everything from food to furniture. And people living across the country can buy tents and hiking boots at any of the 50 retail stores nationwide of a Seattle-based co-op.*

*These are but a few examples of the hundreds of consumer cooperatives scattered across the United States. Diverse in products and location, these co-ops all offer their members quality products at a reasonable price – a mission that can be traced to the earliest consumer co-ops begun in this country more than a century ago.*

*This chapter will study four highly successful consumer cooperatives that sprang from different roots in different decades.*

### FROM "OLD WAVE" TO "NEW WAVE"

Consumer cooperatives can trace their origins in the United States to the mid-1800s. At that time, labor union members, immigrant groups and various reform organizations launched co-ops to bring the prices of consumer goods within the reach of financially struggling workers and to create an alternative to the company store.

This trend continued into the next century. The Great Depression saw the launching of thousands of consumer co-ops, as federal and state governments assisted co-ops as a means of alleviating hunger and poverty. Many of these co-ops, often called the "Old Wave," vanished with the advent of post-war prosperity. Fewer than 100 survive to the present day, most of them in the rural Midwest.

But it was in the 1960s and '70s that consumer co-ops took another leap, with the forming of food co-ops in many communities. This "New Wave" of cooperatives emerged in the era of movements: civil rights, anti-war, back-to-the-land, the first Earth Day of 1970. The food co-ops saw themselves as an alternative economy, with a focus on community control and concern for the environment. Created in the spirit of the 1960s, these co-ops have emerged to become the entrepreneurs of the 1990s.

### FROM "HIPPIE STORE" TO FORMIDABLE ENTERPRISE

In the small university town of Davis, CA, the Davis Food Co-op (DFC) occupies the second largest retail site downtown and is the second largest local employer. With 1995-96 sales of $8 million, the co-op is Davis' largest locally owned retail enterprise. The co-op's 4,500 active member households purchase 12 percent of all food retail sales in this city of 50,000 people. With an expansion of its retail space to be completed in 1997, the co-op will be a $10 million business before the end of the century. By then, DFC will be among the top 10 food co-ops in the United States by volume and the largest single co-op food store by square footage.

The story of how a small natural foods buying club rose to become such an important local business is one of vision, innovation, adaptability to change, strategic choice, leadership and luck. Begun in 1972, under the leadership of Ann Evans, DFC operated as a buying club for many years. To increase service and selection, members later decided to rent a 400-square-foot garage where they could store more items and open up a retail operation for a few hours each week. Membership grew, and in 1978 the co-op moved into a space about three times larger. With this new location's "real store" look, even having windows, it seemed like paradise to members. Many of them worked hard to convert the space into a natural foods store.

The phrase, "build it and they will come," applied to the new location. The co-op flourished and reached several milestones: hiring a permanent staff and manager, electing a board of directors and incorporating. The more the co-op offered, the more it attracted members. The co-op was certainly a "very '70s" event. Only members could shop there, and each household had to contribute two hours per week working at the store. Food issues brought out tremendous passions and sometimes division among members. It was a time of lively discussion about the co-op's future direction. One group wanted it to become more oriented toward the entire community, while another wanted to maintain the "small is beautiful" philosophy. The arguments on both sides were compelling and showed the depth of thinking about the nature of American business. Like other food co-ops, DFC has had to grapple with the question: How can co-ops maintain their philosophy in the midst of the explosive growth of the natural foods industry?

The dialogue in Davis was challenged by an event that set the co-op on its unique path. In 1981, Safeway, a supermarket chain, vacated its 22,000-square-foot downtown location, leaving many downtown residents feeling abandoned. Only one other small neighborhood market remained in the area. Meanwhile, the co-op's growth pressured members to think about their next move. Eventually, DFC asked members to consider relocating into one-half of the old Safeway space, by this time owned by a different landlord. Members voted against the plan (55 percent con versus 45 percent pro) in November 1981; the size was too daunting, the economics too scary. Another supermarket took the location; however it operated marginally for a couple of years and then closed.

In the meantime, the co-op was bursting at its seams and needed another site. The DFC board negotiated a more attractive lease and sale of equipment, which it felt comfortable in presenting to the membership. This time members overwhelmingly approved (76 percent), and a new era began for DFC.

The co-op's move to downtown Davis in 1984 was marked by lots of hope and limited capital. At first, the co-op didn't attract the expected volume and began to run at a loss. To make matters worse, the landlord unexpectedly gave the lease back to Safeway, which gave DFC an ultimatum: either rent the entire 22,000 square feet or vacate the premises. With nowhere else to go, DFC reluctantly signed a lease for the entire building and took on an additional $5,000 a month in lease payments. Fortunately, the Davis Free Clinic was looking for a larger location. It leased 5,000 square feet from the co-op in 1986, and DFC turned its energies to figuring out how to succeed at the downtown location.

Motivated by the fear of going out of business, the co-op agreed to radically alter its way of doing business. It charged newly hired general manager, Dennis MacLearn, with the task of turning DFC around. MacLearn and the board made several key changes over a two-year period, such as changing the work requirement to voluntary and altering the share capital requirement to raise more money. Results were slow in coming, but after six months sales began to climb. The slump was over, and the co-op was on its way.

For the next two years DFC saw double-digit sales increases every month. The co-op had become a true supermarket and an increasingly important downtown retail location. Part of the turnaround was due to winning two city block grants in 1986 and 1987 totaling $45,000, which was used to remodel a 3,400-square-foot portion of the building. A cafe, a bookstore and a pizza takeout moved in, making the co-op's building now fully rented. By 1988, sales hit $2.9 million. Soon after, the other downtown food market closed, and DFC became not just the natural foods supermarket in town, but also the *only* supermarket downtown.

Just a few years after sitting down with Safeway and pleading for its retail life, the co-op once again asked to meet with Safeway. Safeway's property manager was incredulous; the small, once-almost-bankrupt co-op was now offering to buy the building. On December 27, 1990, with a $1 million loan package from the National Cooperative Bank and National Cooperative Bank Development Corporation and an infusion of share capital from a member fund-raising drive, the co-op became owner of the site. For the members this was one of the proudest moments in the co-op's history. Today DFC is the only supermarket in Davis that owns its own site.

Within about a year of each other, the cafe went out of business, the bookstore owner decided to go to Europe, and the pizza operator relocated to Oakland. The co-op saw an opportunity to expand into the center of the building. Remodeling was completed in 1991 with an additional loan from the National Cooperative Bank Development Corporation and a vote by the members to increase their annual share investment from $15 to $20. This gave the bank the comfort that cash from both earnings and share investment would strengthen the co-op and put the co-op into a better position to repay the loans.

