Cooperative Grocer

FOR RETAILERS AND COOPERATORS NO. 36, SEPTEMBER-OCTOBER 1991

Moscow:

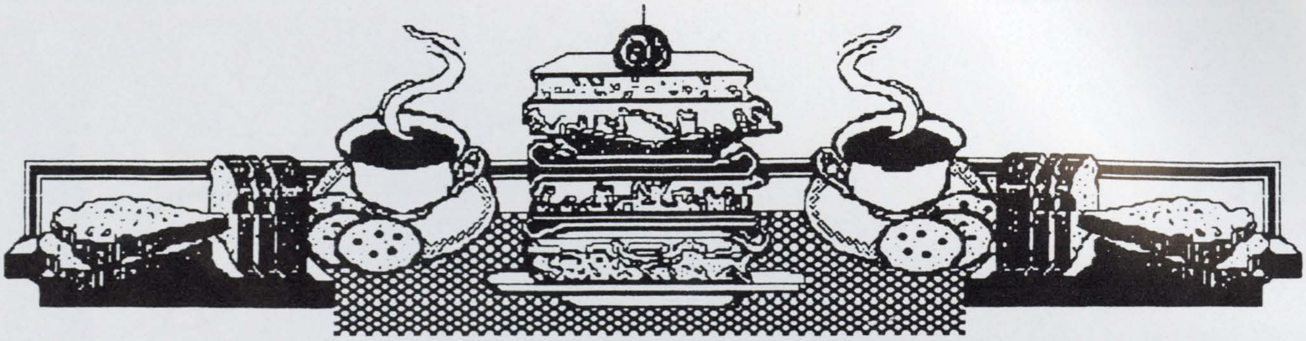
A Food Co-op Thrives in the Idaho Panhandle

Co-op Atlantic:

Integration Builds Canadian Co-ops

Membership Practices:

Fragmentation Yields Trouble With Numbers



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Advertising Index

Thread and Needle

By Dave Gutknecht

Although the materials in the present edition stand on their own, there is a thread or theme among them that I want to identify. The theme, most broadly, is the direction and fate of food co-ops and of a food co-op system. The thread flows from the statistical profile of co-ops' present performance presented in the previous edition's Retail Operations Survey and supplemented here, down to questions about our future practice and survival.

In the survey results, we see a co-op sector that is very healthy and growing. But we also see a sampling that is small and markedly non-uniform. The present edition's article on member capital and member sales, supplementing the Retail Operations Survey, also strongly highlights the limitations and problems resulting from extremely non-standardized accounting methods. Here, in discussing financial performance, is manifested the theme of systematic co-op methods and development. Balance sheets reveal to what degree assets are cooperatively owned and how those cooperative resources are being managed. If, because of our methods, we can't speak the same precise language about balance sheets, we are handicapped thereby.

The letter on member labor by Paul Cultrera as well as Fred Stapenhorst's discussion of the natural foods industry and our niche in it further reflect and develop the theme by identifying the components of survival and success as cooperatives. And the Co-op Atlantic article reminds us of the small market share of co-ops in most other places and highlights the crucial role in that system – and, I believe, in ours – played by the regional cooperative distributor.

All of these materials illustrate some aspect of the need to overcome the many problems arising from being independent single stores and independent single distributors with no uniform methods (there's another discussion taking place currently about co-op distributors that manifests some of the same broad questions about our direction, and I plan to contribute to that). Three years ago (in *CG* #18-19), I devoted quite a few pages to a review of the need for planned, system-wide co-op development. I still believe our survival and growth as cooperatives means that, in general, one merged co-op store is better than two (or more) separate co-op stores, and one merged co-op distributor is better than two (or more) separate co-op distributors. That having multiple sites within one co-op is better than multiple co-ops in multiple sites. And that retails when closely linked to their wholesaler are more likely to succeed than when not.

Of course, we must work from where are are today: small and separate in most places, increasingly integrated and gaining market share in a few others. Nearly everywhere food co-ops exist we are having some success. Those successes need to be appreciated and studied, and this publication continues to attempt that. But it also will promote paths to a more united future for co-ops. ❒

NETWORK NEWS

Sad News From North Farm Co-op

Amy Brownell Wood died on July 26, 1991, at the University Hospital in Madison, Wisconsin, after a courageous two year battle with cancer. She was born on March 19, 1948.

Amy joined the staff of North Farm Cooperative as a marketing assistant in 1986, played a major part in the production of North Farm publications, and worked with many cooperative wholesale buying club specialists throughout the country on projects like the Central States Buying Club Manual and CAPO.

Amy was a co-worker and friend. The wisdom and caring that she brought to North Farm and the cooperative movement will be missed.

A "Non-Working, Non-Worrying" Member

Dear *Cooperative Grocer*:

I'd like to respond to the article in the July-August issue, "Exemption Sought for Co-op Member Labor Programs." I have experienced member labor as both a member-laborer and as a co-op manager, and neither perspective has left me particularly fond of the concept.

While I found the role of a member-laborer to be one in which I often felt mis-utilized and somewhat of a burden to whomever was trying to manage the store at the time, my major nagative Pavlovian response to the ML word came during my more then ten years as a manager. During that period the co-op which I managed (Cape Ann Food Co-op, Gloucester, Massachusetts), evolved from a store with annual sales of $200,000 to one with $1.4 million, and its member labor program went from the no-choice stance (gotta be a member to shop, gotta work to be a member) to the pro-choice option (anyone can shop, work if you want).

