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Exploring Cooperatives:

Economic Democracy and Community Development in Pennsylvania and Wisconsin



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Economic Democracy and Community Development
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On June 13, 2012, two hundred people participated in a successful one-day conference at Drexel University that explored what the urban areas of Philadelphia and Madison, and rural areas in Pennsylvania and Wisconsin, can learn from one another about building cooperatives and cooperative networks, and what cooperatives contribute to cities, regions, and states.

Case studies

The conference included breakout sessions and workshops that examined specific cooperatives in detail, comparing those in Pennsylvania (mostly from Philadelphia) and those in Wisconsin (mostly from Madison). This publication is a compilation of 20 case studies presented at the conference.



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introduction



Comparing Cooperatives in Wisconsin and Pennsylvania

Craig Borowiak, Richardson Dilworth, and Anne Reynolds

This publication examines cooperatives in Wisconsin and Pennsylvania, with a specific focus on Madison and Philadelphia. Although the cooperatives are in two very different cities in two very different states, the case studies demonstrate what they might learn from one another, specifically with regard to cooperative enterprise and development.

Our study was initiated by officials in the Philadelphia Commerce Department's Office of Neighborhood Economic Development, who were interested in exploring the potential role of cooperatives as engines of economic development and growth, particularly in neighborhoods underserved by both employment and retail opportunities. Their interest stemmed from conversations between commerce officials and several new and longstanding leaders in the city's cooperative movement—especially those who had played active roles in the governance of Weavers Way Co-op (see chapter 5)—to form a sort of local trade association, which has now taken the form of the Philadelphia Area Cooperative Alliance (PACA). These conversations were given additional impetus by the fact that the United Nations had declared 2012 the International Year of Cooperatives as a way “to raise public awareness of the invaluable contributions of cooperative enterprises to poverty reduction, employment generation, and social integration.”¹ The commerce officials and cooperative movement leaders sought to build on the momentum and to use 2012 as an occasion to launch a series of public events around cooperative development.

In looking for academic partners, commerce officials and PACA members turned to Drexel University's Center for Public Policy, which has a particular focus on urban

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economic development, and Craig Borowiak from Haverford College, a political scientist who had just begun a project of mapping cooperatives in the Philadelphia region (beginning on page 13). Recognizing the vibrancy of Madison's cooperative culture, as well as the potential of partnering with the University of Wisconsin Center for Cooperatives, of which Anne Reynolds is Executive Director, we crafted a plan for a set of case studies of individual cooperatives in each city, an accompanying conference (held at Drexel on June 13, 2012), and this publication, which you are now reading.

Our ultimate goal was to develop more specific questions regarding the elements within cooperatives that enable them to succeed, the elements within cities that might make them fertile ground for cooperative development, and the elements of cooperatives that contribute to socioeconomic development.

An important part of the project was deciding on which types of cooperatives to examine, knowing that we did not have the time, space, or resources to examine every cooperative in either city. We chose to examine grocery, agricultural, worker, and energy cooperatives, as well as credit unions. In some instances we examined multiple cases of the same cooperative type in each city, such as we did with grocery cooperatives. In other instances we restricted our examination to one case per city, such as we did with credit unions and agricultural cooperatives.

Overall, we have included 20 case studies—nine from Wisconsin and eleven from Pennsylvania. The cooperatives we chose to examine are not meant to be representative of all cooperatives in either region. Our capacity to generalize from them is consequently inherently limited. The comparisons we have drawn, and which we discuss in this introductory chapter, are thus meant

only to indicate some potential patterns of cooperative development and to suggest directions for further research. In order to make better comparisons between the case studies, we asked the case study authors to follow a standard template.

Left out of our collective study were, among other things, mutual organizations; housing cooperatives; artist cooperatives; volunteer collectives; and educational cooperatives, such as Project Learn, a K–8 school in Philadelphia. Although we were not able to include these types of cooperatives in this publication, we certainly find them worthy of future study.

Although this publication focuses primarily on urban cooperatives, we also thought it was important to include cooperatives from more rural and agricultural areas in Pennsylvania and Wisconsin as a basis for comparison. This is why we included Riverland Energy, a rural electricity cooperative in Wisconsin, for comparison to the urban The Energy Co-op in Philadelphia, and our inclusion of two agricultural cooperatives, Organic Valley and Lancaster Farm Fresh Cooperative (LFFC). Both Organic Valley and LFFC are farmer-owned cooperatives, selling dairy and other agricultural products to consumers.

This chapter is meant primarily to introduce each of the cooperatives for which we have provided case studies in this publication and to begin to speculate about what we can learn by comparing cooperatives across economic sectors and across cities and states. In those sectors for which we have more case studies, namely in food and worker cooperatives, we can provide relatively more insights. For producer and energy cooperatives and credit unions, the opportunities for comparisons are more limited. In both cases, the point is to begin a conversation rather than provide definitive answers. Prior to our comments regarding the comparison of cooperatives across cities and states, we provide a brief introduction to cooperatives in general and to our regions in order to provide some context for our case studies.

Conceiving cooperatives

As we will see, cooperatives come in many forms and sizes and they operate in many different industries. Nonetheless, what all cooperatives ostensibly have in common, and what sets them apart from other forms of enterprise, is that they are owned and democratically controlled by their members. According to the International Co-operative Alliance (ICA), a cooperative is “an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned

and democratically-controlled enterprise.” The ICA continues: “Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity.”² Such characterizations define cooperatives both in terms of their organizational structure—member ownership and democratic control—and in terms of a set of values that cooperatives are thought to uphold.

For many, the values that undergird cooperative enterprises are best reflected in the **seven Cooperative Principles** (also known as the Rochdale Principles):

- **Voluntary and open membership**
- **Democratic member control**
- **Member economic participation**
- **Autonomy and independence**
- **Education, training, and information**
- **Cooperation among cooperatives**
- **Concern for community**

These principles are meant to guide cooperatives worldwide as they seek to put values into practice. Nevertheless, as essential as cooperative values and principles are to the very definition of cooperatives, in practice, there is great variance in the manner and extent that cooperatives reflect those values. It’s important to bear in mind that cooperatives are also businesses, and, as such, they face many of the same economic pressures that other businesses face. This includes financial pressures regarding access to capital and the company’s “bottom line,” as well as operations-related pressures regarding good management, good labor, and access to markets.

The case studies in this publication will reveal different ways that cooperatives reflect cooperative principles, whether it’s their embrace of openness and democratic participation or their service to the wider community. The cases will also reveal some of the ways that cooperatives negotiate tension between cooperative values and the needs of running a competitive business.

Philadelphia and Madison

Current U.S. Census estimates count Philadelphia and Madison as the 5th and 82nd most populous cities in the United States, respectively. Philadelphia covers almost twice the land area of Madison and has more than six times as many people and four times the population density. While Madison first entered the ranks of the country’s 100 largest cities (coming in at 97th) in 1960, Philadelphia has been counted by the census among the 10 largest American cities since

1790. In terms of population growth, the two cities have diverged significantly. Philadelphia has experienced a dramatic net population loss over the past five decades—from 2,071,605 people in 1950 to 1,526,006 in 2010—while Madison’s population has grown steadily during that same period (albeit with a very slight dip in 1970) (figure 1).

The two cities also have quite different racial and economic make-ups. In Madison, more than 75% of the population is white, while African Americans, Asians, and Latinos each constitute approximately 7% of the population. In Philadelphia, by contrast, the African American population is larger than the white population and the proportion of Latinos in the population is twice that of Madison. Economically, Madison has a median household income (\$54,093) that is slightly more than the national average (\$52,762), whereas Philadelphia’s is well below that level at \$36,957. In Madison, 18% of residents live under the poverty line, compared to 25% in Philadelphia. The national average is 14.3% (tables 1 and 2).

As Craig Borowiak argues in his chapter on the geography of cooperatives, social demographic differences between the two cities are also manifest in the way the cities are configured spatially. Philadelphia is a far more divided city along race, ethnic, and class lines. This has bearing on the locations of cooperatives across the city. More than in Madison, in Philadelphia, cooperatives cluster in patterned ways that appear to reflect rather than challenge geographic divisions between racially, ethnically, and class-concentrated neighborhoods. In Madison, which is a less divided city in general, the geographic divisions between racial, ethnic, and class groups are neither as stark nor as visibly salient for the cooperative sector.

TABLE 1. Madison demographic statistics (2010 U.S. Census)

Land area:	76 sq. miles
Dane County population:	503,523
City population:	233,209
Population density:	3,037 people/sq. mile
Non-Hispanic white:	78.9%
Black/African American:	7.3%
Asian:	7.3%
Hispanic/Latino:	6.8%
Median household income:	\$54,093
City residents below poverty line:	18%

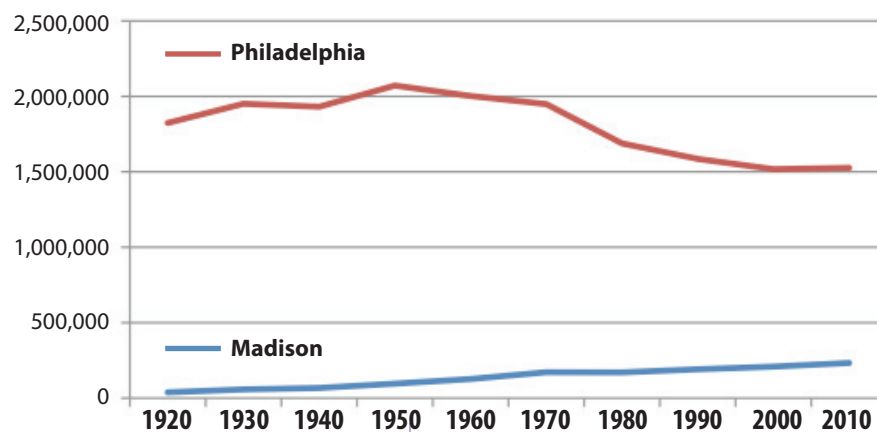
Source: U.S. Census Bureau, <http://quickfacts.census.gov/qfd/states/55/5548000.html>

TABLE 2. Philadelphia demographic statistics (2010 U.S. Census)

Land area:	134 sq. miles
Combined population of Philadelphia, Delaware, Bucks, and Montgomery Counties:	3,512,018
City population:	1,526,006
Population density:	11,380 persons/sq. mile
Non-Hispanic white:	41%
Black/African American:	43.4%
Asian:	6.3%
Hispanic/Latino:	13%
Median household income:	\$36,957
Residents below poverty line:	25.6%

Source: U.S. Census Bureau, <http://quickfacts.census.gov/qfd/states/42/4260000.html>

FIGURE 1. Population trends in Philadelphia and Madison



EXPLORING COOPERATIVES: INTRODUCTION

Madison is the capital of Wisconsin and home to the University of Wisconsin–Madison. It is also located in the center of Dane County, which includes 500,000 acres of farmland and over 3,000 farms.³ Madison is home to an estimated 63 distinct cooperatives (excluding mutual insurance companies and branch offices in the city limits) and an additional 30 in the county. These represent a variety of industries and cooperative types, ranging from grocery cooperatives and worker cooperatives to credit unions and healthcare cooperatives. Many agricultural cooperatives are also in the area and a strong purchasing cooperative sector exists (table 3). There is roughly one cooperative for approximately every 5,400 people in Dane County, and one cooperative for approximately every 3,700 people in Madison.

In Philadelphia, which is both a city and a county, there are approximately 111 cooperatives, and an additional 79 cooperatives in the three surrounding counties (Delaware, Montgomery, and Bucks)—or one cooperative for approximately every 19,300 people in the city and one cooperative for approximately every 18,500 people in the four-county region. As in Madison, cooperatives in Philadelphia span diverse industries and cooperative types. This includes, among other things, dynamic grocery, childcare, and artist cooperative sectors. It also includes an exceptionally high number of credit unions (table 4).

In both cities, one of the main anchor institutions is a major university. In Philadelphia there are actually several large universities: the University of Pennsylvania, Temple University, Drexel University, and Thomas Jefferson University are all among the 10 largest employers in the city. By contrast, the University of Wisconsin–Madison, which is larger than any single university in Philadelphia, has over 43,000 students and employs 21,624 people.⁴ In both cities, government is a significant employer as well, although in Madison it is the state government whereas in Philadelphia the federal government is the largest government employer followed by the city government.

As a relatively rare business form, cooperatives in the United States emerged within strong regional patterns. Both Wisconsin and Pennsylvania were home to historic clusters of cooperatives in a variety of industries, including insurance, dairy, and utilities.⁵ Private and public institutions arose to support cooperative development, and these institutions continue to play an important role in both regions. This is especially the case for Madison, which is home to several national credit union organizations and the largest state-based

cooperative trade association in the United States. Wisconsin cooperatives supported the establishment of the UW Center for Cooperatives, which receives UW-Extension funding to support applied research and education on cooperatives. There is a small community of attorneys and accountants with cooperative expertise, and Wisconsin’s cooperative statute has long been a model for other states. Local and regional community financing institutions, like the Madison Development Corporation, Forward Community Investments, and the Northcountry Cooperative Development Fund, have played an important role in funding cooperative start-ups and expansions.

TABLE 3. Cooperatives in the Madison region*

Agricultural cooperatives	16
Credit unions	19
Consumer grocery cooperatives	5
Other consumer cooperatives	9
Housing cooperatives	14
Healthcare purchasing cooperatives	14
Other purchasing cooperatives	7
Worker cooperatives	9
Total	93

Source: University of Wisconsin, Center for Cooperatives

*2013 estimates

TABLE 4. Cooperatives in the Philadelphia region*

Agricultural cooperative	1
Artist cooperatives	8
Childcare cooperatives	13
Community development credit unions	7
Credit unions	117
Consumer grocery cooperatives	10
Housing cooperatives	23
Purchasing cooperatives	3
Utility cooperative	1
Worker cooperatives	4
Other types of cooperatives	3
Total	190

Source: Solidarity Economy database, Craig Borowiak, Haverford College

*These are 2013 estimates. This includes data for Philadelphia, Bucks, Montgomery, and Delaware Counties.

Comparing cooperatives: The case studies

COOPERATIVE GROCERIES

Among the grocery cooperatives we examined (Weavers Way, Mariposa, Ecology, and the nascent South Philly and Kensington Food Cooperatives in Philadelphia; and Willy Street, Regent Market, and Mifflin Street in Madison), there were some clear parallels between the two cities. In both Philadelphia and Madison, there is one relatively large cooperative (Weavers Way in Philadelphia and Willy Street in Madison) that started as a small natural foods buying club in a diverse neighborhood in the 1970s. In both the Madison and Philadelphia cases, the home neighborhoods have subsequently gentrified and the cooperatives' business and customer base has expanded beyond the neighborhood. Indeed, the authors of the Weavers Way and Willy Street case studies both refer to their respective cooperatives as having a national presence as leaders in the consumer cooperative movement.

Both Weavers Way and Willy Street raise some similar issues about the changing role of food cooperatives in the market, as organic and local foods have gone mainstream, and about the challenges of maintaining a cooperative identity as membership grows and neighborhoods gentrify. Although they were founded to fill a gap in the availability of "natural" foods, with strong neighborhood support, both stores now compete with national chains such as Whole Foods, Trader Joe's, and local high-end grocers. To remain competitive, both groceries have expanded into second locations in wealthier neighborhoods (Chestnut Hill in the case of Philadelphia, and Middleton in the case of Willy Street). One recent attempt by Weavers Way to open up a smaller branch in a lower income neighborhood, and thus "move beyond the co-op's demographic and geographical comfort zone" ultimately failed.

As both Weavers Way and Willy Street have grown, their relationship to members has changed. On one hand, they have asked members to invest in expansion. On the other hand, they have come to rely much less on members as volunteers. Like most food cooperatives in the United States, they have adopted hierarchical models that rely on a relatively small board of directors and vest most operational authority in management.

While the parallel development between Weavers Way and Willy Street suggests that some dynamics of cooperative development do not depend on any distinct features of a specific urban context, some of the differences between the two groceries suggest the

potential significance of the fact that one is located in Philadelphia and the other in Madison. The case studies suggest that Weavers Way has throughout its history been more entrepreneurial and more willing to expand its operations beyond food than Willy Street. In addition to being a grocery, the Philadelphia cooperative operates two farms and has over the decades established a credit union (later absorbed into a municipal employees' credit union), an energy cooperative (which became The Energy Co-op, discussed in chapter 18), and a healthcare cooperative (which was ultimately deemed financially unsustainable). Weavers Way may also serve a broader social function than Willy Street. The Weavers Way newsletter serves as a de facto community newspaper to a greater extent than does the Willy Street newsletter. In chapter 5, Andrew Zitcer also notes that Weavers Way offers several other general community support functions, including school programs and a homeless shelter through nonprofit Weavers Way Community Programs.

The focus on entrepreneurship suggested by the Weavers Way cooperative may simply be a reflection of the individual desires and goals of the membership, management, or board of directors. Yet it may also reflect the fact that Weavers Way exists in a very different city. Willy Street operates, and has always operated, in a city with a greater number and variety of cooperatives. There may have simply been less of a perceived need for Willy Street to expand into other cooperative sectors, perhaps because there was already significant cooperative development activity in Madison. Similarly, if Weavers Way has in fact been more entrepreneurial over its history, this may also be a function of different levels of demand for different services in Philadelphia, as compared to Madison. Philadelphia is a much poorer city than Madison, with a municipal government that has a much larger social services burden on a weaker tax base. There is thus potentially a greater demand for any organization that has any kind of a social mission to expand to provide services to compensate for a relative lack of city services.

The case studies of the two large grocery cooperatives are complemented by case studies of two smaller groceries that operate to a greater extent at the neighborhood level: Mariposa in Philadelphia and Regent Market in Madison. Similar to Weavers Way, Mariposa was founded in the 1970s in a diverse neighborhood (Cedar Park in West Philadelphia) similar in many respects to Mount Airy. Over the past 20 years it has experienced significant gentrification, due partially to a concerted effort on the part of neighboring anchor institutions,

most notably the University of Pennsylvania. Unlike Weavers Way, however, Mariposa did not follow a path of growth and expansion, but instead made a conscious decision to maintain its focus on democratic structure, governance, and management. And even though it has over the past several years experienced significant growth, with an increasing membership and a move to a new and larger location, it is still committed to a far more decentralized governance structure and to integrating political consciousness into its operations.

One particularly interesting contrast that Zitcer highlights between Mariposa and Weavers Way is the different relationship between membership and staff. At Weavers Way, staff members are under relatively traditional management, which is itself under the nine-member board of directors, with minimal direct contact with the relatively large membership. By contrast, Mariposa staff are organized into an “informal worker cooperative” that is active in management and governance decisions, with positions on the board of delegates. One result, reported by Zitcer, is that there is greater potential for conflicts between membership and staff simply because a more activist staff will be more likely to have meaningful contact with the membership.

While Mariposa began as a progressive social and political experiment that focused on selling food, Regent Market started as a traditional grocer that only out of necessity later became a cooperative. The business began in 1923 and went through several different phases of ownership, including being part of a national chain, and later returning to its roots as a single proprietor operation. Through the years, it had become an established neighborhood institution that was also recognized as an informal community center.

By the 1990s the Regent Market was in serious financial trouble and likely to close. Neighborhood residents recognized the important social role played by the grocery in the neighborhood, and, in conjunction with 15 employees who wanted to keep their jobs, they decided to reorganize the market as a cooperative. The case study by DeRemer and Collins suggests the role played by Madison’s rich cooperative culture in the decision to save Regent Market by re-establishing it as a cooperative. Jay Rath, an employee of the grocery who was the first to suggest that Regent Market be established as a cooperative, had had a long experience with cooperatives, “having lived in a housing cooperative and served on the finance committee of the Madison Community Cooperatives, a federation of local housing cooperatives.” Thus a grocery employee had experience

not only with being a cooperative member but also with a federation of cooperatives from which he could learn important information about how cooperatives were financed and created. It seems unlikely that many employees of failing businesses in Philadelphia would have had similar experiences, since the only federation of cooperatives in the city was established in 2012.

Mariposa and Regent Market also differ in their commitments to democratic self-governance and social inclusion. From its beginning, Mariposa has been a politically progressive institution located in an economically and racially diverse community. Its members, however, have always been concerned by the fact that its membership is actually racially homogeneous. By contrast, the authors of the Regent Market case study do not specifically address a concern about homogeneity at Regent Market, perhaps because the grocery was perceived as a very different kind of social experiment, and also because it is located in a relatively homogenous neighborhood that is “home to highly educated professionals who earn above-average incomes and tend to have progressive views supportive of the co-op concept.”

Although both co-ops are relatively small markets, in the case of Mariposa the small size has been regarded as an asset. Its membership has deliberately retained the small size in order for the cooperative to remain true to its political ideals. By contrast, even though the small size and location of Regent Market helped make it a community institution, the size has also always been an Achilles’ heel in the co-op’s ability to compete with neighboring supermarkets.

Beyond the issue of size, different normative commitments are also reflected in the way the two co-ops are managed and run. The Mariposa staff members have carried cooperative values further by forming themselves into an informal worker cooperative within a consumer co-op. Regent Market employees, by contrast, have taken a more conventional route to improve their work conditions: They have joined a formal union, United Food and Commercial Workers Local 1473. This reflects a larger trend (shared with many other food cooperatives across the country) in Regent Market’s evolution away from core cooperative values and towards more conventional business models. As DeRemer and Collins describe, “The co-op has shifted from an initial emphasis on member involvement and democratic decision making to an emphasis on being a competitive grocery store that serves the food needs of its customers.” This has involved hiring an effective general manager in whom much of the decision-making power

has been concentrated. The new manager exercised this power in 2008 by cutting the number of employees from 25 to 15, ostensibly in order to make the store financially viable.

A final comparison with regard to food cooperatives is two groceries that ultimately failed, Ecology in Philadelphia and Mifflin Street in Madison. According to Daniel Flaumenhaft, Ecology, which was founded earlier than either Weavers Way or Mariposa as part of a wave of food cooperatives in Philadelphia, failed because it did not educate its members or staff about its cooperative mission, and thus when it faced greater competition from for-profit companies that entered the natural and whole foods markets (which had earlier distinguished Ecology as a grocery cooperative), it had no clear reason for its members to maintain any allegiance. In contrast to Regent Market, Ecology never established itself as a meaningful community institution; in fact, through a zoning dispute it managed to alienate many neighbors and former customers.

Another element in the failure of Ecology that seems significant from the standpoint of an intercity comparison is the fact that Ecology came out of a Quaker organization. As a result of this heritage, it was committed to decision making by consensus, effectively providing all participants a veto. Here is an example of how a specific cooperative was shaped by the specific culture of the city in which it was created. It is also interesting to note that the heritage of consensus-based decision making was very influential among cooperatives that were created during the 1970s. Such decision making was certainly also practiced at Mifflin Street Cooperative during its early years.

Like Regent Market, the Mifflin Street Cooperative came about when neighborhood residents and store owners decided to save a local grocery that served as a de facto community institution, and which was going out of business. Unlike Regent Market, but much like Mariposa, Mifflin Street was committed to maintaining its democratic, cooperative identity and to making its mission as a grocery part of a larger anti-capitalist political vision, part of which included staff organized into a worker cooperative in a more formal fashion than at Mariposa. In her case study, Molly Noble lauds the participatory, collectivist spirit of Mifflin Street as a crucial factor in the co-op's early success. She also, however, recognizes that that participatory spirit was also a potentially important factor in the cooperative's demise. Mifflin Street was a product of a specific social dynamic during the late 1960s and early 1970s, one that was maintained in

part because the locus of power within the cooperative remained with the politically committed workers' collective. Yet, as the neighborhood changed, and as healthy and organic foods became more mainstream and available at traditional groceries, Mifflin Street had difficulty adapting and lost its strong connection with the surrounding neighborhood.