The new high ceilings, spacious layout and attractive colors transformed the store, and sales took another leap. Under the guidance of general manager Karl Krueger, who came on board in 1991, the co-op's image has continued to shift from that of "hippie store" to being recognized as a formidable retail enterprise in the city.

But there's another side to DFC's image that is just as important. As the people in Davis know, DFC is living proof that, unlike the chains who come and go, co-ops are committed to their communities.

Many co-ops in other communities are taking the same types of actions as DFC to grow and meet consumer need. For example, Seattle-based Puget Consumers' Co-op (PCC) – with seven stores, nearly 45,000 members and annual sales of $43 million – is the largest consumer-owned food co-op today. The two largest single-store food co-ops in the United States – Hanover Consumers' Co-op in Hanover, NH, and the Hyde Park Cooperative Society in Chicago – date back to the Depression. They are thriving with annual sales of more than $20 million dollars each, and both will open second stores by 1997. Such moves certainly herald a new era of confidence in the cooperative way of doing business. Developers are now more eager to meet consumer and community needs by having co-ops in their shopping centers.

According to *Cooperative Grocer*, an industry trade magazine, 300 retail co-ops with 500,000 members and 3,000 buying clubs with

100,000 members now exist in the United States. The food co-ops' combined retail volume is more than $500 million.

For the scores of successes, however, there are failures. Hundreds of buying clubs started in the same era have closed down, many small co-op storefronts have failed, and some small co-ops now operate marginally. The food co-ops should be studied to determine what factors determine success or failure.

That query is not just an academic exercise; it's linked to future survival. What began as a counterculture movement is now an industry. Food co-ops were the first retailers to bring natural foods closer to the mainstream. But now these co-ops face stiff competition in the billion-dollar natural foods market sector. Natural foods chains created in the 1970s and '80s have become the dominant retailers. The largest of these is Austin, TX-based Whole Foods Market, which as of 1996 had more than 50 stores and $500 million in annual sales. It plans to have 100 stores by the year 2000. The Whole Foods format is a sort of "Walmart" of natural foods stores; their huge-store format and buying power dwarf the competition.

Only by taking advantage of their circumstances and upgrading their capacity can DFC and other natural foods co-ops remain successful. They need to find niches to withstand the competition. And they need to grow to a size that meets their customers' enhanced expectations about service and product. Growth of the existing co-ops is therefore a prerequisite in order to evolve from mere survival to success.

## A Co-op Serving City and Country

The Panhandle Cooperative Association in Scottsbluff, NE, began operations in 1942. Since then the co-op has made strategic, innovative decisions to link its farmer base with its consumer members in the twin cities of Scottsbluff-Gering, population 24,000. Today the co-op is one of the area's key enterprises and the largest local employer, with about 350 staff members. It has 15,000 active members and annual sales of more than $50 million from its varied operations.

The co-op is a part of the Farmland regional system of cooperatives, which comprises the largest co-op in America with almost $7.3 billion in 1995 sales. The Panhandle Co-op uses the Farmland logo on many of its buildings and on its farm-supply and petroleum products.

Panhandle is indeed a varied venture. In Scottsbluff and surrounding communities it operates a shopping center and supermarket, an appliance store, a grocery store, two convenience stores, four fertilizer plants, a feed store, a car care center (which includes a Midas Muffler franchise, a car wash and a tire shop) and several gas stations.

The co-op's structure separates its activities into agricultural and retail divisions. In terms of dollars, the agricultural division does two-thirds of the total volume. The mix of consumer and farmer operations has affected the co-op's primary banking relations. It means that certain agricultural activities are eligible to be financed by CoBank, whereas the more consumer-oriented operations can be financed by the National Cooperative Bank.

What makes Panhandle different from other farm supply co-ops is its strategic decision to become a consumer form of cooperative to meet the needs of both its urban and rural customers. Bob Pile, Panhandle's controller, believes the impetus for that decision goes back to 1948, when Farmland (then called the Consumers Cooperative Association, or CCA) decided to sell a supermarket it owned in Scottsbluff. The Panhandle Cooperative Association bought the business from CCA to begin serving consumers in the city as well as farmers in the countryside.

Then in 1975, the co-op closed the old supermarket and purchased a 40-acre site in Scottsbluff to build Panhandle Plaza. Plaza Foods, now Scottsbluff's largest supermarket by size at 44,000 square feet, also has a deli-bakery, a flower shop and a pharmacy. More than 14,000 member/customers shop at Plaza Foods each week. The rest of the Plaza, which has four major buildings in all, includes administrative offices, the largest feed and tackle store within a 150-mile radius, a gasoline station and the car care center.

Under a new manager, Don Wiseman (1987-91), the co-op took a different look at its operations. First, Panhandle did a major remodel of the shopping center and created a separate subsidiary corporation as a development arm. The Plaza had been developed in the boom era of the 1970s, but in the downturn of the 1980s, the Plaza's space was underutilized. Through the new corporation, the co-op invested in a Bonanza Steak House franchise to fill a space next to the supermarket.

Franchises often are made available to individual families or closely held business corporations. In this case the franchisee was the cooperative. Unfortunately, the Bonanza Steak House became unprofitable and was closed in 1995. The corporation created to develop opportunities did not achieve the expected results and is now a corporation on paper only. For Panhandle, creating a separate business corporation for development showed a potential that was never realized mainly due to the downturn in the economy at the time.

In November 1988, Panhandle invested in a Midas Muffler franchise to complement the services of the car care center. Virgil Hagel, who went to work for the co-op in May of that year, became supervisor of the project. Panhandle was only the second co-op in the country to obtain a

Midas franchise. With Hagel's experience in other co-ops and in the automotive industry, the franchise operation got off to a good start.

As general manager, Wiseman had a number of reasons for going after the franchise. He was concerned that the word "co-op" implied membership only, and he wanted to develop business opportunities to strengthen Panhandle Plaza's image. Bringing a nationally known name such as Midas into the center seemed like a good idea. It would draw the general public to Panhandle Plaza and show that it was oriented to all consumers, not just to farmers. Midas came to Scottsbluff, made a presentation to the co-op and the co-op became a franchisee.

