



YoCal Produce Cooperative— The Growers’ Story and the Cooperative Principles

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Revised February 2012

Early organic farmers in California’s Capay Valley not only helped set the standards for modern organic farming, but they also quickly discovered that they would have to collaborate to be successful.

The need: Marketing, trucking and market power

In 1980 several small, organic farms in Yolo County were getting a start in commercial fruit and vegetable production and wholesale marketing. Some of the growers sold at farmers markets; however, they grew more than they could sell at the few farmers markets existing in those days. Most of the farmers had no refrigeration on their farms and no refrigerated trucks.

The Sacramento region’s demand for organic produce at the time could have been satisfied by a 1-acre farm; the major market for Yolo County produce was in the San Francisco Bay Area, two hours away. Farmers were often growing the same crops, calling the same stores, restaurants, and distributors, and driving pick-up trucks and vans into San Francisco to make deliveries to the same loading docks several times a week after farming all day. A few of the Capay Valley organic farmers had joint production and marketing ventures together. Some of the growers had individual relationships with organic produce brokers and distributors (Veritable Vegetable, Greenleaf, and others), while others did not. Sometimes payments were late, but growers felt that complaining might mean that sales would be lost to another local grower.



The start: A class project, a CETA job, a visionary with a Plymouth

Martin Barnes, owner of 20-acre Capay Fruits and Vegetables, took a class with other farmers from Isao Fujimoto of UC Davis about how to start a nonprofit organization and an agricultural marketing cooperative. Barnes started a nonprofit organization and received a Comprehensive Employment and Training Act (CETA) grant to hire Andy Scott to investigate interest from local farmers in an organic marketing co-op. Scott, a Sacramento County organic farmer, then moved to the Winters area as the operator of 7-acre Star Moon Farm.

Meanwhile Tom Harter, who sourced organic produce from local farms for a worker-owned restaurant in Davis—Blue Mango—noticed many local growers wanting to expand but spending



Jeff and Annie Main, founding members of YoCal. Photo courtesy of www.goodhumus.com

too much time driving. Harter started developing accounts, collecting from the farms in the back of his Plymouth. Before the co-op was formed, Harter rented a warehouse in Davis and offered it as a consolidation point for local growers.

YoCal Produce Cooperative officially organized as an agricultural cooperative in 1981 with Barnes, Scott and the few other original farmer/members forming a board of directors. The board hired Harter as manager.

The early years: Growing farms and families

YoCal Cooperative did very well for its members the first few years with the warehouse in Davis, even with no loading dock and limited refrigeration. Harter worked hard as the manager, received a low salary, and built the business at the expense of his own personal energy.

YoCal marketed produce effectively with two or three salespeople on staff, secured fair prices for the growers, and did a good job of trucking, according to founding members. Much of the trucking was initially contracted through TruckFarm, which delivered to several grocery and distributor customers in the Bay Area, and occasionally up to Chico.

Farmers were relieved to drop off their produce in Davis, not having to drive to San Francisco. With

demand for organic produce increasing, marketing options grew, and the Yolo County farms were well positioned to meet the demand. Without the need to spend so much time marketing and driving, the growers were able to grow their farms and start their families.

By consolidating their sales to distributors and brokers under the YoCal label, the group was noticed as a credible supplier and received fair prices and faster payments. YoCal connected Yolo County farmers with a growing network of natural food retailers, producers, distributors, and with each other.

The co-op allowed small growers to stay small and farm without spending all day selling, but enabled others to grow as they wanted. YoCal depended on Harter to defer and reduce expenses through his practical experience and strong network. Growers also expanded their packing facilities, including on-farm refrigeration, ice machines, and pallet-moving equipment.

The middle: Expansion and growing pains

During the middle years, from 1985 to 1988, YoCal still provided good marketing and transportation services, but began requiring significant time from the management and board to guide the growing business. As the organic market grew, the business grew: more growers, more warehouse space, more sales, more employees, and more contacts. YoCal



*Farmer Jeff Main with son in shovel.
Photo courtesy of www.goodhumus.com.*



*Dru Rivers and her child pick a
pumpkin at the family's Full Belly Farm.
UC Small Farm Program file photo.
Now adults, both children are still
involved in their families' farms.*

contracted to supply baby lettuces to a regional distributor, Wine Country Cuisine, and expanded distribution to the greater Northern California region.

