

**THE ECONOMIC STATUS  
OF CALIFORNIA  
FOOD COOPERATIVES**

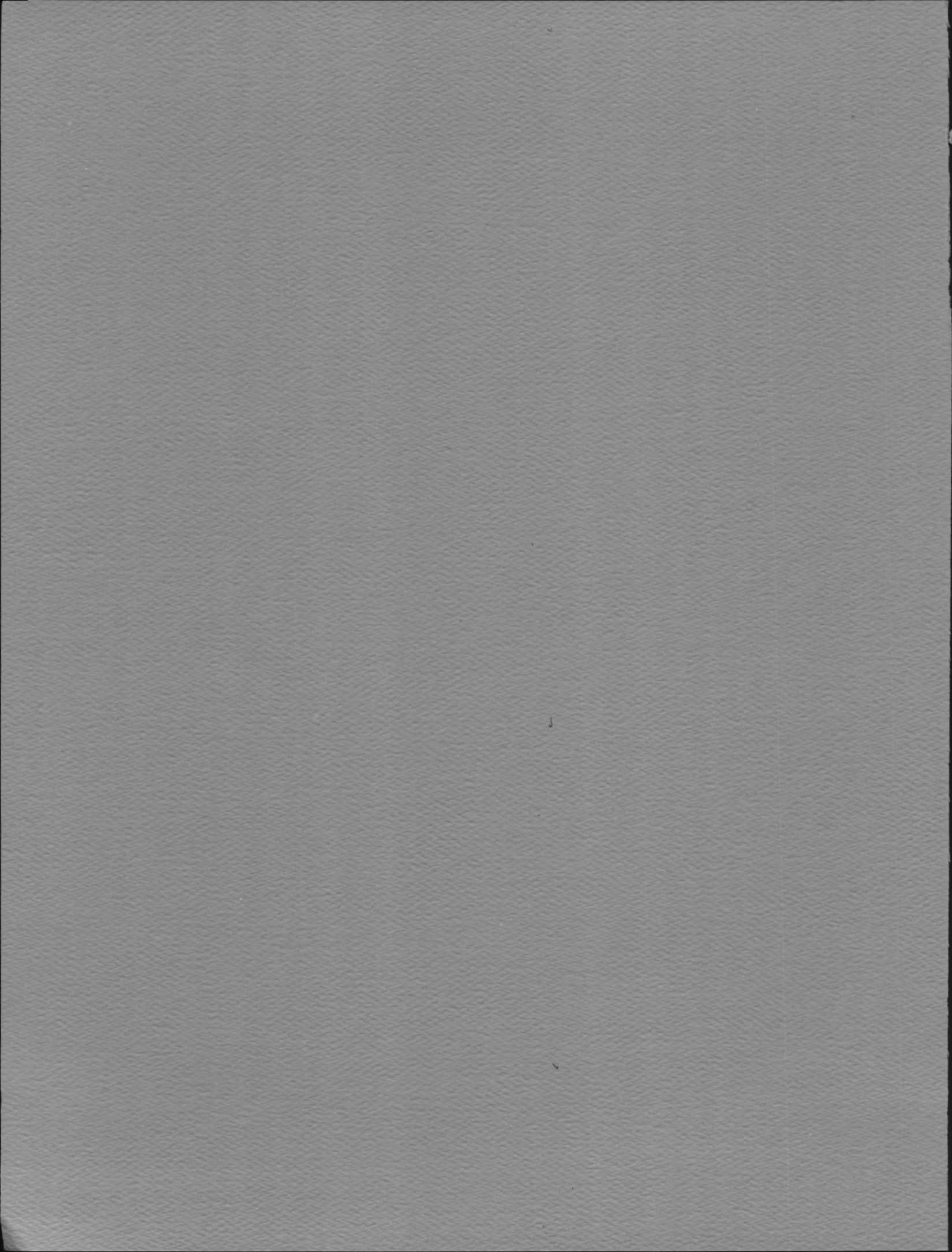


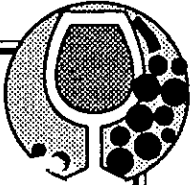
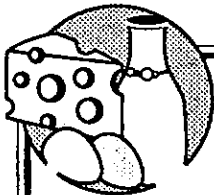
**Dewey Bandy, Ph.D.**



**Center for Cooperatives  
University of California**







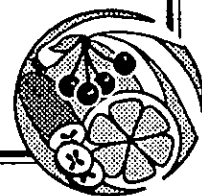
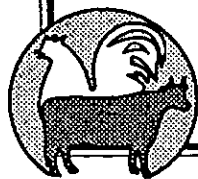
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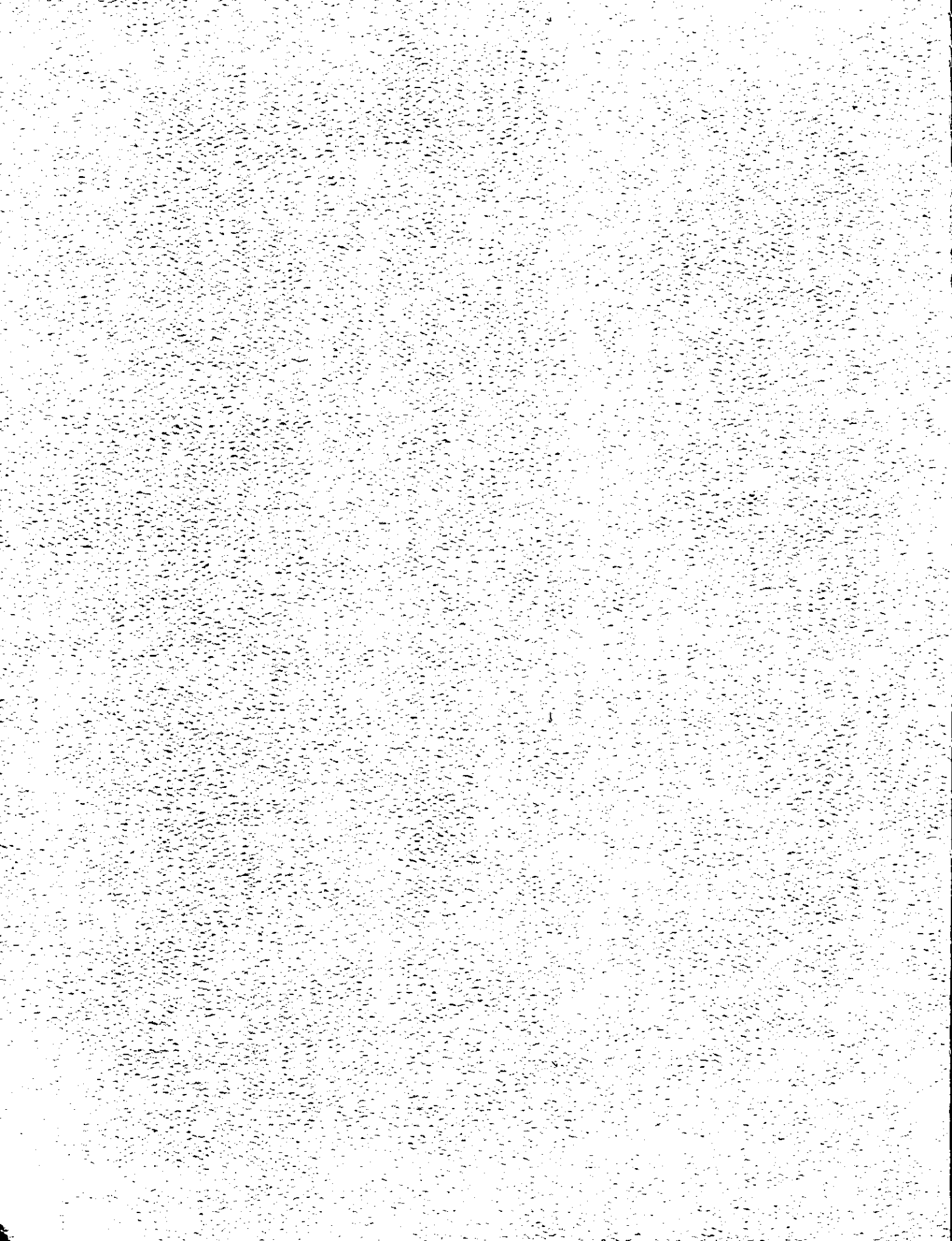