Hagel believes the Midas relationship is valuable both for the co-op as an enterprise and for him professionally. In their local Midas ads, they run the co-op and Farmland logos alongside the Midas logo. They believe that the combination gives consumers a strong image of local ownership and regional strength combined with national capacity. Because of the unit's reputation, they are able to attract quality employees, which translates into low turnover in the Midas shop. That, Hagel knows, changes the way the co-op looks at customers and their vehicles. As for the co-op, it benefits from the Midas name recognition and excellent warranty program. The co-op is proud that in its eight years, only one complaint has been registered with the Midas Corporation. The net result is that the franchise keeps the cash registers ringing, and the unit adds a strong profit margin to the co-op's overall operating statement.

Wiseman continues to support the idea of co-ops investing in franchises. Now he's general manager at the Sun Ray Co-op in Texas, which owns a Hot Stuff Pizza franchise. He believes co-ops should consider franchise operations that meet members' needs. For him, the franchise is a proven way of doing business with a national track record. It takes the experimentation out of developing new operations from scratch and adds the national name recognition that draws local response. Once the franchise concept was explained, Wiseman felt it received strong board support. In fact, he feels the Panhandle board was progressive on the innovation. It was much more difficult, he notes, to get the franchisers to accept the co-op as a franchisee.

Today Plaza West contains the Midas shop, a tire shop, a bulk oil facility and a battery service center. To the east of Panhandle Plaza sit a gas station and self-service car wash. To top off the diversity found at the site, there's also a golf driving range and a putting green.

The people served by Panhandle's various enterprises are not all members. However, becoming a member is simple; there is no fee to join. At the end of each year, the co-op's board reviews financial results and declares a patronage dividend of generally from 1 percent to 2 percent. Co-op members get this dividend based upon the total dollar purchases they make from any of the co-op's operations. The co-op usually dedicates 30 percent to 40 percent of the patronage dividend as a cash payment to members and credits the remainder to the member's share account. The rest of the net savings is kept by the co-op.

The patronage dividends applied to stock continue to build until the member has $200 in stock; at that time he or she becomes a voting stockholder in the association. The dividend continues to be retained at the level set annually by the board until the member has $2,500 in co-op shares. At that point, 10 percent of the amount allocated to the member's shares above $2,500 is also paid back in cash. The entire program is computerized and the cash rebates are sent out about two weeks before Christmas. The success of the co-op in attracting customers to become members is evidenced by the fact that 72 percent of the sales are to members.

The board is governed by a 10-member board of directors who elect the chairman. The CEO of the association holds the title of president but is not a board member. Generally there are one or two members of the board who come from Scottsbluff, with the rest being farmers or coming from the rural areas. At this time there are 7,500 stockholders eligible to vote and generally a range of 2 percent to 4 percent of the members vote in the annual board election. The board has put increasing effort into getting members to the annual meeting. Last year they had 700 people attend. There was an excellent dinner, a humorist, reports from the co-op's chairman and president, plus a special report from the president of Farmland Industries.

Panhandle also invests time in member activities. They mail a quarterly newsletter to all members. The newsletter contains advertising about many of the co-op's products and services. The co-op also holds regular "Member Appreciation Days." At one such event recently, the co-op cooked hamburgers and garlic sausage at each branch. Many of the co-op's suppliers came to the locations to give presentations and samples. Concurrent with the event, the co-op provided advertised specials in all departments from grocery to petroleum.

Panhandle is one of a number of farm supply cooperatives that have shifted their missions to meet the needs of small, rural American towns. By meeting consumer need and filling a range of retail niches, Panhandle has remained healthy and change-oriented. Not everything has worked, to be sure, but the key has been the will to innovate. With that kind of spirit, farm co-ops have ample opportunity for continued success in rural America.

## In Search of a Better Ax

One of the most successful cooperatives in the United States is Seattle-based Recreational Equipment, Inc., better known as simply REI, which saw total annual sales for 1995 of $435 million. REI operates nearly 50 stores nationwide and has a mail order catalog with a growing international base. It also owns a travel adventure company and two subsidiaries that manufacture tents, clothing and recreational equipment.

REI was founded in 1935 by a group of Seattle mountaineers. One of the founders went shopping for an ice ax and couldn't believe the $17.50 price tag he found at one outlet. Outraged at the prices and quality compared to what could be found in European shops, he and fellow climbers decided to band together in their buying efforts. Their first joint purchase was for ice axes from Austria, with a great price of just $3.50 each. Indeed, cooperation worked!

In the book, **REI: Fifty Years of Climbing Together**, Harvey Manning tells the story of this unique cooperative organization. For a time, Lloyd and Mary Anderson, two of the founders (also members no. 1 and 2) operated what grew to be a flourishing buying club out of their home. As the group looked at their future, they could see their venture outgrowing the Anderson's house. Some of the members encouraged the Andersons to go into business for themselves. However, the latter didn't want to profit from doing business with their friends.

The group sought an organizational form that reflected their democratic interests and related to the members. They also wanted an economic form that rewarded loyalty and shared the profits with users. They didn't have to look far. In the 1930s, Seattle was a hotbed of co-op activism, with many consumer co-ops, a large student housing co-op, some worker co-ops and much talk of utopian communities.

The original REI group decided the co-op form would best meet their needs. Mary and Lloyd Anderson visited the Washington Student Co-op to study its operation. They also met with Ed Rimbauer, a Seattle attorney and co-op supporter, who helped them form "The Recreational Equipment Cooperative" as an unincorporated association in 1938. Because of his commitment to the cooperative movement, Rimbauer did all the legal work for free.

The co-op's first retail location was a humble shelf at the Puget Sound Cooperative on Western Avenue near Seattle's Pike Place Market. The Puget Sound Co-op manager donated his services to help launch the new recreation co-op. By the end of 1938, REI had 82 members, $1,361 in gross sales and $212 in dividends paid to members. Little were the founders to know that the dividend program – a part of most co-ops at the time – would one day be a major feature setting REI apart from its competitors.

The next leap for the co-op was in 1948, when it issued its first catalog describing a 300-item inventory. This year also marked the 10th anniversary of the co-op, with membership at 2,700, annual sales at $28,000 and dividends at $2,000.

After operating the co-op for nearly 20 years as an unincorporated association, the co-op leaders were advised to incorporate. The state law for cooperatives required the issue of stock, which the co-op didn't have. As a result, the board chose to continue the co-op form of organization under the state of Washington's non-profit law. At the annual meeting in 1956, the co-op members voted reluctantly to accept Recreational Equipment, Inc. as the new name, as state law no longer allowed use of the word "co-op" in their legal name.