Interestingly, however, though Noble suggests that Mifflin Street's demise was in part a result of increasing disconnection from its changing neighborhood, she also recognizes the integral role it played in the neighborhood, in large part through its role in organizing the annual Mifflin Street block party—a celebration begun by an initial block party in 1969, during a period of widespread antiwar activism in Madison. That block party ended in a riotous confrontation with the police that lasted for several days. Mifflin Street's identity was closely linked with progressive and radical issues, which resonated in the neighborhood. By contrast, the Ecology cooperative, as Flaumenhaft explains, suffered in large part because it had longstanding conflicts with the surrounding community.

Perhaps most important in the case of Mifflin Street is the fact that the cooperative sought to maintain itself as an informal community center. It did this in part by refusing to move to a larger location, thus hampering itself in a way similar to Ecology. Regent Market is currently facing a similar dilemma, but is actively attempting to occupy more space by expanding into neighboring stores. The second important element in Mifflin's demise was poor management that resulted in the nonpayment of taxes and eventually put a financial strain on the cooperative that it could not withstand. Many food cooperatives have faced a financial crisis at some point in their existence and it seems important at which stage in their development they face this crisis. Some cooperatives survive this crucible and others do not.

The final two chapters covering food cooperatives shift the focus from established and failed cooperatives to emergent ones. The chapters examine two start-up cooperatives in Philadelphia: the South Philly and Kensington food cooperatives. These chapters have no Madison counterpart. Both cooperatives are being formed in ethnically and economically diverse neighborhoods that have experienced some significant gentrification over the past two decades. Regardless, the preceding case studies suggest some challenges that the Kensington and South Philadelphia cooperatives will face. If they are successful, they will most likely face space constraints as they outgrow their initial

locations; perhaps an important strategy is to anticipate growth and move into an initial location too large for the present. If successful they will also face a decision at some point about whether to professionalize and vest more authority in their board and management or to attempt to maintain a decentralized structure to maintain a greater cooperative identity. They may at some point face financial crises arising from either poor management or outright criminal malfeasance, and such crises will serve as important junctures in their future development or potential demise. Like all small local grocery stores, cooperatives will struggle to maintain profitability while staying responsive to their community. They may choose to grow, in order to take advantage of economies of scale. They may end up serving a wealthier and more ethnically homogeneous customer base than is reflected in their immediate neighborhoods, and cooperatives will have to make a decision about how and whether they will engage the larger community, potentially serving a larger social role than simply selling food.

PRODUCER COOPERATIVES

As reflected in this publication, the relationship between cooperative business structures and food is a uniquely strong one. Beginning in the 1850s, U.S. farmers began organizing cooperatives to improve their access to markets and the prices they received. The first modern consumer cooperative, started by weavers in Rochdale, England, was a consumer-owned cooperative selling food. Through successive waves of cooperative organizing, food marketing and consumption has been an important component of cooperative activity. Farmers and consumers led efforts to create the statutory and policy environment that helped to support cooperative development and success. In extending our examination of food and cooperative structure from groceries to producers, we also expanded beyond the boundaries of Madison and Philadelphia to look at a couple of cooperatives that operate at a broader scale, namely Organic Valley and Lancaster Farm Fresh.

Organic Valley is by far the largest cooperative examined in this publication, with 1,411 members and dairy product sales of \$639 million in 2011. Most of its members are dairy farmers, who market milk through the cooperative. Organic Valley has developed a suc-

cessful consumer brand, selling milk and many value-added products to major retailers and food cooperatives. Although it has members in many states with a national market, Organic Valley was founded by a group of rural Wisconsin farmers. Like many of the grocery cooperatives in this publication, Organic Valley was formed with explicit values, to support family farming and organic farming practices. They did this by developing a market for organic dairy products which is based on paying farmers stable and sustainable prices.

As Organic Valley has evolved into a national cooperative, the farmer-owners and management have faced challenges in maintaining their values-based commitment within a very competitive supply chain. They have developed close relationships within their supply chain, allowing them to avoid capital expenditures and broaden their expertise. They

control their milk supply from members to meet market demands and have several initiatives to improve operational efficiency. Communication plays a key role in their strategies, demanding creative responses to the challenges of educating all stakeholders: members, employees, partners, and customers.

The other agricultural cooperative examined here, Lancaster Farm Fresh Cooperative (LFFC) in Pennsylvania, is much smaller than Organic Valley, with only \$2 million in gross annual sales and a regional rather than national market. LFFC is also located in a much less rural area than Organic Valley. The primary agricultural region in Pennsylvania stretches between Philadelphia and Harrisburg in the eastern part of the state, in counties that are all counted as urban by the U.S. Census Bureau. This is where LFFC is located.

LFFC serves the urban region of which it is an intimate part; located in Lancaster County, it links Amish and Mennonite farmers to urban markets throughout the nearby megalopolis that stretches from Washington, D.C. to New York City. LFFC was founded by Amish and Mennonite farmers and its cooperative's identity has been forged around meeting those farmers' needs. The growth of Amish and Mennonite farming communities, composed of traditionally large families, has resulted over the generations in increasingly smaller farms that can stay viable only by coordinating together. LFFC was formed as a cooperative in order to establish coordi-

Like all small local grocery stores, cooperatives will struggle to maintain profitability while staying responsive to their community.

nating mechanisms for smaller farms to sell in nearby urban markets and, Hunold and Jeske speculate, so that members could limit their interactions with their non-Amish and Mennonite customers.

WORKER COOPERATIVES

In contrast to the comparisons among food producer and consumer-owned grocery cooperatives, the worker-owned cooperatives we examined in Philadelphia and Madison stretch across a broad array of industries: in Madison, an engineering and manufacturing firm (Isthmus), a taxi and transportation company (Union Cab), and a coffee roaster (Just Coffee); and in Philadelphia, an architectural salvage and renovation company (Greensaw),⁶ elderly and disabled homecare (Home Care Associates or HCA), and a childcare provider (Childspace).

Though the selection of worker cooperatives was not intended as a representative sample in either city, it is interesting to note that worker cooperatives occur in a wide range of industries, whereas consumer cooperatives in the United States are largely limited to three major sectors: groceries, credit unions, and utilities. Each of these sectors has experienced significant waves of replication. Worker cooperatives, however, have only recently organized to systematically expand the model nationwide. In Philadelphia, most of the worker cooperatives are replications of successful worker cooperatives that have been developed elsewhere. This is the case with Greensaw, Childspace, and HCA. In Madison, many of the worker cooperatives, including Union Cab and Isthmus, are pioneers.

The worker cooperatives vary widely by size and structure. For instance, at the time the case study was written, Greensaw had transitioned from a single proprietor-owned business to a worker cooperative within the previous two years. Besides the original proprietor, only one of the three eligible workers had decided to become a member, by purchasing a \$3,500 equity share.

By contrast, Union Cab was founded as a worker cooperative in 1980, and it currently has over 200 employees, all of whom are required after a brief probationary period to become cooperative members, at the cost of \$25. HCA and Childspace also have relatively low buy-in costs. A low buy-in cost reduces the burden of membership in a low-wage, high-turnover industry. It also forces the cooperative to grow solely through profits and borrowing, since the owners are investing very little upfront. Greensaw, Isthmus Engineering, and Just Coffee all started with substantial personal investment

by the original owners and later converted to cooperative status. The relatively high buy-in requirement at each of these cooperatives may be related to these early investments. For example, Isthmus Engineering's long-standing policy is to link the cost of joining the cooperative to the price of a new economy car. This policy creates a transparent formula for equalizing new member investment.

Union Cab is the only case where membership in the cooperative is required for employment. For the other cooperatives, where members can choose to join, membership ranges from 18% (HCA) to 64% (Just Coffee) of overall employees. Greensaw is not included in the comparison, since it was still transitioning from a sole proprietorship at the time the case was written. Probationary periods also vary among cooperatives. At Greensaw, employees must be employed for at least three years before they become eligible to apply for membership. When one contrasts this requirement with Union Cab's three-month probationary period before membership is granted, it's clear that these cases demonstrate a wide range of membership models and practices.

Although it is difficult to identify specific membership practices as causal factors in firm behavior or organization, the narratives certainly highlight the impact of cooperative employee ownership. In each case, worker ownership is described as a vehicle for achieving an alignment between firm practices and specific values. HCA and Childspace were formed to provide better jobs and high-quality service in traditionally low-wage industries. Just Coffee's founders believed that a cooperative model aligned well with the values of their coffee cooperative partners in Mexico and Central America. The early members of Union Cab believed in workers' rights and union democracy, and Greensaw's founder believed that a participatory workplace would result in higher quality results. Isthmus Engineering & Manufacturing (IEM) was influenced by Mondragon, a Spanish cooperative involved in similar industries. The engineers who began IEM as a partnership had already brought non-engineers into the group, and Mondragon offered a model that offered an ownership stake to all classes of employees.

ENERGY COOPERATIVES

The two energy cooperatives for which we have case studies represent the sharpest distinction between rural (Riverland Energy, headquartered in Arcadia, Wisconsin) and urban (The Energy Co-op, headquartered in Philadelphia) organizations. Yet, this is not the only

significant difference between Riverland Energy and The Energy Co-op. For instance, Riverland is half of a century older and operates in a different regulatory environment. It was created by the merger of two electricity cooperatives, both of which were formed in the 1930s as a result of federal rural electrification policy. The Energy Co-op, by contrast, was originally established in 1979 by Weavers Way as a heating oil cooperative. Only in the 1990s did it begin providing electricity, once the market was opened up as a result of state deregulation. In Wisconsin, electricity is still highly regulated by the state, although Riverland does compete for new customers with at least one investor-owned utility.

Operating in a competitive market, The Energy Cooperative distinguishes itself as an electricity supplier by virtue of the fact that it provides its customers with energy from renewable sources at competitive prices. By contrast, Riverland does not emphasize renewable energy and, due to state regulation, does not compete on the basis of price. It instead emphasizes service to members. As Brady Williams describes in his case study, “Without the need to put outside investors first, the cooperative structure allows Riverland to more quickly and easily respond to member needs and interests.”

The main distinction between urban and rural cooperatives that suggests itself in a comparison of Riverland Energy and the Energy Co-op is that the cooperative structure was used in a rural setting to overcome a uniquely rural market failure: investor-owned utilities not seeing enough profit to provide electricity in sparsely settled areas. Decades after its founding, when Riverland faced at least some competition, it used its cooperative structure to attempt to define its competitive advantage in terms of responsiveness. By contrast, The Energy Co-op faced a competitive market from its very beginnings. It conceived of its cooperative organizational structure in terms of providing a niche market with a commodity to which it could attach a social mission that eventually included environmental stewardship through renewable energy. The Energy Co-op was an organization with a social mission that eventually came to sell electricity; Riverland was an electricity provider that eventually conceived of its cooperative structure as providing added value, if not a larger social mission.

CREDIT UNIONS

There is an interesting complementarity to the respective stories of credit unions in Philadelphia and Madison. As previously noted, Philadelphia has an exceptionally high number of credit unions overall, though both cities have several large credit unions, with over 100,000 members. Our two cases (Trumark and Summit) are among the larger ones in the two cities. As the case study of Summit Credit Union suggests, Madison was a uniquely significant site for the formation of the credit union industry in the United States, as it was the birthplace of the main national trade association for credit unions, the Credit Union National Association (CUNA). CUNA’s own credit union became, through a series of mergers that began with the industry’s deregulation in the 1980s, one of the components of what became Summit Credit Union, which is now the largest credit union in Wisconsin.

The origins of credit unions in Philadelphia are intimately bound up in the city’s industrial history, as most of the original credit unions in the city were employer-based. Of the 38 credit unions operating in Philadelphia in 1936, 31 were employer-based, five were based on the membership of ethnic or civic associations, one was religiously based (B’nai Israel), and one was neighborhood-based (in Bridesburg, in the northeastern section of the city). To these were added Catholic parish credit unions, of which there were 20 in the city by 1959. In the 1970s, following the lead of Bridesburg, more community groups and associations established credit unions—including, as previously noted, Weavers Way, in 1978.

As described by Daniel Dougherty in his case study, the origins of TruMark Financial Credit Union lie in the first wave of employer-based credit unions, with the establishment of the Philadelphia Telco Credit Union in 1939 to service the Philadelphia employees of Bell Telephone of Pennsylvania. For 52 years Philadelphia Telco was located in the city, until it moved to the suburban community of Trevoise in 1991. The credit union changed its name to TruMark in 2003, and in 2005 it was granted a community charter, meaning that it could open its membership up to “anyone who lives, works, worships, volunteers, or attends school in the southeastern Pennsylvania counties of Bucks, Chester, Delaware, Montgomery, and Philadelphia.” With this more expansive charter TruMark opened up twelve branch locations throughout its five-county region between 1991 and 2010.

Both TruMark and Summit were originally established as relatively localized organizations designed to serve a very specific clientele. They both subsequently evolved into much larger, general-purpose financial institutions. It is not clear from the case studies how the credit unions operated when they were small, but their growth seems to have minimized the extent to which members participate directly or indirectly in governance. As Amy Gannon and Denis Collins relate, of Summit's more than 120,000 members, only approximately 2% cast ballots in the annual board elections. Similarly, even though Dougherty does not provide specific figures for participation rates in TruMark board elections among the credit union's more than 95,000 members, he does note that, of the principles that define the cooperative movement, TruMark ranks "weakest in the principle of democratic member control."

In short, there is little suggestion in the case studies of Summit and TruMark that it makes much difference whether a credit union operates in a small or large city. The vast majority of credit unions are subject to national financial regulation and controls, which creates significant standardization. Part of the success of both credit unions is that they have moved beyond their local roots. As Gannon and Collins note, Summit Credit Union, the product of several mergers, chose its relatively generic-sounding name "to position it for future growth beyond Wisconsin." Similarly, TruMark's name-change occurred roughly contemporaneously to its geographic expansion.

And as Summit and TruMark have expanded and removed any markings of geographic specificity, they have also shown no marked inclination to encourage a sense of democratic ownership among their members; the case studies suggest that both credit unions identify service, favorable interest rates, and competitive products as their strengths. To the extent that either credit union encourages member participation, it seems to be in ways other than governance, such as Summit's redesign of its website into a member-specific social networking site.

The extent to which we can conclude from our case studies whether or not credit unions such as Summit and TruMark fulfill the democratic ideals of cooperatives is of course highly limited by our small number of cases. Ideally, we would have case studies of smaller credit

unions that serve more specialized or localized customers. In such cases, we would expect the particular neighborhood contexts to be much more influential. The case studies that we do have lead us only to make speculations, of which we offer some more by way of conclusion.

Conclusion

The cooperatives in this publication represent a diverse group of small businesses, operating in highly competitive markets in both urban and rural environments. Although we've documented two failures, most of these enterprises have succeeded (and often thrived) for decades. As member-owned businesses, they have provided services and/or goods to their owners, offered stable local jobs, and invested in the continued growth and development of their businesses.

In both Pennsylvania and Wisconsin, these cooperative businesses developed without significant governmental assistance, especially at the local level. Although there is evidence of a more supportive environment for cooperatives in Madison, much of this support came from informal assistance from other cooperatives, the presence of knowledgeable professionals, and a relatively high ratio of cooperative membership among the

Madison population. Philadelphia cooperatives have benefitted from many of the same informal networks and local expertise.

All of the cooperatives were formed to fill unmet need in the market. The dairy and energy cooperatives were formed to offer better prices and services to members who lacked power in the market as individuals. The food cooperatives were formed as small neighborhood-based grocery stores, often offering a unique product mix, during a period of continued concentration within the grocery industry. When the predecessors of Summit and TruMark credit unions were founded, they were uniquely focused on providing savings and credit products for working people who were unable to obtain services from banks. The worker-owned cooperatives were all focused on building businesses that offered employment for their owners.

Cooperatives share the important cooperative principles of member ownership and democratic decision making, and successful cooperatives must balance a continual interplay between their economic and social

Successful cooperatives must balance a continual interplay between their economic and social elements.

elements. This group of case studies gives us valuable insights into the internal mechanisms and external environments that help to sustain cooperatives and enable them to contribute to the socioeconomic health of their communities.

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- ⁶ Greensaw Design & Build closed in late 2013, after this case study was completed.

Mapping the Social Demographics of Cooperatives in Philadelphia and Madison



Craig Borowiak

Earlier in the introduction we outlined several points of contrast between Madison and Philadelphia. As discussed, the cities differ in land area, population size, median income, and general demographic composition. Their cooperative sectors also differ. Madison, for example, was shown to have a relatively large number of purchasing cooperatives and agricultural cooperatives while Philadelphia was shown to have a disproportionately high number of credit unions.

Although these sorts of aggregate data are useful for establishing general comparisons, they nonetheless paint only a partial picture of the differences between these two cities and their cooperative sectors. Among other limitations, the aggregate data tell us nothing about how cooperatives relate to demographic patterns *within* the cities. We know, for example, that both cities have a relatively high percentage of people living in poverty. The statistics do not tell us, however, if poor populations are concentrated in particular areas of the city or if cooperatives are located near those populations. Similarly, aggregate statistics reveal Philadelphia as a more ethnically and racially diverse city than Madison. Taken alone, those data do not illuminate anything about patterns of integration among different demographic groups within the cities' geographies or about how cooperative sectors relate to racial and ethnic divisions.

I will explore in detail some of the different spatial demographic patterns within these cities and how those patterns structure cooperative development. More specifically, I use geographic information systems (GIS) software and modeling techniques to map the locations of cooperatives against U.S. Census block group data on income, race, and ethnicity. The resultant maps enable us to visualize and analyze how cooperative sectors reflect geographic context and how they do (and do not) fall along existing racial, ethnic, and class divisions in the spatial organization of these cities.¹ This has particular use for policymakers and others who are interested in exploring cooperatives' potential as

Efforts to map the locations of cooperatives within socio-demographics of cities can help to illuminate both areas of particular need and areas where cooperatives seem to gravitate.

a source of economic development and social integration, including in relatively underserved communities. Efforts to map the locations of cooperatives within socio-demographics of cities can help to illuminate both areas of particular need and areas where cooperatives seem to gravitate. Although such mapping initiatives do not themselves offer insights into the particular histories, practices, and membership patterns of individual cooperatives—for these, maps need to be complemented with more detailed case studies, such as those found later in this volume—they do help paint a more nuanced picture of the cities and the place of cooperatives therein.

Two cities, two social geographies

When it comes to demographic groupings, the two cities have very different spatial configurations, as the following maps reveal. The separations between different demographic groups are, in general, far more pronounced in Philadelphia than in Madison. This should come as no surprise. Philadelphia is a large, post-industrial city with greater diversity, deeper poverty, and a longer history of racial conflict and segregation. It is a city of contrasts where stark racial, ethnic, and class divisions coincide with stark geographic divisions between neighborhoods. Madison, by contrast, is both a university town and a capital city with a larger middle class and income levels that are more evenly distributed across the city. Racial and ethnic minorities constitute a much smaller percentage of Madison's overall population, and they are less concentrated in discrete neighborhoods. The contrasts between different racial and ethnic neighborhoods are consequently not as prominent at the census block group level.

The demographic contrasts between the two cities yield different expectations regarding the development of cooperative sectors. In a sharply divided city like Philadelphia, where socio-economic, racial, and ethnic divides strongly shape the economy, we can expect the cooperative sector to reflect those divides as well.

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We can also expect that demographic divisions play a considerably less significant role in the geography of cooperatives in a smaller, more homogenous, and more middle-class city like Madison.

The following maps generally bear these predictions out. As expected, the relevance of spatial demographic patterns for the geography of cooperatives is far more evident in the case of Philadelphia. More specifically, highly concentrated black, Asian, and Latino neighborhoods in Philadelphia tend to have fewer cooperatives than in white and mixed neighborhoods. This is especially the case if we separate out small credit unions. Cooperatives are also virtually absent from neighborhoods with the deepest poverty, most of which are predominantly black or Latino. These observations should not, however, be taken to imply that cooperatives thereby cluster only in predominantly white neighborhoods with high incomes. On the contrary, the maps

reveal patterns of cooperatives clustering within buffer zones between rich and poor, and between white, black, and Latino neighborhoods.

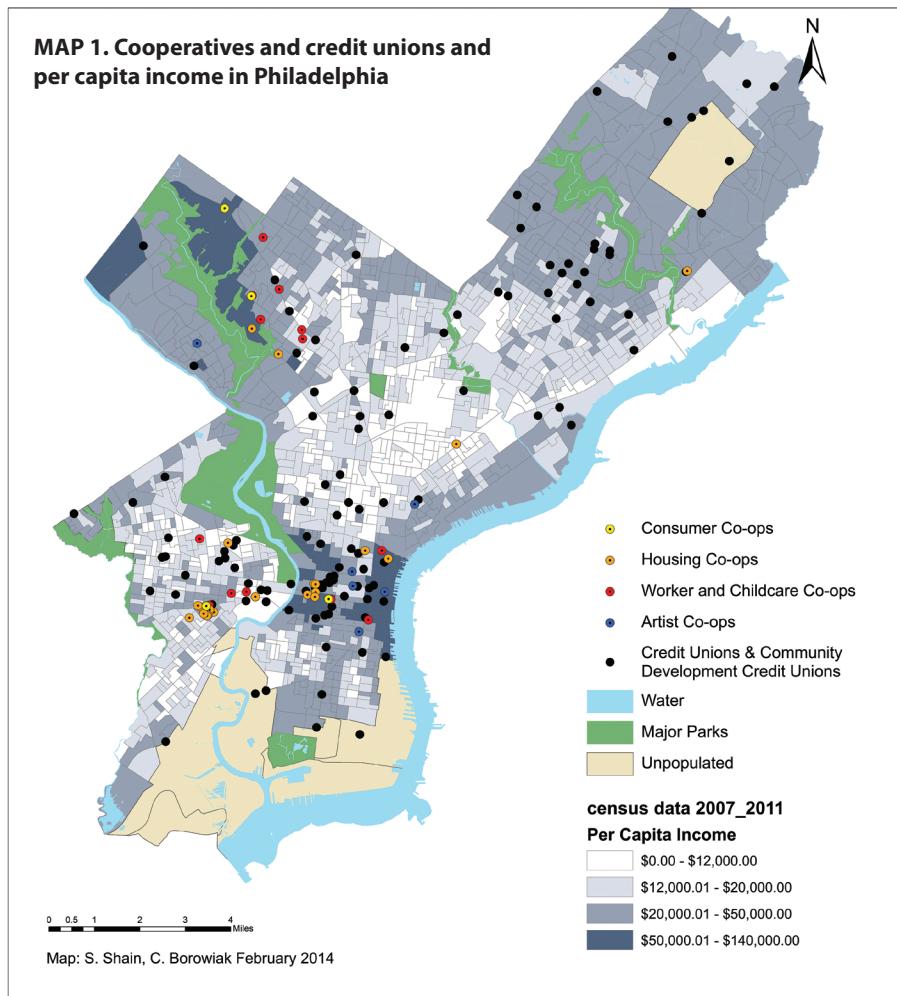
In Madison, cooperatives are spatially organized differently. Given the relatively muted role of demographic factors in the spatial organization of the city generally, it is much more difficult to discern any significant demographic patterns in the way cooperatives cluster within Madison's urban geography. Unlike in Philadelphia, cooperatives can be found in the poorest neighborhoods as well as in neighborhoods where racial and ethnic minorities are most concentrated. More noticeable than the demographic patterns underlying cooperative location is the way cooperatives cluster heavily in the downtown area where commercial activity is especially concentrated, and along the few major transportation routes into and out of the city.