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## ABOUT THE CENTER FOR COOPERATIVES

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The **CENTER's** objectives are to promote:

- **EDUCATION:** The **CENTER** offers formal and informal educational programs to those involved in cooperative management and develops teaching materials for all levels of interest.
- **RESEARCH:** The **CENTER** conducts research on economic, social, and technical cooperative developments and administers a competitive research grant program dedicated to increasing the body of knowledge concerning cooperatives in general and addressing the needs of California's cooperatives in particular .
- **OUTREACH:** The **CENTER** provides information to the public on all types of cooperatives including the significant benefits cooperatives provide to the economy of California.

Located on the University of California, Davis campus, the **CENTER FOR COOPERATIVES** is a University-wide academic unit. Its teaching and research resources are drawn from interested professionals from all University of California and state university campuses, other colleges and universities, as well as sources indigenous to the cooperative business community.

The **CENTER** is prepared to receive gifts and contributions from the public, foundations, cooperatives and other like sources through its endowment fund.

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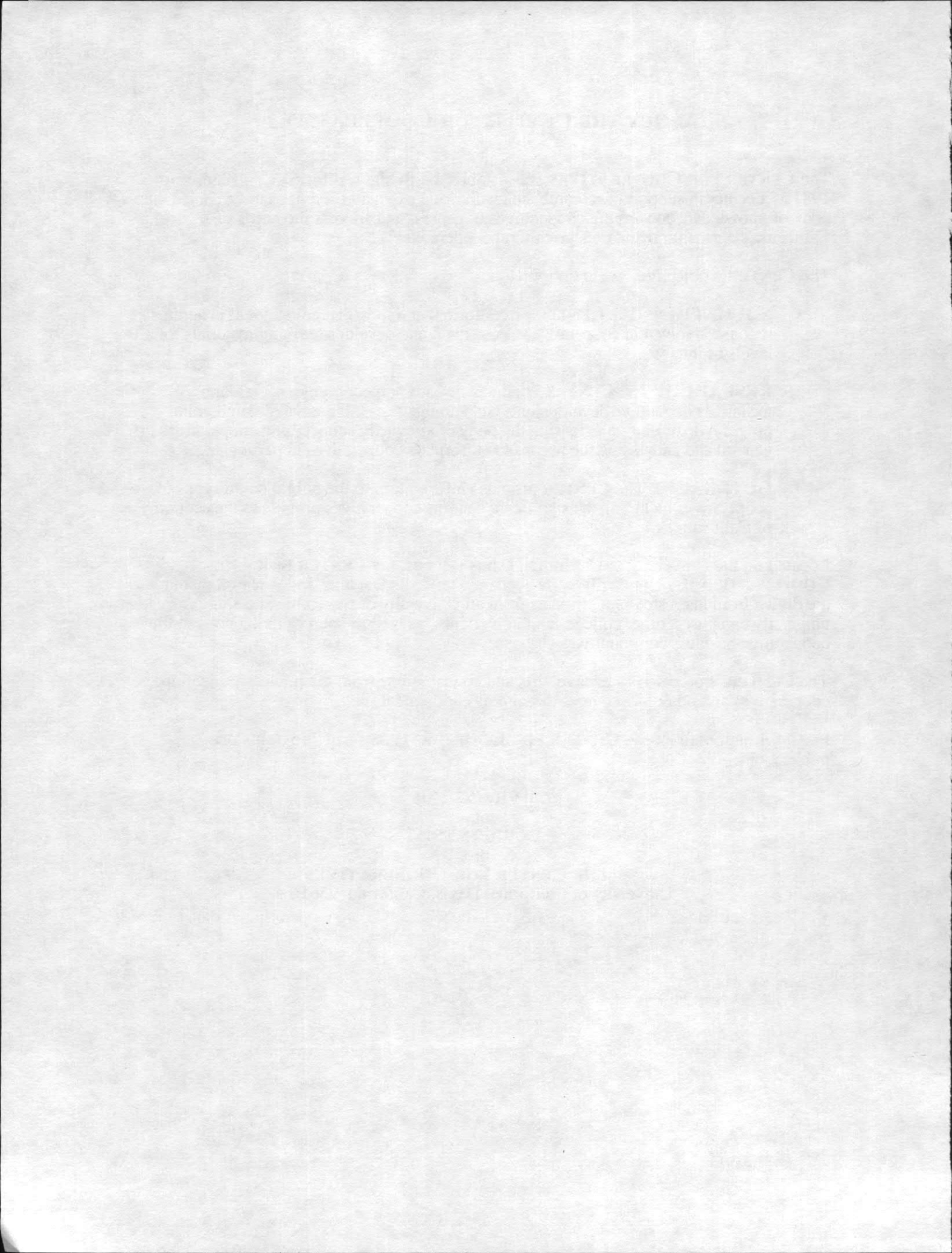
call 916/752-2408

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University of California, Davis, California 95616