As sales volume grew along with a commitment to customer service (minimal definition: any customer shopping at any time can expect to find the items they came for, properly displayed and priced correctly, and be checked out by a cashier who knows what he or she is doing and who will bag your groceries), and a reduction in the discount given for member labor was implemented, the store's dependence on member labor was greatly reduced, relegated mostly to out-of-store tasks.

In my experience, a high dependence on in-store member labor was connected with spotty service, inefficient labor, and managerial dizziness. Managers spent countless hours training and retraining members, filling in when members didn't show up, and basically were rarely able to focus on their responsibility to manage the store.

So much for my experience. Having been around co-ops for a long time, I realize that if there is anything to the theory of the "co-op difference," it is probably just that: they all are very different from one another. And though I would be willing to wager a month's member labor discount (if I had one) that much of what I have described is not an uncommon scenario in co-ops using member labor, I also recognize that there are examples of stores committed to using member labor that somehow find a way to integrate it into their operations without total breakdown occurring.

But what I want to respond to in the article are a number of contradictions that I find there. And let me say in fairness to the authors of the article, Shady DeJong and Kathleen Campbell from La Montanita Food Co-op in Albuquerque (the city I now call home, the co-op I currently am a member of, whose hand-that-feeds-mine I am not interested in biting) that these contradictions are not particular to their analysis, but are ones that I frequently find surrounding the discussion of member labor.

The article states, "The benefit of coreworker programs goes far beyond a discount. It creates a sense of community, education and belonging for member/owners and paid staff. The tragedy is that those most affected are students, low and middle income and the elderly." If, on the one hand, the benefit is something other than the discount, why does a reduction in the discount given usually result in a marked drop-off in participation in member labor programs? That is, if members really are looking for a sense of community in their co-ops, why do they start to disappear when the financial incentive is lowered, and/or why do co-ops traditionally have low turnouts at annual meetings and very low participation in elections even where a strong member labor program is in effect? In the case of La Montanita, the Labor Dept. wanted proof that members were earning at least a minimum wage. If they weren't, how does such a system benefit students, low and middle income and the elderly?

The article goes on to state that "The coreworker program was essential in aiding La Montanita's growth from an all volunteer storefront operation to a member owned multi-million dollar natural foods market. However, when we researched the financial aspect of our member labor program, we found that there was no financial benefit to the store to be gained by keeping it." Which would lead me to assume that in fact member laborers were earning what was in effect a relatively high wage. This would tend to give more credence to the it-benefits-limited-income-members theory, but it makes me wonder how giving discounts that do not financially benefit the store aids the co-op in its growth and development. You can choose to argue this one either way, but not both ways at once.

Finally, the article states, "If we value cooperatives, then we must demand laws that allow them to maintain their viability." While member labor may be an entrenched feature at many co-ops, I see little that can convince me that it is an essential element in the viability of co-ops. And as stated, from my personal experience I can judge that for many reasons it may contribute to non-viability. There are numerous cases of highly viable co-ops in which member labor is not a part of the equation.

Essentially, I believe that the discussion of the merits and drawbacks of member labor programs, while valuable in itself, tends to misplace the focus of our attention from what truly makes co-ops unique and viable. If what we want are organizations that promote a sense of ownership and community, then we should be looking at programs that foster that, such as workshops on the cooperative principles, fair and meaningful member investment, open and contested board elections, newsletters that inform the members of more than new ways to prepare zucchini, and a lowering of the barriers that keep most of the population out of our stores.

If what we want is a way to make the goods we sell affordable to those on limited incomes, then we can address this through special discount programs geared to those people, e.g., anyone on foods stamps, WIC, AFDC, etc., qualifies for a discount. You're probably not getting their business now, so what's to lose?

If we want well-run stores with satisfied customers and well-paid workers and managers who might think of sticking around long enough to build up a co-op gene pool, maybe we ought to wonder why Bread & Circus, Whole Foods Market, Alfalfa's (or co-ops such as Hanover, Hyde Park, or North Coast) haven't decided to go with a shopper or member labor program. I believe that we need to view member labor as one means that we can choose to use or lose, and not as our be-all-and-end-all. And maybe we owe the Labor Department a "thank you"?

Non-working, non-worrying,
Paul Cultrera
Albuquerque, New Mexico

FEATURE

A Cooperative in Moscow

By Bill London

In the late 1970s, there were six independent storefront food cooperatives in the Panhandle of northern Idaho. Now there's one: the Moscow Food Co-op.

Moscow (population 17,000) is generally considered to be one of Idaho's most progressive and cosmopolitan communities, perhaps due to the University of Idaho's presence on the west side of town. In addition, the town supports a strong arts-oriented culture and has become a haven for devotees of a variety of back-to-the-land and environmentalist movements.

Planted in the fertile ground of this market, the Moscow Food Co-op has grown to maturity in its 18 years. In August of 1989, the cooperative took the plunge for the fourth time, moving to another larger space. From 1,000 square feet of sales area in the former location, the cooperative moved to a vacant two-story building that had previously housed a Kentucky Fried Chicken franchise. The first floor alone provides 2,000 square feet of sales area. An adjacent parking lot includes 20 off-street spaces. Most of the upper floor is presently empty and is rented for classes, parties, and meetings. Last year, the cooperative opened the Upper Crust Bakery in the upstairs kitchen. The bakery is now breaking even and contemplating expansion into deli foods and more off-premise sales.

During 1990, sales increased by 43 percent over the previous year to more than $500,000, and the management expects strong growth – at least 20 percent – in 1991. The cooperative has 1,800 members, who account for about 80 percent of store sales.