PHILADELPHIA

Economic hardship is not new to Philadelphia. Decades of deindustrialization and urban flight have left their

marks on the city's social and economic geography. The city has nevertheless also experienced economic revival in certain industries and districts. Some of the resulting contrasts of poverty and prosperity are evident in maps of income in the city. In map 1, the location of cooperatives and credit unions are plotted against census data on per capita income within the city limits.^{2,3}

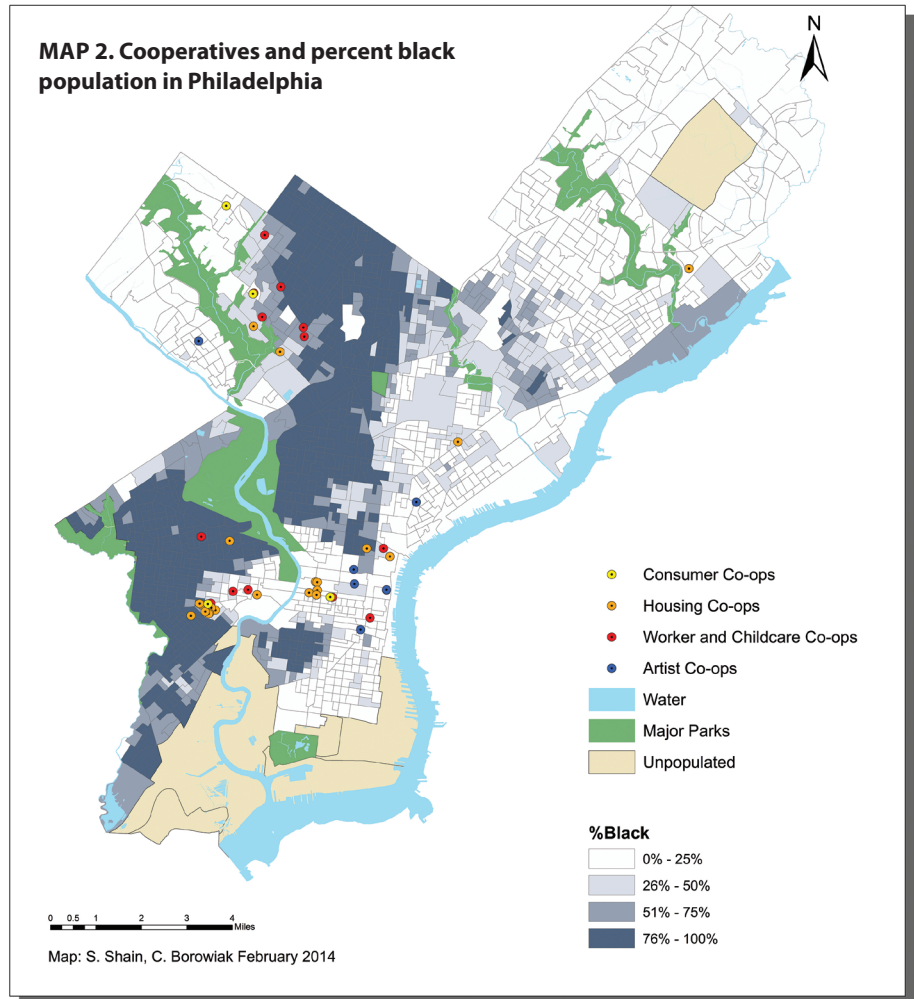
As can be seen, many, if not most, of the city's neighborhoods have per capita income less than \$20,000. Large swaths of the city have per capita income less than \$12,000, which is consistent with census estimates that more than 25% of the city is under the poverty line. The neighborhoods with relatively high income levels are heavily concentrated in the northwest and in the city center, which is visible in the lower middle portion of the map. Income levels drop precipitously just north of the city center, where much of Philadelphia's poor population and most of its deep poverty can be found. With regard to cooperatives, what stands out about this map is how few of the cooperatives can be found in the city's poorest regions.



Excluding credit unions, those cooperatives that can be found in the poorest communities tend to be exceptions for other reasons as well. For instance, the only cooperative in our database located deep in poverty-stricken North Philadelphia is a religiously inspired and mission-driven intentional community that formed itself into a housing cooperative. Additionally, several of the cooperatives in West Philadelphia are located in or near the University of Pennsylvania campus, where low-income levels reflect the large student population rather than the sort of persistent urban poverty found elsewhere in the city.

There are far more credit unions than other types of cooperatives in the city. It is consequently not surprising that they are dispersed across a wider expanse of the city. Credit union branches can be found across much of West, North and Northeast Philadelphia, well outside of the city's most prosperous neighborhoods. But it is also the case that credit unions, like other cooperatives, are relatively absent from some of the most poverty-stricken areas in North Philadelphia (compare map 1). This is even true of community development credit unions (CDCUs), despite their explicit mission to support disadvantaged communities.

If we shift the focus from income to racial demographics, the findings become even starker. Map 2 displays the location of cooperatives and the spatial distribution of Philadelphia's black population.



Philadelphia's black population is heavily concentrated in West Philadelphia and in a thick vertical band in North Philadelphia extending from Germantown Avenue on the west and Broad Street on the east. An additional concentration can be found in a small portion of South Philadelphia. These concentrations are noticeably distanced from the concentrated wealth found in center city and along the Delaware River waterfront (on the east side of the map). With the exception of a daycare cooperative and a couple of housing cooperatives—all in West Philadelphia—none of the cooperatives are found in the neighborhoods where the black population is most highly concentrated. Cooperatives are often found along the edges of predominantly black neighborhoods but rarely in them. This is the case along Germantown Avenue in Northwest Philadelphia, in the areas west of the University of Pennsylvania in West Philadelphia, and in the lower portion of North Philadelphia.

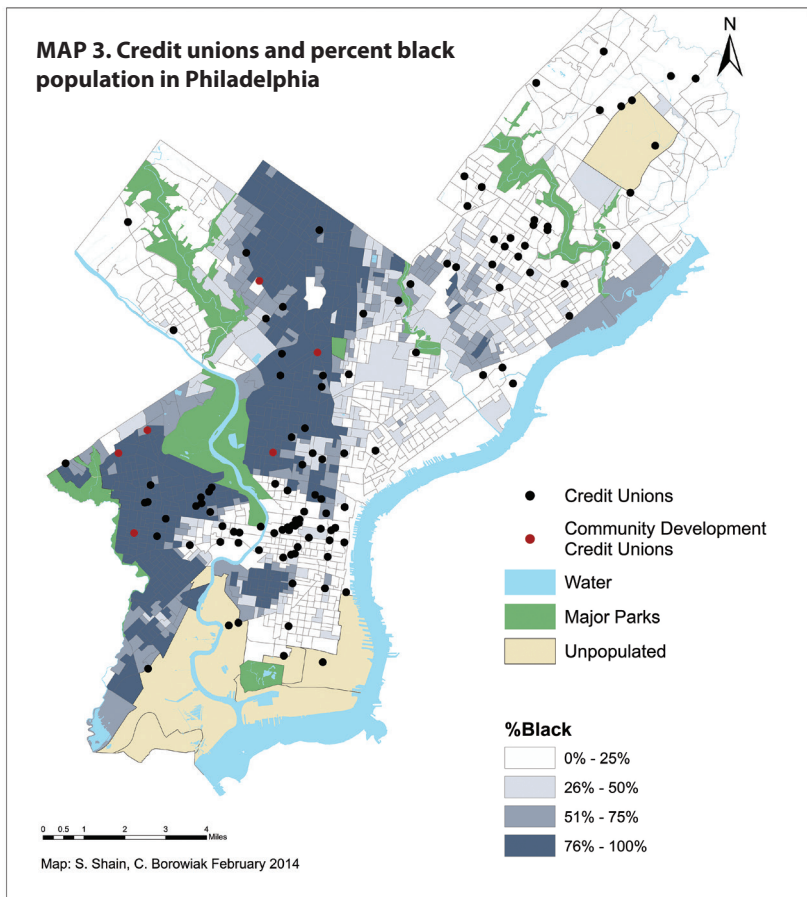
EXPLORING COOPERATIVES: INTRODUCTION

In map 3, credit unions (including branch offices) are plotted against the same racial data.

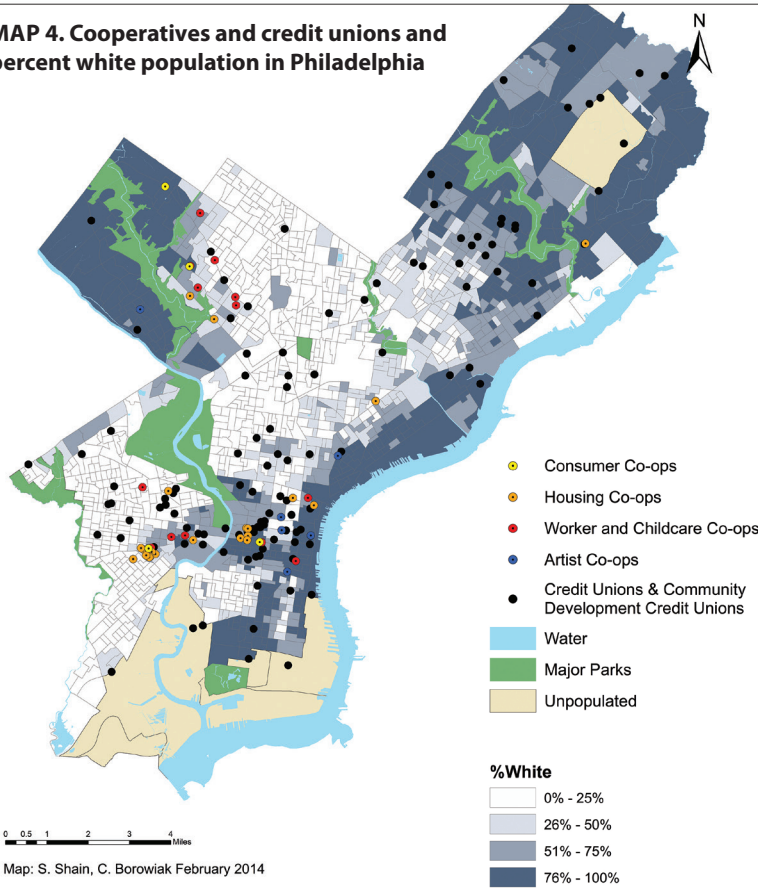
Here the picture is only slightly different. Credit unions do reach into predominantly black neighborhoods in ways that other cooperatives do not. But it's also the case that over a third of the credit unions in the predominantly black neighborhoods of West and North Philadelphia are small, single-branch, church-based credit unions or community development credit unions with very few assets. This contrasts with the concentrated white neighborhoods in the city, where larger, multi-branch credit unions predominate.

Patterns of racial separation are further evidenced in the following map of cooperatives and Philadelphia's non-Hispanic white population. In this map, sharp divides separate neighborhoods that are more than 75% white from neighborhoods that are less than 25% white. In the western half of the city especially, the racial patterns visible in map 4 are practically mirror images of those found in map 2; it is almost literally black and white with few shades of gray. The city's white population is most heavily concentrated in the city center and in the northwest. This northwestern region spans scenic Wissihickon Park on the western side of Germantown Avenue as well as portions of Mount Airy, a trendy neighborhood that also happens to be a hotspot for cooperatives. When the previous maps are looked at together, it becomes apparent that economic divisions in the city coincide extensively with racial divides. Not all census block groups with a majority white population have high incomes, but scarcely any high-income block groups have a non-white majority. Clusters of cooperatives are found in the heavily white downtown area. Interestingly, it is not the case that all, or even most, cooperatives are found in heavily concentrated white neighborhoods. In fact, a significant

number of cooperatives outside of the city center are located within relatively thin border zones separating predominantly white and non-white neighborhoods.

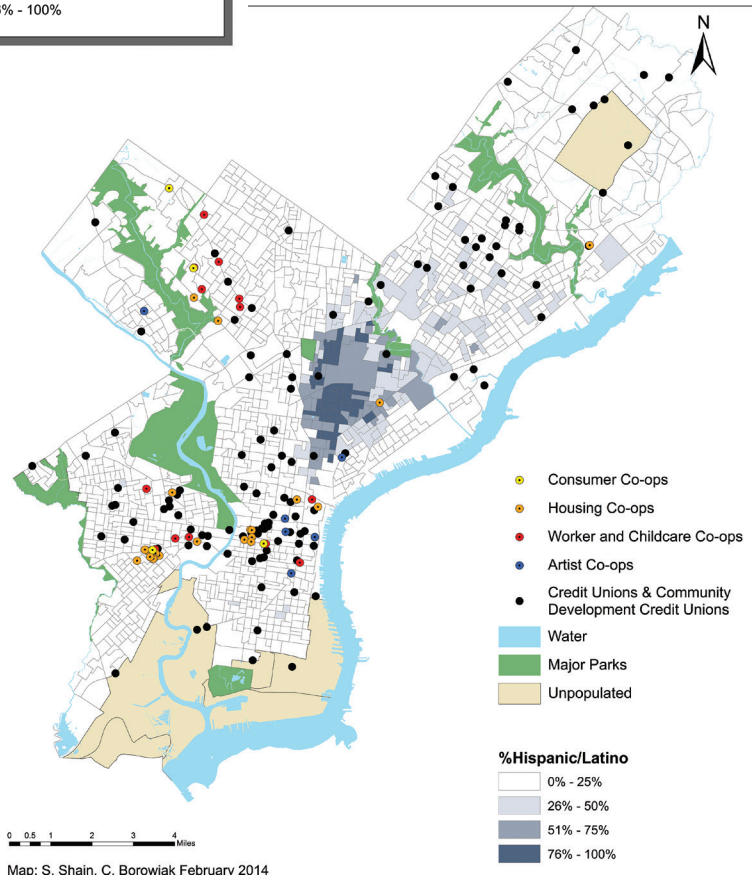


MAP 4. Cooperatives and credit unions and percent white population in Philadelphia



Patterns of segregation are even more pronounced with the Latino population. Although the city's Latino population is smaller than its non-Latino, white, and black populations, the dividing lines separating Latino neighborhoods from other neighborhoods are at least as stark as those dividing white and black ones. On the map, the Latino population is quite visibly concentrated in an area of North Philadelphia shaped like an inverted triangle. Strikingly, this relatively large area is also one of the poorest areas in the city, as revealed in map 1. Virtually none of the city's cooperatives—including credit unions—extend into these neighborhoods.

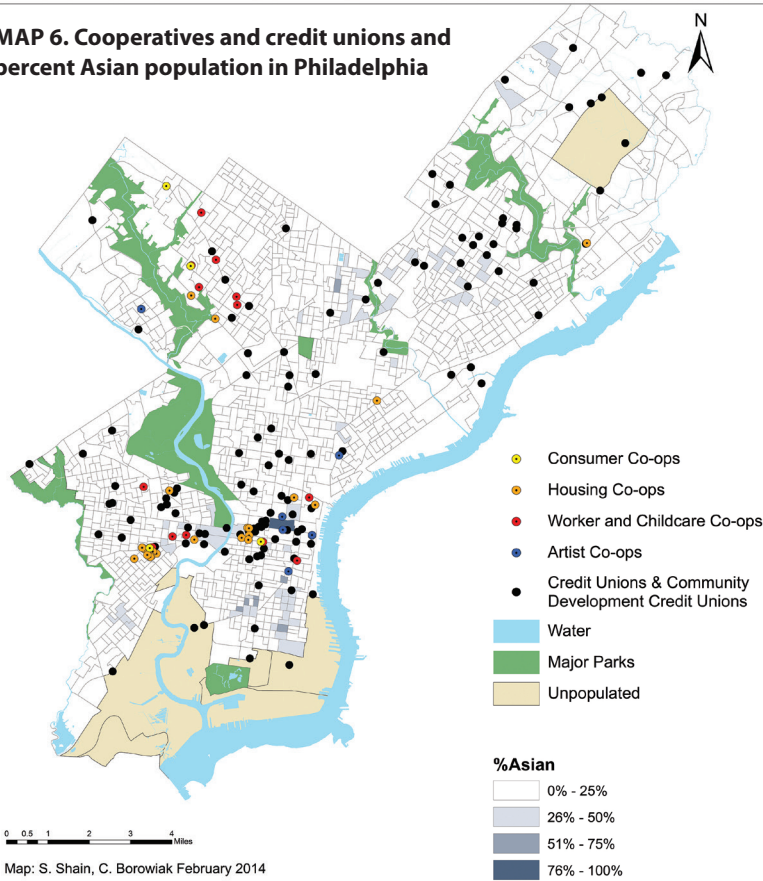
MAP 5. Cooperatives and credit unions and percent Latino population in Philadelphia



The racial demographics of Philadelphia are, of course, not only black and white. Maps 5 and 6 show the spatial patterns of cooperatives and credit unions vis-à-vis the Asian and Latino populations, respectively.

The size of the Asian population is considerably smaller than the black, white, and Latino populations. This population is, however, highly concentrated in some regions in Chinatown (represented by the darkest block at the center of the map) and, to a lesser extent, in several blocks groups in the northeast and south of the city. A considerable cooperative presence cannot be found in any of these regions.

MAP 6. Cooperatives and credit unions and percent Asian population in Philadelphia

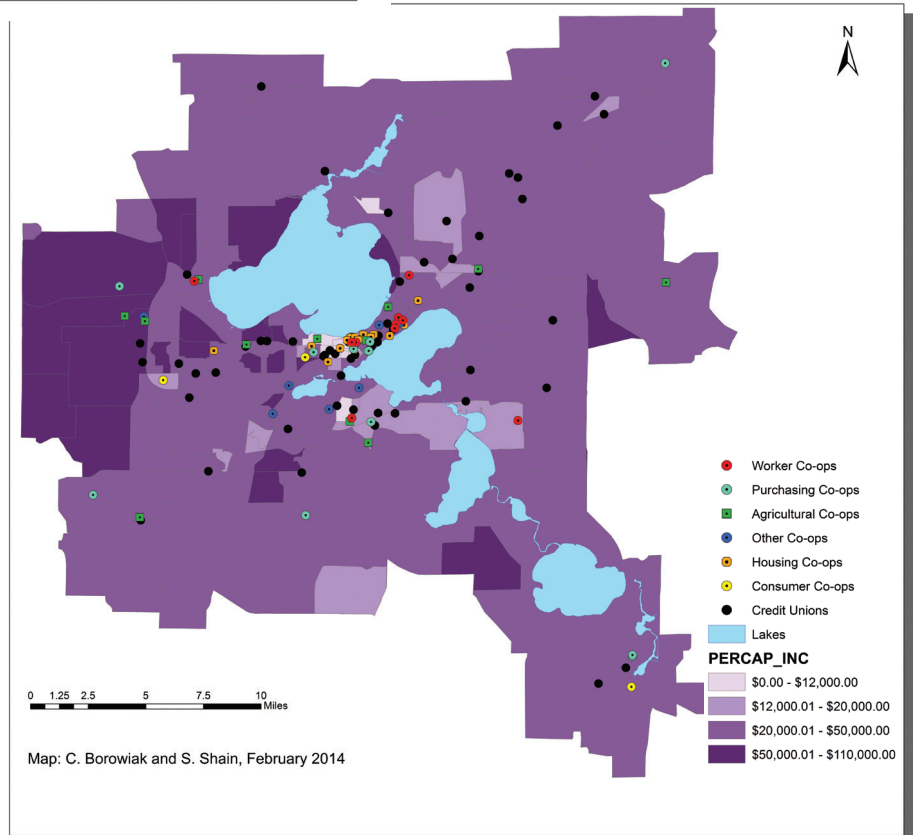


This geospatial analysis of cooperatives in Philadelphia reveals how the cooperative sector reflects various racial, ethnic, and economic patterns.⁴ Philadelphia, however, is a large and extremely divided city. As we will see, such demographic patterns of cooperative development are not replicated in the smaller, less divided city of Madison.

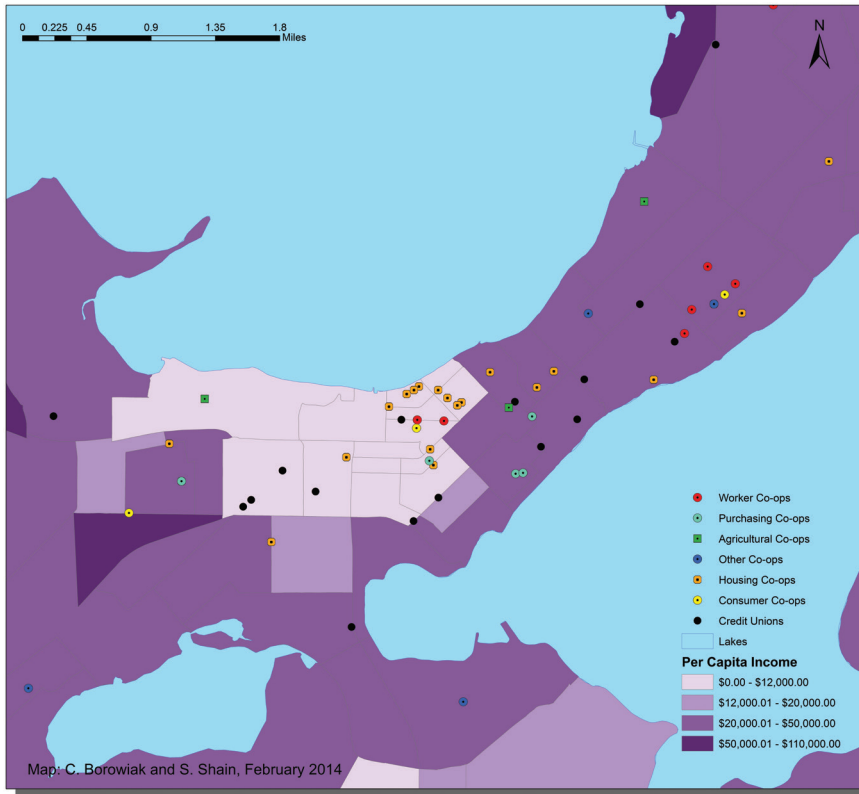
MADISON

Geographically speaking, the racial, ethnic, and class divisions in Madison are far more subdued than those in Philadelphia. This is not to imply that such divisions don't exist in Madison, but rather that they do not appear with the same intensity in the way the city is spatially organized. Madison is both a smaller and a far less geographically segregated city. In map 7, cooperatives and credit unions are plotted against per capita income in Madison.⁵ Map 8 represents the same data for only the downtown area, where cooperatives are especially concentrated.