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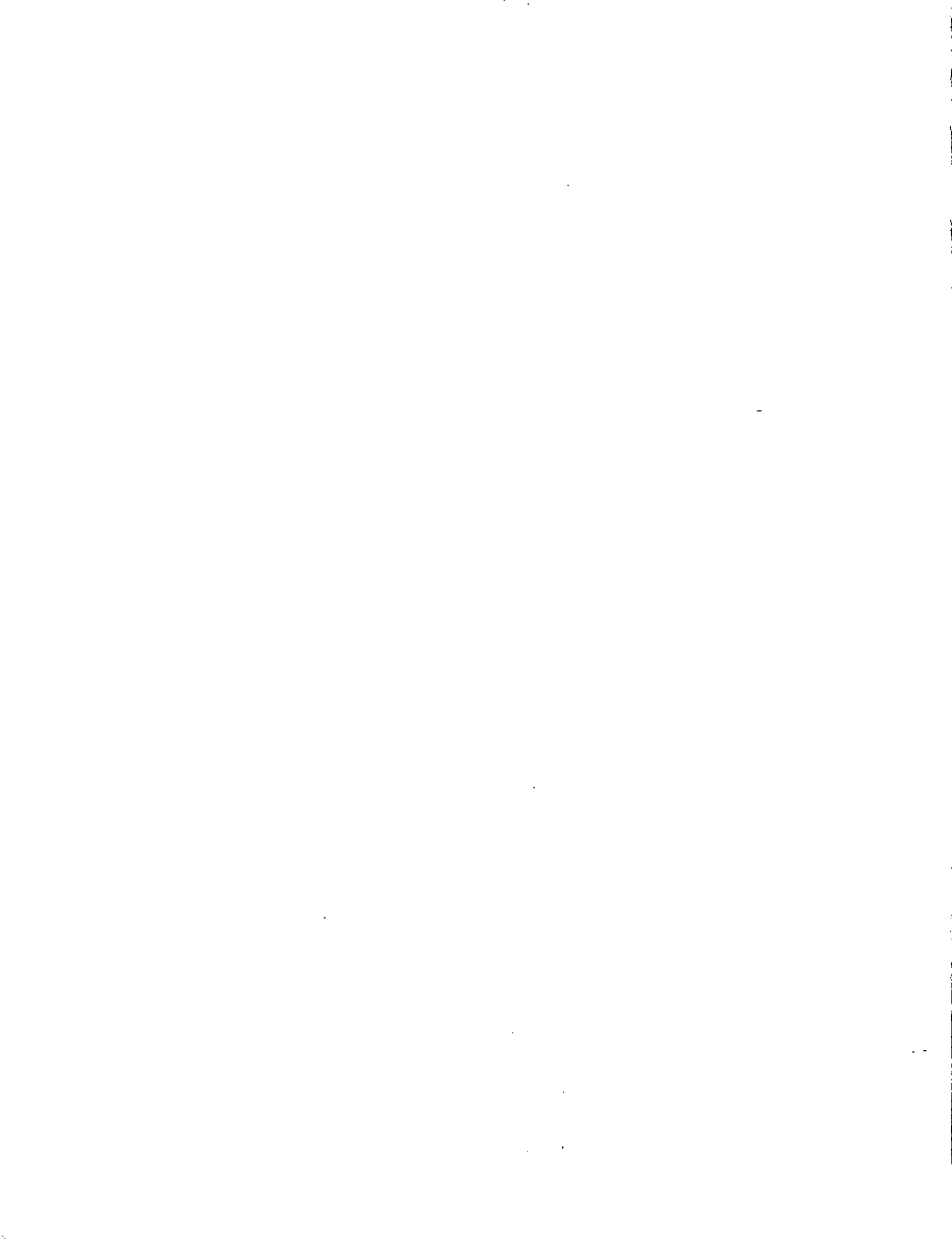
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## The Economic Status of California Food Cooperatives

The previous decade was a difficult one for California's food cooperative sector. During this decade food cooperatives in the state lost their primary source of wholesaling, business and financial support services when a large wholesaling cooperative had to drastically reduce its operations under financial stress. Since 1985 ten food cooperatives, including the state's largest operation, became insolvent and were forced to close. Of the top twenty food cooperatives in the state, ranked by sales in 1980-1981, only nine are still in existence.<sup>1</sup> Since 1985 the number of food cooperatives has dropped from twenty-six to fifteen. Other food cooperatives experienced severe economic and organizational stresses and had to make significant, and often difficult, changes to survive.

This study was undertaken to assess how well and in what ways the remaining food cooperatives have weathered the previous decade. Data was gathered on economic performance, business practices, sales, competition, employment generation and member participation. Emerging trends within the sector, such as new business and organizational strategies, were identified as part of the research.

### Background

During the 1980s new problems and challenges buffeted California's food cooperative sector. Except for two food cooperatives formed in the 1940s and 1930s, most of California's food cooperatives emerged out of the social change during the 1960s (Thompson 1992). The food industry did not escape the widespread challenges to established institutions and values in this era. A new consciousness of health and diet led to a rejection of the heavily commercialized, overly processed "chemical feast" of mainstream America. Alternatives were sought to the large supermarket chains that would be consumer-oriented and provide the kinds of natural and health foods not available in the commercialized stores. Within this context a new generation of buying clubs, worker collectives, small health food stores and food cooperatives began to emerge in the 1960s and into the tail end of the 1970s.

A dedicated following of consumers and leadership grew around this sector. Although diverse, this group was broadly characterized by commitments to personal growth, social change, environmentalism, non-hierarchical relations, participatory democracy, spiritualism and holistic health. It was this base that created and sustained the food cooperative movement in California.

By the end of the decade some 104 food cooperatives were operating in the state.<sup>2</sup> Most of these cooperatives were fragile, small one store operations. Often they catered primarily to a small clientele seeking natural and health food products. While food cooperatives provided an important alternative to the larger commercial chains in their communities, the scale of their operations limited their impact.

However the operations of the four largest food cooperatives in the state—Berkeley, Palo Alto, Oakland and Walnut Creek—showed that the impact of the cooperative sector could someday be much greater. These four cooperatives--especially the Berkeley cooperative--were the flagships of the California food cooperative sector. By 1977 these four cooperatives had 47,700 members, operated eleven stores and grossed annually \$57,600,000 in sales (Neptune 1977). Berkeley alone had 21,300 members,

operated four stores and grossed \$28,800,000 in annual sales. These cooperatives operated professionally managed modern supermarkets. Food and product lines were more extensive than the smaller food cooperatives and designed to appeal to a more mainstream clientele. These cooperatives showed that food cooperatives did not necessarily have to be small health food operations limited to a counter-culture clientele.

Beginning in the 1980s, however, co-ops began to face new pressures from a changing environment. The social activism that had provided much of the impetus for food cooperatives began to fade. Many of the original members and leaders of the cooperatives settled into more traditional lifestyles of career and family. Consumption habits in turn changed as the kinds of bulk natural foods and products no longer fit with hectic, professional lifestyles. Health was mediated by convenience and affluence as gourmet foods, prepackaged natural food products and healthy frozen dinners were now in demand.

This problem was further compounded as the major chain stores and newer health and gourmet food chains began to cut into cooperative markets (Black 1992). Originally, when it came to organic, bulk and other natural foods and products cooperatives were virtually the only game in town. Over time, however, this niche was discovered by the rest of the food industry and new competitors moved in. With newer facilities, more productive labor and scale economies, they could offer many of the same organic foods and natural products now in demand at lower costs than the cooperatives (Neptune 1992).

The cooperatives themselves contributed to these problems. Often cooperative boards were dominated by a holdover old guard whose mindset was still in the 1960s. Even as their membership base became more interested in quality and price, the cooperatives still reflected sixties-style social and counterculture values. They were reluctant to compromise the original founding values and slow to adapt to the changing environment. All too often these values were prioritized over competitiveness and economic efficiency. Conflict began to erupt between those members emphasizing political and social values and more pragmatic members who were concerned with the eroding economic position of their co-ops.

These pressures came to a head during the 1980s. The number of food cooperatives had dropped dramatically to about twenty-five by the beginning of 1985. The Walnut Creek and Oakland cooperatives had been reduced to one-store operations by 1982 (Neptune 1982). By the end of 1985 five of these remaining twenty-five food co-ops had become financially insolvent and were closed due to inefficient management and, in some cases, internal political conflict. Only Berkeley and Palo Alto managed to stay economically strong enough to maintain all of their stores. Then, in 1986, what was left of the roof fell in.

Associated Cooperatives (AC) had been created in 1937 to serve as a wholesaler for cooperatives throughout the state (Neptune 1971). As time progressed, AC proved to be a highly successful innovation and expanded the scope of its operations. It achieved wholesaling volumes sufficient to supply affiliated cooperatives at competitive prices. Not only did AC wholesale most of the food and other products California cooperatives sold, it also provided important technical and managerial support (Neptune 1982). On the strength of its economic success AC was often able to secure loans for food cooperatives who would otherwise have had difficulty procuring financing. Because AC ran in the black, it was also able to extend credit to food cooperatives on their wholesale purchases. Through favorable credit terms AC was able to carry some financially weak cooperatives that would otherwise have gone bankrupt.