In 1988, YoCal moved to a bigger warehouse in Woodland, with loading docks and more space. The group was able to move pallets, rather than handling each box by hand. Harter and the farmers spent time and energy to refurbish the new warehouse, installing coolers. The new warehouse was more expensive, requiring more volume and more members to cover the fixed costs. YoCal tried shipping produce to the East Coast, contracting with larger distributors for trucking, and suffered losses from packing-related quality issues in this venture.

The co-op became increasingly complex and difficult to manage. The board of directors tried to make decisions by consensus, which led to long meetings. Some board members spent many hours studying and trying to understand how an agricultural cooperative was supposed to work. None of the board members had formal business training or experience with cooperative business—nor did the manager. One of the original members reported that, after a few years at YoCal, Harter told the group, “This is getting beyond me; I’m not a business man.” Computers were becoming a part of business, and Harter selected a non-standard accounting system. The board of directors contracted with a bookkeeper to put the accounts into order. One member said, “No one was monitoring cash flow, no one was keeping the records, no one was following up with accounts receivable. We got no financial statements. The bookkeeper was not provided with financial information by Tom, so she gave up after a few months.”

By 1988 or 1989, YoCal’s sales had grown to approximately \$2 million, with eight to ten employees and about 17 member producers. In 1989, after guiding the group in moving and renovating the new warehouse, Harter left the organization.

The last years: More growth, competition, financial and management problems

After Harter left, YoCal never was able to recover its footing. Problems included poor management, over-expansion, bad investments, uncollected and uncollectable debts, competition, quality concerns, and lack of clear board direction.

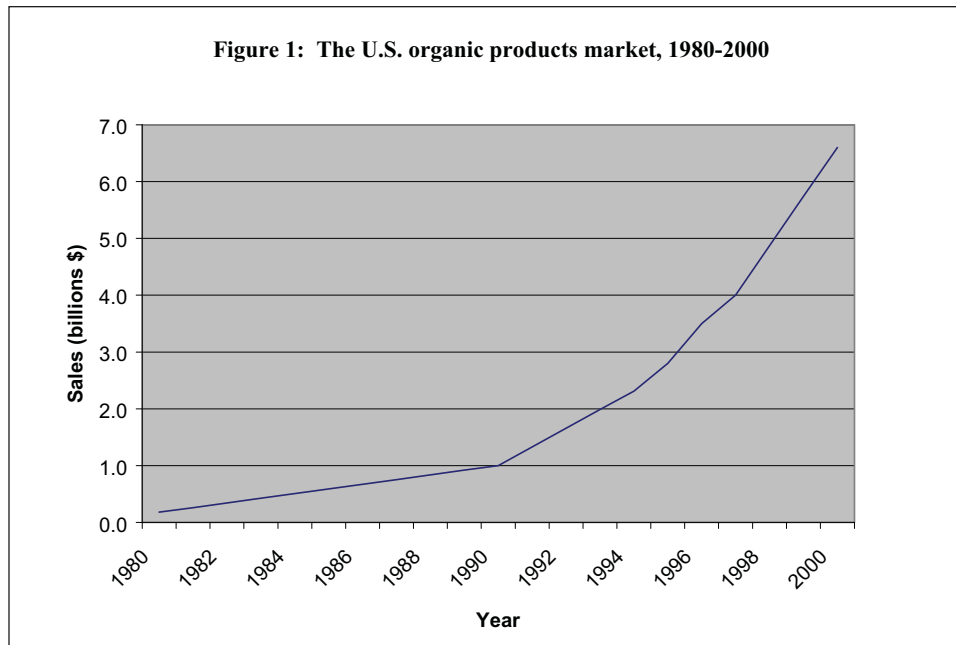


Figure 1 from Rosen, Sydney, and Bruce A. Larson. 2000. "The U.S. Organic Market: Size, Trends, and Implications for Central American Agricultural Exports." *Development Discussion Paper No. 737, Harvard University*

Some members were not happy with the quality control at YoCal. Members had different ideas of produce quality. Substantive moves were made regarding quality, including agreeing on standards, and members agreed to steps that increased quality. One notable achievement was that members began buying new boxes together with the YoCal logo on them. Previous to that, many growers were reusing boxes and not packing according to wholesale standards. Some tried to sell their leftovers from the farmers markets through YoCal, while others tried to sell only the best. Buyers would specify which YoCal grower they wanted to buy from, but everyone's reputation was affected nonetheless by poor quality, and some customers were lost. YoCal carried products produced by non-members in order to maintain a full line to supply customers and to maintain staff. The co-op kept non-member sales to a maximum of 49 percent of sales, as required by cooperative tax laws. Some members were not aware of this part of the business.