MAP 7. Cooperatives and credit unions and per capita income in Madison



MAP 8. Cooperatives and credit unions and per capita income in downtown Madison

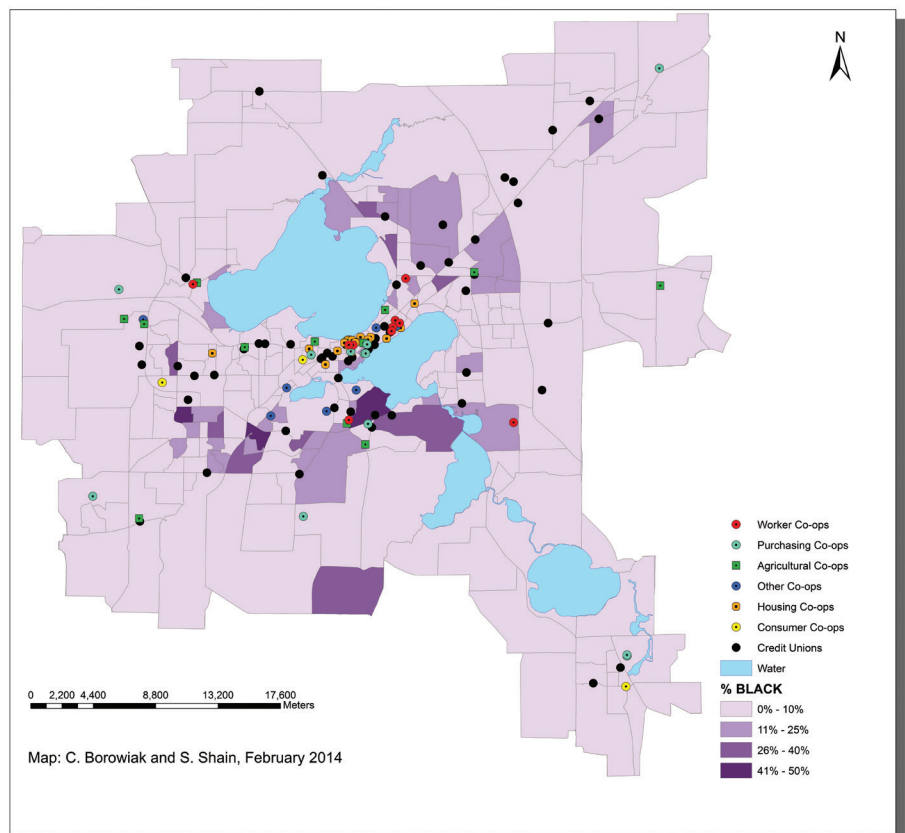


INTRODUCTION

In map 9, cooperatives are plotted against the percentages of the white population. All but a small handful of census block groups in Madison have a white majority and in most block groups that majority is more than 70%. It stands to reason that most of the city’s cooperatives would consequently be found in majority white neighborhoods. This is generally true, although there are important exceptions.

As these maps reveal, the income divides among Madison’s neighborhoods are far less extreme than in Philadelphia. We find a cluster of relatively high-income neighborhoods in the western outskirts of the city. There are also a few pockets of low-income neighborhoods in the south and northeast of the city, as well as in the downtown area near the university, where low-income levels reflect the large student population. The majority of the city’s neighborhoods, however, fall within the \$20,000–\$50,000 income bracket. Although most of the city’s cooperatives are located in such neighborhoods, clusters of cooperatives can also be found in some of the poorest neighborhoods in the city, which are also some of the most ethnically and racially diverse. This contrasts with the findings in Philadelphia, although it is important not to overstate the comparison given the greater scope and extent of structural poverty in Philadelphia—income level is only one variable associated with such poverty.

MAP 9. Cooperatives and credit unions and percent black population in Madison

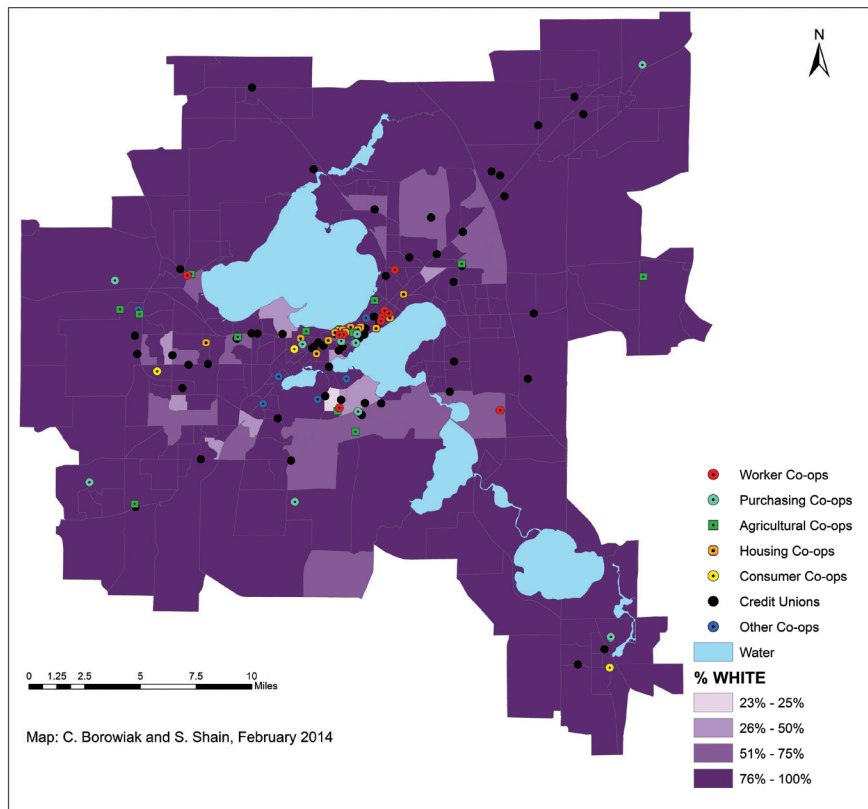


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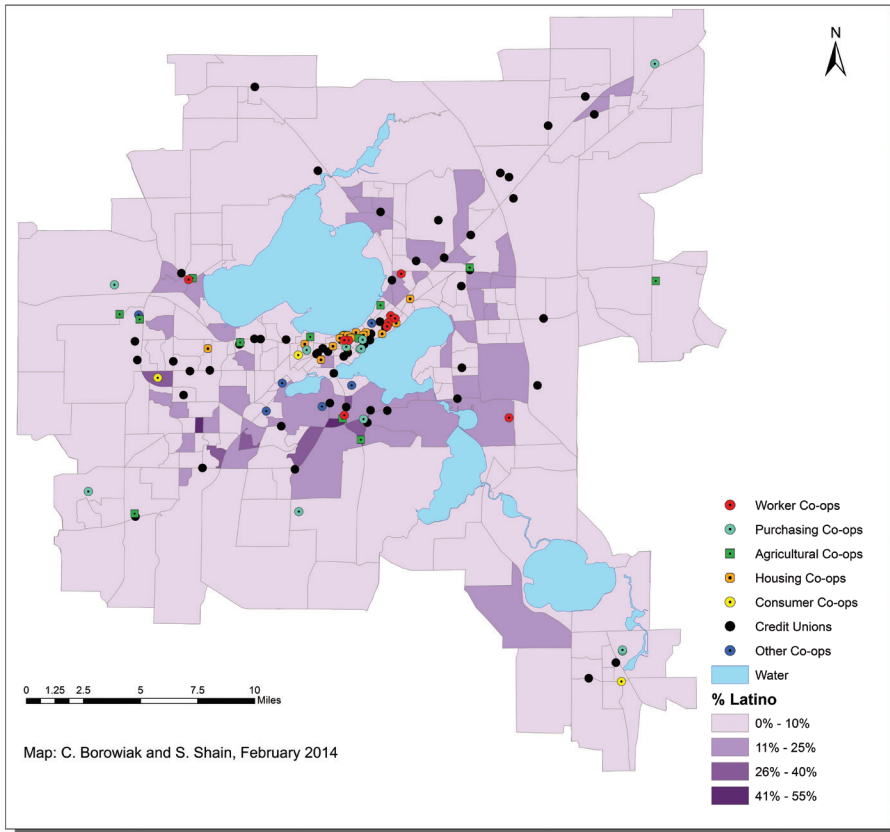
In maps 10–12, cooperatives are plotted against data on black, Asian, and Hispanic populations, each of which constitutes approximately 7% of the city’s overall population and none of which constitutes more than 65% of the population in any block group in the city. I have adjusted the scale on the maps to better capture the variations in population that do exist.

Perhaps the most important thing to observe in these maps is that Madison’s cooperative sector is not exclusive to white neighborhoods. Cooperatives are found in a variety of neighborhoods reflecting different racial and ethnic compositions. Most prominent is the area southwest of Lake Monona (the second largest of the lakes). This is an area with some of the city’s poorest and most diverse neighborhoods. It includes the only census block group where the white population is less than 25%, and one of only two block groups where the white population is smaller than another racial or ethnic population. In contrast with Philadelphia, demographic patterns in Madison simply do not appear as relevant for the spatial composition of the city’s cooperative sector. This is likely due in part to the fact that the demographic contrasts and concentrations of particular populations in Madison do not approach the levels found in Philadelphia.

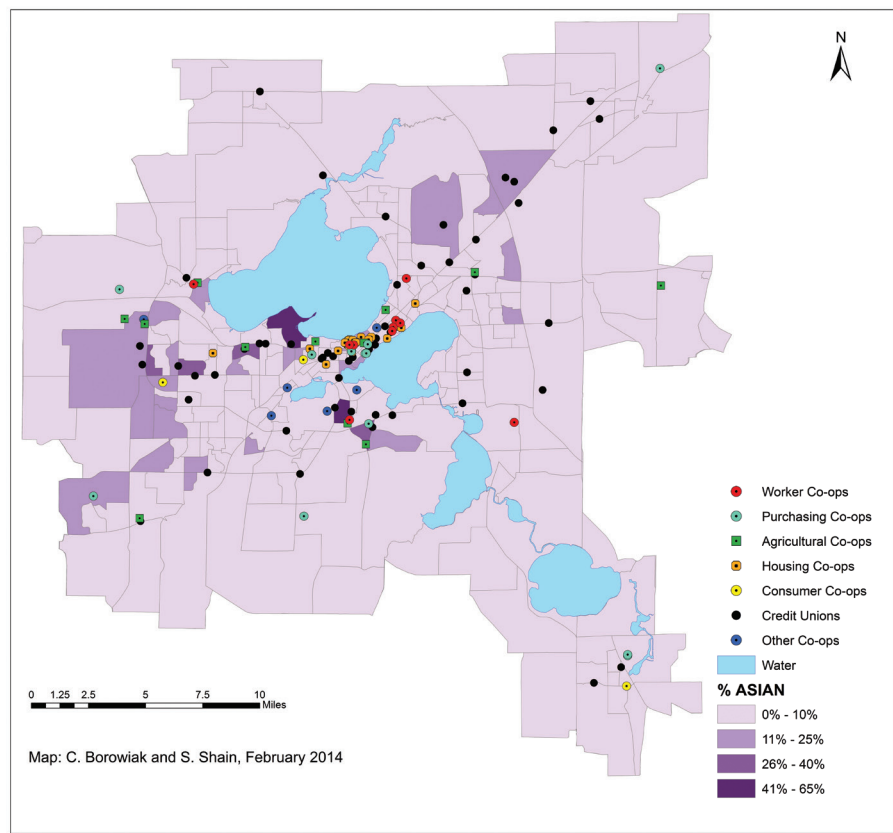
MAP 10. Cooperatives and credit unions and percent white population in Madison



MAP 11. Cooperatives and credit unions and percent Latino population in Madison



MAP 12. Cooperatives and credit unions and percent Asian population in Madison



Caveats and conclusions

I have used a series of stylized maps to illustrate some of the demographic patterns in Madison and Philadelphia and how they appear to shape the geographies of cooperative development. As a means for representing geographically specific data, maps can be tremendously powerful tools. Nevertheless, maps can also mislead. It is consequently important to acknowledge some of the methodological challenges this type of geographical analysis faces. I identify several of these challenges as follows.

First, these maps only represent cooperatives that possess distinct physical locations, including headquarters, branch offices, and/or retail storefronts. Missing from the maps are cooperatives that don't have such locations. Some cooperatives, for example, are run in a decentralized manner out of individual members' homes and with P. O. boxes as mailing addresses. Others, such as start-up cooperatives Kensington Community Food Co-op and the South Philly Food Co-op (both analyzed in this volume), do not yet have physical locations to represent on a map, although they will eventually. As a result of such omissions, maps such as these risk underrepresenting the overall size of the cooperative sector while overemphasizing the importance of those organizations that do have a distinct physical address.

Second, such maps can also be misleading because a cooperative's physical address is not necessarily an accurate measure of the cooperative's impact on a neighborhood. Just because it is located in a neighborhood does not necessarily mean that the cooperative's members, consumers, and workers come from, or have strong ties to, that community. Some cooperatives are locally oriented. Others operate at city-wide, regional, or national levels. Agricultural and purchasing cooperatives, for instance, might locate their headquarters in a city's business district for reasons that have very little to do with where their members and consumers are located. The same goes for some consumer and worker cooperatives. To give one specific example, The Energy Co-op in Philadelphia is a consumer cooperative that provides locally produced sustainable energy to its members. Although its main office is located in downtown Philadelphia, two-thirds of its members and some of its employees reside outside the city in the surrounding suburbs. Similarly, a worker cooperative such as Union Cab (analyzed in this volume) provides taxicab services across the Madison region and not only in the neighborhood where its offices are located. This contrasts with local credit unions, housing co-ops, food co-ops, or childcare cooperatives located close to the neighborhood communities who use and benefit from these organizations. The relatively simple maps I've generated here fail to reflect such differences.

Ultimately, maps such as those presented in this chapter are more useful for raising questions about geographic patterns than they are for answering them. By drawing attention to the social geographic patterns of cooperative sectors, they help to set contexts and to open up new questions about why cooperatives are where they are and how they do and do not reach into the neighborhoods most in need. Philadelphia and Madison, along with the cooperatives that populate those cities, have their own particular histories and contexts. For this reason the sort of sociological mapping I've done here needs to be complemented with more case-specific studies, such as the qualitative studies found in this volume.

Endnotes

- ¹ GIS is a modeling technique designed for capturing, storing, manipulating, analyzing, and presenting multiple types of geographical data. GIS mapping software works by allowing the researcher to superimpose different layers of geographic data on top of one another in a single map. Thus I can take a file that contains the outline—the shapefile—of a city like Philadelphia or Madison. On top of this image I can put a data layer that represents, for example, the city's parks and waterways. On top of this I can superimpose the image of census data organized spatially into color-coded blocks. I can then add different layers representing the location of cooperative entities. By controlling different data layers the researcher is able to more easily visualize and examine the spatial relations among data.
- ² Mapping Philadelphia against the more prosperous surrounding suburbs would reveal a different set of contrasts.
- ³ The maps in this chapter have been produced with the support of two research assistants (Samantha Shain and Madeline Smith-Gibbs) using ArcMap, a Geographic Information System software designed by ESRI. Census data is from the U.S. Census Bureau's American Community Survey (ACS) 2007–2011 (five-year estimates). The data on Philadelphia cooperatives has been compiled by Craig Borowiak and several research assistants, including Samantha Shain, Madeline Smith-Gibbs, Cameron Scherer, and Christine Letts.
- ⁴ Spatial statistics confirm these patterns. Cluster analyses conducted with ESRI's Anselin Local Morans I test reveal that large groups of cooperatives and credit unions are found in areas of the city where the white population is significantly auto-correlated. Comparable groupings are not found in areas where Latino and black populations (respectively) are significantly auto-correlated.
- ⁵ This and subsequent maps of Madison set the city's boundaries according to the Madison Area Transportation Planning Board's Approved Metropolitan Planning Area Boundary. Census data is from the U.S. Census Bureau's American Community Survey (ACS) 2007–2011 (five-year estimates). The data on Madison cooperatives has been provided by the University of Wisconsin's Center for Cooperatives.

chapter 1



Case Study: Willy Street Co-op

Courtney Berner

Introduction

The Willy Street Co-op is a consumer-owned co-op located in Madison, Wisconsin, and has been one of the city's major purveyors of natural and organic foods since it opened its first storefront in 1974. The co-op developed in the context of the anti-corporate movement of the 1960s and '70s and in response to an increasing demand for locally controlled, natural foods. The early organizers were a "small group of dedicated and political people who were determined to build an alternative food source for themselves and their community."¹ The departure of a local buying club from the Williamson Street area spurred the co-op's creation.² At the time, the area surrounding the co-op was a somewhat rundown neighborhood with a diverse socioeconomic make-up. The core group of co-op organizers, however, was quite homogeneous and most of the early staff and board members were friends or family.³ Since this humble beginning, both the co-op and its neighborhood have changed significantly. The Williamson Street neighborhood has gentrified considerably while the co-op has developed into one of the nation's largest and most successful grocery cooperatives.

Historical overview

The co-op's first storefront was located in the heart of the Willy Street neighborhood at 1101 Williamson Street. A small staff of volunteers ran the store, while another group of volunteers sought out a larger location. In October of 1974, the co-op moved to 1014 Williamson Street and was able to increase its inventory and hire six full-time workers. At first, staff members were not paid, but were allowed to take up to \$50 per week for sustenance until the co-op was financially stable. Many of the workers took less or none of the allotted \$50 and within three months the co-op was able to pay staff.⁴

The co-op has developed into one of the nation's largest and most successful grocery cooperatives.

The co-op quickly outgrew this space and relocated in October 1977. The inventory expanded greatly, sales doubled almost immediately, and membership grew from 1,300 to 4,000 in five years. This success came with staff and governance challenges. Until this point, the co-op had had no formal governance system, board of directors, or staff structure—the staff operated on a non-hierarchical, consensus basis, and most governance issues were addressed at monthly membership meetings. It is important to note that while the co-op was created to supply consumers, there has always been a strong emphasis on worker empowerment, and the early, consensus-based organizational system evolved from the founders' major concern for the status of workers.⁵

As the co-op grew, this system no longer met the co-op's needs and the business began experiencing financial losses. In response, the membership elected its first board of directors in 1979 and hired its first general manager in 1982. By 1985, the co-op was back on sound financial footing and decided to expand into available space in their building. Sales continued to grow and eventually the co-op was able to purchase the building.⁶

In 1998, the board began yet another conversation about expansion, but there were nine board members and nine different visions of what that expansion meant. The board discussed renovating the current location, but it eventually became clear that they should look for a new location.

In 1998, the co-op purchased the former Eagles Club building at 1221 Williamson. The building, which has 20,000 total square feet and 9,500 square feet of retail space, was remodeled and opened for business in October 1999.⁷ Between 2000 and 2004, annual sales grew from \$6.34 million to \$11.4 million, nearly doubling sales per square foot.⁸

In 1999, a market study revealed that at \$17–\$18 million in sales, Willy Street co-op would be maxed out in their current space—and at \$18.4 million in sales they were. On average, a typical grocery store turns their inventory over 18–20 times per year and has sales of \$700–\$1,100 per square foot.⁹ By 2007, Willy Street was turning their inventory over 35 times per year and averaging sales of \$1,900 per square foot. While these figures were good for business, they created major labor and space constraints. In addition to pressure on the space and staff, co-op members began to comment on how crowded the store and parking lot were.

Convincing the board of the need for a second location was easy. They knew something needed to happen to alleviate pressure on 1221 Williamson and took seriously the opportunity to create good jobs in a difficult economy, give staff professional growth opportunities, and provide additional market opportunities for local farmers. With the arrival of Whole Foods Market in 1996 and Trader Joe's in 2006, the co-op also needed to be proactive about protecting its position in Madison's natural foods market.

Despite several setbacks, in November 2010 Willy Street finally opened a second retail location just west of Madison in Middleton. In its first year, Willy West exceeded sales and membership expectations and helped the co-op grow from 16,000 to 24,000 owners, from 173 to 276 employees, and from \$20.1 to \$27.6 million in annual sales.¹⁰

Contemporary structure

MEMBERSHIP

Willy Street co-op currently operates two separate retail locations and has over 28,000 active owners, and most of them live in and around the Madison area. The co-op offers individual and household memberships. An individual member is one person with one vote, whereas a household membership consists of two or more people who live in the same house and are entitled to one vote.¹¹

In order to join the co-op, prospective owners complete an application form and make an equity payment. An individual ownership consists of a one-time full payment of \$58 (\$56 equity payment + \$2 administrative fee) or up to seven payments of at least \$10 (\$8 equity payment + \$2 administrative fee for each payment), for a maximum investment of \$70. A household ownership requires a one-time full payment of \$93 (\$91 equity payment + \$2 administrative fee) or up to

seven payments of at least \$15 (\$13 equity payment + \$2 administrative fee for each payment), for a maximum investment of \$105.¹² All members can access the following benefits:

- Patronage refund during years the co-op is profitable (initiated in late 2009)
- Owner rewards sales
- Free tickets to co-op's annual meeting and party
- Discounts on pre-ordered case purchases
- Special order items not regularly sold in the store
- Mailed copy of monthly newsletter, the Willy Street Co-op Reader
- 5% discount on Reader advertising
- Right to serve on committees or run for the board of directors
- Co-op reciprocity (When traveling, owners pay owner prices at most other retail food co-ops throughout the country by showing their owner card.)
- 5% savings every day (Owners pay shelf price; non-owners pay 5% more.)¹³

The main way owners participate in the co-op is by shopping there. While only 7% of Willy Street's owners voted in the fiscal year 2011 board election, 93% of sales were to owners.¹⁴ Providing feedback is another valuable way owners can participate. In fiscal year 2011, the co-op received a total of 2,356 written comments in the store and via the website.¹⁵

GOVERNANCE

The co-op is governed by a nine-member board of directors, which is elected by the membership. There are four standing committees: finance, policy review, board development/nominations, and audit. Each committee is made up of a combination of board members, staff, and non-board owners.¹⁶ The board uses policy governance to set priorities and strategies for the co-op.

STAFF

A member-elected board of directors governs the co-op, but the business is managed and operated entirely by paid staff. Since the co-op's inception, staff members have played a critical role and that tradition continues. Staff members are able to run for the board and participate in some committees and on the employee council, which sets policy that directly affects employees. Each department elects a representative to the council annually.

In fiscal year 2011, Willy Street's staff expanded from 173 to 276 employees, which includes 160 full-time staff.¹⁷ The co-op prides itself on offering employees an excellent benefits package that includes health insurance, paid vacation, employee discounts, profit sharing, and participatory management.

FINANCES

Willy Street Co-op is a mature, self-sustaining business. Despite the inherent financial challenges of opening a new retail location, the co-op ended fiscal year 2011 on sound financial footing. In fiscal year 2011, the co-op generated \$27.6 million in gross sales, exceeding projected sales by 15%.¹⁸

Financing for Willy West included a landlord-tenant improvement allowance, an owner bond drive, cash held by the co-op, vendor credit, and a business loan.¹⁹ Total financing for the project was \$3,450,562. Money earned from the owner bond drive provided a portion of the cash needed to finance the second store. The co-op had a goal of raising \$600,000 in bonds but was authorized to raise up to \$1 million. They reached that stretch goal in an astonishing 39 days. The ease and speed with which the co-op financed the expansion is likely due to the co-op's strong financial position, owner support for a second location, and the central role the co-op has come to play in the Madison community.

The co-op sought bids for debt financing from a variety of sources. In keeping with Cooperative Principle Six, cooperation among cooperatives, the co-op chose to work with Summit Credit Union, which had recently developed a strategic initiative to work more closely with cooperatives.