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AC was only able to do all this because of the volume of business generated by the state's two largest food cooperatives - Palo Alto and Berkeley. A symbiotic relationship developed among the three and their fates became inextricably bound together. Then, in the 1980s this relationship began to unravel.

The two food cooperatives began to experience severe financial problems due to ineffective management, internal political conflict, an overemphasis on social issues, and declining membership commitment.<sup>3</sup> These problems eventually deteriorated into open conflict between AC and the Berkeley food cooperative that was responsible for over 60% of AC's wholesale business. This conflict eventually culminated in 1986 in legal action between the two and a subsequent severing of their wholesaling relationship.

The severing of their relationship set in motion a chain of events that eventually resulted in the loss of six cooperatives. Without Berkeley, AC no longer had the volume to carry out its other functions. While it did not go completely out of business it drastically scaled back its wholesaling and other services. This, in turn, resulted in the loss of five smaller, financially marginal cooperatives.

As for Berkeley, the end of its relationship with AC forced them to find other wholesalers. These wholesalers did not provide the same favorable terms as AC did. Nor could they always provide the same product labels that many of Berkeley's members were loyal to. When coupled with other internal and financial problems, Berkeley was forced to close down in 1988. By 1990 the cooperative sector had shrunk to fifteen cooperatives.

## **Methodology**

This study surveyed fourteen of the fifteen food cooperatives currently operating in California. An organization had to be legally incorporated as a food cooperative and currently engaged in retail food sales in order to be included in the study. In two cases, organizations that were not incorporated but were operating as de facto food cooperatives, were included in the study.

Data was gathered primarily through telephone interviews with general managers of the cooperatives or a designated representative. These interviews consisted of both open-ended and structured response questions. Both subjective and objective measures were employed in gathering data and evaluating performance issues.

## **Food Cooperative Characteristics**

The cooperatives surviving the 1980s and participating in the study were, with one exception, generally formed in the 1960s and 1970s. Twelve of the fourteen cooperatives have been in operation between 10 to 20 years. Of the remaining two food cooperatives, one was started in the 1930s and was in business for 54 years. The most recent food cooperative was developed in the 1980s and has been operating for eight years. At the time of the study in 1991, average age was 17.4 years and median age was 15.5 years. Table 1 graphs the years in operation.

**Table 1: Years In Operation**

<b>Years</b>	<b>Number</b>
0 - 05	0
6 - 10	1
10 - 15	6
15 - 20	6
> 20	<u>1</u>
<b>Total:</b>	<b>14</b>

The total membership of these fourteen cooperatives numbered 73,447. Membership size varied dramatically among the cooperatives. Average membership was 5,246 and median membership was 2610. The three smallest cooperative's had memberships of less than 1,000. Five of the largest cooperatives had memberships between 5,000 and 30,000. Membership of the six medium-sized cooperatives ranged between 1,000 and 3,000 members.

### **Business Characteristics**

Product lines split evenly, with seven cooperatives selling only natural/organic foods while the other seven sold a mix of general and natural/organics. Only three out of the fourteen cooperatives sold a full line of general merchandise while the other eleven offered only a limited line or none at all. Eleven of the fourteen cooperatives also operated delicatessens as well.

With the loss of AC, cooperatives now rely on a much larger number of wholesalers for food and merchandise. Cooperatives now maintain wholesaling relationships with approximately ten major wholesalers and dozens to hundreds of small local vendors and organic farms.<sup>4</sup>

In terms of sales, 1990 data from twelve food cooperatives showed net sales of \$44,877,244. This was an increase of 12% from 1989 sales of \$39,670,857.

Cooperatives also proved to be a reliable source of reasonably well-paying employment. All told, the cooperatives in this study generated 275 part-time and 317 full time jobs for a total of 592 positions. These positions were supplemented by 1,210 members who provided volunteer work. This work was usually, but not always, performed in return for patronage discounts.

Respondents from each cooperative were asked to identify the lowest and highest wages for staff and managerial positions. Overall hourly wages for non-managerial staff positions ranged from \$4.25 to \$14.41 while managerial positions went from \$5.00 to \$19.00. Average and median lowest and highest hourly wages for staff positions were \$5.45 and \$5.00, and \$8.68 and 8.63, respectively. For management positions the average and median lowest and highest hourly wages were \$8.25 and \$8.68, and \$10.56 and \$12.12 respectively. Table 2 provides a breakdown of the wages offered.

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**Table 2: Hourly Wage Ranges**  
Number responding: 14\*

<u>Hr. Rate</u>	<u>Low Staff</u>	<u>High Staff</u>	<u>Low Mngmt*</u>	<u>High Mngmt*</u>
4.25 - 4.99	3	1	0	0
5.00 - 6.99	10	2	2	1
7.00 - 9.99	1	6	7	3
10.00 - 11.99	0	4	2	3
12.00 - 14.99	0	1	0	1
15.00 - 19.00	0	0	1	4
<b>Totals</b>	<b>14</b>	<b>14</b>	<b>12</b>	<b>12</b>

\* 12 respondents for management positions. One cooperative operates as a collective and does not have management positions. Another cooperative would not provide salary information on managerial positions.

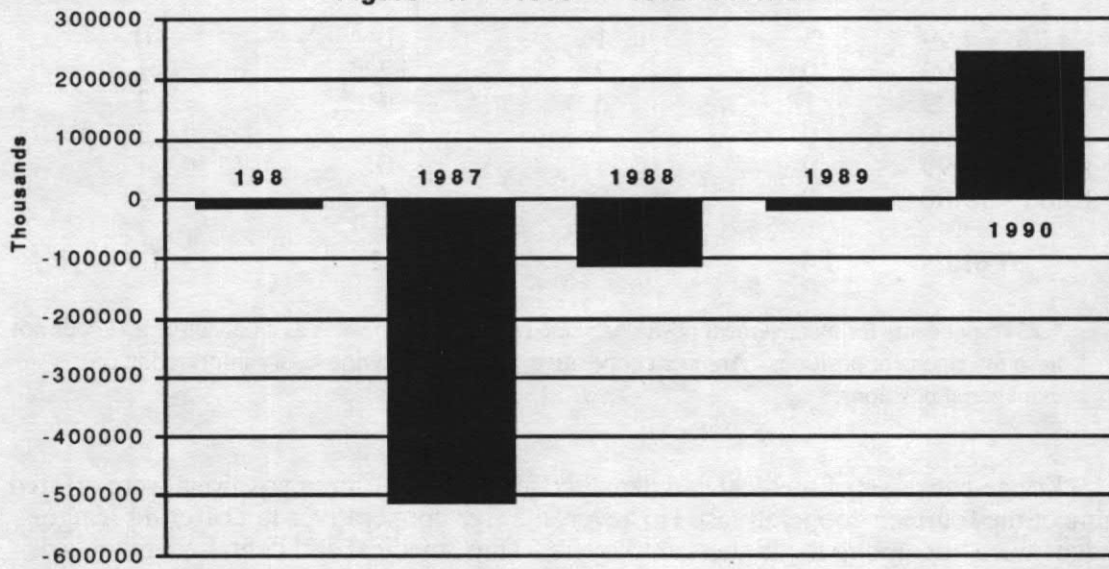
Fringe packages of medical and dental coverage for full-time positions were offered by nine of the fourteen cooperatives. However, the five cooperatives not offering fringe packages were not among the highest employers. Thus, medical and dental coverage was provided for 299 out of a total of 312 full-time employees or 96% of the total full-time workers employed.