The board hired a series of new managers who did not know the produce business or cooperative management; they each lasted about six months. The new managers were not able to understand Harter's unconventional recordkeeping systems

or accounting, and accounts receivable were not collected. About this time, more efficient conventional fruit and vegetable growers entered the organic market, pushing down prices and offering distributors larger volume and greater convenience. Verbal contracts with distributors did not hold, and some YoCal growers found themselves with unsold produce. Wine Country Cuisine went out of business when larger growers developed new, lower cost techniques for producing baby lettuces, leaving YoCal with uncollectable revenues.

The board and one of the new managers tried to expand distribution into a customer's distribution territory, causing much tension in the group and conflict with this distributor. This manager also convinced the board to purchase an expensive customized truck to service the new territory. The new route was dropped after several runs, generating large expenses. In 1990, YoCal management asked individual members to invest cash to bail out the business. Most members each contributed several thousand dollars to cover the operating losses, although they did not meet as a group to discuss the situation. This was the first time members were asked to invest directly in the business. The group struggled with uncollected accounts receivable and

Major accomplishments of YoCal Produce Cooperative

- **Marketing and trucking:** Collaborating on these tasks allowed farmers the time to grow their farms, access a larger network of retailers, and be able to make a living. The farmers no longer had to farm all day and drive all night or have one partner support the farm with an off-farm job. “It gave us the confidence that we could make it as small farmers without having another job,” said one member.
- **Market entry and increased impact:** The cooperative provided entry into the wholesale fresh produce market for some growers and increased market power in the wholesale fresh produce market for others. YoCal raised the visibility of smaller farms, increasing the impact of individual brands by co-marketing under the YoCal label. It assisted the growth of several farmers who wanted to grow larger. It was a good transition strategy for them.
- **Planning to avoid competition:** Although not developed as fully as some members would have liked, the group was able to coordinate some multi-farm plantings and grow some crops recommended by distributor partners.
- **Grower education:** YoCal improved quality, pack and presentation of product at a time when the organic produce industry was in its formative years. Members learned much about cooperative decision making and how to most efficiently spend their time and energy.
- **A sense of community:** “We got to know farmers we might not have met otherwise,” said one member. YoCal pulled a divergent group of farmers together and gave them a cohesiveness that they probably would never have developed without it. “Major accomplishments for us, as individuals, are that we, as a community of farmers, are still doing cooperative things together,” said another.
- **A model:** YoCal was one of the first organic marketing cooperatives in modern times.

increased expenses, and members were not paid for several months’ worth of product sales.

The early years of organic production and distribution were marked by the tendency for companies to go out of business and take down many suppliers with them. For this reason, the membership tried hard not to do so in closing Yocal. The members who closed the business were very proud of this decision. In 1991, YoCal went out of business, but did not file bankruptcy. As several former YoCal members reported, “When we went out of business we paid everyone off except ourselves.” Losses were distributed in proportion to patronage, but were in the range of \$20,000 for some of the members, which was a very large burden to small farms at the time.

Lessons and advice as given by YoCal members

Quotes and paraphrases from members:

- Be clear about your mission statement. It is difficult to take people with varying interests and form a co-op out of them. It might be better to set a mission and then look for growers who agree with it.
- Learn from agricultural cooperative experts about the parameters for organizing. Be astute when you choose a business manager, making sure that he or she understands both your product and cooperative management. Get a manager who is well-versed in cooperative finance.
- Identify markets that you want to target. Know your market before you try to sell. Start small, perhaps with just a few crops. Be clear about the scope of the project. Be clear about what you want to sell and where you want to sell it.
- Have a clear membership agreement that defines expectations for membership. Spell out

what a farmer has to do to join and leave the cooperative.

- Have a good business plan before you start. Do your homework.
- Make sure you have enough capital.
- “The hardest lesson for all of us was that we put so much time and energy into it that it took time from farming,” said one member about managing the later years of YoCal. You have to remember to be a farmer first; otherwise, you have nothing to sell.