One of REI's proudest moments was in 1963, when sales manager and later CEO Jim Whittaker became the first American to ascend Mt. Everest. As equipment manager for the expedition, Whittaker assembled the 14 tons of gear needed by the 19 climbers and 37 Sherpas for the four-month expedition. The successful climb propelled Jim Whittaker into fame. His name was everywhere, as was REI's name on his equipment. The height of this success was an invitation to the White House from President John F. Kennedy. Many people even encouraged Whittaker to seek political office in the Pacific Northwest, where he was now a legendary figure. After Kennedy was assassinated, Whittaker accompanied Robert Kennedy in 1965 on the first ascent of the newly named Mt. Kennedy in Alaska.

By 1968, REI gained its 100,000th member, reached sales of $3.5 million and paid out $300,000 in dividends. The next decade would be one of substantial change. The first member, Lloyd Anderson, retired as manager at the end of 1970. Replacing him was Whittaker, whose commitment to growing REI was paramount in an age of post-war optimism – and markedly different from Anderson's Depression-era caution. Whittaker wanted to spread the co-op message and boost REI's prospects in a growing market that anticipated more competitors.

One of Whittaker's first moves was to open REI's second store after nearly 40 years of doing business. The city of Berkeley, CA, easily became the choice for the expansion experiment. There, in a city of co-op activism, REI already had 10,000 members buying from its catalog. A year later, REI opened another store in Portland, OR, and then a year later a fourth store in Carson, CA. Thus, the march of REI stores across America had begun, reaching nearly 50 stores by 1996.

Since the 1970s, REI has continued its managed growth pattern and presently opens three or four stores a year. As the nation's largest consumer cooperative, REI projects membership of more than 3 million by the turn of the century. It returns the majority of its earnings to members, with annual returned earnings having reached a level of more than $20 million by the mid-1990s.

As a result of its solid successes, REI contributed more than $600,000 in 1995 to protect the outdoors for recreation. Total conservation contributions over the past two decades equal more than $4 million. By 1996, REI had more than 4,500 employees and had twice been voted as one of "the 100 best companies to work for in America" in a book by that title. REI ranks number 73 on the National Cooperative Bank Co-op "100 list" for 1995.

## FIFTY YEARS AND STILL GROWING

Any new resident of southern California asks a number of questions after living there a few months: Why do they call it Hollywood? What happens in downtown L.A.? What is FEDCO, and why are their parking lots so full?

FEDCO (Federal Employees Distributing Company) is a unique type of American retail operation. Its powerhouse presence in southern California is obvious in its numbers. Sales for 1995 were more than $700 million. Each of FEDCO's 11 stores draws 8,000 to 10,000 shoppers daily and is open seven days a week. Each year FEDCO welcomes some 20 million shoppers and has more than 5,500 employees working at all levels of retail, distribution, warehousing and administration.

FEDCO's beginnings date back to post-World War II. Concerned about post-war inflation, Congress had frozen the salaries of federal employees in 1948. How could working people keep up with the cost of living if they couldn't gain higher wages? The answer was to buy consumer goods at lower cost. A small group of federal post office employees in Los Angeles initiated the idea of buying at wholesale and selling at retail. The enthusiastic organizers were able to sell hundreds of lifetime memberships at just $2 each, and FEDCO was born as a member-owned non-profit organization.

By the following year, the first 800 members had chipped in $1,600, and FEDCO opened its first retail location. The original members fixed up a showroom on North Broadway in Los Angeles, ran the store as volunteers and started with one paid employee. Like the first co-op store in Rochdale, England, founded in 1844 FEDCO opened with just a few items on the shelves: radios, toasters, irons and the like. In FEDCO's case, those items were samples because the co-op didn't have enough money to buy inventory. So members came to the store, looked at the samples and paid for their choices in advance. This helped FEDCO's tenuous cash flow and allowed it to place volume orders directly with wholesalers.

The organization grew steadily by meeting the needs of an expanding federal workforce in Los Angeles. The population boom in southern California meant more families, more houses and more demand for consumer goods. FEDCO was in the right region at the right time.

However, the 1950s were also the era of strict fair trade laws, under which manufacturers set the retail price of an item and restricted distribution of their products to those retailers who maintained that price. That, of course, was counter to FEDCO's mission. On behalf of its consumer members, FEDCO either had to fight or die. It became one of the few retailers to take the price-fixing battle to court. Eventually FEDCO won, and the "fair trade" restrictions were defeated. FEDCO's members and all consumers benefited from the victory. Edward Butterworth, who led FEDCO's legal fight, is now the company's president.

The decade of the 1950s also marked another key change at FEDCO. Membership, which had originally been limited to federal government employees, was extended to include state, municipal and local government employees. Later, college students and people on Social Security were also added to the member eligibility list. The membership fee set at $2 in 1948 is still only $10 today. A venture that opened its doors in 1949 with 800 members now boasts more than 4 million members.

Today each FEDCO outlet is a full-line department store offering its members more than 150,000 units of quality merchandise at low prices. The administration and distribution center in nearby Santa Fe Springs ensures that everything runs smoothly every day. Each store houses 40 different merchandise departments that sell everything from furniture to food. In addition, there's a pharmacy, an optical department and discounted referral services (real estate, residential improvements, automobile and so on). The attractively displayed merchandise differs in every aspect from the warehouse-type store so common in today's retail environment. The FEDCO stores range in size from 140,000 to 240,000 square feet. All stores are free-standing and provide on average 1,200 parking spaces per site.

The opening of a new FEDCO store is a major event in southern California, guaranteed to draw a crowd of 30,000 people. FEDCO is North America's largest member-owned department store chain and is proud of its success. Continued strong, stable growth has been the hallmark of FEDCO's progress, with its commitment to the slogan: "Members are our first concern." In 1999, FEDCO will celebrate its 50th anniversary and its unique role in American retailing.

## CONCLUSION

The stories of the consumer cooperatives in this chapter clearly illustrate the diversity among the co-ops sharing this category. They evolved for different reasons, in different ways, in extremely different marketplaces. Yet one common thread runs through all their histories: They all sprang into existence to meet their members' needs. Indeed, staying in tune to those needs – rapidly changing as they are – is the key to consumer co-ops' future prosperity.