## Viability

As mutual benefit organizations, food cooperatives must be economically viable if they are to adequately serve members. In bottom-line terms, food cooperatives must generate revenues sufficient to cover operating costs or they will not be able to successfully compete with other retailers for the patronage of member and non member consumers. Since 1985 eleven food cooperatives in the state were not able to meet this bottom line criteria and were forced to go out of business. Therefore a major concern of this study was how well cooperatives are now meeting this basic economic requirement. This research identified and examined the kinds of problems cooperatives have encountered and the strategies cooperatives have employed to survive.

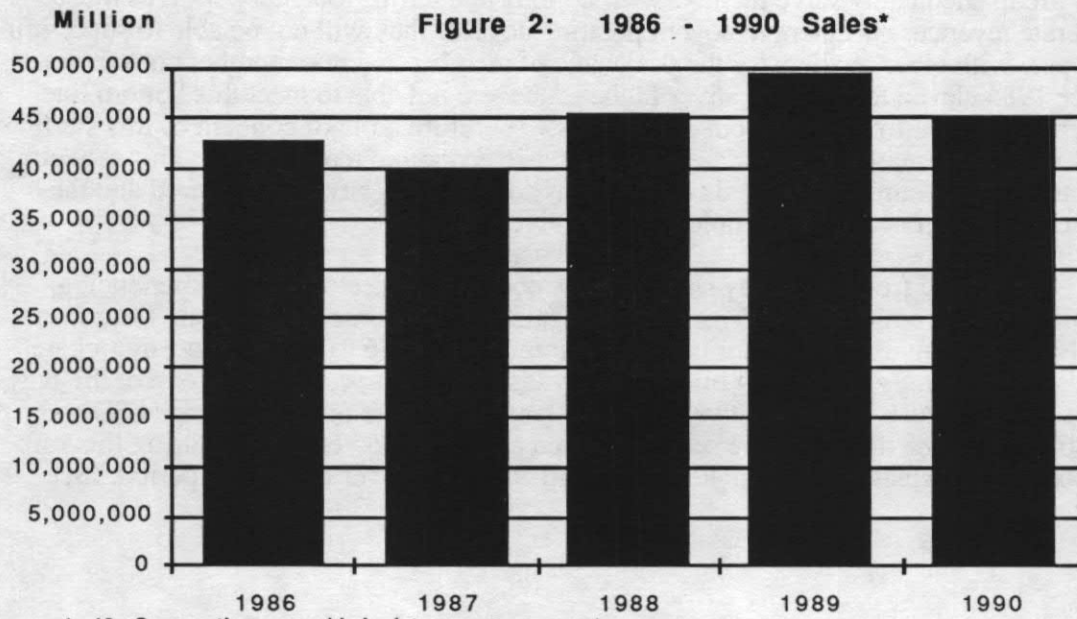
The data from this study show that the cooperative sector is still experiencing significant economic stress. Five-year aggregate profit is somewhat mixed. Data from twelve cooperatives show sector profits declining from 1986 to 1990 but the aggregate totals were strongly influenced by heavy operating losses experienced by one of the bigger food cooperatives. In only one year - 1990 - were aggregate profits generated. During 1986, 1987, 1988 and 1989 the sector suffered aggregate losses. Sales during this same period have fluctuated between 40 million and 50 million over the 5-year period. (See Figures 1 & 2)

Figure 1: 1986 - 1990 Profits\*



\* 13 Cooperatives provided data

Figure 2: 1986 - 1990 Sales\*



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12.00 - 14.99	0	1	0	1
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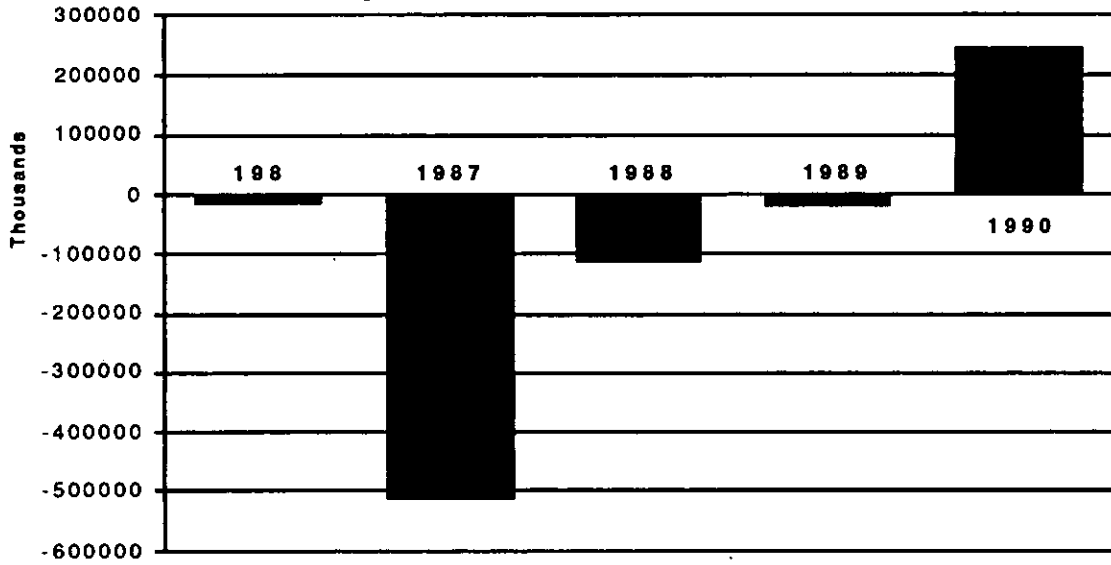
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## **Viability**

As mutual benefit organizations, food cooperatives must be economically viable if they are to adequately serve members. In bottom-line terms, food cooperatives must generate revenues sufficient to cover operating costs or they will not be able to successfully compete with other retailers for the patronage of member and non member consumers. Since 1985 eleven food cooperatives in the state were not able to meet this bottom line criteria and were forced to go out of business. Therefore a major concern of this study was how well cooperatives are now meeting this basic economic requirement. This research identified and examined the kinds of problems cooperatives have encountered and the strategies cooperatives have employed to survive.

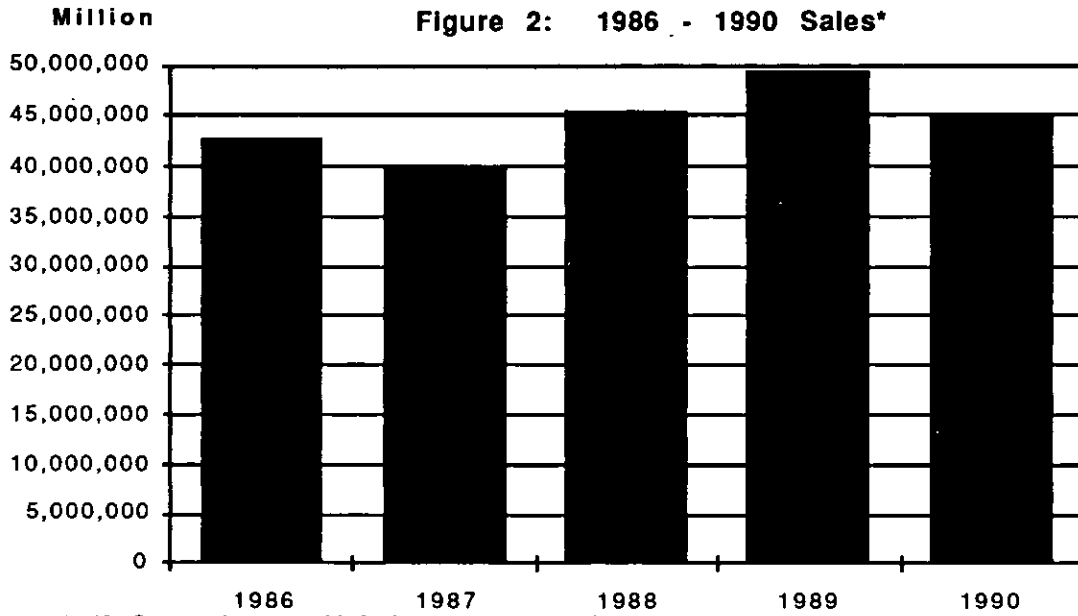
The data from this study show that the cooperative sector is still experiencing significant economic stress. Five-year aggregate profit is somewhat mixed. Data from twelve cooperatives show sector profits declining from 1986 to 1990 but the aggregate totals were strongly influenced by heavy operating losses experienced by one of the bigger food cooperatives. In only one year - 1990 - were aggregate profits generated. During 1986, 1987, 1988 and 1989 the sector suffered aggregate losses. Sales during this same period have fluctuated between 40 million and 50 million over the 5-year period. (See Figures 1 & 2)