About this advice, from a founding member: This is all advice we researched and knew about—but implementing it in the face of reality is the hard part. To get things off the ground you often have to “just do it” and that can lead to complications later. We used material from UC Cooperative Extension, including a couple of books produced just for that purpose. Leon Garoyan [founding director of the UC Center for Cooperatives] was the author of one book who later communicated with us. He was knowledgeable and supportive, but it was too late in many respects.

YoCal’s performance and the traditional cooperative principles

The cooperative principles are operational and behavioral rules developed to govern cooperatives and to further the goals of cooperatives’ members. They distinguish a cooperative from other business structures. Historically, three principles emerged as being widely recognized and practiced in the United States: user-benefit, user-owned and user-control.

YoCal’s founders were determined to operate the business as a cooperative, which emphasizes equitable treatment of all members. YoCal’s performance, as related to these principles, is discussed briefly below.

User-benefit: The cooperative’s sole purpose is to provide and distribute benefits to its users on the basis of their use.

- Members were able to gain access to the fresh produce wholesale market through YoCal,

and were able to increase their market power through collaborative marketing.

- By providing sales and transportation services, YoCal enabled some members to concentrate on growing their farms.
- YoCal also increased the visibility of the smaller farms and enhanced the impact of an individual farm’s brand by co-marketing under the YoCal label. However, the lack of quality standards, along with wide variations in product quality among farms, may have impaired the overall image of the YoCal brand.
- Both members and non-members were charged a flat commission fee on their sales. Patronage refunds were never issued to members to distribute a portion of YoCal’s year-end earnings. Similarly, patronage

assessments were not made to cover any year-end operating losses.

- YoCal marketed a significant amount of non-member product, including non-produce items, during its final years to supply a full line to customers and spread its costs. While this strategy was intended to strengthen YoCal's appeal to its customers, it appears to have contributed to YoCal's financial difficulties.
- YoCal never had a membership agreement that defined expectations and requirements for membership. In particular, members were not required to market exclusively through the cooperative. Some members, especially the founders, gave their total support and commitment to the co-op and assumed others would do so also. However, some members bypassed YoCal and sold directly to YoCal customers, while using YoCal primarily to market their lower quality product. This type of opportunistic selling by a member to obtain a short-term personal gain at the expense of the cooperative's long-term well-being has led to the demise of many co-ops. It is often difficult to detect such situations until the damage has been done.

User-owned: The people who own and finance the cooperative are those who use the cooperative.

- YoCal never had a formal member equity program. The members did not contribute any equity when they joined, and no equity program was created to provide operating capital and financial reserves. Thus, some members were not "invested" enough to develop loyalty and support for the cooperative.
- During the final years, members contributed capital to cover operating losses, but their contributions were not necessarily proportionate to their YoCal sales volumes.
- In order to cover YoCal's operating losses when it closed, the remaining members withheld payments to themselves for all or most of their sales. Thus, these loyal members

bore a disproportionate share of YoCal's losses. If the co-op had retained equity from its members as part of its normal operations, there would have been a financial cushion to absorb some or all of the losses. Most co-op equity programs are structured such that when members leave a co-op, their equity is refunded to them over an extended period to protect the investments of the remaining members.

User-control: The people who control the cooperative are those who use it.

- Each YoCal member had one vote. Members in some cooperatives (particularly in California) have voting rights proportionate to their use (sales) of, or investment in, the cooperative. Proportionate voting rights can be viewed as equitable since members with larger sales or higher investments in the cooperative have more at stake with the cooperative.
- YoCal's members/board implemented a policy of decision-making that involved having those who disagreed with a decision to "stand aside" to let the decision happen.
- There was continual discussion among members about the division of decision-making areas between the board and the management. Co-op experts advise that, while the board is responsible for developing policies and strategic planning, the day-to-day operations of a co-op are delegated to the manager. In YoCal's case, some critical decisions were made by the management, rather than its board.
- YoCal's board was composed of only its producer-members. Co-op boards can include outside directors (with or without voting status) to provide expertise in marketing and financial management or other areas that agricultural producers often do not have. YoCal never had the benefit of managerial expertise from an outside board member. By the time the board sought out assistance from a cooperative expert, it was too late.

Thank you

We are grateful to the following YoCal members, employees and service providers for participating in our interviews:

Martin Barnes

Cliff Cain

Geoff Chang

Jim Durst

Patricia Echevarria

Chris Harder

Jeff Main

Dru Rivers

Andy Scott