Success factors

It's been a long (and often strange) trip from the cooperative's beginnings in 1973 to the security of 1991. The store began with a $500 loan from a community development council in nearby Lewiston and plenty of volunteer commitment. Originally called the Good Food Store, the business was renamed the Moscow Food Co-op when it moved to a larger space in the fall of 1975.

The cooperative began an on-going history of community service with the establishment of the Moscow Farmers' Market and several community gardens in the late 1970s. That tradition continues with free public concerts, information-sharing through newsletters and bulletin board, and support for a variety of community causes and events.

During the early 1980s, after years of spiralling growth, sales dipped with the nationwide recession and increasing competition from mainstream markets. The cooperative's management responded by becoming more businesslike, focusing on planning, structuring volunteer hours, and marketing to the larger community. By 1983, the declining trends in membership and sales had turned around, and both have been upward ever since.

When asked why the cooperative has fared so well, board of directors President Fritz Knoor cited five factors: first, a stable, committed and effective staff; second, an outreach attitude throughout the organization; third, the board functioning as a policy-making partner to the staff; fourth, the uniquely diverse community of Moscow; and fifth, a good facility.

"I can't say enough good things about our staff," Knorr noted. "They do an incredibly good job." He added, "They have, and we all try to have, an outreach attitude. We try hard to bring people in. We want to

Bill London moved to Moscow in 1984; he is editor of the Moscow Food Co-op newsletter (MFC: 310 W. 3rd, Moscow, ID 83843; 208 / 882-8537).

Moscow Food Co-op

Moscow, Idaho

Sales area:	2,000 sq. ft.
Sales (1990):	$519,018
Gross margin	28%
Payroll expense:	17%
Percent of sales to members:	80%
Members:	1800
Member requirement:	$100 investment

have our store inviting and presentable and our staff friendly and helpful. And I think we have succeeded at that. Potential shoppers are scared away if shopping is considered a moral issue and customers' purchases are judged. We seem to have only the nicest people working here. They put our customers at ease."

In addition, the store's location on a major traffic artery in the downtown area is a very visible one. The store is always clean and is painted white inside to be bright and cheery.

A modest advertising budget is primarily focused on the store's newsletter. Eight hundred newsletters are printed monthly. About one hundred are distributed free at a handful of local businesses, including the movie theatre, cafes, and bookstores. The rest are given out at the store. The newsletter carries about 30 advertisements from a wide variety of businesses and individuals; ad revenue covers most publication costs.

The board of directors functions as a policy-making partner to the staff, giving the members the comforting feeling that someone (and even better, someone that they can talk to) is in charge. Knorr also said that the board has been an enjoyable group. "We have diverse perspectives and may disagree, but we do work under the consensus team approach, and it has worked for us so far," he explained.

The seven board members volunteer their time at the position, including a staff liaison member elected by the staff. The board meets monthly, and also has an annual retreat, where they focus on planning.

The fourth reason Knorr cited for the success of the cooperative is the unique nature of the Moscow community. With two major universities within an eight mile radius, the number of foreign students is significant. These students, their families, and others who want to use international foods often shop at the cooperative for foods they can't find elsewhere. In addition, the cooperative benefits from a committed core membership who help as volunteers. About 40 people volunteer for in-store work and another 20 volunteer for the newsletter, the board and other functions outside the store.

"We've found that we need both the casual shoppers and the committed member shoppers," Knorr explained. "We want a customer base that is both broad and deep. The casual shoppers help us with their money and the committed shoppers make it possible for us to survive on the cheap. When we last moved, for example, the stock and equipment was moved by volunteers at virtually no cost to the cooperative."

The final element of the cooperative's success, according to Knorr, is the functional building they now occupy. "It's a great building, and we pay a lot of rent for it, but it is worth it."

When the cooperative's general manager, Mary Jo Knowles, was asked to expand upon Knorr's comments, she first mentioned their computer system. An in-house bookkeeper and volunteers use the computer regularly for easy updating of the cooperative's membership list as well as its basic accounting. Membership cards, food labels for products bagged at the store, a staff bulletin board, and word processing for correspondence are some of the computer's additional functions. In the future, she expects the staff will be able to do all their ordering on the computer.

That's only one of the plans for the future. The upstairs meeting space may soon be converted to sales area. A membership survey in an issue of the newsletter will allow the members to decide, but Knowles' plan includes moving all the mercantile items (clothing, cards, housewares) upstairs to allow for expansion of other product lines downstairs. In addition, the cooperative is considering establishing several small offices upstairs as an "alternative business incubator," providing new compatible enterprises with inexpensive startup space. Also, the bakery is planning expansion as a small deli with table service, offering coffee, juice, sandwiches, and salads – plus prepared sauces and meals for take-out use.

Staffing the store

The general manager is responsible for hiring/firing, oversight, and day-to-day management. The next management level is filled by the grocery manager, the herb and produce manager, and the bakery manager, in addition to the assistant baker, the head janitor, and the cashier coordinator. Eight others, for a total of fifteen employees, have been hired as janitors, bakers, cashiers, and stockers.

"One reason the staff works so well is that the board has committed to paying us well," Knowles said. "We recently got a benefits package that includes health insurance, vacation, and sick leave."

Staff start working at $4.16 per hour; incremental raises lift that to $5.20 after one year. Non-management staff wages can attain a maximum of $6.32 per hour. Management level workers are paid about 20 to 40 percent more. "We are now getting raises of about 5 percent every six months or so, whenever I can convince the board that we can afford it," Knowles said.