Figure 1: 1986 - 1990 Profits\*



\* 13 Cooperatives provided data

Figure 2: 1986 - 1990 Sales\*



\* 13 Cooperatives provided data



However when the influence of large losses by individual cooperatives is accounted for, the data still point to significant economic problems in this sector. Except for 1986, between thirty and forty percent of the cooperatives have suffered losses. Nor are these losses solely the result of several consistently troubled cooperatives. As Table 3 shows, profit and losses are fairly evenly distributed among the thirteen cooperatives. (See Table 3)

**Table 3: 1986-1990 Individual Cooperative Profit**  
P=Profit  
L=Loss

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
1	P	P	L	L	P
2	L	L	P	L	P
3	P	P	P	P	L
4	P	L	P	P	P
5	P	P	P	L	P
6	P	P	P	L	P
7	L	L	P	P	P
8	P	P	L	P	L
9	P	L	L	P	P
10	P	E*	L	P	P
11	P	P	P	P	P
12	P	L	L	L	L
13	L	P	P	P	P
14	P	P	P	P	L

\* Cooperative reported breaking even.

As Table 4 indicates, when profit levels are considered for individual co-ops, they have often been modest and many cooperatives have operated close to the break even point. This observation also holds true even when profits are also computed as a percentage of net sales as shown by Table 5.

**Table 4: Cooperative Profit Levels**  
(1986-1990)

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
<\$1,000	6	7	6	6	4
\$1,000 -\$2,499	0	2	0	1	1
\$2,500 -\$4,999	1	1	0	1	1
\$5,000 -\$9,999	1	0	3	2	1
\$10,000 -\$14,999	2	0	0	0	1
\$15,000 -\$24,999	1	2	1	1	1
>\$25,000	2	1	3	2	4

\*(13 cooperatives responding)

**Table 5: Profits As A Percentage Of Sales \***  
(1986-1990)\*

<u>%</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
1	4	3	5	2	3
2	0	1	1	2	2
3	2	0	0	1	0
4	0	0	0	0	0
5	1	0	0	0	1
>5	0	1	0	1	1

\*(13 cooperatives responding)

## Causes

The problems and issues underlying this stressed economic performance were identified by the study. Between 1986-1991 cooperatives faced significant challenges in six areas: capitalization, competition, facilities, internal conflict, management and participation. (See Table 6)

**Table 6: Operational Problems**  
(1986-1991)

**Number of Co-ops Reporting Problems in Each Category**

Capitalization	4
Competition	11
Facilities	8
Internal Conflict	6
Management	10
Participation	14

## Competition

Competition was a widely reported problem. Eleven of the fourteen cooperatives reported experiencing strong to very strong competition from food chains and/or health food stores. Respondents reported that major national chains and some newer health and gourmet food chains are entering markets traditionally served by cooperatives. Due to scale economies these larger chains can often offer lower prices with a wider selection of products in more attractive, modern stores. The impact this kind of competition was described by respondents:

"[It] decreased [our] sales for the last two years."

"Its cut into our sales a lot."

"In the long term it's almost driven us out of business. [Major national chain] is implementing co-op things. For example unit pricing, recycling, natural foods."

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6	P	P	P	L	P
7	L	L	P	P	P
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"We've lost some business. It forced us to be more price conscious and be more careful about how much we stock."

"Grocery chains are adapting health food products and ideas. This area is very competitive. New, yuppie food stores like [name of competitor deleted] are really expanding, putting in supermarket style stores."

## Management

The effect of the competition was compounded by management problems defined here as difficulties in planning, organizing and directing the operations of the cooperative in an economically efficient manner. Ten cooperatives reported management problems involving business skills, productivity, staffing, supervision and training during the 1986-1991 period. (See Table 7) Some of the specific problems cited included poor planning, deficient employee training and supervision, over-reliance on part-time help, high employee turnover rates, difficulty in recruiting and retaining skilled managerial personnel, inadequate labor productivity, excessive labor and other costs, lax work atmospheres, ineffective inventory and merchandising of products, a lack of business sense, failure to adapt to business conditions, and antagonistic management-staff relations.

Some comments by respondents bear out the problems food cooperatives experienced in this area:

"We had a non-hierarchical management structure and tried to reach agreement through consensus. . . .it was inefficient and it could take too long time to reach agreement. . . . it personalized issues and conflicts even more and it also politicized things."

"We had huge losses because of poor planning. There was high turnover and the payroll was too high. We've had low employee productivity and possibly too many part-time workers. Too much of a low key atmosphere with not enough emphasis on productivity and getting the job done."

"We have low profits and that's because of a lack of business knowledge and experience. We really need training on business kinds of things for the staff here."

". . . lack of good management, poor employee evaluation, training and evaluation. . . . [we have] tried to reduce expenses, especially labor costs."

"There's nothing alternative [i.e., progressive] about failure. Now the staff is getting more serious about business."

**Table 7      Management Problems  
(1986-1991)**

Total Reporting problems—10

**Number of Co-ops Reporting Problems in Each Category:**

Business skills	6
Productivity	12
Staffing	2
Supervision	5
Training	2

### **Internal Conflict**

Internal turmoil had a big impact on the operations and management of six cooperatives and was often closely related to management problems. At the heart of this conflict were different conceptions of what the cooperative was about. Constituencies that saw in the cooperative a vehicle to promote specific political agendas and lifestyle values went up against those that saw the cooperative more as consumer-oriented and intended primarily to serve its membership. While political and social values are not by any means excluded by this latter group, a much greater emphasis is placed on an efficient, more pragmatic approach to operations. This conflict generally revolved around operational issues such as the sale of meat products, employee relations, upgrading facilities, instituting more competitive and efficient business practices, outreach to minority communities, and environmental issues.

Two respondents discussed some dilemmas this issue poses for co-ops:

"There is a tendency to try to drag the co-op into [divisive issues] and so the co-op ends up being boycotted. Groups play on the co-op and use it for a backdrop for their particular issue. We get held to a higher standard [of moral conduct] than our competitors that is not always reasonable or fair."

"They [political members] tend to forget that if we don't pay the bills we won't be able to do anything about any issues at all. What really bothers me is that these same people will get mad if the coop doesn't boycott [the product they want boycotted] or take a stand on their issue and they won't shop here. But they'll go down the street to [major national chain] and shop there and [major national chain] doesn't care at all about these issues or even consider them. Yet they will patronize them and boycott us."