As a result of the expansion, the co-op took on approximately \$1.5 million in long-term liabilities between fiscal year 2010 and 2011. This raised the co-op's long-term liabilities to \$2.8 million, the highest level in the co-op's history.²⁰

Table 1 shows key indicators of the co-op's financial health over the last two years. In fiscal year 2010, the co-op paid its first patronage refund to owners, returning \$96,775 in cash and allocating \$387,085 in equity to owners. The co-op did not generate a profit in fiscal year 2011 but hopes to distribute another patronage refund as soon as it is profitable again.²¹

Analysis

The question of whether or not a grocery co-op should expand gets to the heart of what it means to be a cooperative business that exists to serve its members. As a well-respected, established business, Willy Street co-op is well positioned to have a major impact on the Madison community. But what is the best way for the co-op to do that?

While most owners were incredibly supportive of the co-op's expansion efforts, some owners accused Willy Street of getting too big and "selling out." One long-time owner mentioned she has "personal friends who were very opposed to a second location. To them the co-op was becoming too big and losing its co-op feel. They've also been members since the '70s so they remember when you went in and did your three-hour shift. And now we don't even permit that. So to them, they felt like the co-op was selling out and becoming more like a big business."²²

TABLE 1. Key financial health indicators

	FY 2011	FY 2010	
Cash	\$2,643,196	\$3,364,097	The decrease in cash reflects the co-op's \$835,000 cash contribution to finance expansion.
Current ratio*	2.2	3.1	This ratio indicates the co-op's ability to meet near term obligations to vendors, staff, and other creditors.
Debt to equity	1.3	0.9	The increase in debt-to-equity ratios over the last two years is due to the increased debt-to-finance expansion.
Fair share**	\$1,496,875	\$1,172,107	28% growth
Total equity	\$3,575,587	\$3,366,357	Growing total equity allows the co-op to finance more of its growth from internal resources.

*The current ratio is equal to current assets divided by current liabilities. The higher the ratio, the more liquid the company.

**A fair share is the equity payment one must make to become an owner of the co-op.

The March 2006 issue of the Willy Street Co-op Reader, the co-op's monthly newsletter, included the following letter:

"I am so tired of hearing about "expansion." If the co-op is making so much money, why not consider the following instead:

- lower mark-up margin (i.e., lower prices)
- donate money to other local cooperative, struggling businesses (e.g., Mifflin)
- increase the amount given to the Community Reinvestment Fund
- raise staff salaries and benefits

I am deeply saddened that Willy Co-op is becoming so mainstream and corporatized, with the sole goal of "expansion" and with "management" making all business decisions. Nowadays, it seems to be almost a misnomer to call the store a cooperative."²³

Others disagreed. One owner emphasized that, "people who are having success doing good work have an obligation to do more of it."²⁴ Another owner added, "I'd like to see them replicate the success in whatever way they think is best. It might not be another store; it might be something else. The co-op is a very successful enterprise. If you look at the ends policies they talk about being an economic cornerstone. We should not rest on our laurels."²⁵ It can be difficult for successful co-ops to balance the desire of some owners to maintain the status quo with the need to grow in order to survive in the highly competitive grocery industry.

Despite strong support from staff and owners, the general manager has questioned whether or not the co-op should be in the business of starting other co-ops.

"In some ways, for me it's tough to balance if it is our job to open other co-ops. Because I do think that co-ops are somewhat grassroots efforts and communities build them and that's why they thrive. But I do know that it's very hard to do as a start-up. So my long-term goal is that the Middleton store might be spun off and turned into a Middleton co-op. I know that's a ways down the road and that not everyone would agree with me."²⁶

Evaluating whether or not expansion is the best way for the co-op to serve its owners, employees, and community is not a simple task. This is especially true given Willy Street's large owner base and the diverse needs and desires of those owners. At its inception, the co-op was a small buying club that enabled eastside residents to access healthy, natural foods at prices they could afford. As the business has grown and changed, so have the priorities of owners and the ability of the co-op to impact the broader community. While opening a second store is arguably beneficial to employees, who now have greater opportunity for professional development; to farmers, who now have a larger market; and to owners on the west side of Madison, who now have better access to the co-op, the benefits to other stakeholders are less clear.

Conclusion

It has been two years since Willy West opened and both sales and membership have exceeded expectations. Furthermore, despite the growth at Willy West, sales continue to be strong at the flagship location. After years of hard work, it is a relief to owners and staff members that Willy Street's second store is open, embraced by the community, and on track for financial success.

The co-op could have chosen a number of paths for expansion instead of opening a second location, including remodeling the 1221 location, buying a farm, starting a restaurant, or establishing a natural foods warehouse, among others. As the co-op explores future opportunities, many of these options are still on the table. In February 2011, the board of directors met to discuss Willy Street's strategic priorities for the years ahead. The board whittled 10 ideas down to three core initiatives:²⁷

- Develop the local food system
- Pursue green initiatives
- Make the co-op more financially accessible

In the coming years, these initiatives will be an essential touchstone as the co-op considers how best to effect change in the world while serving its members and sustaining a profitable business.

...

All interviews were conducted by the author and in confidentiality. The names of interviewees are withheld by mutual agreement.

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The Little Store That Could: Regent Market Co-op

Mark DeRemer and Denis Collins

Introduction

Regent Market Co-op (RMC), located at 2136 Regent Street in Madison, Wisconsin, is a small (1,423 square foot) neighborhood grocery store that offers conventional and organic dry goods, an old style butcher and deli, and fresh produce.¹ In 2012, the co-op generated \$1.14 million in revenue, with daily sales of approximately \$3,000 and almost 7,000 items in stock.² Regent Market serves three urban neighborhoods and takes pride in being the “cornerstone” of the Regent neighborhood. Regent Market is a place for members to catch up on family news, share community concerns, and discuss political issues, while purchasing their groceries.

The neighborhood grocery store wasn’t always a co-op. Founded in 1923, the store became a cooperative business through a combination of necessity and philosophy. In 1998, with the store on the verge of bankruptcy, an employee familiar with cooperatives launched a successful membership capital campaign among neighborhood residents and customers to purchase and convert it to a consumer-owned cooperative. Several general managers have since reinforced the business cooperative spirit in an industry with low net margins.

The co-op struggles to remain financially viable in the highly competitive grocery industry, as it confronts governance challenges and size constraints that inhibit growth and profitability. Its most valuable assets include continued neighborhood support, a skilled general manager, employees committed to customer service, its product mix, and a committed volunteer board of directors.

Historical overview

F.J. Hoffman Grocery opened its doors in 1923 as a fresh meats and grocery store.³ The Universal Grocery and Randall Market Meats bought the business the following year. Over the next 50 years, the small grocery business and butcher shop was acquired by the Kroger grocery chain and then by the Super IGA chain.



In 1974, Joe Heggstad bought the business, and eventually purchased two adjacent buildings, which housed small businesses topped by three second-story apartments, one of which became his home. He renamed the grocery store Regent Food Market. Colloquially known as “Joe’s Market,” the store became central to the Regent neighborhood’s identity, serving as a gathering place that provided friendly, high quality customer service. In 1995, Heggstad sold the store’s assets, which had operated on a small profit margin, and rented the building to the new owners. Three years later, the new owners, unable to successfully compete against a growing number of large supermarkets, were on the verge of bankruptcy with a heavy debt load.

The 15 employees did not want to lose their jobs, and long-time customers did not want to lose the convenience or social interactions associated with shopping at Joe’s Market.⁴ In early 1998, Jay Rath, a nine-year employee who had grown up in the neighborhood, proposed to the Regent Neighborhood Association that the store, long considered a “community center,” be purchased by neighbors and other customers. Rath was familiar with cooperatives, having lived in a housing cooperative and served on the finance committee of Madison Community Cooperative, a federation of local housing cooperatives. He reasoned that two popular grocery co-ops already existed in Madison, one down-

town and the other on the eastside, so why not a third one on the near westside where many professionals with progressive values lived?

In the spring of 1998, Rath met with other Madison Community Cooperative leaders, neighborhood business owners, and bankers to determine that \$80,000 was needed to buy the store's assets and restock its shelves. While these discussions were underway, the bank foreclosed on the store's owners and employees lost their jobs. Undeterred, Rath, two other former employees, and a committed group of supporters sold lifetime co-op memberships for just \$100 each.

Members exhibited a strong sense of ownership by helping to clean the store, unloading deliveries, pricing and shelving products, and, most importantly, buying groceries.

Neighbors rallied to the cause and several contributed substantial amounts. Within a few weeks, more than 700 people had invested \$100,000, providing the capital necessary for the store to commence business again.

In August of 1998, two months after the foreclosure, Regent Market reopened as a customer-owned cooperative with 15 employees. Rath served as board president, oversaw general operations, and worked part-time in the store. Two former employees became full-time managers and split the general manager's duties.

This was an exciting time. Co-op and board members exhibited a strong sense of ownership by helping to clean the store, unloading deliveries, pricing and shelving products, and, most importantly, buying groceries.

Initially, the co-op performed very well. However, Regent Market's small size made it difficult to generate sufficient profitability needed to stay current with accounts payable and fund operational improvements. Cash flow problems were exacerbated by theft by students from the nearby high school and an embezzlement incident. Within a few years the store was once again having serious financial difficulties, with nearly \$150,000 in unpaid vendor bills.

The board of directors responded to these issues by recruiting a new general manager and new members. In addition, a professor of small business from the nearby University of Wisconsin–Madison School of Business was

consulted and one of his students met with vendors. Together they developed a payment plan that significantly reduced vendor debt from \$150,000 to \$25,000, enabling the co-op to remain in operation.

The board also launched a series of \$10,000–\$40,000 capital campaigns—in the form of letters to members, requests to key financial supporters, and store publicity—for debt repayment and upgrades such as new freezers and coolers, deli renovations, and floor repairs.⁵ Approximately 25% of the membership contributed to these efforts, almost all in the form of modest donations. In addition, during periods of financial stress, the board targeted several members, including five board members, for no-interest loans ranging from \$1,000 to \$20,000. These loans were generous, and were made with informal terms. Lenders expected to be paid back, but repayment terms were not specified.

Despite the capital improvements, financial performance remained tenuous over the next seven years. The co-op barely broke even, debts mounted, and capital was needed for other operational improvements. In 2005, two full-time employees led a unionization effort to enhance job security.⁶ The union, United Food and Commercial Workers Local 1473, established formal employee policies, such as paid holidays and vacation days, probationary periods, and disciplinary procedures. Whatever the merits of unionizing the workforce, it limits managerial flexibility and puts further pressure on maintaining profitability.

In 2008, Randy Winkler, who had extensive experience in the grocery industry, was hired to turn around the financially distressed store. As the new general manager, Winkler instituted policies and procedures designed to streamline store operations and increase cost efficiencies. He cut staff from 25 to 15 employees, decreased inventory from \$100,000 to \$60,000, instituted processes that eliminated product spoilage, obtained better deals from vendors, and reduced product theft.

Over time many, but not all, of the member loans had been repaid. However, Winkler heard that several influential co-op members had stopped shopping at the store because they had not been repaid. To win back the goodwill of these members, he created customer credit accounts for the amount still owed and persuaded them to once again patronize the co-op. In addition, to increase sales Winkler encouraged the use of credit accounts for families with kids.

Contemporary structure and functions

Regent Market is located on a major traffic artery that draws in commuters to the neighborhood, although parking is limited to a few street spaces. The store is sandwiched between a series of five small businesses adjacent to a busy intersection. A liquor store, which has three second-story apartments, and an antiques store are between the co-op and the traffic light. On its other side are a flower shop and an art gallery, followed by single-family homes.

Regent Market's customer base includes people who live in the surrounding neighborhoods, commuters driving down Regent Street, high school students, and people attending University of Wisconsin football games. The densely populated neighborhoods served by the store are home to highly educated professionals who earn above-average incomes and tend to have progressive views supportive of the co-op concept. A high school with more than 2,000 students is just one block away, providing significant weekday traffic at lunch and after school. The nearby university football stadium, which seats 80,000 people, brings in fans walking to and from games on football Saturdays.

Since its 1998 founding, co-op membership has nearly tripled. With 145 new members in 2012, total membership reached 2,022, and the vast majority of them are residents of the surrounding neighborhoods.⁷ This growth has come primarily from neighborhood-wide capital campaigns, word of mouth, and cashiers encouraging shoppers. Approximately 80% of shoppers are co-op members, with average sales in 2012 of \$550 per member. Any individual or organization can become a co-op member by paying an annual membership fee of \$25 per household or organization or a lifetime membership fee of \$125.⁸

The primary benefit of co-op membership is a 10% discount at the checkout, which can also be used at other Madison grocery store co-ops.⁹ Members can also order items in bulk at further discounted prices and participate on various committees—such as marketing, finance, and building improvements—that help steer the co-op. There are no dividend payments to members as all profits are funneled back into the store for operating expenses and debt payments.

Volunteer opportunities for co-op members change based on store needs and member interests. In addition to board and committee service, volunteer opportunities include managing the weekly electronic newsletter, delivering purchases to elderly and disabled neighbors,

clerical help, distributing fliers, inventory assistance, carpentry and repair projects, computer assistance, and organizing two annual street fairs.¹⁰ Of course, the co-op's greatest need for member involvement is their regular patronage.

The volunteer board of directors is central to operations. Co-op members elect the five to ten-member board who serve staggered two-year terms.¹¹ The board president, treasurer, and corporate secretary are elected by the board. The store's general manager and employee representative are non-voting board members.¹²

The board oversees the general manager's performance, establishes general policies and procedures, and determines the allocation of net earnings. The co-op has also relied on board members for accounting and legal advice. Board nominees are typically recruited by word of mouth based on their skill sets.

All co-op members are encouraged to attend the annual board meeting, at which the previous year's performance is reviewed and plans for the upcoming year are made.¹³ About 50 co-op members, representing approximately 3% of total membership, attend the annual meeting. Co-op members can also attend the regular monthly board meeting, but few do.

The paid staff of 17 currently includes the general manager and his wife, six full-time employees, and nine part-time employees (typically college students working 8–10 hours per week). One full-time employee serves as union representative. The union contract is negotiated every two years. There have been no major labor disputes. The union is cognizant of the co-op's limited financial resources, and the board and general manager are sensitive to employee needs.

Regent Market's major source of capital has always been its members. Targeted capital campaigns have been successful in obtaining donations and a few loans. Fundraisers offer complete financial transparency, encourage inspection of the co-op's financial records, and clarify exactly how much money is needed for what specific purpose. The store has also received loans from a bank cooperative (Summit Credit Union), a local public utility (Madison Gas & Electric), and a large grocery co-op on Madison's east side (Willy Street Co-op).

In 2012, RMC earned \$1.14 million in revenue, with a gross profit margin of 34% and a net margin in the 2–3% range, which is typical for the industry. Annual sales per square foot totaled \$843.29, with almost 7,000 items in stock.¹⁴ The co-op's \$16.22 per square foot weekly sales outperforms two nearby major competitors, Sentry

Foods (\$10.58) and Whole Foods (\$12.50).¹⁵ The co-op's modest net income of approximately \$20,000 was used to pay down debt and provide a bonus for the general manager. As of September 2012, the co-op's debt to equity ratio was \$34,552/\$160,579 or 21.5%, which is much lower than most grocers. The store's current assets to current liabilities ratio has increased from 0.5 in 2009 to 2.0 in 2012, exceeding the store's 1.25 ratio goal.¹⁶ Accumulated prior losses have resulted in a negative retained earnings balance of \$39,047, leaving a net equity balance of \$160,579. Yet, by the end of 2012, the co-op's long-term debt had been eliminated.¹⁷ The co-op continues to operate on a tight financial budget.

Analysis

The original idea behind Regent Market was to recreate the friendly neighborhood grocery store, having the same feeling as Joe's, as a cooperative. In doing so, the co-op has faced several major challenges through its 14 years of existence, some of which continue to the present day. This section examines six key challenges: competition, networking with other cooperatives, internal controls, the board, general manager, and financial stability.

COMPETITION

A major challenge facing Regent Market is faced by many small grocery stores: the encroachment of better financed regional and national grocery chains that can buy in large quantities and price items lower, and survive on small profit margins.¹⁸ A Target, four traditional supermarkets, and a Whole Foods Market are located within three miles west of the co-op. In 2006, a Trader Joe's opened seven blocks to the east. Despite the intense price competition, the co-op's butcher and deli department, and its reliance on local farmers for beef, chicken, and pork, provide a niche where it can operate in this very competitive environment.¹⁹

A major advantage of Regent Market's cooperative status lies in the significant goodwill it generates from customers. Loyal members value the ability to shop locally and appreciate the friendliness and personal level of service the co-op offers.²⁰ In addition, approximately 40% of the co-op's products are locally produced.²¹ The store has been a neighborhood fixture from its earliest days. The goodwill that comes with longevity of that magnitude is demonstrated by member financial infusions whenever the co-op was in need of major capital expenditures. Membership identity is

reinforced every visit, when the cashier asks for membership identification so purchases can be appropriately discounted.

Being only 1,423 square feet in size, and sandwiched between two other small businesses, the co-op is unable to expand shelf space needed to display a wider array of products or buy larger quantities that would allow lower prices. Given this limitation, it is imperative that the co-op be customer-oriented in service and be careful to use shelf space for stocking only what local customers desire. This requires a skilled merchant manager, as there is little room for error.

NETWORKING WITH OTHER COOPERATIVES

Regent Market has benefitted from cooperation with other cooperatives. Willy Street Co-op, a much larger grocery co-op, has helped the store financially from time to time and provided mentoring advice to former managers when needed. The store is now returning the favor by extending a helping hand to a relatively new grocery store co-op, the Yahara River Grocery Cooperative, in nearby Stoughton, Wisconsin. The Yahara River Co-op is experiencing some of the same start-up difficulties as Regent Market did back in the late 1990s and early 2000s. Winkler, Regent Market's general manager, provides guidance on managing cost controls and vendor relationships, and the two stores pool some merchandise orders to obtain quantity discounts.

Regent Market is also closely associated with two other business cooperatives. The store's primary wholesale distributor is Certco (formerly Central Wisconsin Cooperative Food Stores), a local co-op business that services independent supermarkets. Summit Credit Union, another cooperative, serves as the store's bank and lending institution.

Regent Market is a member of the Dane County Buy Local Initiative, a countywide coalition whose purpose is to promote local independent businesses and organizations.²² The co-op is involved on both sides of the "buy local" equation, purchasing food supplies from local growers and producers, and attracting current and potential customers living in the neighborhood. The store also works with a handful of nearby small businesses to attract consumers to the area.

INTERNAL CONTROLS

A common problem among small businesses is employing enough staff to have proper segregation of accounting duties. There is potential for embezzlement when one employee places orders for goods, records receipts, and also pays the invoice. It is standard accounting procedure to segregate these duties to prevent fraud. However, this requires a sufficient number of employees and entails redundancy that most small organizations cannot afford. Regent Market has fallen victim to embezzlement, the last alleged incident involved the board treasurer who was found guilty of embezzling while a controller for a private company. Financial theft is particularly disheartening because the violation of trust is counter to the most foundational principles underlying the cooperative model.

The usual counter control for a lack of segregation of duties in a small business is strong owner involvement, wherein any financial mismanagement is personally felt. At Regent Market, all members are owners. This has the effect of dispersing accountability to the general manager and Board. Prior to Winkler, the co-op lacked a highly skilled general manager able to put appropriate daily controls in place.

THE BOARD

Regent Market has always had highly committed board members, aside from the alleged embezzlement incident. Members of the neighborhood are willing to provide assistance to the co-op, helping to clean the store and perform tasks such as carpentry and electrical work if asked. But the co-op has had problems getting enough board members with the right skills to perform certain duties, in particular the higher order services, such as legal and accounting skills, that are most needed. Professionals with these skill sets are in high demand and are often too busy to commit to the amount of work required for a store the size of Regent Market. Currently, the board does not have an attorney, and the accountant's term is about to expire with no identified replacement. It is not clear that the store is any better situated to attract needed board participation in the near future.

Appropriately, the board has evolved from a hands-on operating model to a governance model. Until recently, board members occasionally became involved in the co-op's day-to-day affairs, unintentionally undermining the previous general managers' authority. The change

in board philosophy was fostered following the hiring of a new general manager with significant industry experience.

GENERAL MANAGER

The general manager must have the skills needed to train employees, conduct performance appraisals, purchase supplies at favorable prices, and sell profitable products desired by customers. As a small store, Regent Market cannot afford to pay a large salary for the manager's position. Initially, the co-op was team-managed by three former employees who wanted to recreate the more successful store atmosphere that Joe's had experienced in the past. Initially, these well-intentioned managers performed admirably. However, they lacked the managerial expertise needed to adequately respond to the continual problems inherent in any business: new competitive pressures, obtaining additional capital for improvements, managing debt, controlling costs, and applying appropriate accounting controls.

More recently, an experienced general manager, who knew how to control costs and work with vendors, was hired, arriving in the midst of yet another financial crisis. By making staff reductions, reducing inventory, and implementing policies to reduce theft, he has brought the co-op to its current break-even existence.

The centralization of power under a strong general manager can raise concerns within a cooperative model that values member consensus and shared governance. Ideally, a successful cooperative would have a skilled general manager, a strong board, and active membership involvement. The co-op now has a skilled general manager, a committed board struggling to recruit board members with requisite business skills, and a rather disengaged membership in terms of decision making. The co-op has shifted from an initial emphasis on member involvement and democratic decision making to an emphasis on being a competitive grocery store that serves the food needs of its members.

FINANCIAL STABILITY

Regent Market has been in a more or less break-even existence since its inception, learning the hard way that strict financial oversight is critical to success. The co-op came into existence with the financial support of many in the neighborhood. Within two years, however, the store was again on the verge of bankruptcy, saved only by suppliers agreeing to settle accounts for pennies on the dollar. Later, another capital campaign was required to make needed repairs and buy new equipment because the co-op had yet to accumulate a sufficient financial surplus. Regent Market has needed approximately six capital campaigns to date because it has never been profitable enough to do anything more than survive.

Much of the profitability problem is due to Regent Market's small size, which limits product selection and inventory discounts. There is one potential opportunity to address size constraints. The co-op currently rents the building from Joe Heggstad, the original owner of Joe's Market. Heggstad also owns two adjacent properties that house a liquor store and an antiques and bookstore. The board maintains ongoing discussions about purchasing the three buildings, which would allow the business to not only expand shelf space, but also add a

high-profit liquor department.

In the meantime, space remains a major limitation and competitive pressures, as always, are likely to increase. Quality service and expert management are the keys to main-

taining market share. It appears that Regent Market now has a general manager with the required skill set to keep the co-op at a steady break-even point. It remains to be seen whether the co-op will achieve a level of profitability to become truly self-sustaining.

The co-op as an institution remains central to the vibrancy of the Regent neighborhood and seems to have turned a meaningful corner.

Conclusion

From the outset, Regent Market has struggled to maintain financial viability while remaining true to the co-op ethos of membership involvement. The co-op came into existence when several employees decided to resurrect a bankrupt grocery store that had been a neighborhood institution for three-quarters of a century. Incorporating as a co-op was their preferred means to recapitalize the store and deepen relationships with the neighborhood.

Over time, the board of directors has realized that the business requires an experienced general manager with keen business sense, someone with financial and management skills who can bring together the co-op capital structure, union workforce, and strong membership support to make the store financially viable.