No successful consumer co-op today can rest on simply "doing what we've always done, in the way we've always done it." As the examples in this chapter have shown, consumer co-ops need to constantly stay open to innovation. That may mean finding new ways to reach more people, such as Panhandle Cooperative's decision to serve both the rural and urban inhabitants in its area. It may mean exploring new approaches for keeping old members and capturing new ones, such as the challenge increasingly faced by natural foods co-ops as they watch nationwide chain competitors move into their communities and adopt their people-oriented practices.

Now more than ever, consumer co-ops need to build on their old strengths and pinpoint new ones. It's not an easy task. Consumer co-ops will continue to find ways to balance conflicting goals. How do they expand, and yet stay in touch with diverse memberships? How do the people running these co-ops become astute business professionals while maintaining the "not business as usual" philosophy that attracted members in the first place? How do they meet the spiraling fierce competition in the retail world and still keep their cooperative principles firmly in sight? Consumer co-ops will need to grapple with answers into the 1990's and beyond.

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# CHAPTER 4.

## ENTERPRISING BUSINESSES OWNED BY THEIR EMPLOYEES

*Plywood mill workers in the Pacific Northwest, nurses in Minneapolis and cab drivers in the nation's capitol may not seem to have much in common. But some among these diverse groups are linked by a key factor in their day-to-day lives: They own the companies they work for, through worker cooperatives.*

*According to the Directory of Workers' Enterprises in North America., last published in 1991, there were then about 150 worker cooperatives in the United States, employing 6,500 member-owners. At that time, slightly more than half of those co-ops were found in four states: California, Washington, Massachusetts and Minnesota.*

*As workers strive to gain more control over their working environments and their job security, cooperative ownership of companies is becoming an increasingly attractive option. This chapter will look at the origins and operations of three worker co-ops that have emerged as models and industry leaders.*

### APPEAL ACROSS THE SPECTRUM

Many of today's worker co-ops grew out of the counterculture of the 1960s and '70s. The people who launched these organizations had two main objectives in mind: They wanted their companies to meet a social or community need, and they wanted their workplace to be run on a human scale, with democratic control and management.

While many of these early organizers were white, educated and middle-class, the people involved in starting worker co-ops have since become more diverse. Members of many of today's worker co-ops are working-class or belong to ethnic minorities. Churches and community organizations within the black and Hispanic communities also have given birth to many worker co-ops. Also, as minority-based economic development corporations have gained successes in new business startups, a logical next step has been to spin off those enterprises and let the employees buy them.

In the current era of budget cuts, voices of such people as long-time self-help guru Robert Woodson have been joined by more conservative advocates, such as Jack Kemp, 1996 vice presidential candidate and the former secretary of the Department of Housing and Urban Development during the Bush administration. Increasingly, worker co-ops are seen as self-help enterprises that can break old cycles of dependency on government assistance. While welfare and other help dwindle, problems don't simply vanish for those trying to climb out of desperate situations. Worker co-ops present another route that holds promise.

Another twist on worker ownership of businesses is the Employee Stock Ownership Plan, or ESOP. The Boston-based ICA (Industrial Cooperative Assoc.) Group, a main force behind development of worker cooperatives, also is pioneering in the area of ESOPs, which combine tax benefits with a mechanism for democratic control in the workplace. Currently, there are some 11,000 ESOPs in the United States, employing more than 11 million workers, with total corporate equity amounting to more than $70 billion.

While only 2 percent of companies in the United States have ESOPs, these have racked up some impressive results. For instance, the most recent version of **The 100 Best Companies to Work for in America** by Milton Moskowitz and Robert Levering shows that of those top 100 businesses, 30 have ESOPs. The ESOP structure offers much potential for growth of employee-owned companies in the United States.

Whatever form the structure may take, worker-owned companies have carved out a prominent place in today's business scene. The remainder of this chapter will look at a few pacesetters.

## Hope and Home Care

A business is growing in the South Bronx. And lots of people are taking notice. This poor, economically neglected neighborhood is the birthplace of Cooperative Home Care Associates (CHCA), a company employing 300 home-care workers, mostly African-American and Latino women, many of them single mothers. CHCA has become a model for similar enterprises in other cities across the United States. The company also gained recognition as one of three "Entrepreneurs of the Year" cited by *Inc.* magazine in 1992.

CHCA's beginnings can be traced back to 1985, when Rick Surpin was working for the Community Service Society of New York. His research showed that home health care was an industry with a 20 percent growth rate. He noted that Medicare cutbacks meant that hospitals were sending people home early to reduce costs of care. The number of people needing home health care was rising rapidly, and with a larger percentage of the population becoming elderly, future decades would see an even greater demand.

Surpin also observed that home-care agencies operated like temporary personnel agencies, with part-time contract employees, low wages and high employee turnover. He saw a tremendous opportunity to turn poor-quality jobs into better-paid positions through a worker cooperative. Surpin then raised foundation money to subsidize the creation of CHCA and became its first executive director.

CHCA began with 12 aides and had revenues of $220,000 in 1985, its first year. A decade later, CHCA's revenues had soared to more than $7 million. It has evolved from a subsidized experiment to a totally independent firm owned and controlled by its worker-members.

The key to CHCA's success is its structure as a worker cooperative. After a three- month trial period, a CHCA worker becomes an owner-member by committing to build a $1,000 equity investment through a weekly payroll deduction of $3.50. When equity reaches $50, the member gains voting rights in the co-op. Members elect six of the nine-member board of directors and guide the enterprise by serving on committees. The board of directors meets once a month and has responsibility for overall operations. There are four member assemblies per year that set polices and cover training issues.

Members share in CHCA's profits, which amount to about $300 per member per year, or a 30 percent return on their investment. Workers receive health benefits, sick leave, paid vacation and training. The average hourly wage is $7.25, which is 16 percent above the home-care industry average. When wages are added to other benefits, the total package makes CHCA's workers the best paid in the industry.

Perhaps the most astounding part of CHCA's success story is that 85 percent of its workers were once on welfare. It generally takes a CHCA worker from six to nine months to get off welfare. At $7.25 an hour, with a 32- to 34-hour workweek, it's a challenge for many to make the leap from welfare to work. Yet they do it!

CHCA's format pays off for everyone. Turnover is only 20 percent, compared to a 40 percent turnover rate in most major home-care firms, according to the Visiting Nurse Service of New York. CHCA members believe that giving the worker-members a stake and a say in the company provides both financial incentives and a sense of involvement.