"Our staff has been dedicated and very hardworking, but I really think that one of the reasons we've been so successful is that we all stock shelves, sweep sidewalks, and meet our shoppers – me and the other managers included," she continued. "There is not a real pyramid structure – we all get out there and work."

Member owners

Shifting gears from store staff responsibilities to membership equity, Knowles described the cooperative's membership system. To join, a member pays $7 dollars annually. When the total membership payment equals $100, a lifetime membership is earned and no more payments are due. Alternately, the entire $100 may be paid at any time. The equity funds are kept as a separate line on the balance sheet, and the funds are often used for capital improvements. The equity funds generated from memberships are refundable upon the dissolution of the cooperative.

The cooperative does not give annual dividends to its members. Instead, there is a big sale at the end of the year (just in time to lower the inventory for the annual count). Members are allowed to buy any item in stock for fifteen percent off. Normally, members pay shelf price, while non-members receive an 8 percent surcharge.

"What we have here is a comfortable place, a place where people like to work and shop," Knowles concluded. "I think our cooperative has a right-brain, emotional kind of structure People come in here and cry – we have a crying couch in the back room. It is a supportive and warm environment."

Note: After the writing and before the publication of this article, Mary Jo Knowles retired from her manager position to return to college. The co-op chose the long-time manager of whatever needed to be done, Kenna Eaton, to replace her. The transition has been amiable, and all is well at the Moscow Food Co-op. ❒

Capital + Sales ÷ X = ??

Supplement: Retail Cooperative Operations Survey

By Scott Beers and Dave Gutknecht

In commenting on the Retail Cooperative Operations Survey in the previous edition of *CG*, we promised a more detailed look at member sales, discounts, and investments. We planned to examine co-ops' membership practices and their effects on both the income statement and balance sheet of the cooperative. In conducting this analysis, we discovered one surprising result – our hypothesis was invalid – and some less surprising but troubling patterns in member sales.

Assumptions

A model cooperative has business operations that are profitable, thus annually increasing the member capital accounts and (if not distributed) the retained earnings portion of balance sheet capital. A model co-op also has a member capitalization plan that protects the value of their investment.

By these means, the members (rather than creditors and nonmembers) finance a growing portion of the assets; the level of cooperatively financed resources increases.

But an analysis of co-op membership practices, and any attempt to create standards or models, is limited by co-ops' extreme diversity in operating practices, which includes non-standardized formats for financial reporting.

Hypothesis crumbles

We approached the analysis expecting to find a correlation between member practices/investments and the profitable performance of the cooperative. No such correlation was found. Another expected result was that balance sheets would be much stronger for co-ops with strong membership and investment programs, both through member share capital and retained earnings. This did not prove true either.

Our analysis was hindered by the limited number of usable responses (72) to the survey, and by the varied reporting formats used. The quality of the balance sheet responses was somewhat distressing and further limited the available database. Definitions also are problematic. For example, some co-ops rebate patronage dividends to members, who joined with a small investment, by crediting the members' capital accounts up to a certain level. Is this appropriately a form of share capital or a form of retained earnings? Most co-ops would classify it as share capital, though it could arguably go either way for analytic purposes.

There are stores with many members and some with very few members. Some are profitable and some are not. Results in the middle range were also mixed. The number of members and the percentage of sales to members are not determinants of profitability. There are stores with relatively large capitalization requirements and some with small. There are profitable and non-profitable stores among both sets. In the middle range of responses to capitalization, we also found mixed results. Capitalization per member is not a determinant of profitability.

The two major sources of capitalization in co-ops are share capital and retained earnings. We expected to find strong share capital corresponding to strong retained earnings, and an overall strong equity picture. Wrong! Across size lines and over the spectrum of profitability, there is no correlation. The exemplary co-ops have strong capitalization plans and solid retained earnings. Others are doing well in one of the two areas, while a small number lack both adequate capitalization and retained earnings. In most of the mixed cases, strong capitalization offset poor retained earnings, or vice versa.

Our analysis begged the question of what is adequate capitalization. Perhaps the best indicators are the asset productivity ratios (**Sales to Total Assets and Sales to Fixed Assets**), where co-ops continue to push themselves very hard. They are "too" productive, an indication that asset levels are too small. Combined with relatively good **Debt to Equity** ratios, one might conclude that overall equity levels are too small but almost certainly can be used to leverage additional assets. With our limited sampling of responses, we cannot presume to answer this definitively; each store

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Readers interested in a summary of the statistical analysis used for this article may contact CG. Words in **bold** *refer to statistics found in the 1990 Retail Cooperative Operations Survey, published in CG #35, July-August 1991.*

needs to examine this, since circumstances and plans vary greatly.

We have discussed what we didn't find out. What new information was gained through further analysis?

Average sales per member

There are potential problems in the sales per member database which we'll discuss first. Responses ranged from $24 per member per year to $1993 per member per year. *Progressive Grocer* reports that weekly per capita purchases of food at home average $21/week ($1,092/year) nationally. This makes the low end responses somewhat dubious, leading us to conclude that a number of the co-ops surveyed have (and are counting) members who are no longer actively patronizing the store. This necessarily lowers the **Sales per Member.**

Annual Sales Per Member

store sales:	under $500,000	$500,000 - $1,300,000	over $1,300,000	ALL
High	$651	1,272	1,993	1,993
Upper Quartile	488	870	1,083	870
Median	334	563	868	563
Lower Quartile	181	385	535	334
Low	86	24	410	24

It is clear that as store size increases, members are doing more of their shopping at the co-op. There is every reason to believe that this trend is true for non-members as well, and that as store size increases so will sales per customer. The down side of this information is that it appears that most co-ops are not capturing a strong majority of their customers' food dollars. If we accept that members are likely to be among the most loyal co-op customers, then finding an overall median that is 52 percent of average per capita grocery purchases is somewhat troubling. Considering that $1,092 is per capita and not per household, overall co-op performance in meeting the food shopping needs of their customers seems anemic.