Since 2008, Randy Winkler has been the catalyst for turning Regent Market into a sustainable operation. According to board members, Winkler and other employees provide hands-on customer service and the right mix of profitable products to meet the needs of professional families, elderly members living on fixed incomes, and those who desire more high-priced organic goods. The board is actively engaged in developing and implementing long-term strategies for achieving better financial performance and sustainability.

The co-op as an institution remains central to the vibrancy of the Regent neighborhood and seems to have turned a meaningful corner. The board and Winkler seek to attain improved financial performance, from the current \$1.1 million annual sales and 2% net margin to a projected \$1.5 million in sales and 7% net margin. The next challenge is to stabilize financial performance while identifying and implementing strategies to achieve these ambitious financial goals in the face of current capacity constraints.

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We thank the following for participating in interviews: Joe Heggstad, Kimberly Moucha, Jay Rath, Mary Rouse, John Wendt, Randy Winkler, Brad Wolbert, and James Yockey. Denis Collins, the case study's second author, has been a co-op member since its founding in 1998.

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Food for the Revolution: The Story of the Mifflin Street Community Cooperative

Molly Noble

The Mifflin Street Community Co-op, the first food cooperative in Madison, Wisconsin, emerged out of 1960s opposition to capitalist exploitation and materialism. Founded on the ideals of participatory democracy and egalitarianism, it evolved to embrace food politics and healthy eating. Eventually, faced with decreasing sales, increasing competition, and the discovery of years of unpaid taxes, members decided to close the store in 2007. The story of the Mifflin Street Community Co-op (MSCC hereafter) and an examination of its internal governance structure reveal challenges of operating a “community controlled enterprise”¹ such as maintaining member participation and a committed and empowered staff.

Historical overview

In the 1960s Madison was booming with political activism solidifying around the anti-war movement. Much of the mobilization stemmed from the Mifflin Street neighborhood, located between the Wisconsin State Capitol and the University of Wisconsin–Madison. Affectionately called Miffland, the area was a hub for radical students, political organizers, and others swept up in 1960s activism. When several Miffland residents heard that their local grocery was closing, they came up with the idea to transform it into a food cooperative. “They envisioned a co-op with broad community support and member participation.”² They sold \$5 memberships around the neighborhood and campus and received a \$250 loan from a local book co-op. Through these efforts they raised about \$1,500, just enough money for a temporary lease on the old grocery building, some secondhand coolers, freezers, shelving, other equipment, and finally, a random assortment of groceries from another store going out of business in a nearby suburb. Despite being poorly stocked and staffed entirely by volunteer labor, MSCC opened in January of 1969.³

In its early days, the co-op embodied the “counter-culture looseness”⁴ of the 1960s and functioned as a local hangout in the neighborhood. “[It was] the center of the universe. People called up on the phone all day long to find out what was going on.”⁵ Dogs and cats roamed the aisles, posters and banners littered the walls, and workers smoked dope at the register.⁶ The store also took up some less than traditional business practices.

To demonstrate the community ownership of the store, customers were allowed to check themselves out.⁷ On several occasions when no one volunteered to stock shelves after a delivery, a staffer would lock the door until shoppers completed shelving.⁸

The co-op was also a hub of political activity. The story of the first Mifflin Street Block Party, now an institutionalized event that happens every May in the same area, captures MSCC’s engagement in the politics of the community. In the spring of

1969, area residents congregated in the MSCC storefront to plan a celebration of the Miffland community. The party proceeded peacefully on a Saturday afternoon in early May until police arrived and told the crowds to disperse. Mifflanders refused to leave and eventually the confrontation erupted into violence that lasted three days and spread to other parts of the city. Whether the party was organized to take a stand against the police and their repressive tactics is disputed.⁹ But as the informal convener of the block party, MSCC helped to solidify Miffland as a community of resistance. In the years that followed, residents continued to hold meetings in the storefront to plan demonstrations and other community events.¹⁰ In a pre-internet and pre-cell phone era, this type of space was vital for sharing information and coordinating actions.

“The [Mifflin’s] slogan “Food for the Revolution” was not a shallow marketing concept but a summary of profound convictions.”

Leigh Weaver, Mifflin Manifesto

Another critical moment in MSCC's early years was its transition from a typical corner grocery to a health food store. Until the early 1970s, candy, cigarettes, and Coke constituted a large portion of the co-op's daily sales. However, as members and staff became increasingly aware of whole and organic food options, they questioned the morality of selling junk food. MSCC organized a community meeting in a neighborhood park to discuss whether or not to stop selling these items and increase the variety of health items. The debate was heated and long but eventually the group agreed to "purify" the store.¹¹

From this point forward health consciousness and food politics became a central part of MSCC's mission. For example, the store instituted a two-cent banana tax to

As political activism gradually dissipated, the co-op had, perhaps, outlived its role as a counter culture institution.

provide support to a local group working with Central American refugees.¹² MSCC was also conscious of the privilege required to purchase food

based on its politics and not its price. During the tuna boycott of the '80s,¹³ staff debated whether or not to stock tuna. On one hand, they wanted to support the boycott. On the other hand, they recognized that tuna was an inexpensive source of protein for the neighborhood's low-income residents. They compromised and decided to sell the tuna but include information about the boycott on the shelf.¹⁴

The store struggled financially throughout the '70s and early '80s.¹⁵ Inflation increased food costs and decreased sales, and the store subsequently lowered the merchandise volume.¹⁶ The neighborhood also lost much of its activist base. "The co-op used to be the hub of the Mifflin Community... Now, all those people have moved to the east side. There isn't a Mifflin community anymore; we're basically just a neighborhood store."¹⁷ As political activism gradually dissipated, the co-op had, perhaps, outlived its role as a counter culture institution. The co-op experienced much internal conflict about how to deal with these struggles and what direction to take the store. The staff was burned out, and members considered closing the store on more than one occasion.¹⁸

In the mid '80s to early '90s, however, MSCC reached the height of its financial success. The store averaged almost a million dollars in sales every year,¹⁹ and membership reached around 2,800 at its peak.²⁰ There are several possible explanations for this revival. MSCC obtained several grants to remodel the store, including a \$30,000 community development block grant. These renovations included new energy-efficient windows; new doors, floors, and equipment; and a ramp to make the store accessible in accordance with the Americans with Disabilities Act.²¹ The store also hired additional staff members who helped restore energy and develop outreach, marketing, and educational strategies to engage the community. They wrote a community newsletter with recipes, political educational material, and the business news of the co-op. They held food demonstrations to teach people how to cook with different kinds of natural and international ingredients. They posted a series of three coupons in local newspapers: one for a familiar household staple item such as toilet paper, one for a (perhaps) unfamiliar item such as rice, and one to be a member for the day so non-members could take advantage of the price discounts provided to members.²² Food consciousness was also on the rise in the 1980s.²³ Not only was MSCC one of the few groceries in Madison at the time to provide such an extensive variety of whole and organic foods, but they were able to undersell their competitors by purchasing stock directly from producers and cutting out the middle man.²⁴

The co-op used the Mifflin Street Block Party as a source of fundraising and as a political education opportunity. Each year the party had a different political theme, such as anti-apartheid, anti-pesticide, and Central American Solidarity. Unlike the first years of the block party, there were few, if any, confrontations with the police.²⁵ Finally, the co-op obtained a grant to redesign the mural painted on the side of the store. This six-month process began with weekly community brainstorming sessions to design the mural and ended with community painting sessions led by two Chicago artists.²⁶

During this period of economic success MSCC supported the growth of other local and regional cooperatives. They started a development fund to give grants to groups that were often overlooked by traditional funding sources.²⁷ Alternative political and economic groups submitted funding requests to the co-op, and the staff collectively decided how to disperse funds. Cooperative startups used grants to purchase equipment such as bulk bins and coffee grinders or to send

board members to trainings on collective decision making. MSCC not only provided financial support but also offered guidance to groups starting their own cooperative or collective enterprises.²⁸ As a quasi-leader in the growing cooperative movement, MSCC helped several local collectives get off the ground, including the Willy Street Co-op (WSC), 89.9 WORT FM, Union Cab, and several housing cooperatives.²⁹

Despite its financial success, the co-op consciously chose to stay small. In the mid-'80s, and again in the early 2000s, the co-op was presented with an opportunity to move to a larger storefront in the same neighborhood.³⁰ Some members felt that moving out of their current cramped location would allow the co-op to expand the variety of its stock and continue to grow its membership.³¹ Cooperative consultants encouraged this growth strategy,³² and WSC, another Madison grocery co-op, undertook a major expansion project.³³ However, other members and staff at MSCC were skeptical that such growth was in the best interest of the co-op. The staff was still unwinding from the hectic atmosphere of the renovation during which staff had donated much time. They worried that undertaking another big project would quickly lead to burnout. Additionally, people felt that the store was operating at the appropriate scale and worried that expansion would jeopardize the extent to which members could participate in the decision making of the organization, thereby violating the co-op's principle of direct democracy.³⁴

A comparison of MSCC to WSC points to an interesting dynamic between the size of a store and other elements of its operating practices. While MSCC privileged direct democracy over the possible benefits of growth, WSC gave up on collective decision making when it decided to expand. According to a WSC marketing manager in the '80s, "There is a point at which consensus decision making breaks down, once you have a \$2 million business."³⁵ Each store has also notable differences in politics. MSCC viewed providing nutritious food options and political education as one of its fundamental responsibilities to the community.³⁶ WSC's food politics follow customer demands. According to a general manager in the '80s, "We can only be a co-op as long as we are a food store. The first rule in our bylaws is to be a food store to suit the near east side. That makes us less of an (extreme political) alternative, but that is a compromise we must make."³⁷ This comparison is not to value one model of cooperative grocery store over the other, but

rather to point to the connection between business strategy, organizational governance, and ideological foundation.

In the mid-1990s MSCC's sales began to steadily decline, and eventually the store was operating at a loss, from which it never recovered. Several possible reasons explain why business declined in the '90s. The neighborhood demographics continued to change. MSCC's new neighbors did not

share the history of resistance with the co-op's founders.³⁸

A local resident at the time noted, "Not as many liberal and organic-minded students coming in, especially in this neighborhood. Mifflin's the big party street now."³⁹

Luxury condos also attracted a much wealthier demographic than had previously inhabited the neighborhood.⁴⁰ This gentrification contradicted MSCC's egalitarian principles, and some felt that the co-op looked down at these new residents and overlooked them as potential new customers.⁴¹

MSCC also faced increasing competition from local grocery stores that were better able to meet changing customer demands. Two market trends converged to drive up MSCC's competition. First was an increased market demand for organic and healthy food.⁴² Natural and organic foods were more readily available at traditional supermarket chains. While MSCC was able to undersell its competitors in the '60s and the early '70s,⁴³ supermarkets in the '90s were able to purchase large volumes of goods at a discount and undersell MSCC. They also offered a much greater variety than MSCC was able to offer in its 1,000 square foot store.⁴⁴ New chains catering specifically to a food conscious clientele such as Whole Foods (opened in 1996) and Trader Joe's (opened in 2006) took a direct bite out of MSCC's customer base.⁴⁵

"We can only be a co-op as long as we are a food store. The first rule in our bylaws is to be a food store to suit the near east side. That makes us less of an (extreme political) alternative, but that is a compromise we must make."

Second was an increased market demand for packaged and prepared foods.⁴⁶ One staffer reflected: “People want to spend less time cooking food. There is more desire for packaged foods.”⁴⁷ This presented an ideological dilemma to MSCC staff members who were committed to teach people to understand where the food they eat originates. Another staffer expressed that even the discount the co-op offered to people who helped around the store did not draw in many volunteers. “People would rather pay a higher price than spend an hour packaging cheese.”⁴⁸ These changes reflect a growing detachment of MSCC from the Miffland neighborhood. Fewer people treated the co-op as a community institution and those who continued to shop there purchased fewer items. By the early 2000s, people spent an average of \$20 per shopping trip.⁴⁹

Nearly every year since the early 2000s, the co-op faced the decision of whether or not to close the store.⁵⁰ Members consistently voted to keep the store open but struggled to find ways of surviving that upheld the organization’s values. They took out loans, experimented with different business plans, and embarked on a massive campaign to increase membership and volunteer hours. Increasing community participation was a critical part of the plan to save the store. As one staffer noted, “Either the membership comes together as a community and takes control of the co-op and participates fully in the co-op function, or we should let it go now while we can do it gracefully and make sure that everyone gets the money that we owe them.”⁵¹ Despite these efforts, MSCC continued to lose money and failed to significantly increase the number of members or volunteers.⁵²

MSCC’s financial difficulties with the daily operation of the store were compounded by the discovery that a previous bookkeeper had failed to pay payroll and unemployment taxes between 1998 and 2004. The co-op owed the IRS \$18,000 in back-taxes, plus as much as \$80,000 in penalties and late fees.⁵³ The co-op took out several loans to cover their debt to the IRS.⁵⁴ However, in October 2006 the discovery of an additional \$14,000 owed in back-taxes left the co-op with no other option but to close the store and liquidate its assets.⁵⁵ Empowered by the membership, the board sold the building and paid off its IRS settlement and other debts. MSCC still had money left over from the sale of the building and planned to reinstitute the community fund started in the ‘80s.⁵⁶

Whether the co-op would’ve eventually closed if it had been financially well-managed or if it had moved to a larger location or if it had better catered to consumer demands remain open questions. This discussion is not meant to uncover the causal factors that led to the store closing but rather to portray the difficulties the store faced leading up to its closing.

Structure and functions

MSCC had a strong ideological commitment to operating as a “community-controlled enterprise.”⁵⁷ In principle, this meant “maximum member participation” and encouraging neighbors to become cooperative members.⁵⁸ While these principles underlie the co-op’s governing structure, they were not always reflected in its actual operations.

MSCC was managed and governed by five overlapping groups: members, volunteers, committees, a workers’ collective, and a board of directors. Anyone could become a member by paying a small annual fee and filling out a membership card. These fees gradually increased over time but were never more than \$15.⁵⁹ Members gathered at annual meetings to discuss concerns and proposals, vote on bylaw changes, and elect five representatives to serve on the board of directors. Like most cooperatives, MSCC operated according to the one member, one vote principle.⁶⁰ The extent to which members guided the direction of the co-op varied over time. In the late ‘60s and early ‘70s, members were highly engaged in developing store policy (as evidenced by the public meeting to discuss selling Coke, cigarettes, and candy). In the ‘80s and early ‘90s, membership meetings were more sparsely attended and mostly celebratory.⁶¹

While the co-op had a paid staff for most of its existence, volunteers were an “integral part of keeping Mifflin a grassroots, democratically run business.”⁶² The co-op believed that the responsibility of ownership entailed partaking in the daily operations of the store. Volunteers also lowered the overhead cost of running the store by helping out with tasks such as stocking, cleaning, outreach, or office work. In 1969 the store was run entirely on volunteer labor.⁶³ During the height of its success in the ‘80s MSCC had as many as 20 volunteers per week.⁶⁴ However, through much of the 1970s, late 1990s, and 2000s, the co-op struggled to solicit volunteers.⁶⁵

Committees were groups that, along with the staff, carried out “important areas of the cooperative business: finance, education, marketing, maintenance, and personnel.”⁶⁶ Each committee consists of at least one

member of the collective, one director, and any interested members.⁶⁷ Similar to volunteers, the activity of committees ebbed and flowed throughout the course of the co-op's history.⁶⁸

Paid staff members, with the exception of several part-time shift workers, were members of a worker collective. The collective operated as an independent worker cooperative within MSCC. Staff divided the management responsibilities of operation in "specialty areas" such as purchasing, marketing, education, maintenance, and volunteer coordinating.⁶⁹ The collective also appointed two representatives to serve on the board of directors.⁷⁰

Examining the relationship between the staff and the board of directors reveals an unequal distribution of power in MSCC. According to the co-op's bylaws, the worker collective was responsible for the day-to-day operation and management, while the board was responsible for store policy, budget, and long-range planning. However, according to staff who worked at Mifflin in the '80s and early '90s, the board deferred to the collective for most decisions.⁷¹

"During the time I was there the collective was really driving decisions. . . the board was very weak. . . It was a challenging dynamic to have a strong collective and a weak board and to understand the relation between [them]. I could see theoretically how it's suppose[d] to work but I don't know about in practice because you have staff in the store meeting two hours every week and the board meeting once a month trying to come in and give a broader vision. . . You say: 'You don't really know what you are talking about because you aren't there every day.' I don't really know how it should work in practice."⁷²

This quote aptly captures the difficulty of translating the governance of an organization on paper to the governance of an organization in practice. The board did, however, play a larger role at different points in the co-op's history. In the early years, the board struggled with the staff over the direction to take the co-op.⁷³ Then again, in the last ten years of the co-op's existence, the board took on some of the responsibilities previously handled by staff, such as bookkeeping.⁷⁴ Still, with the exception of a couple active members and directors, most of the burden of dealing with the financial crisis fell on the shoulders of the staff.⁷⁵

Despite the amount of control it had in MSCC, the worker collective was in some ways one of the most consistent examples of the benefits of direct democracy over the course of the co-op's history. From the first year of business⁷⁶ through the '80s and early '90s,⁷⁷ and even in the wake of the fiscal crisis,⁷⁸ staffers consistently reflected about how great it was to work at the co-op.

Workers found the collective a good place to work not only because it offered health care and a living wage (at least during the greater part of its history),⁷⁹ but also because of its collaborative governance structure. The collective met every week to discuss the day-to-day business of the store and its policies. All decisions were made through consensus. These meetings also provided a time to air grievances, improve communication, and facilitate healthy relationships among the staffers.

"When I came to Madison I had a very hierarchical notion of organization and my experience at Mifflin changed my opinion about the role and value of collective processes. . . . In the staff meeting process, the most important thing is not what you talk about at the meetings, but that you have them. It was the process of the meeting that created a common language among staff that allowed us to function as a staff. . . . We could be talking about peanut butter or giving money to El Salvador."⁸⁰

This staffer emphasized that in addition to the substantive content of the meetings, the meetings helped to create a common culture.

The benefits of direct democracy are not without their cost. Personal conflicts sometimes created barriers to healthy group dynamics. At one point there was also concern that some staff, by virtue of their longer tenure and higher time commitment to the collective, had more decision-making power.⁸¹ This created tension among the staff. On one hand, those who participated more felt others lacked commitment to MSCC. On the other hand, those who participated less felt that time constraints should not reduce their leverage in decision making.

However, because the collective spent time reflecting on their strengths and weaknesses, they recognized problems when they arose, had honest conversations about them, and, in most cases, resolved them. For example, in order to address differences in the amount of time each staffer spoke during meetings, the collective developed the following strategies: round-robins to give each member a turn to speak, creating speaker lists when conversations became heated and fast-paced, and encouraging quieter members to speak by calling on them directly.⁸²

While the benefits of direct democracy might not be appropriate for every work setting, Mifflin exemplifies what it takes to make it successful in a small grocery store. The lesson might also be appropriate for other small service sector businesses.⁸³ As one staff member noted: "It's very difficult to know what's going on in each [customer's] head when you are in the service industry... It's good to have a lot of people to think about the needs of the service industry."⁸⁴ Members also seemed to notice and appreciate the exceptional qualities of the staff. One shopper noted: "There is a level of education... Everyone is connected with the produce... The people who [work here] are enjoying what they're doing... They're sensitive to the clientele."⁸⁵ A local reporter in the '80s also said, "If you're starting to experiment with unusual foods, you also will find employees who have the patience and knowledge to explain to you what you might do with items like miso, tempeh, adzuki beans, or dried seaweed."⁸⁶ These quotes suggest that customers shop at MSCC not only for the items the store stocks but also because of the expertise and attitude of the staff.

Analysis

An examination of MSCC's internal governance and its relation with its immediate community reveals the challenges and benefits of operating a community-controlled enterprise. Throughout its history, MSCC struggled to find the right balance between staff control, member participation, and the board of directors. While historical accounts indicate that the Mifflin neighborhood was directly engaged in the co-op's strategic decision making in the late '60s and early '70s, over time the governance of the store was determined more by the staff than by the residents or even the members.⁸⁷ On one hand, it is possible to view the staff's authority as appropriately reflecting their familiarity with the details of the store's operations. On the other hand, their authority may merely reflect disengagement with the

neighborhood. While those most active in the co-op and deeply committed to MSCC's foundational principles felt it was incumbent upon them to restore the sense of community ownership, in the absence of broad participation, leadership fell on those who attended the meetings.

The struggle to engage membership and communities is not unique to MSCC. Quite to the contrary, it captures an ongoing challenge of (sometimes) democratic organizations including other cooperatives, labor unions, and grassroots organizations.⁸⁸ MSCC's strategies to increase community participation significantly overlapped with marketing strategies to increase sales.

MSCC pursued two distinct approaches in varying extent and with mixed success throughout the course of their history: the pull approach and the push approach. The pull approach involved adapting to changing marketing conditions by selling more prepared foods. The push approach involved community outreach to educate people about food politics and the value of alternative economic institutions. These community engagement approaches presented ideological and practical challenges.

Some members and staff worried that the pull approach would make the co-op beholden to market trends and therefore threatened the extent to which it could operate as an alternative economic institution. Others, however, recognized that in order to instill a deep commitment to the values of the co-op in neighborhood residents, the residents must be persuaded to shop there. The co-op struggled to find a balance between staying true to its foundational principles and achieving financial stability.

The benefits of the MSCC's organizational structure are most apparent in the worker collective. The practice of regularly engaging with coworkers outside the context of working shifts in weekly meetings improved the quality of communication among staff and helped to resolve personal and business issues that came up in the daily management of the store. This model of direct democracy not only contributed to worker satisfaction but also to customer satisfaction. As such, it may have value in a broad array of businesses in the service industry. It is important to note, however, that the organizational design is only partially responsible for establishing the positive work environment. MSCC's staff were, for the most part, very committed to making sure the democratic process worked for everyone in the collective. This required ongoing self and group reflection and

also influenced hiring decisions. The collective wanted to make sure that new staff would be able to effectively participate in collaborative decision making. This was a more important requirement than previous experience working in a grocery store.⁸⁹

Considering MSCC from a more macro perspective reveals the extent to which its model presents an alternative to a traditional capitalist model of growth. At the height of the co-op's success in the '80s and early '90s, MSCC prioritized the growth of the cooperative movement over an internal expansion. Rather than moving to a larger location, MSCC used surplus profit to start a local development fund. It also opened its own fund-raising events, such as the Mifflin Street Block Party, to other community groups, allowing them to set up their own tables to provide information and solicit funds.

Nurturing the cooperative movement beyond Miffland was consistent with the co-op's stated purpose "to provide... a model for social-economic structures that seek to replace the values represented by the monopoly capitalist social system."⁹⁰ The people who participated in the Mifflin Street Community Cooperative experiment stuck to their values even at the risk of losing the store. As one staffer put it, "You can't build socialism in one co-op."⁹¹

Author's note

I would like to thank the staff and board members who spoke with me about their experiences at the Mifflin Street Community Co-op and who provided me with organizational documents. To protect their identities I have made them anonymous with generic descriptions such as "staff member."

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chapter 4



Mariposa Food Co-op

Andrew Zitcer

Introduction

For 40 years, Mariposa Food Co-op nestled in a tiny 500 square foot storefront at 4726 Baltimore Avenue in the Cedar Park neighborhood of West Philadelphia. Through most of its life, Mariposa served a small membership of a few hundred, with most members walking to the co-op to purchase groceries off the shelves or through bulk pre-orders.