Take, for example, the story of Florinda DeLeon, a divorced mother of three and an immigrant from the Dominican Republic. She was once unemployed and doing volunteer work in the Bronx. When a friend noticed that DeLeon helped the elderly members of her parish get dressed to go to church, she suggested that DeLeon get a job in the field. Soon DeLeon went to work for CHCA as a home health aide. Now she's also an assistant instructor and has served as an elected board member.

During her term on the board, she told a *New York Daily News* reporter that because she and her fellow workers set the policies and salaries, "we decide what's best for us." Those few words sum up CHCA's benefits to its members as they move from welfare to financial self-reliance.

One reason why home care is a complex industry is that clients require only a few hours of care at a time – some irregularly, others regularly. Thus, home-care workers travel from home to home and work in isolation. To overcome these challenges, CHCA developed an atmosphere of mutual respect and support for co-workers. For example, CHCA guarantees its workers a minimum 30-hour week. This provides economic security and produces higher morale in a traditionally low-pay industry.

CHCA accepts only one of every four job applicants. Selection is based on maturity, patience, hard work and reliability. About 80 percent make it through the first three months of training and move on to employment; only about 80 percent of those survive the crucial first six months. Much of the training is dual-language to meet the needs of the large Spanish-speaking workforce and CHCA's Spanish-speaking clientele. The Home Care Associates Training Institute has grown to include 15 full- and part-time staff.

The educational level of most new workers at CHCA is low, so training posed a challenge. Most workers had hated school, so why would they love classroom lectures now? CHCA recognized the problem and developed its own method of hands-on demonstrations accompanied by peer teaching. Having workers actively participate ensures that training remains lively and engaging.

Indeed, training is the foundation of CHCA's high-quality performance and its ability to stand up to stiff competition to get contracts from social service agencies and Visiting Nurses Associations, the sources of most of CHCA's business. By providing quality care at a competitive cost, CHCA is a major player in the contract health-care industry. Many of its major contractors see CHCA as their best quality provider. CHCA's standards of reliability and competence and its low incidence of patient complaint add up to a model image for the industry.

Currently, the Ford Foundation and the Charles Stewart Mott Foundation are sponsoring the establishment of home-care models in four other cities. The first of these was Home Care Associates in Philadelphia. HCA began in February 1993 with 12 employees and a first-year revenue of $200,000, which climbed to more than $1 million in 1994. HCA now has 70 workers and is described by the Visiting Nurse Association as being the largest home-care provider in Philadelphia – and their highest quality provider. HCA became profitable six months ahead of schedule.

Another company modeled after CHCA is Cooperative Home Care in Boston, which opened in March 1994. With 35 aides, CHC already has reached the break-even point financially.

The possibilities for the CHCA model seem endless. The United Hospital Fund of New York reports that in 1994, 7 million people received some form of health care in their homes. Medicare and Medicaid now spend $18 billion annually on home health-care services. These numbers of people in need and dollars spent are expected to grow for many years. Such a need requires a massive response.

The value of CHCA lies in its having linked an underserved market (home health-care consumers) and a group needing better working conditions (home health-care workers). Thus, CHCA is indeed a grass-roots solution that makes both economic sense and good social policy. In a world in which so much of our society's foundation appears to be crashing down, CHCA's model is busily lifting people up.

## REVOLUTIONARY BREAD

Michael Gierkout strides through the busy bakery, weaving between the bread trolleys and the many production lines. Here and there he stops to explain the process to the visiting delegation of Japanese government officials. After a half-hour of peering into vats, watching the machines manipulating dough and inspecting the many ovens, you begin to see why Alvarado Street Bakery is the largest organic bread baker in the United States. The bakery makes bread, bagels and tortillas using sprouted wheat instead of flour. They take whole, organic wheat berries and soak them in filtered water for about three days until they sprout. The living sprouts are then ground into dough to make a flourless, nutritious bread.

Listening to Gierkout talk, you hear the pride in his voice. He explains the thoroughness and constant experimentation that goes into everything they do. The commitment at Alvarado Street is to making the best quality product they know how. As a pioneer in a growing industry, the bakery must earn its leadership role. It has no interest in matching the mass production of Wonder Bread. You can tell by the many workers here that the Alvarado Street Bakery has merged the virtues of modern machinery with the care and commitment of the old-fashioned baker. Not only that, the aroma that rushes out of the bakery into the surrounding streets should be bottled and sold.

But the group of Japanese visitors is not here to study organic bread baking. They're here to learn about Alvarado Street Bakery's structure of worker ownership. The bakery is a thriving business and a worker cooperative. It began as a non-profit in the heady days of 1978. Initially called Food for People, it was part of a loose-knit group of activists committed to community control over its food. The group started a store, warehouse, trucking company and bakery under the name Red Clover Workers' Brigade. Later the bakery separated from the group and, after a number of changes, began life as Alvarado Street Bakery.

Today, the business grosses more than $7 million a year and employs 110 people. It operates a modern 20,000-square-foot production facility in the college town of Rohnert Park in California's Sonoma County. The bakery and bagel production lines start up at 5 a.m., with the bakery line closing at 8 p.m. and the bagel line closing at 10 p.m. The facility operates six days a week, producing daily averages of more than 11,000 loaves and 4,000 bagels.

Originally, Alvarado Street distributed its products to the natural food shops and co-ops that dot the communities of northern California. As the quality and name of its product grew, a wider market opened up. Alvarado Street's products are now found in most major chains and many independent grocery stores in northern California. The bakery operates about 20 regular delivery routes in the region, five days a week, distributing out of the Sonoma facility and a Sacramento depot. Recently, the bakery added a freezer facility to enhance sales of frozen bakery products. As a result, it's added a freezer truck run to southern California and opened up regular frozen sales to the east and southeast United States.

With more production and distribution capacity available, Alvarado Street has turned to radio advertising to increase sales. Since 1990, the bakery has advertised on some of the largest stations in northern California. The strategy has paid off, leading to increased consumer awareness and higher sales, as well as establishing Alvarado Street as a major player among retailers. The radio presence also has transformed the "hippie bakery" image. Indeed, if you could see the active production facility and the trucks streaming out of the loading docks, you'd have to admit these hippies are going places.

Like other fast-growing companies, the bakery has gone through many changes to get to where it is today. For more than a decade, the bakery operated with a very informal structure. It held monthly membership meetings at which all decisions were made. "Often there were 45 people sitting around on the floor keenly discussing every detail of our business," Gierkout remembers. Understandably, meetings were often lengthy. Standing committees composed of three or four members made the day-to-day decisions about the bakery's production, distribution and financing. Notwithstanding the awkward structure, the members' commitment to their organic line of bakery goods continued to drive the organization's growth.