In all cases the more pragmatic and consumer oriented factions eventually prevailed. However these cooperatives have had to pay a high price for the years in which political and social values were overemphasized. Decreased sales, debts, hefty unanticipated legal costs and delays in upgrading facilities have posed additional burdens on these cooperatives.

"We've lost some business. It forced us to be more price conscious and be more careful about how much we stock."

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## Capitalization

Under-capitalization of cooperatives has been a long standing problem in this sector (Schenkel and Smith, 1979). In this study four cooperatives reported shortages of capital funds. The potentially serious consequences for undercapitalized cooperatives were vividly exemplified by the experience of one cooperative. Lacking ready access to capital, this cooperative was forced to raise membership fees and reduce the member discount. As a result membership and retail sales declined. This in turn has resulted in operating losses for the cooperative.

## Facilities and Over-expansion

Inadequate facilities and equipment can put a severe strain on cooperatives. Obsolete equipment can slow check out lines and decrease labor productivity. Inadequate shelf space and unattractive displays can limit inventory and sales. Many consumers find older stores with fading paint, crowded aisles and dim lighting unappealing and may take their business elsewhere. In short, when cooperatives must operate from dingy, cramped stores and use outmoded technologies they place themselves at a severe competitive disadvantage.

These types of problems were reported by half the fourteen cooperatives studied. Problems with inadequate floor space were reported by five cooperatives during that period although two have now completed store expansions. Four cooperatives also had to undertake renovations of aging and/or obsolete facilities and equipment. Of these four cooperatives, three have completed their upgrades with only one still engaged in renovations. These renovations were also a key part of developing a more efficient, businesslike approach to management. One of these respondents commented on their renovation:

"It was a changeover from a hippie health food store. I mean there were radical political posters advocating revolution hanging from the walls. The store was dirty and faded and things weren't really organized. We expanded the inventory by 33%. Tried to organize things better. We cleaned up and remodeled the store and tried to make it accessible to everybody."

This study also showed that efforts to upgrade facilities and equipment can also create problems. Decisions to expand the cooperatives either through subsidiary wholesale operations, additional stores or enlargement of existing facilities created serious problems for four cooperatives. In two cases wholesaling operations—now closed—ended up losing money for the cooperative. Wholesaling losses wiped out what would have been substantial profits in the retailing end for one cooperative. As for the other wholesaling operation, it lost money because of ineffective management.

For another cooperative, expansion of store space increased operating costs. This created losses in 1990 after profits in the four preceding years. Another respondent reported that an ill-considered, politically-motivated expansion into a low income neighborhood nearly wrecked the entire cooperative. They finally had to close the store when its losses became so heavy that the cooperative was pushed to the brink of bankruptcy.

## Participation

Perhaps the most widespread challenge facing cooperatives were low rates of membership participation. As a member-owned and controlled organizations, cooperatives are dependent on the commitment of members. If members do not serve on boards or committees, participate in elections or attend meetings, a cooperative can easily wither and decline. It was just such an erosion of the Berkeley cooperative's membership that contributed significantly to its decline.

This study found that participation was low in the categories of voting, attendance at general membership meetings and service on committees. In the easiest form of participation, elections, no cooperative had a participation rate of higher than 30% in its last election. Overall rates ranged from 2% to 30%. The average voting rate for the last election was 12.8% and the median was 10%. Within the sector as a whole, only 5108 out of 73,447 members, or 7%, voted in the last election.

Meeting attendance was also low. Participation at the last general membership meeting ranged between 20% and no membership attendance. Average attendance was 4.8% and median attendance was 3.25%. Taking the sector as a whole, only 1106 members out of 73,447, or 2%, attended the last general membership meeting of their cooperative.

Cooperation between cooperatives was also not high. Only five cooperatives of the fourteen surveyed participate in cooperative events such as workshops or conferences. Two have no contacts of any kind while two others maintain only informal contacts. Table 8 shows the kinds of relationships cooperatives maintain with other cooperatives

**Table 8: Cooperative Relationships**

### Number of Co-ops Maintaining Relationships in Each Category

No Relationships	2
Business relations	4
Informal contacts	7
Newsletter exchange	4
Participation in co-op events	5
Reciprocal membership	2

## Cooperative Responses

Despite these problems over the last six years there are encouraging developments within the cooperative sector. The cooperatives in this study have taken note of past problems and mistakes and are responding to the challenges they face. On the business front most of the cooperatives are taking or have completed important steps to strengthen their operations. They are instilling an emphasis on efficiency and competitiveness. Money-losing ventures and product lines are being dropped. More effort is being put into competitive pricing, advertising, increasing productivity, improving service and closing out money-losing stores and wholesaling operations. Facilities and product lines are being upgraded and expanded. (See Table 9)

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Cooperatives are also attempting to exploit their market niche. This strategy involves a stress on marketing quality products that are not generally available in the chain stores. This includes natural and organic foods and products that either do not generate sufficient sales volumes for the chains to carry or are such specialized and unique products that they are not easy for the chains to replicate. (See Table 9)

**Table: 9 Cooperative Responses**  
Number responding: 14

**Number of Cooperatives Responding by Category**

Cutting Costs	2
Economic efficiency	8
Facilities upgrade	4
Market niche	9
Marketing & outreach	10

An important component of this strategy is to draw upon certain competitive advantages provided by a cooperative structure. Some of the key features of the cooperative structure--member control, consumer/member orientation, reliable product information, and healthy, high quality products and foods--are being aggressively marketed. Through a return to their traditional grass roots base via marketing, advertising and community outreach, cooperatives are promoting their advantages along with product and price information. Part of this grass roots outreach includes sponsorship of local events, financial and in kind support to community services, recycling, and ecological education. This research found that all but one of the fourteen cooperatives were active in some way in their community (See Table 10)

**Table 10: Cooperative Community Involvement**  
Number responding: 14

**Number of Cooperatives Responding by Category**

Consumer Education	9
Donations and Support	5
Environmental Education	2
Recycling	9
Social Issues	2
Sponsorship of Community Events	3

**The Future of the Cooperative Sector**

This study asked respondents to evaluate the strength of the cooperative sector in the sector and to identify the major issues it is currently facing. When asked to rate the overall condition of the cooperative sector one respondent rated it as excellent, eight saw it as good, three judged it as fair, one judged it to be poor and one other evaluated it as very poor.

Respondents were also asked to identify the kinds of issues currently facing food cooperatives in the state. Not surprisingly, the current issues were reflective of the kinds of problems the sector has experienced in the previous decade. Four basic issues were brought out in this study: sector organization, operations, membership and policy.

Starting with organization, nine respondents perceived the sector as poorly organized. More specifically, respondents identified the lack of both cooperation among individual cooperatives and a basic infrastructure of various technical and financial support services as key issues within this category. Another concern expressed by three cooperatives was the low public visibility and understanding of food cooperatives. The need for cooperatives coming together more for joint training, purchasing and other types of ventures were stressed.

Nine respondents also expressed varying concerns about the need for cooperatives to operate in a more efficient, competitive manner. These respondents generally were concerned that cooperatives need to find ways to improve operations in areas such as management, staffing, capitalization, and modernization of facilities and equipment. Four respondents felt cooperatives must find ways to deal with increasing competition as the major food chains venture into natural and organic products. Overall, respondents in this area felt that cooperatives still needed to place more emphasis on the business side of the cooperative.

Six cooperatives brought up membership related issues. Respondents saw the need to carry out more member education and outreach-type activities needed to maintain and increase participation, commitment and patronage. Three respondents identified, as a critical issue, problems with politicization of cooperative business operations by some of the membership.