Mariposa is committed to a participatory democratic structure, with consensus as its operating basis. This conviction, along with the radical activism of some of its most dedicated members, makes Mariposa different from many of the

politically liberal but bureaucratic and hierarchical co-ops in the nation. Mariposa members are active on issues of food justice, gender and sexuality, anti-racism, and more. The co-op devotes considerable staff and member resources to its activism, attempting

to make the store an expression and outgrowth of these values. As the co-op grows larger and more financially successful, there is concern among some members that the political agenda will be diluted or disappear altogether.

The neighborhood around Mariposa, Cedar Park, is an ethnically and economically diverse streetcar suburb of downtown Philadelphia, with “Center City” easily accessible by trolley and bus. The neighborhood is largely made up of renters, with a high transient population of students affiliated with area schools such as the University of Pennsylvania, Drexel University, the University of the Sciences, and Walnut Hill College.¹ In the last decade, the area has gentrified, with an influx of young families and professionals driving up property values.²

The co-op devotes considerable staff and member resources to its activism, attempting to make the store an expression and outgrowth of these values.



In March 2012, Mariposa relocated to a considerably larger store one block west, at 4824 Baltimore Avenue, adaptively renovating an old bank building using the latest in sustainable architecture. The co-op raised

approximately \$2.5 million for the relocation from a varied set of earned and contributed sources, including: member loans, conventional bank loans, sale of the other co-op storefront, and grants and low-interest loans from an array of funders, including the Takoma Park Silver Spring Co-op.³

Mariposa has made significant strides in the last several years towards its goal of serving the broader West Philadelphia community. But the co-op is challenged by the debt it amassed in the course of its expansion, the high cost of labor, potential burnout of key staff and volunteers, and the challenge of staying true to its ambitious mission of social justice and making the retail grocery store the nexus of a social and political transformation.

METHODS

This case study forms part of a larger project exploring Philadelphia food cooperatives, focusing on Mariposa and Weavers Way. In the course of my research, I conducted 59 semi-structured interviews throughout 2010 and 2011. These interviews focused on current and former staff, board members, funders, and national cooperative thought leaders. I performed participant-observation in meetings of Mariposa and Weavers Way, including board, membership, and committee meetings. Last, I undertook document analysis of meeting minutes, newsletters, and news reports on the two case study co-ops and the cooperative sector gen-

erally. All of the information in this and the Weavers Way case studies comes from interviews and observation unless otherwise noted.

Historical overview

Mariposa was founded in 1971, first renting and then buying the building it called home. For many years, it shared space and some operations with another co-op, the Life Center Co-op, until the two merged in 1980.

Broadly speaking, Mariposa and its forebears are part of the New Left that came to prominence in the 1960s and coalesced around social justice struggles such as civil rights and opposition to the Vietnam War.⁴ Activists became interested in ecology and the environment at this time as well, with the establishment of Earth Day in 1970 and the publication of *Diet for a Small Planet* in 1971. Philadelphia in the 1970s and 1980s was also home to the Movement for a New Society (MNS), a national network of social justice activists influenced by anarchist political philosophy.⁵ Though Mariposa was not formally affiliated with the MNS, a number of group houses that were part of the MNS maintained (and some continue to maintain) shopping accounts at Mariposa and are considered allies of the cooperative.

In its early years, Mariposa aimed to provide cheap, simple and healthy food to the progressive (and largely white, activist) communities of West Philadelphia. Although the co-op was an outgrowth of MNS and most members were activists, the store itself was not primarily considered a political project. It served as a refuge, a place to nourish the activists in the community. For most of its existence, Mariposa was a vegetarian store, specializing in bulk orders, whole grains, produce, and dairy. All shoppers had to be member-owners of the co-op, and all member-owners had a work requirement. Members worked stocking shelves, staffing the cash register, cutting cheese, and unloading delivery trucks. After a probationary period, members could receive keys to the store allowing after-hours access, so they could shop and write down their purchases in the ledger.

Mariposa's racial and subcultural homogeneity through most of its existence came up as a constant theme in my interviews. People from within Mariposa and beyond it expressed concern about the exclusivity of a co-op in a diverse neighborhood like Cedar Park. Over the last 15 years, there has been significant gentrification pressure in parts of Mariposa's trade area, making the issues of race and class even more fraught. Racism at the co-op was the focus of at least one general mem-

bership meeting, with the Food Justice and Anti-Racism committee (FJAR) emerging as a standing committee to address these issues. The committee helped put together community outreach surveys prior to the new store opening. It has also sponsored anti-oppression training and shown films relating to food, race, class, and gender.

For most of its history, Mariposa existed in a relatively steady state, open a few days a week, with a few hundred members. It had a staff of three or four, and most of the business practices were non-standard and ad-hoc.⁶ Books were kept by hand, there was no cash register, and there were no personnel policies.

But in the mid- and late-1990s, Mariposa experienced significant membership growth driven by increasing interest in local and organic food,⁷ mistrust of large corporate retailers,⁸ and the popularity of the Cedar Park neighborhood. This pressure pushed Mariposa to expand staff, professionalize operations, and ultimately choose to expand and relocate to a larger storefront.

Contemporary structure and functions

As of the beginning of 2013, Mariposa had approximately 1,550 members, which is a sharp increase from a few years before. This increase is due to a membership drive prior to the relocation of the co-op, and to the snowballing popularity of cooperatives⁹ and local and organic food.

Membership entails a financial investment in the co-op. This investment, commonly known as member equity, is the member's ownership stake in the co-op; the collective equity of the membership forms the working capital of the co-op. The required contribution totals \$200 per individual member and is billed in \$25 quarterly installments. If there are two members listed on the account, the total equity investment is \$400. If a household has more than two members, the household can request reduced equity investment.¹⁰

The \$200 equity investment is merely a minimum. Any member can contribute more—up to 1% of the co-op's overall equity.¹¹ The 1% restriction prevents any one member from controlling a disproportionate share of the co-op's working capital though, according to the cooperative principles, each member still gets one vote in deliberations. During the expansion process, the co-op undertook a drive for additional member equity to help finance expansion and relocation.

Mariposa now allows non-members to shop but actively encourages shoppers to become members. Once shoppers have become members, they have two categorical options for membership: non-working and working members. Non-working members get a 5% discount and working members get a 10% discount off the posted shelf prices. Although member labor has been in decline in cooperatives for the past few decades,¹² there are signs of its revival in new startups.¹³ It is unlikely, however, that these co-ops, with a small number of notable exceptions, will actually require member labor.

Members participate in the Mariposa Co-op through two primary means: work shifts and governance responsibilities. Work shifts happen in the store (or at offsite partners such as the Mill Creek Farm) and earn members discounts on products.

Work shifts included stocking shelves, helping with deliveries, processing bulk orders, and working in the back office. Members can also earn work shift credit by serving on a committee, attending a general membership meeting or serving on the board of delegates.

Member-owners govern the co-op through their participation in general membership meetings and through the Mariposa Board of Delegates. Mariposa's member-owners are eligible to run and vote in annual board elections, to serve on committees and working groups, and to participate in general membership meetings.

For most of its history, Mariposa was a direct democracy with governance enacted solely through meetings of the general membership. Decisions were made by consensus, where any member could use his or her power to block consensus and stop a decision from taking place. Mariposa's consensus approach derived from the co-op's roots in MNS, and MNS' own formation out of the Quaker anti-war movement.¹⁴

At first, consensus of the membership seemed feasible, as the membership was quite small. But over time, membership grew to the point where only a very small subset of the growing general membership would attend meetings, making decisions for everybody. In addition, the business of the co-op was getting more complicated and more responsibility fell upon the small staff. In the mid-2000s, the co-op membership empowered the Mariposa standing committee to serve as an

organizing group that would convene meetings and serve as a clearinghouse for newly established working groups and subcommittees.

In 2010, a 13-member board of delegates (with more governance power) replaced the Mariposa standing committee. This move was not particularly controversial

as the standing committee was instituted as an intermediate step, and the board was billed as a mechanism to facilitate the will of the members. Unlike the board of directors of Weavers Way, the Mariposa board reserves many major decisions for a consensus of the general membership. When the board of delegates was founded, it mostly set agendas and ran general membership meetings. Now it makes more of the ongoing, corporate decisions about the co-op. A number of committees work with the board including: food

justice and anti-racism, member accountability team, member education and training, and operations and facilities. Each committee nominates a member to serve on the board, and they are called upon to serve once they are confirmed by a consensus of those present at the general membership meeting. Staff members are also allowed to serve on the board.

Member participation was a significant challenge at Mariposa prior to the relocation. The co-op struggled with members missing work shifts, which cost the co-op money, as it had to pay other members or staff to fill those slots. In addition, a number of general membership meetings did not attain quorum, demonstrating lack of member engagement. This disengagement might have been because the staff essentially operated the co-op and made all of the major decisions, which were then made official by the membership. But as the co-op grew, the staff, which did not want this responsibility, worked with the membership to create a stronger governance structure. Enthusiasm about the relocation and the new store also generated excitement among the membership, leading to significant engagement through the fundraising and member equity campaign; many of the members work shifts in the new building are filled by the co-op's 300 working members. It will be up to Mariposa's staff and board to continue this momentum over time.

Decisions were made by consensus, where any member could use his or her power to block consensus and stop a decision from taking place.

Mariposa staff work as a collective, somewhat like an informal worker cooperative, which workers join after a 90-day probationary period. By early 2013, there were 35 people on the staff, with all but a few out of their probation period. The staff collectively works together to operate the store on a day-to-day basis. The collective sends delegates to the board of delegates and to various committees. Some staff members of the staff collective that predated the expansion have moved on to comprise the operations committee, a board-created committee that creates policies for the operation of the store. Other prior staff collective members decided to remain on staff collective alone and not to take on the additional responsibilities of being on the operations committee.

The staff supervises members during their in-store work shifts and works alongside them as partners on the board and in committees. The dynamic between staff and members is overwhelmingly cordial and mutually supportive, but my interviews and observation of general membership meetings uncovered occasional notes of suspicion of the staff by a minority of the members. These members feel that the staff has an “agenda” that it is trying to pursue to support its own ends, whether it is a pay increase or more worker-friendly policies in the store. I attribute this to the strong culture of solidarity among the staff collective and the weak governance structure that was in place for decades at the co-op. Now there are mechanisms such as a board of delegates and committees trying to assert governance responsibilities, but for much of Mariposa’s life, the staff effectively ran the organization in the absence of any other actors. So although the staff is actually exercising the same or less power than it did in prior organizational epochs, a minority perceives that the staff is trying to wield more than its share.

The co-op’s main sources of financing are sales and member equity. However, to fund its expansion, Mariposa turned to a number of other sources. It received conventional debt financing, low interest loans, grants, and member loans. Some of its supporters included the Philadelphia Industrial Development Corporation (Philadelphia’s public-private economic development corporation), The Reinvestment Fund (TRF) (a community development loan fund with over \$1 billion invested since its founding), and the Merchants Fund (a private foundation that makes grants to Philadelphia-area businesses). These funders had diverse motivations. The members and other co-ops that were supportive presumably wanted to foster

cooperative development and the principle of co-ops—helping co-ops while TRF and the Merchants Fund stated that they are interested in increasing food access. In all, Mariposa raised \$2.5 million towards the first phase of expansion and relocation. Subsequent phases are planned and include the addition of an elevator and a roof garden.

Mariposa is the only grocer in West Philadelphia that carries the range of healthy, organic, and local products that it does. It provides these goods with the smallest markup it can muster and it offers discounts for working and non-working members. Mariposa’s competition comes from the downtown Philadelphia Trader Joe’s and Whole Foods, which are the major purveyors of similar food on a citywide scale. There are also two full service groceries stores (that do not carry a large selection of organic or local products), each about a mile away in West Philadelphia. But the Baltimore Avenue corridor, on which Mariposa sits, is mostly served by convenience stores.

Mariposa projects its annual sales to climb to more than \$3 million, more than double the sales of the years prior to expansion. Although Mariposa realized a loss in 2011 due to the costs of expansion, sales have been strong, and the new store is paying down debt faster than expected.

Analysis

The people I have spoken to in the course of my research consistently expressed satisfaction that they are part of a cooperative. They appreciate that they are member-owners and that they are able to guide the decision making of the entity that provides them with their food. Members, staff, and board members contrast Mariposa in their interviews with corporate grocers and state that the latter do not have their best interests in mind, putting profit over people.

Interviewees spoke to the value they place on their dollars being spent locally, helping to build a cooperative economy. The nearby large natural and organic stores, Traders Joe’s and Whole Foods, are not in West Philadelphia; the profits from these stores leave the area entirely even if the stores provide jobs for Philadelphia residents. Unlike conventional grocers, Mariposa works to support local growers such as Mill Creek Farm and Lancaster Farm Fresh Cooperative. My contacts in these organizations have expressed support for and solidarity with Mariposa’s mission as well.

Mariposa displays an unwavering commitment to a participatory democratic process as it thinks critically through decisions about the present and future of the co-op. Many other organizations, cooperatives included, undergo a kind of normative isomorphism,¹⁵ feeling the need to streamline or adopt hierarchies in order to move away from the process-orientation of their 1970s-era founding ethos.¹⁶ Mariposa, however, has remained true to its democratic values, making decisions with the maximum input of member-owners and maintaining a non-hierarchical management structure. It continues to debate its core beliefs, including food access and food justice, anti-racism and anti-capitalist practice, and queer advocacy, among other issues.

Mariposa's work in providing board and committee members with anti-oppression training and its insistence on thoughtful and robust debate on core values can serve as a best practice for other cooperatives to follow if they want to sustain a democratic, diverse, values-driven organization. There is a quality of reflective practice that occurs at Mariposa that is difficult to discern in other organizations, whether cooperatively owned or not.¹⁷

At the same time, the insistence on participatory process comes at a cost—both in time and money. Some examples include the long delay before setting up an electronic membership management system (eventually dubbed the “MESS”) and the installation of a point of sale system (previously, orders were tallied with a tape calculator). The staff serves on the board and on committees and is paid for their time in those venues. This contributes to high labor costs for the co-op. The insistence on a robust process also means that decisions can take a long time to make. It is difficult (and undesirable) to cut short discussion when consensus is the aim. Some issues are given just as much attention and space as others at times—even though they may have less of an organizational priority—because of the structure of decision making within the co-op. This is why Mariposa has worked to delegate more responsibility for daily management to the staff and for policy to the board of delegates. But the pace of decision making can still be an issue for an organization set up like Mariposa.



Mariposa has partnered with co-ops in the surrounding community. It is a member of the Mid-Atlantic Food Co-op Alliance (MAFCA), a member group of nearly all of the food co-ops in the Mid-Atlantic region who meet to discuss strategy and advocacy. Mariposa is also a member of the Philadelphia Area Co-op Alliance (PACA), a cross-sector cooperative organization founded in 2012 that seeks to promote cooperation within the Philadelphia region. As noted above, Mariposa purchases from Lancaster Farm Fresh Cooperative and works with The Energy Co-op to refer customers to their residential energy program. Weavers Way supported Mariposa during its expansion in a number of ways, most notably by providing staff members to help stock Mariposa's shelves and set up its new store.

In its early days, Mariposa was seen as exclusive and removed from the West Philadelphia community beyond the activist core. That reputation is changing. Mariposa has recently reached out to its neighbors for a neighborhood survey. It has received support from the Wharton Small Business Development Center and the University City District, as well as the Spruce Hill Neighborhood Association. The pool of shoppers and member-owners is becoming more diverse. Members of the Food Justice and Anti-Racism Working Group have formed a partnership with the Agatston Urban Nutrition Initiative, an organization that does nutrition, food access, and farming work with young people in West Philadelphia. With its community outreach, along with its expanded retail operations, Mariposa is becoming an agent of change in the West Philadelphia community.

Conclusion

Although Mariposa Food Co-op has been around for nearly 40 years, it is still undergoing rapid change and revision. Since the mid-2000s it has experienced a tremendous growth in membership and demand for its services by the surrounding community. It is in the throes of a transition into a new, expanded home and to an organization that merely encourages, but does not require, membership and member labor. In some respects, this is an excellent time for a profile, a snapshot of this organization, for an assessment of what it has achieved. Mariposa has completed a membership drive, it has raised hundreds of thousands of dollars in member equity, and it has raised \$2.5 million to fund its expansion and relocation.

But in another respect, it would be premature to predict this organization's future. Although Mariposa displays many indicators of strength, it is still in a vulnerable position, as is any organization that is going through extreme changes. The core staff and volunteers are at risk for burnout, having gone through such tumultuous experiences over the last 2–3 years. There is a risk that the organization will have changed so much that they will not recognize it as their own and will decide that it is time to move on, leaving a vacuum of leadership and experience that needs to be filled. What effect will the turnover of experienced workers have on the bottom line? What effect will an influx (a possible tripling of size) of new staff in the staff collective have on the work culture and customer experience at Mariposa?

Meanwhile, fundamental questions remain about member involvement in the face of optional membership and member labor. Will members continue to desire involvement now that it is not mandatory? What effect will this have on the culture of the co-op? These and other questions remain to be answered as Mariposa hurdles towards the future of consumer cooperation in West Philadelphia—a future it is helping to build.

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chapter 5



Weavers Way Co-op

Andrew Zitcer

Introduction

Weavers Way Co-op is a retail food cooperative with locations in the West Mount Airy and Chestnut Hill neighborhoods of Philadelphia. The co-op's leadership extends to its work in cooperative startup development, urban farming, and community development. Poised to enter its fifth decade of operations, Weavers Way has become something of a regional and even national leader in the consumer cooperative movement.

The Weavers Way narrative is closely linked with the narrative of Mount Airy, acclaimed as one of America's few successful experiments in racial integration.¹ From the 1950s through the 1970s, civil rights activists and civic and religious institutions banded together to resist redlining, blockbusting, and white flight. Weavers Way was founded at the tail end of this activism but was created very much in the spirit of continuing and extending it.²

Over time and through its share of organizational challenges, Weavers Way has emerged as a political and economic force in Northwest Philadelphia and beyond. Its leaders have worked to foster the growth of startups as well as organize networks of cooperatives. Recently Weavers Way has expanded its presence beyond Mount Airy to a second store in Chestnut Hill. Weavers Way appears to be in a place of great strength, but has taken on significant debt and adopted a policy governance structure that vests significant organizational power in its general manager. The ramifications of these circumstances are discussed in the analysis below.

Historical overview

Weavers Way has its roots in a buying club that operated out of a church in Mount Airy in 1972. But one participant in the experiment, Jules Timerman, felt that the community could support a food co-op and went door-to-door soliciting support and donations. Soon, he and the founding owners rented a storefront—the



Weavers Way has become something of a regional and even national leader in the consumer cooperative movement.

former Sid's Delicatessen—which became Weavers Way in January 1973.³ In the earliest incarnation of the co-op, there was no member labor and Timerman managed it. But soon other members started to learn about the new wave of co-ops that were cropping up all over the country and adapted Weavers Way to be more like the co-ops of that time.

By 1975, Weavers Way had parted ways with Timerman and adopted the structure that would continue for most of the co-op's history: mandatory membership and mandatory member labor.⁴ The co-op existed for people who were interested in inexpensive foods (the local and organic focus came later) and being part of the Mount Airy community experiment.⁵ Weavers Way has always had a penchant for growth and entrepreneurship. The co-op attempted to start another co-op in an adjacent neighborhood in 1979, but this effort ultimately failed. Weavers Way successfully organized a credit union, a heating oil cooperative, and a healthcare buying club. Over time, these initiatives changed form or closed down, with the credit union getting bought and absorbed by the Police and Fire Credit Union, the heating oil co-op splitting off and becoming the Energy Co-op, and the health care buying club becoming unaffordable due to health care economics. In 1993, Weavers Way expanded and renovated its original store. This sufficed to support demand for a



time, but there was ongoing talk of further expansion as the original storefront became more cramped with shoppers.

In 2002, however, when a larger expansion was poised to occur, financial mismanagement on the part of the then-financial manager came to light and halted the process. When the final accounting was done, over \$600,000 of members' equity in the co-op had disappeared. The co-op's longtime general manager resigned and the co-op's bookkeeper faced criminal charges, although the mismanagement did not include theft or embezzlement.⁶ Weavers Way's board investigated the co-op's finances and discovered that vendors had not been paid, overdraft fees had piled up, and funds were misapplied.

Weavers Way's board president called for an investigation into the crisis that ultimately resulted in an Accountability Committee Report to the board of directors in June 2003.⁷ In order to unravel the increasingly complex financial crisis, the co-op also brought in special accountants to help reconstruct the co-op's financial activities and understand its current position. Weavers Way resolved the crisis by raising prices, asking for emergency member loans, renegotiating agreements with suppliers, and asking the staff for temporary cuts. To the surprise and delight of many people who were involved, the members and stakeholders rallied behind Weavers Way, and within two years the co-op was in a strong financial position. As a result of the crisis and the subsequent accountability report, Weavers Way strengthened its financial and accountability mechanisms and created a more professional and bureaucratic organization. It put more financial controls in place, got serious about instituting the policy governance system

with its focus on executive limitations, and began to do rigorous financial modeling and budgeting under its new general manager.

In 2007, the Ogontz Avenue Revitalization Corporation (OARC), a local community development corporation, asked Weavers Way to operate a small branch in the West Oak Lane neighborhood. Weavers Way operated in this space from 2007 to 2011 before ultimately deciding that it was not financially feasible to continue in this location. Weavers Way West at Oak Lane was a small co-op in a neighborhood that was 95% African American and had a median household income a third lower than West Mount Airy.⁸ It was a move beyond the co-op's demographic and geographical comfort zone. During the four years Weavers Way spent in the West Oak Lane location, the co-op attempted to "reboot" the store several times with different merchandizing mixes and staff.⁹ None of these approaches worked, and the co-op ultimately subsidized the operations at West Oak Lane to the tune of \$200,000 a year. Even though by 2007 Weavers Way was in good financial shape, the co-op deemed the losses unsustainable. In August 2011, Weavers Way left the business, turning control of the storefront back to OARC.

In 2010, the promise of expansion was fulfilled with the expansion to Chestnut Hill. After a market study, Weavers Way decided that enough of its existing membership and potential future growth was based in Chestnut Hill. A former grocery store site was available and suited Weavers Way's needs. In May, the Chestnut Hill store opened on Germantown Avenue with sales that exceeded all projections and is still doing brisk business.¹⁰ In summer 2012, Weavers Way closed the Mount Airy store for six weeks and renovated it to bring it closer to the function and feel of its newer counterpart.

Contemporary structure and functions

Weavers Way has approximately 4,900 members. The co-op gained 2,000 new household members with the expansion to Chestnut Hill in 2010 and into 2011; membership is now holding steady. The members of Weavers Way Co-op are individuals who make equity investments in the co-op and become member-owners. The investment is \$400, payable annually at a rate of \$30 per year. Members are eligible to vote in elections, serve on the board of directors, earn patronage rebates, and get member specials. Working members get 5% off their purchases in exchange for six hours of work annually.¹¹ Members can sign up for their hours via an online work

calendar. Jobs include working in the store, unloading deliveries, bagging bulk items, or serving on the board and committees. Even though six hours annually is a low number of hours, interviewees stated that it helps the co-op. Cooperators are given jobs that can be learned in a few minutes, leaving the rest of their two-hour shifts for active work. Many members have held the same shifts for years, developing expertise along the way. With thousands of members working mandatory shifts, these hours added up.