But by the end of the 1980s, it was clear that the co-op's informal, direct decision-making structure was no longer capable of keeping up with the growth. Since then a number of changes have been made that have maintained the co-op model, yet streamlined its effectiveness.

To become a co-op member, you must have worked at the bakery for nine months. Because the bakery is in a college community, turnover is high and many employees don't reach the nine-month stage. Members must invest in one "A" (voting) share of the co-op. The $1,000 share may be purchased outright, or the co-op will lay out the money for purchase of the share and deduct $4.61 per week from the worker's paycheck until the $1,000 is repaid. Of the present 110 employees, 48 are members and 62 are not.

Members elect a nine-member board that meets monthly. All members may attend board meetings. The board hires a general coordinator who's in charge of the various department heads. At the annual membership meeting, the board presents a budget and business plan to members for approval or modification. In addition, quarterly membership meetings are held at which members can participate in discussion on a wide range of issues.

Any profits above that needed for the business are shared equally among the members. A gain-sharing bonus, paid quarterly, kicks in when profits reach 5 percent above projections. All member dividends are based on hours worked, not pay levels. For each hour worked each year, the member gets one additional "B" share credited to his or her account. ("A" shares are a single share that gives the worker member voting rights.) Members generally receive about 15 percent to 20 percent more income than nonmembers. When a worker-member leaves the co-op, the shares earned are paid back over three years. Thus, the worker-driven environment has a number of pluses and a great deal of flexibility, which add up to low absentee rates.

One of the bakery's limitations is access to capital. At this time its only equity capital comes from members' shares and retained earnings. Like most cooperatives, Alvarado Street is conservative about borrowing. Internal capital has fueled most of the bakery's growth. As a result, the co-op has grown slower than demand and is not always able to purchase the equipment it needs. On the other hand, managing the growth has ensured that Alvarado Street hasn't expanded so fast it would need to sell out. Also, slow growth has kept the bakery focused on the co-op structure as the preferred way of doing business.

Although the various changes described above have brought about a more effective organization and higher productivity, the co-op realizes it must continue to pay attention to higher salaries for management positions. As the co-op has grown, it's required more competence and professional capacity to run it. Attracting and keeping management-level staff is essential to Alvarado Street's success. Yet, higher pay for some must be balanced with the egalitarian nature of the organization. As the cooperative has grown, so has its capacity to make the changes essential for its future. The journey has not been without its problems, but there always has been progress.

Alvarado Street Bakery stands as a strong example of a group of people who discovered that a cooperative is the best organizational form for supporting their practices and philosophy. No organization focused solely on profit would have dared to be a pioneer in the organic baking industry. It was the co-op's commitment to quality products and to an egalitarian structure that allowed Alvarado Street to perfect itself as a bakery and as a cooperative. That's why it's now the nation's largest cooperative bakery and the largest organic bakery.

Incidentally, visitors often wonder about the bakery's name, considering that it's not on Alvarado Street. Hanging over one of the bakery's ovens is a street sign proclaiming "Alvarado Street" – a memento from the co-op's early days. Back then, a driver once fell asleep at the wheel picking up supplies in southern California. He crashed into the sign, not injuring himself and only scratching up the truck. But, worried about the cost of the damaged sign, he threw it into the back of his truck and returned to the bakery, with the sign in tow, to tell his story. Hence the name. Indeed, since that day the Alvarado Street Bakery has crashed through many barriers on its way to becoming an industry pacesetter.

## BOOKPEOPLE: FROM COUNTERCULTURE TO INDUSTRY LEADER

These titles probably sound familiar: **Whole Earth Catalog, Trout Fishing in America, How to Keep Your Volkswagen Alive.** Those titles may take you back to the 1960s and '70s, conjuring up images of flower children and love beads. But for a small distributing company called Bookpeople, those titles were the mother's milk of the unique enterprise they began in 1968 in Berkeley, CA, the capital of alternative America.

Begun as a small, private company distributing trade paperbacks, from the beginning Bookpeople showed a special interest in small-press literature. With the plethora of titles emerging from the burgeoning alternative press, Bookpeople's business boomed. In 1969, **Trout Fishing in America** became the company's first success with sales of more than 1,000 copies a week. At about the same time, Stewart Brand gave Bookpeople the exclusive right to distribute the **Whole Earth Catalog**. The first printing in the fall of 1968 was 2,000; the reprinting a year later jumped to 160,000.

The success that came with distributing such hits set the tenor for Bookpeople and paid for their move to a larger warehouse in 1971. That year, the firm won the exclusive right to distribute **How to Keep Your Volkswagen Alive.** After being reviewed in *Life* magazine, the book's sales hit 120,000 in its first year. Once again, Bookpeople had the foresight to channel the cash flow into improving the business, this time by purchasing a computer system.

During this time, Bookpeople grew considerably; it now operated a publishing division (Bookworks) and a distributing arm (Bookpeople). Many of the employees felt that the owners were too involved in the publishing efforts, thus neglecting the distribution aspect. A schism developed between owners and employees.

Perhaps "employees" isn't the correct term. What was attractive about working for Bookpeople was that it portrayed itself as a community in search of cultural change. The people who worked there, many of them bookish long-hairs, were activists in the Cultural Revolution. In their view, Bookpeople wasn't actually "owned" by anyone; it was owned by all of them. In effect, the company was an anarchist commune following the practices of the books it sold, such as Ernest Callenbach's **Ecotopia** , where all the firms are worker-owned. In this case, to borrow a phrase from Marshall McLuhan, "You are what you read."

In 1971, the owners called a meeting to inform employees that they were bringing in efficiency experts to "hover over their hippie heads" and clock their work. After lunch on the day of the evaluations the names of all the employees were read over the public address system, informing them they were being fired for nonperformance. By the end of the afternoon, the employees had stashed anything of value into unmarked boxes and deposited them at the back of the warehouse. The company couldn't conduct its business, and all employees were either on strike or fired – depending on whom you asked.

Days later, the owners realized there was no future for them and offered to sell the business to the strikers. Scrounging up $500 each and putting together a loan agreement, the long-hairs bought the company. In most companies, a change in ownership means firings, speedups and intrigue among management. At Bookpeople, Christmas had come to the commune. The pressure was off, the tension was gone, and drugs and free love continued to be part of everyday life at the enterprise. The employees made the rules, and the first rule was that no one was to rule. The last question on the employment application asked irreverently: "Have you ever lived in Walnut Creek?" – referring to the nearby commuter suburb that was the antithesis to the countercultural life lived by Bookpeople's employee-owners.