Certainly some will argue that co-op customers are more frugal, or use less processed food resulting in lower food costs. There is also some question (noted above) about the veracity of some of the results. Still, the differences seem compelling and are grounds for asking to what degree each co-op – and the co-op network as a whole – are meeting the needs of the members and the larger community. How can the co-ops' role be expanded?

Sales per paid labor hour

We asked co-ops to tell us the number of full time equivalents (FTE) working in their store. For purposes of this survey, we provided 30 hours as the definition of full time. From this we derived the **Sales Per Person Hour.**

Once again we encountered some aberrations in the results. Perhaps some respondents only included those who actually work full-time, and didn't account for the cumulative hours of part-time personnel. Another possiblity is that management or administrative labor wasn't counted since it wasn't paid hourly. These seem to have skewed the numbers and made them unreasonably high. Despite these qualifications, this is an area which is critical to good management, so we are presenting the results here anyway:

Sales Per Paid Labor Hour

store size:	under $500,000	$500,000-$1,300,000	over $1,300,000	ALL
Upper quartile	$92.64	96.20	94.62	92.64
Median	56.41	74.38	69.58	67.03
Lower quartile	43.30	63.71	52.46	52.46
Mean	63.68	73.59	83.13	73.93

Sales per person hour of $92 is considered outstanding by grocery industry standards, and is usually found only in large supermarkets. A more reasonable expectation for most of the stores in our survey would be from $35 (very poor) to $70 (very good). Obviously, as a co-op relies more on service departments, one would expect the productivity to be lower, as shows up in our **Labor Percent of Sales** for stores with and without deli sections (highlighted in the previous survey narrative).

Annual fees

Twenty (28 percent) of the co-ops in our survey utilize an annual fee which is counted as part of **Other Income** in our survey. We found that these stores tend to rely on the fees in order to be profitable, which potentially camouflages a weak operation. Of the twenty that have fees, 70 percent of them derive more than half their net income therefrom, and 50 percent of them derive more than 95 percent of their net income from fees! Only one of the stores with an annual fee reported it contributing less than 25 percent of their annual net.

Interestingly, co-ops with annual fees tend to conduct more business with members than was found in the survey population as a whole:

Percent of Sales to Members

	WITH FEE	ALL STORES
Upper quartile	90%	80%
Median	75%	57%
Lower quartile	55%	33%

For a store which is doing a large majority of its business with members, perhaps it is okay to rely on the fee to produce net income. However, where the percentage of sales to members is lower, it would appear that members, through their fees, are subsidizing the store for nonmembers. Do we want to see members creating "profit" in this way? Will the co-op's future capital needs be met? What happens to the value of the members' investments? Wouldn't it be preferable to see operations generate sufficient profit for the store, so that the fee income could be used as a capital fund? ❐

Building an Integrated System:

Co-op Atlantic's Retail Services are Key to Success

By Dave Gutknecht

Amidst the sparse population and the depressed economy of Atlantic Canada, a network of independent but close-knit cooperative food stores and their co-op distributor are thriving. This area also is the historic home of the Antigonish cooperative movement famous in Canadian and cooperative history, and is heir to earlier cooperative enterprise development. Within the large region bounded by Quebec, seawater, and the U.S., Co-op Atlantic is the seventh largest business.

Originating over sixty years ago in the field of agriculture, Co-op Atlantic now is a wholesaler of groceries and a diverse range of other agricultural and non-food goods, with groceries accounting for nearly 90 percent of gross sales. Only 25 years ago sales were $17 million; by last year, Co-op Atlantic had grown to over $400 million in sales and some 700 employees. Their market share in the region's grocery sales is nearly 20 percent, and is much higher in some areas.

Co-op Atlantic is owned by 175 co-ops and sells only to its members, most of which are small or medium size grocery stores. For their patronage and an equity contribution equal to roughly 7 percent of their annual purchases from Co-op Atlantic, retail members receive a set of services unequaled by any other consumer cooperative distributor in North America. And to a statement of operating principles based on the six internationally recognized co-op principles, Co-op Atlantic adds a seventh committing the organization to building resources for the development of new member cooperatives.

U.S. co-op managers and others attending this year's Consumer Cooperative Management Association conference in Vermont enjoyed the participation of Co-op Atlantic general manager Eric Dean and board president Sid Pobihuschy. And co-op Atlantic has appeared in the pages of *Cooperative Grocer* on two earlier occasions. Most relevent to the present article was the brief mention of Co-op Atlantic as a model for strengthened retail-wholesale co-op relationships – cited at the conclusion of a long discussion of the fate of U.S. food cooperatives, with special reference to that relationship ("Development Directions: Cooperation Among Cooperatives," *CG* #19, Oct.-Nov. 1988).

In addition to conventional distributor services Co-op Atlantic has a strong retail training program for managers, covering all aspects of store operations, and for employees, covering orientation, specific operational areas, and member services. Extensive resources have been devoted to development of these retail programs; describing them in full would take more space than is available here. Of particular interest, and the focus of the remainder of this article, is a management agreement between Co-op Atlantic and about 75 of its member co-ops, a program regarded as a very strong success and one that is key to the survival and growth of both levels of the cooperative system.