Their concern, as one respondent put it, was that cooperatives are being held to an unreasonable standard of moral and political purity. In their view cooperatives are expected by some members to boycott or not carry certain products, or to take stands on divisive issues and still maintain economic viability. This can place a great stress on the cooperative--especially when their competitors are not placed under the same burden. These respondents felt that ways must be found to develop more reasonable and tolerant expectations about the kinds of standards cooperatives are held to.

In the final area five respondents focused on several policy issues. One respondent identified general business regulations and taxes that were perceived as burdensome. Two other respondents thought it important that the Department of Labor Ruling on volunteer discounts be clarified.<sup>5</sup> Another two respondents brought up the need for cooperatives to stay on top of regulations pertaining to organic products.

## **Conclusions**

This study shows that California cooperatives have weathered a rocky decade and are addressing some of the underlying causes of decline within the sector. Economically, the underlying causes of this decline were competition, inefficient management, outdated facilities and equipment, under-capitalization, internal conflict and excessive politicization. In response to these problems, cooperatives are working aggressively to upgrade the efficiency and competitiveness of their operations. The cooperatives in this study are also starting to exploit the competitive advantages of the cooperative structure and develop strategies to carve out a market niche. And in doing so, cooperatives are showing a more pragmatic approach to their operations, membership and activities.

Cooperatives are also attempting to exploit their market niche. This strategy involves a stress on marketing quality products that are not generally available in the chain stores. This includes natural and organic foods and products that either do not generate sufficient sales volumes for the chains to carry or are such specialized and unique products that they are not easy for the chains to replicate. (See Table 9)

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Sponsorship of Community Events	3

**The Future of the Cooperative Sector**

This study asked respondents to evaluate the strength of the cooperative sector in the sector and to identify the major issues it is currently facing. When asked to rate the overall condition of the cooperative sector one respondent rated it as excellent, eight saw it as good, three judged it as fair, one judged it to be poor and one other evaluated it as very poor.

Respondents were also asked to identify the kinds of issues currently facing food cooperatives in the state. Not surprisingly, the current issues were reflective of the kinds of problems the sector has experienced in the previous decade. Four basic issues were brought out in this study: sector organization, operations, membership and policy.

Starting with organization, nine respondents perceived the sector as poorly organized. More specifically, respondents identified the lack of both cooperation among individual cooperatives and a basic infrastructure of various technical and financial support services as key issues within this category. Another concern expressed by three cooperatives was the low public visibility and understanding of food cooperatives. The need for cooperatives coming together more for joint training, purchasing and other types of ventures were stressed.

Nine respondents also expressed varying concerns about the need for cooperatives to operate in a more efficient, competitive manner. These respondents generally were concerned that cooperatives need to find ways to improve operations in areas such as management, staffing, capitalization, and modernization of facilities and equipment. Four respondents felt cooperatives must find ways to deal with increasing competition as the major food chains venture into natural and organic products. Overall, respondents in this area felt that cooperatives still needed to place more emphasis on the business side of the cooperative.

Six cooperatives brought up membership related issues. Respondents saw the need to carry out more member education and outreach-type activities needed to maintain and increase participation, commitment and patronage. Three respondents identified, as a critical issue, problems with politicization of cooperative business operations by some of the membership.

Their concern, as one respondent put it, was that cooperatives are being held to an unreasonable standard of moral and political purity. In their view cooperatives are expected by some members to boycott or not carry certain products, or to take stands on divisive issues and still maintain economically viability. This can place a great stress on the cooperative--especially when their competitors are not placed under the same burden. These respondents felt that ways must be found to develop more reasonable and tolerant expectations about the kinds of standards cooperatives are held to.

In the final area five respondents focused on several policy issues. One respondent identified general business regulations and taxes that were perceived as burdensome. Two other respondents thought it important that the Department of Labor Ruling on volunteer discounts be clarified.<sup>5</sup> Another two respondents brought up the need for cooperatives to stay on top of regulations pertaining to organic products.

## Conclusions

This study shows that California cooperatives have weathered a rocky decade and are addressing some of the underlying causes of decline within the sector. Economically, the underlying causes of this decline were competition, inefficient management, outdated facilities and equipment, under-capitalization, internal conflict and excessive politicization. In response to these problems, cooperatives are working aggressively to upgrade the efficiency and competitiveness of their operations. The cooperatives in this study are also starting to exploit the competitive advantages of the cooperative structure and develop strategies to carve out a market niche. And in doing so, cooperatives are showing a more pragmatic approach to their operations, membership and activities.



Membership participation within the sector remains low. Cooperation among cooperatives is not strong and, with at least four of the cooperatives, quite limited. The emphasis on efficiency and competitiveness is necessary and is to be commended. But in the long run it cannot compensate for a weakly committed membership and a lack of organization within the sector. Cooperatives are social, as well as economic organizations, and ultimately their survival will be decided by their membership. Both individually and as a sector, cooperatives must come together to galvanize, educate and expand their membership base.

Along these same lines the new pragmatic, business-like orientation is long overdue. Indeed some of the inefficiencies cooperatives have suffered have been self-imposed by politically overzealous boards and membership factions. Yet an overemphasis on efficiency can be just as dangerous to cooperative survival as the political overemphasis was earlier. The challenge for the sector will be to strike a balance between the business and social dimensions of cooperative activities. Recent trends to more strategically integrate the issues the cooperative will become involved in with sales and membership development are promising. This may very well be the road cooperatives must travel if they are to effect an often delicate balance between efficiency and social values.

A final word is warranted regarding the possibility of larger, multi-store cooperative supermarkets reappearing in the near future. While a prediction of such occurrences is beyond the scope of this study, the findings of this study suggest that many food cooperatives are taking the necessary first steps that would be required in any expansion of an individual cooperative. The renewed emphasis on efficiency and competitiveness that cooperatives are showing is a necessary precondition for the re-emergence of large, multi-store operations such as the Berkeley co-op. California food cooperatives appear to have taken to heart the sobering experiences of the recent past. Assuming the trends uncovered in this study continue, carefully considered and planned expansions that are consistent with the market niche and competitive advantages of individual food cooperatives may very well lead to more multi-store cooperatives again.

To summarize, California food cooperatives are trying to become more efficient, competitive, pragmatic and, when it comes to political and social issues, strategic. While it is too early to tell how successful these new approaches will be, all fourteen cooperatives in this study, in sometimes different ways, are all trying to address these issues. If these cooperatives continue to be successful in this endeavor, they may show the way to rebuild and invigorate the cooperative and alternative food sectors.

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## Notes

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<sup>1</sup> Data from a survey conducted by the State of California Division of Consumer Services, Cooperative Development Program in October 1981.

<sup>2</sup> Evans, A. 1979 *Food Co-op Directory*. State of California Department of Consumer Affairs: Sacramento.

<sup>3</sup> The demise of the Berkeley Food Cooperative is covered in *What Happened to the Berkeley Co-op?: A Collection of Opinions*. ed. Fullerton, M. Davis: Center for Cooperatives, University of California at Davis.

<sup>4</sup> Some of the most frequently used, larger wholesalers were United Grocers, Mountain Peoples, Nature's Best, Feather River, Whole Food Express, Falcon Trading Company, and Sierra Natural.

<sup>5</sup> The U.S. Department of Labor has ruled that the members who do volunteer labor in return for a discount on purchases are in fact employees who must be paid minimum wages by the food cooperative they volunteer for.

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