What would save Bookpeople from eventual suicide was the workers' unswerving commitment to meeting the needs of northern California's many small yet powerful bookstores. Bookpeople knew this community like a friend. It had been with them through thick and thin and had always been ahead of the pack in unearthing the new masterpieces of the era. If something was changing, Bookpeople discovered it first. If a trend was developing, Bookpeople spotted it first. The small-press surge was to take the organization through many crises, but it too would run its course.

If it was to survive as a distributor, Bookpeople needed to get into the mass market. Until 1971, mass-market books could only be ordered through magazine distributors. After a number of unsuccessful tries, Bookpeople finally broke through the barrier. The key was that Bookpeople had created a unique distribution network that sold many books. The mass market needed an entree, and Bookpeople would be the Pony Express that would take mass-market books where they'd never gone before.

The marriage worked, but it meant that the people at Bookpeople had to work harder and smarter. The new workers coming in were similar in culture, but they brought new competencies. Clashes arose between those who saw the need for some form of hierarchy and management structure, and those who wanted things to stay as loose as they'd always been. Other disputes cropped up over pay levels related to contribution. Pay at Bookpeople went up based only on length of service. (Even today, most wages are tenure-based.) People who really were managers had no chance of receiving appropriate compensation. Although many loved the company, it was getting harder for experienced employees to pass up job offers from the outside world.

Gene Taback, a long-time worker and one-time company president, describes the situation at the time: "In the counterculture it was thought that a lack of authority would promote good will. In fact, the opposite often happened. It drove people away because when there were problems, there was no way to resolve them."

By the mid-1970s, something had to be done. The recession had put an end to the growth pattern, and the internal tensions continued to rise. One by one all of the people who had been part of the original buyout had left. Bookpeople was also losing its exclusive distributing contracts; with the departure of the **Whole Earth Catalog,** there were none. Bookpeople had to start all over again.

Out went all books that seemed never to move, including great classics of literature. In came the next stage of a solution: the catalog. Gathered into one big book was the most esoteric collection of titles that ever fit between two covers of a book distributors catalog. Bookpeople had done it again – surprising the trade with its innovation and astounding the inland booksellers with the access to hitherto unknown titles that were taking Pacific Coast readers by storm. Once again, Bookpeople had surfed to the edge of the wave and somehow navigated around the rocks. That's been the story for almost 30 years and, given the company's bent for metamorphism, it may be the story for years to come. Perhaps no company has changed so much and continued to lead.

Today, Bookpeople is owned by the Bookpeople Employees Association and incorporated under California's for-profit laws. It regards itself as an employee-owned corporation. After six months of employment, an employee must become an owner. At present there are 90 full-time employees, 75 of whom are owner-members. An employee can either buy 50 shares at $10 each or have the $500 deducted over time from his or her paycheck. Either way, each owner is required to own $500 in shares in the company. From that moment on, employee-owners can vote their shares at all association elections. For example, in board elections an owner can vote all 50 shares for one candidate, or split the shares among several nominees. The owners elect a board of five to run the company. The board of directors hires and fires the general manager and the director of human resources. Employees answer to heads of the 10 different company departments.

Profits at Bookpeople are split equally between retained earnings for the company and bonuses for the employee-owners. However, Bookpeople first pays attention to providing employee benefits, such as free lunches and an excellent health-care plan. The bonuses are based on hours worked and are usually about equal across the board, as most people work a full-time schedule. "Discussion of wage scales is ongoing and enduring at Bookpeople," says Taback, who has been on the board for almost all of his more than 25 years of service.

As a company past president, Taback has a few observations about Bookpeople's employee ownership. The upside, he notes, is that the structure means employee-owners are better informed about the company and more dedicated. As for the downside, he says the company is poorly capitalized, has little motivation to make major business changes and has little reason to incentivize key employees.

Visiting Bookpeople does overwhelm the senses. You enter into a showroom with an amazing array of book titles. Clearly, Bookpeople retains its pioneer status. Then Taback ushers you past throngs of telephone operators dressed in comfortable "new age" clothing. There's an air of metaphysical calm about the place. All the offices are cluttered with books, and all the walls are covered with beautiful posters advertising book fairs or literary events. The phones are ringing, the computers are whirring, and Bookpeople's day goes on. Next, Taback sweeps you back down the carpeted corridor, through a door and into another world: distribution. The rows of books stretch for as far as the eye can see in this 75,000-square-foot storage area. Down every aisle people scurry with book trolleys, filling orders for a book-reading public. Some workers lean against the racks reading what they just picked up. Here and there are hives of activity where the book-runners bring their stash to the packaging department. Into the boxes go the orders, which then get shipped off to a bookstore. If an order comes in by noon, it goes out that day.

It seems that Bookpeople has facilitated two revolutions: one in independent publishing and the other in independent book selling. Like many other worker cooperatives, Bookpeople discovered a niche because its owners were committed to the product of their operation, as well as to the structure of their enterprise. The form of organization wasn't driven by profit on shares but by a choice of lifestyle and a community. Surely, Bookpeople has mellowed over the years, but it hasn't lost its verve to be vanguards in the book-distributing world. The $500 dollars each employee put in 30 years ago was the beginning of a company that now does $25 million in sales a year. Any way you look at it, that's no small change for revolutionaries.

## CONCLUSION

Worker cooperatives have popped up in numerous industries, in various sectors of society. Some of these enterprises had countercultural roots, with their founders looking for a more humane, egalitarian – even "laid-back" – work environment. Other worker-owned ventures have offered a pathway out of poverty for people in traditionally low-paying jobs. Still others have sprung up at times of company ownership changes, when the workers saw self-ownership as a way to take control and safeguard their jobs.

Whatever the initial motivations may have been, worker-owned companies clearly offer many benefits to those who work in them. But it isn't just the worker-owners who stand to gain. Many companies are realizing that in today's climate, with people desiring more out of their jobs than just a paycheck, worker ownership is a way to give people a genuine feeling of involvement in their workplace. Perhaps nothing is more motivating on the job than having a say in how things get done and a personal stake in the outcomes. That kind of involvement is a powerful antidote to the apathy and absenteeism plaguing many companies today.


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