The agreement, which extends for one year or more and is renewable, is voluntary on the part of the local cooperative board of directors. The member cooperative agrees to appoint Co-op Atlantic to be manager of the store. One of Co-op Atlantic's area managers, each responsible for from ten to twelve stores, then selects a manager, in consultation with the local board but drawing on a system-wide management pool. The member co-op pays for the manager's salary and benefits (the manager is covered by the Co-op Atlantic benefits package) and, after the first year, for other costs of the management agreement.

What the local co-op receives is access to management and management resources that are much deeper and stronger than they could provide by themselves. What Co-op Atlantic derives is a much stronger and committed membership and patronage base. Not all of the costs incurred by the retail services department for the management agreement program are immediately recovered, but the Co-op Atlantic board of directors does require that at least 50 percent of management agreement costs be recovered by agreement revenues.

Below are excerpts from the Co-op Atlantic management agreement:

PREAMBLE:

The overall objective of this Agreement is based on the desire of both the Member Co-operative and Co-op Atlantic to attain strength and uniformity in the overall objective of supplying goods and services to the ultimate user and/or the processing and/or marketing of his product. The Agreement is designed to strengthen the management function of the Member Co-operative without removing the authority of its Board of Directors, and to co-ordinate, within management authority, activities with other member co-operatives and Co-op Atlantic.

It is recognized by the two contracting parties that the work to be undertaken, as covered by this written Agreement, requires good will on the part of each for its success, and they mutually agree to do their utmost to work out its conditions with full support, tolerance and good will.

RESPONSIBILITIES:

1. The Member Co-operative hereby appoints Co-op Atlantic to be the manager of the Member Co-operative. The manager of Co-op Atlantic's Retail Development Division shall name the district manager and area manager. The area manager shall name the resident manager in consultation with the Member Co-operative. The resident manaer is to be retained on the payroll of Co-op Atlantic, the total cost therefore to be charged to the Member Co-operative.
2. The area manager, or by delegated authority, the resident manager . . .
   c. has full authority for the hiring and dismissal of staff . . .
   e. submits to the Board of Directors of the Member Co-operative a monthly report of the business operation and other information that may be required or deemed advisable.
3. It is agreed that the Member Co-operative, as a member of Co-op Atlantic, shall obtain all supplies through Co-op Atlantic and shall support all Co-op Atlantic retailing programs. Exceptions shall be subject to the approval of the area manager. . . .
7. In matters of dispute . . . a sincere attempt shall be made to arrive at a satisfactory settlement or understanding by the representatives of the contracting parties. Failing agreement from that method, the dispute is to be submitted to a committee of arbitration, such committee to consist of an appointee of the Board of the Member Co-operative, an appointee of the Board of Directors of Co-op Atlantic, and the Inspector of Co-operative Associations for the particular province, or his appointee. The decision of the majority of this committee is to be accepted by both contracting parties.

9. . . . Cancellation of this Agreement requires six months notice by either party, but may be effected over shorter or longer period as agreed to by both parties.

10. Further, it is understood and agreed, that while this Management Agreement is in effect, the general terms may be changed, if such changes are agreed upon by both contracting parties.

FEE STRUCTURE

1. $1,679 annually on a member co-operative's first $100,000 of sales.
2. An additional fee of $138 for each additional $100,000 of sales.
3. The maximum fee charged to any organization will not exceed $16,440 per year. . .

The fee structure for service may be reviewed annually and amended . . .

RESPONSIBILITIES OF CO-OP ATLANTIC

1. Operate a clean, competitive, efficient and viable member co-operative.
2. Attain satisfactory growth in the services provided by the member co-operative.
3. Submit a monthly business report in such detail as may be required by the Board of Directors of the member co-operative.
4. Carry out policies as established by the Board of Directors of the member co-operative.
5. Cause to be carried out, as may be required from time to time, audit or other security checks to safeguard the assets of the member co-operative.
6. Obtain Board approval before the addition or deletion of services at the member co-operative.
7. Establish salaries of staff within the salary ranges approved by the Board of the member co-operative.
8. Maintain an adequate accounting system, with due regard for internal controls.
9. Negotiate collective agreements within the guidelines established by the Board of the member co-operative.
10. Review, appraise, and if found advisable, adopt policy changes suggested from time to time by Co-op Atlantic.
11. Obtain permission before purchasing, leasing or selling capital assets in excess of an amount to be determined on a yearly basis through resolution of the Board of the member cooperative.
12. Implement retail systems manual policies in order to achieve standardization throughout the Atlantic area.
13. Carry out any other function the Board may delegate to management.

RESPONSIBILITIES OF THE MEMBER CO-OPERATIVE BOARD OF DIRECTORS

. . .

4. Establish operating policies. . . .
6. Maintain an active membership . . .
7. Follow up on members' resolutions to ensure action is taken.
8. Plan annual meeting and prepare factual reports for membership. . . .
12. Hire and/or dismiss management. (Management, in this case, being Co-op Atlantic.)
13. Analyze and review manager's monthly report. . . .
17. Approve salary for the resident manager, on a yearly basis, in consultation with the Area Manager.
18. Approve salary ranges for staff when there is no collective agreement.
19. Provide guidelines to management for negotiating a collective agreement. . . .
23. Recommend level and method for patronage refunds to the membership. ❐

Creating a Co-op Niche

A Look at the Grocery and Natural Foods Industries

By Fred Stapenhorst

Who are we marketing to? Who is our primary competition? What is the demographic profile of the population that is inclined to shop in our stores? What is our buying power in relation to other stores? These questions are important if we expect to operate a successful cooperative business. How should we determine what prices to charge, what products to offer, or what services to offer?

Finding the answers to most of these questions requires some knowledge about the grocery industry and knowing where we fit in that industry. A cursory knowledge of our industry is vital if a co-op's leadership is going to provide realistic direction and support for its management and membership. This knowledge helps us to know what's possible in the market place, where to direct resources, and what our limitations and opportunities are.

The objective of this article is to provide directors with an overview of the grocery industry and a sense of where their co-op fits in that industry, as well as some suggestions on how to apply that knowledge to their own situation.

Grocery gross

The grocery industry is huge: annual retail sales are nearly $350 billion. On the consumer end, weekly per capita expenditure nationally is approximately $30.

Approximately 12 percent of all disposable income is spent in grocery stores. Only a few years ago this figure was closer to 16 percent. The rather dramatic decline is a reflection of many factors, of which the two-income household is probably the most significant.

This article is an updated version of one originally published in early 1988 (CG #16, *April-May 1988).*

Fred Stapenhorst is general manager at Kokua Country Foods, a cooperative in Honolulu, Hawaii. He has over eighteen years of experience as a manager and consultant in the natural foods industry, particularly with co-ops.

The board of directors column is produced with assistance from Karen Zimbelman, an independent trainer and consultant providing specialized services to co-ops throughout North America (P.O. Box 563; Arcata, CA 9521; 707/445-4849).

The immense size of the grocery industry lends itself to economies of scale. Buying in carload quantities, investing heavily in mechanized equipment and data processing facilities, and highly discounted promotional programs to gain market share, all become economically attractive in a business where the typical supermarket has annual sales of $10-15 million and wholesalers with less than $500 million in annual sales are considered small. The trend, particularly since World War II, has been towards consolidation. Fifty years ago the chain store was almost unheard of; today over 50 percent of all retail grocery sales are handled by chain stores. The *independent* grocery store is not threatened with extinction, but it is not likely to expand as a form of grocery retailing.

At the wholesale level, the consolidation is even more intense. Today, fewer than 50 companies dominate the wholesale activity nationally.

Natural and non-natural

What about the natural foods industry? As an industry, natural foods is a relative newcomer on the grocery industry scene. Although "health foods" have been distributed since the 1920s, the industry did not really begin to recognize itself as such until the 1970s, when numerous retail formats, distributors and manufacturers were launched. Co-ops played an important part in these pioneering efforts – particularly at the retail level. Today the industry is beginning to mature. Recognizable retail formats emerge more routinely, national brands have gained a modest level of consumer recognition, and wholesalers and manufacturers have rationalized the distribution channels.

At present, natural foods wholesalers seem to be taking the lead in terms of sophistication and maturation, spurred on by the same economic factors as the rest of the grocery industry: size and consolidation. Warehouse exceeding 100,000 square feet are becoming more common, carload buying is now almost a necessity, and retail services such as electronic ordering, custom pricing, product movement, and gross profit reports, customized retail promotional programs, and the like, are becoming the norm. Acquisitions are occurring more frequently.

Mass marketers, supers, independents

At the retail level, the pattern is a little different. The industry seems to be made up of three distinct segments: mass marketers, natural food supermarkets (usually with multiple stores), and smaller independent natural foods and health food stores. Each of these segments controls a substantial portion of over $4 billion in annual sales.

The **mass marketers** include regional and national conventional supermarket chains and a few national drug store chains, primarily selling recognizable national brands – Hain, Nature's Gate, Knudsen. Their interest in natural foods retailing is primarily motivated by the high profit margins typically associated with the natural foods business and their desire to offer a product line that helps distinguish them from their competitors.

A few chains have made major commitments to natural foods retailing, often dedicating 2-3,000 square feet of their stores to prominent displays of packaged natural foods, bulk foods, frozen and refrigerated natural foods, and frequently organic produce. Raley's in California and Fred Meyers in the Northwes are notable examples.

In the last ten years or so, the **natural foods supermarket** has emerged as a major factor in natural foods retailing. Patterned after the traditional grocery retailer, these stores offer a complete selection of natural foods, including perishables (produce, fish, meat and poultry, deli), in an upscale supermarket strategy. Stores of this nature usually have 8-20,000 square feet of total area and are often part of a small chain of stores. Annual sales are typically $3-10 million per store. Management techniques are increasingly patterned after those of their counterparts in the conventional grocery industry. Bread & Circus in Boston, Mrs. Goooch's in Los Angeles, and Puget Consumers Cooperative in Seattle are notable examples.

A completely new type of supermarket chain will be launched in 1991 with the advent of Fresh Fields supermarkets in the mid-Atlantic states. Fresh Fields will try to meet the growing demand of conventional shoppers for fresh and "good-for-you" foods by offering these types of products in a mainstream supermarket setting. If successful, Fresh Fields will hope to avoid the "health nut/high priced" image that continues to characterize the natural foods industry in the minds of most supermarket shoppers.

The **independent** natural foods store continues to have a strong presence in the industry. These stores are usually small, under $3 million in annual sales, with 1-6,000 square feet of selling area. Such stores are usually successful as a result of:

- being located in a market area that is demographically suited to the product offering and that lacks

other serious natural foods competition; and
- good management.

Other ingredients for success include:
- emphasis on quality products;
- good perishables, especially produce;
- a unique product mix;
- excellent service;
- marketing techniques that inform the consumer about the merits of natural food products; and
- a friendly, relaxed atmosphere and store decor.

Although important, price and aggressive merchandising techniques are often secondary in the formula for success.

Today most retail food co-ops fit into the category of independent natural foods retailers,and many of them are thriving. New Pioneer in Iowa, Arcata Co-op in California, Food Front in Oregon, and Cape Ann Food Co-op in Massachusetts are good examples, and there are numerous others.

Understanding your market

Success for retail food co-ops is usually a result of the same set of perceptions and techniques as those employed by their successful counterparts in the private sector. Understanding your market and your niche in it is essential no matter what type of store you have. The recommendations here will focus on natural foods co-ops:

• *Recognize your place in the grocery industry, particularly the natural foods industry.* Specialty stores are seeing somewhat of a renaissance in grocery retailing – to some degree the entire industry is fragmenting. You have significant potential for success so long as you exploit your specialty: natural foods retailing in a small, friendly environment.

• *Target that slice of the population that is inclined to patronize your type of store.* The profile of the natural foods shopper is fairly distinguishable. Demographic studies of the natural foods shopper show one consistent characteristic: level of education. Secondary characteristics, although they're becoming blurred as the years go by, include income level, age and family size. Natural foods shoppers tend to group in upper and lower income levels, less in middle income brackets; in younger and older age levels, again less in middle age brackets; and to include a disproportionate number of single and childless shoppers. In sum, recognize demographically who your most likely shoppers really are and go after them. *Rather than trying to fit the market to you* – a common mistake of co-op marketing strategies – *fit yourself to the market.*

• *Clearly understand what your marketing should emphasize – what your shoppers really want.* Attention to quality, good perishables, a unique product mix, excellent service, the availability of information and education about the merits of your products, and a friendly, relaxed physical environment are largely what your shoppers are seeking.

• *Understand who your primary competitors really are.* Compete at your own level – offer better product selection, friendlier service, fresher produce, more information and education (and not just in printed form), and a more attractive physical environment than your neighborhood independent natural foods store.

Price is usually a secondary consideration. (Most food co-ops are already priced well below their competitors on natural foods products – often unnecessarily so.) The board of directors may want to request the results of management's routine price comparisons. From these results the board can stay abreast of the co-op's relative price position.

• *Recognize the value and role of good management.* Find the best manager and staff you can, pay them well, and let them do their jobs. In consulting with over forty privately and cooperatively owned independent natural foods stores, I have yet to find a success that doesn't have good management.

If the board expects to retain good management, competitive compensation is a must. Assistance in this area can be gained by a review of local compensation surveys (usually available from a variety of public and semi-public agencies), and by questioning other successful natural foods stores about their management's earnings. Management consultants usually have considerable information on earnings in the industry.

• *Recognize the key operating and financial indicators for your type of store format.* Check industry averages for gross margin, sales per square foot, linear feet of display areas, labor costs, occupancy costs, productivity measures, etc. The *Natural Foods Merchandiser* publishes an annual survey that summarizes many of these key indicators by store size and format. *Cooperative Grocer* conducts a similar survey for food co-ops only (most recently in *CG* #35, July-August 1991). Study and understand these key indicators. Don't fight them – they represent the real life experience of thousands of stores and define the operating and financial parameters of your type of store.

Finally, once you've done these things, capitalize on the *one* important difference in what you're trying to do – you're a cooperative! You're owned and controlled differently. Your mere existence is motivated by service to the members and the welfare of your community. You believe that cooperative ownership is superior to private ownership. Tell people about it – it's the marketing tool that makes you unique. And best of all, it comes from the heart! You will fail if you try to sell mainly ideology, but if your marketing deeds are equal to your ideals, who wouldn't want to shop at the co-op? ❒

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1990 Retail Operations Survey

Published in the July-August 1991 special edition of *Cooperative Grocer*, this is a vital resource for every food co-op! Be sure directors, managers, staff, and others have their own copy. **Now available for only $2.00 each.** And if you haven't yet ordered bulk subscriptions of *Cooperative Grocer* for your organization, the survey edition is an excellent place to start! **Five or more subscriptions to the same address are available for only $15.00 each.**

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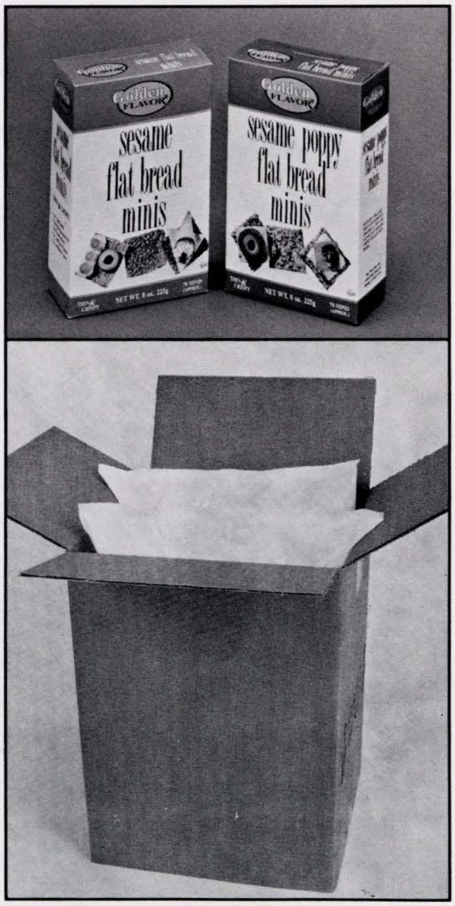

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