The working member requirement was lifted, however, in early 2010. Today less than half of the co-op's membership works. The requirement was lifted for a number of reasons. In part, the co-op believed that members coming from the elite Chestnut Hill community would not want to work shifts. In part, the co-op's management felt that it was turning a lot of potential business away. The working membership requirement was put to a vote of the membership and dropping the requirement was unconditionally favored.

The popularity of work shifts is greater in Mount Airy, where the work shift system was in place for decades, than in Chestnut Hill, where work shifts have always been optional. In Mount Airy, cooperators are still a daily, constant presence. Weavers Way's board and management are working to increase the number of working members by promoting the benefits of membership. The co-op has found that members and especially working members are more engaged, shop more, and get more involved in the co-op.

Weavers Way has approximately 130 paid staff, substantially more than a few years ago due to the opening of the second branch in Chestnut Hill. Paid staff work alongside member-owners during work shifts in the stores. When recruiting, Weavers Way places a high priority on competitive compensation and offering health benefits to its employees.¹² The co-op is managed by a general manager in coordination with a management team that consists of the two branch store managers, the purchasing manager, the human resources manager, and others. All of the administration of the co-op is based out of the Mount Airy store, with those administrators running the back end for both stores.

One of Weavers Way's unique features is the co-op's commitment to its two production farms. One is a two-acre market farm that sells produce at farmers' markets and at the co-op branches; the other is a 2.5-acre farm that produces food for a CSA. The co-op employs two farmers year-round and has several farm apprentices

and interns during the growing season. Working members can do their work shifts at the farm instead of in the co-op stores. The farms currently break even, but the co-op hopes that the farms will eventually yield a small profit.

Weavers Way also has a nonprofit arm called Weavers Way Community Programs (WWCP). WWCP is responsible for farm education at the co-op's farms and community gardening program at Mount Airy Stenton Family Manor, a family homeless shelter. In addition, WWCP oversees the Marketplace programs, which teach students in six local middle and high schools about cooperative business practices by having them run their own in-school co-ops.

Weavers Way serves a population whose strongest concentrations surround its two branch stores in Mount Airy and Chestnut Hill, two affluent neighborhoods in Northwest Philadelphia. But the reach of the stores goes beyond the immediate vicinity.¹³ Member and non-member shoppers come from throughout Northwest Philadelphia, including the surrounding suburban Montgomery County and the adjacent Germantown neighborhood, as Weavers Way is the only food cooperative in Northwest Philadelphia and there are no natural grocer competitors nearby. There is considerable concern about a future gourmet supermarket planned for the same section of Chestnut Hill that Weavers Way currently occupies, but this has not yet come to fruition.¹⁴

In 2011, Weavers Way undertook an electronic member survey. The results of the survey indicated that respondents were overwhelmingly white, affluent, and highly educated. As with any voluntary survey, we have to take the results with a grain of salt, as it is unclear if these responses are representative of the membership or the customer base as a whole.¹⁵

Weavers Way's sales for 2012 exceeded \$16 million. The co-op is profitable and was able to declare a patronage rebate, pay down debt, and give out staff bonuses that year. This was a considerable increase in revenue that was due in part to the success of the Chestnut Hill store and the co-op's successful financing. The co-op receives financing from The Reinvestment Fund (TRF) (a community development financial institution based in Philadelphia that supports fresh food financing), Valley Green Bank (a local community bank with branches in Mount Airy and Chestnut Hill), and its members. The



co-op received loans and grants to support the expansion to Chestnut Hill from TRF, PNC Bank, and Valley Green Bank.

The general membership and board of directors govern Weavers Way. The general membership meets biannually and the board meets monthly. The board uses a system of board leadership called policy governance. Policy governance places all operational decisions in the hands of the management team and leaves the board to focus on issues of organizational purpose, or “ends”.¹⁶ This allows Weavers Way to function with great efficiency and a relatively clear separation of powers between the board and the management. However, the model has been criticized from within the cooperative movement, with some contending that policy governance stifles the voices of staff and puts too much power in the hands of the general manager.¹⁷

Analysis

Weavers Way maintains a variety of partnerships with other local co-ops. It runs cross-promotions with the Energy Co-op and a local credit union, encouraging patronage of other cooperative businesses through special prearranged deals.

Weavers Way has also taken on a prominent role in supporting other food co-ops in the Philadelphia area and beyond. It is a member of the Mid-Atlantic Food Co-op Association and the Philadelphia Area Cooperative Alliance. Weavers Way offered significant help to Mariposa Co-op through its expansion process, including information technology and membership support. It even sent cooperators over to Mariposa to help set up the store during that co-op’s relocation and did the same for nearby suburban startup, Creekside Co-op. Weavers Way’s board members have taken considerable time to support the development of other startups in

the Philadelphia area, meeting with groups that are in the process of co-op development as well as groups just considering starting a co-op.

Weavers Way interacts with the broader community in a variety of ways. The co-op is a member of the Chestnut Hill and Mount Airy Business Associations and participates in many community events held at the co-op and at other local institutions. Weavers Way has a robust donation program and is frequently called upon to make in-kind donations of food, events or items for raffle prizes.

There are also smaller ways that the co-op is part of the surrounding Northwest Philadelphia community. It distributes its newspaper, *The Shuttle*, to the entire 19119 zip code. The paper, a full-color monthly that spans 28 pages, contains about one-third news and content from the communities surrounding Weavers Way. It includes articles on happenings at neighborhood schools, local and national food politics, arts, and culture.

The co-op is part of a thriving retail street that has come to be known as “Mount Airy Village.” The street is home to a café, a secondhand children’s clothing store, an acupuncture clinic, a bookstore, and more. The co-op, as the anchor and longest-standing presence at this location, is very much a part of the growth and success of this street. Indeed, when Weavers Way closed for six weeks in summer 2013, it worked with the local stores to keep a presence on the street and sell produce and other goods so as not to negatively impact the overall district.

Since its 2002 financial crisis, Weavers Way has become a highly professionalized organization. Though it took a considerable organizational risk by taking on the debt to expand to Chestnut Hill, it has also followed through on achieving excellence in management, human resources, and financial practices, making it a much more stable place of business than it was in the days of its 2002 financial crisis. The co-op has expanded and cultivated its political connections in Northwest Philadelphia, the city, and throughout the state.

At the same time, with Weavers Way’s newfound relevance and power comes both responsibility and potential. The co-op has an opportunity to engage with communities beyond Mount Airy and Chestnut Hill, as it does through its community programs. But can it do this through its core retail operations, as it attempted to do through the West Oak Lane experiment? Weavers Way West Oak Lane has come and gone, with very little overall impact on the organization. But, in its short tenure, West Oak Lane showed another set of organi-

zational possibilities and difficulties for Weavers Way, in terms of race, income, geography, and politics. Will Weavers Way learn the lessons of that experience so that it will ascertain the best ways to partner with lower income communities in Northwest Philadelphia, or even beyond, to extend the cooperative business model beyond people with privilege?

Regarding Weavers Way's management and governance, the co-op has adopted a structure that vests considerable power in its general manager and defines operations quite broadly, leaving the board's role circumscribed. Currently, there is a general manager in whom the co-op has great confidence. But the structure leaves open many questions about how the staff is heard by the board, about which decisions are truly operational and which are strategic (as in the case of the West Oak Lane example), and about what do to in the event of the replacement of the current excellent general manager. The Weavers Way board ought to continue to tweak the Policy Governance model to make sure it allows them the flexibility they desire and require to fulfill their ultimate vision for an empowered organization, so that they don't become a victim of "Policy Governance fundamentalism" (Kreis 2006). Potential tweaks could include: continuing to have board committees when necessary, so the board can be suitably engaged in the work of the organization; allowing the staff a seat on the board so it can be heard; and making sure that things deemed "strategic" are broadly defined so the board can exercise its fiduciary duty, duty of loyalty, and duty of care.

Conclusion

Weavers Way is a regional cooperative powerhouse and an important institution in both Philadelphia and the cooperative movement. It helped to transform the corner of Greene and Carpenter into a bustling Mount Airy Village. It supports an educational and ecological mission through Weavers Way Community Programs. And it has offered considerable support to smaller and startup co-ops, putting into practice the sixth cooperative principle of co-ops helping co-ops.

At the same time, Weavers Way has the opportunity to deepen its commitment to the city and the region and further capitalize on its position of strength to pursue food justice and food access for all residents of Northwest Philadelphia. It also has the opportunity to grow and diversify its membership and working member program. And it can continue to think through the role that it wants to play as a retailer in lower-in-

come communities like West Oak Lane or Germantown, to ascertain if there is a place for Weavers Way's strong commitment to the cooperative economy and sound business practices in neighborhoods beyond Mount Airy and Chestnut Hill.

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chapter 6



Dead of Natural Causes: The Rise and Fall of Ecology Food Co-op

Daniel Flaumenhaft

Introduction

Ecology Food Co-op is *the* Philadelphia cooperative that didn't make it. Based in Powelton Village, a West Philadelphia neighborhood once known for Quaker housing co-ops, hippie counterculture, and New Left activism, it drew members and shoppers from

Ecology was the region's largest food co-op in the late 1970s and early '80s, the first to specialize in natural and organic foods, and the first to develop extensive direct relationships with local farmers.

both the local area and throughout the city and suburbs.¹ Ecology was the region's largest food co-op in the late 1970s and early '80s,² the first to specialize in natural and organic foods, and the first to develop extensive direct relationships with local farmers. Many members were highly involved as workers and in educational programs about

food and environmental issues, but efforts to develop member leadership, increase awareness of cooperative principles, or engage in the broader cooperative movement were sporadic at best. In the mid-1980s, at the peak of its success, it suffered a series of growth-related crises, gradually declined, and finally imploded, closing in 1992. Faced with an increasingly competitive marketplace and stark limitations in its physical and organizational capacity, and lacking any center of gravity beyond its beleaguered, divided, and burned out staff, Ecology simply fell apart.

Oral tradition alleges that zoning board and neighbor hostility destroyed a successful store or blames its demise on theft or embezzlement.³ My research suggests that a more functional co-op could have survived the zoning crisis or even turned it into an opportunity, and that while theft was a problem, the

amounts involved have been greatly exaggerated. In this chapter, I propose a double interpretation of the co-op's failure. First, I argue that, despite rapid growth while it remained one of the few sources in the area for natural foods, Ecology encountered natural limits to its governance and management structures that left it poorly equipped to resolve internal and external conflicts or to adapt to an increasingly competitive retail environment. Second, and more speculatively, I argue that these problems resulted from insufficient stress on educating members, board, staff, and the community about cooperative principles.⁴

A strong identity as both a co-op and as a natural foods store would have helped Ecology differentiate itself from its competitors. It also would have encouraged staff to respect member and board authority while encouraging members to use that authority responsibly. Finally, it would have helped Ecology fund a more orderly expansion through member and community investment.

SOURCES

Ecology Food Co-op closed two decades ago. What records it kept are dispersed or destroyed, and many key people in the co-op's history have died, were impossible to locate, or did not respond. I interviewed a representative group of staff from the '70s and early to mid-'80s, but only two who had been present during the final crisis were willing to speak with me and neither had been there for the whole period. I interviewed several members, including Sally Simmons and Charles Thrall, members of the co-op almost for its entire existence and among its opponents in the mid-'80s zoning dispute, but no board members. I found original documents—including Ecology newsletters and flyers, a few internal memos, and correspondence and legal documents from both sides of the zoning dispute—in Simmons' personal collection and the archives of the Powelton Village Civic Association and Mariposa Food Co-op. The Delaware Valley Coalition for Consumer

Education and Cooperation's *Cooperative Consumer Viewpoint* published many items about Ecology in the late 1970s and early 1980s, often by the co-op's staff or board members.

Historical overview, structure, and functions

ORIGINS

Ecology Food Co-op began in 1969 as a pre-order buying club in a Quaker-run storefront community center. Unlike the Powelton Food Co-op, the neighborhood's other buying club, the co-op emphasized natural, local, and organic foods rather than low prices or grassroots economic organizing. Most of its inventory came from Walnut Hill Farm (then a local biodynamic farm and mail-order company). Refined sugar, processed grains, caffeine (until 1988), and "additives" were banned from the store. Ecology's participation in the common warehouse operated by many local co-ops, which mostly stocked conventional food, was minimal.⁵

In 1970, Ecology purchased a three-story former drugstore at 36th and Race Streets, probably financing the move through member loans, donations, and sweat equity. Powelton real estate was cheap and the co-op used member labor and second-hand or homemade equipment whenever possible. In 1971, the location opened to walk-in and non-member sales, and Ed Hermance became the first paid manager. At that time, 92% of sales were still to members who paid annual dues and worked three hours per month, and there was only one other employee. The board remained highly involved in operations and, in accordance with its Quaker roots, both board and membership meetings made decisions by consensus. In 1973, Hermance resigned in frustration when a divided membership meeting failed to resolve a deadlock between the two staff members and the board on a trivial matter.⁶

GROWTH

By 1976, Ecology had become "a natural and organic food co-op store with a full line of food, household products, and books," 1,000 member households, weekly sales of \$6,000, and an impressive direct-from-

farms purchasing program.⁷ Walk-in coolers replaced a sandbox for vegetable storage, and there was additional storage space in the basement.⁸ Equity shares replaced dues, and from 1978 an annual "renewal share" was required for improvements to the building and equipment.⁹ By 1979, there were 1,500 member households, more than at any other Philadelphia co-op, and the retail area expanded to the second floor.¹⁰ A collective of up to a dozen part-time staff managed the store and supervised the members, who still provided half the store's labor (a standard membership required about three hours per month from each adult in the household).¹¹ Members who worked fewer hours, non-working members, and non-member shoppers could also shop, but paid more than the shelf price. While most early members had lived in Powelton, most now came from other neighborhoods in West Philadelphia, as well as North and Northeast Philadelphia, the suburbs, and even New Jersey. Ages ranged from college students to retirees.¹² While the co-op's members, staff, and shoppers were predominately white, African Americans were present in all groups, though not proportionately to their population in the neighborhood or city.¹³

Board elections were seldom competitive due to lack of nominees, and while financial and membership records were still good, policies and procedures were poorly documented.

Membership peaked sometime between 1982 (1,525 households) and 1985 (1,200), and sales in 1984 (\$1.2 million), but problems also began to emerge during this period. Several key staff had left in the late '70s, job titles and descriptions changed frequently, and staff collective and membership meetings took more time to reach consensus, costing the co-op both time and money.¹⁴ Board elections were seldom competitive due to lack of nominees, and while financial and membership records were still good, policies and procedures were poorly documented.¹⁵ Few members attended meetings: 5–10% was typical in the late '70s and early '80s, but by 1988 even a quorum of 15 became elusive. Many members found Ecology's orientations (focusing on the co-op's products, shopping and work shift policies) discouraging or elitist.¹⁶ Newsletter publication was irregular and most content was about products and work shift needs with only sporadic attempts to involve members in governance or give them a sense of ownership.¹⁷ Meanwhile, fewer members were interested in working in the store, increasing labor costs. In

the '70s and early '80s, the vast majority of members had work shifts, but by the middle of the decade many shifts became difficult to fill.¹⁸ By 1989, most members were simply shoppers whose annual equity payment brought them reduced prices. *Member* and *member worker* replaced the terms *working member* and *non-working member* and price tags no longer indicated the member worker price.¹⁹

CRISIS

The mid-1980s brought new challenges to Ecology. As the natural foods market grew, supermarkets began to open natural foods departments, and investment capital flowed to for-profit natural foods stores. Paul Tioxin, the bulk manager, became frustrated by Ecology's unwillingness to adopt more conventional management and pricing policies in order to exploit the emerging boom and in 1985 accepted a job managing a new natural foods department at a nearby supermarket. With better-capitalized stores able to temporarily lower prices to build a customer base and offering one-stop shopping for customers who wanted both natural foods and items unavailable at the co-op (such as coffee, tea, chocolate, white flour, and refined sugar), sales began to decline.²⁰ Because Ecology had reduced markups whenever income exceeded expenses, reserves were limited and the co-op prices increased. A bare surplus gave way to a substantial and growing deficit.²¹

Meanwhile, Ecology's immediate neighbors (including some co-op members) had begun to complain that its site was over-used, that the co-op was no longer a local organization, and that the store should either move or scale back. A zoning hearing to regularize non-conforming structures in the backyard—a situation the co-op blamed on bad advice from the city and the neighbors blamed on negligence—granted variances for the backyard but banned retail on the second floor. This was a disaster: The co-op now had no room for many high-margin, non-food items, had to scale back core departments, had spent thousands of dollars on legal fees and fines, and had antagonized even sympathetic neighbors when a minority of its board blocked a negotiated solution. (Ecology's consensus process allowed a single meeting participant to veto any decision.)²²

It was clear that Ecology had no future at 36th and Race. In the summer of 1986, an emergency membership meeting authorized a new planning committee, the board, and the staff to look for a new site, borrow money, and make decisions related to physical facilities at both the current location and elsewhere.²³ In

September, the co-op dropped an application for a retroactive variance that would have kept the second floor open and cancelled its fines. Ecology immediately lost half its retail space as a result, and in December it announced a \$30,000 loss for the year.²⁴

Meanwhile, divisions emerged among the staff. Previously, it had managed the store collectively, but growth made achieving consensus far more time-consuming, which required frequent board intervention. In 1985, the staff established a management committee with six-month terms and rotating membership, a compromise that ensured that managers were always inexperienced and created unstable power dynamics on the staff that encouraged ever more board intervention in operations. Newer staff, including the financial manager (Kenny Newman), the working member coordinator (Ruth Harp), and the produce buyer (Kate Deeney), proposed appointing a general manager, while those who had joined when the collective structure was still functional generally opposed this; the board was also divided. In 1987, Newman delivered an ultimatum: He would resign immediately unless the board agreed to hire a general manager; its response was to offer him the job. Over the next year or so, most of the anti-hierarchical faction left the staff and board.²⁵ Results were mixed. The reorganized staff made progress in adapting operations to the smaller space, but the co-op now had a less experienced workforce, many demoralized members (who had supported the losing faction), and a board weakened by the perception that a few staff members had forced a major policy change on it. Sales continued to decline, while costs and staff turnover continued to rise.

Even so, the tone of the member newsletter and correspondence remained hopeful through 1989. The planning committee identified several possible sites and community relations improved. In preparation for the move, Newman returned to his original job as financial manager and Deeney became general manager.²⁶ In October 1989, the co-op announced that it would move to a specific site the following year; while there was no clear description of fundraising plans at this point, earlier discussions assumed (probably naively) that Ecology could secure a National Cooperative Bank loan with the old building as collateral.²⁷ In April of 1990, the *Philadelphia Daily News* described the new site in detail, and the co-op's June newsletter implied that the move was still happening that year.²⁸

COLLAPSE

Ecology did not move in 1990. In fact, it's not clear what happened then. Documentary sources between June of 1989 and the end of 1990 are very limited, former staff and board members were unable or unwilling to provide much information, and memories are vague and inconsistent with the limited documentation that exists. By January of 1991, no senior staff remained from 1989, the co-op was over \$85,000 in debt, and there were essentially no financial records from the previous six quarters.²⁹ Only one newsletter is extant (and was probably the only one published).³⁰ The co-op had no general manager for much of the period and may not have had a financial manager for any of it.³¹ Financial controls, cash flow management, and standardized purchasing procedures had been largely absent, and such management as existed had failed to inform the board of financial problems. Serious personal conflicts among staff emerged without effective board action.³² By 1990, hiring procedures and internal controls were lax enough to allow at least two separate incidents of newly-hired cashiers stealing thousands of dollars in cash from the safe and disappearing.³³ There is no evidence for a widespread belief that a manager had absconded with the books and bank account. These allegations typically came up when I mentioned I was researching Ecology to people who had been members or neighbors, but not personally active in governance or operations. As the amount stolen was often said to be \$85,000, it seems likely that hearsay conflated the relatively small amounts lost to actual theft with the much larger operating loss from other causes.

DEMISE

In December of 1990, Ecology's board³⁴ hired its final general manager, Joel Packman, a former executive at a regional natural foods supermarket chain. Unlike any previous staff member, he received a full-time, five-year contract, despite having no previous co-op experience. The board and Packman both saw this as an attempt to make a decisive break from the past, saving the organization by imposing "professional" management on a failed organization. While moving was off the table until the immediate financial crisis was solved, it was clear that Ecology was either going to reinvent itself or die.³⁵

One staff member recalled Packman as "a bit of a dictator" (he only accepted the job on the condition he be appointed board president as well), but his authoritarian management style did allow rapid decisions that stemmed some of the immediate problems. Consolidating debt and obtaining additional credit lines from suppliers helped cash flow, while reorganizing the remaining space allowed a modest increase in sales and eliminated rental costs. Filling empty positions and combining part-time ones helped improve operations and retention of new hires. Regular financial reports to the board and membership resumed.³⁶

The effects of revival were limited, however. Long-time members and staff disliked or distrusted Packman's corporate background, and while Packman's energetic leadership gave the co-op a center it had long lacked, it also moved it even further from its counterculture roots and alienated many of the most loyal shoppers and members.³⁷ Advertisements now read *Ecology Whole Foods Market* and member ownership was only mentioned in small type without the words *co-op* or *cooperative*.³⁸ Members became customers and potential investors rather than active participants, and the call for nominations for the final board election stressed professional skills and business expertise rather than consumer democracy. The goal shifted from expansion to survival, and as the months passed and sales failed to meet expectations, Packman's communiqués became desperate. The shelves grew bare, and in August 1992, Ecology Co-op announced it was temporarily closing.³⁹

It never reopened. A "disgruntled employee," (according to one board member) hung a Gone Fishing sign in the window.⁴⁰ Mariposa, the only remaining West Philadelphia co-op, published an open letter inviting Ecology members to shop in its (then members-only) store until their own reopened.⁴¹ In a final irony, Packman and his inner circle announced a meeting to discuss starting a new Ecology Whole Foods Co-op. The ex-corporate manager was now proposing a buying club as a first step to a future storefront, capitalized by member equity, which is the classic way of starting a consumer co-op.⁴² No one seems to have paid much attention.

Analysis

Conventional wisdom is that the zoning dispute, theft, or a combination of the two killed Ecology. This is superficially true. If the second floor hadn't closed or the co-op hadn't squandered time, energy, money, and goodwill on the legal dispute, it might have been able to resolve its capacity problems and compete effectively in the expanding natural foods market. If effective financial controls had been maintained, the new management might have had the cash to revive the co-op's business, if not its social mission. I think, however, that these situations resulted from a deeper malaise. Ecology died when it ran out of cash and credit, but Ecology's inability to deal with obstacles of all kinds was starkly limited by its failure to place cooperative values and a clearly defined cooperative identity alongside natural food as the heart of its member experience.

Ecology was very good at buying and selling food, but, except for a brief period in the late 1970s,⁴³ it spent little time educating members about co-ops or the cooperative movement. People who just wanted natural food switched to cheaper and more convenient sources when they became available, while people who cared about cooperatives or community got frustrated with the lack of structure, openness, and civility and burned out.

If Ecology's members and staff had been more committed to cooperative principles, the board would have learned of operational limitations earlier, guided the staff in establishing short-term goals, sought guidance from the membership about long-range plans and intentions, and developed member orientation, training, and education programs. The latter would have increased member participation in governance, development, and store operations and educated members about cooperatives, the cooperative movement, nutrition, and food systems. A more competitive natural foods store would have retained more shoppers, and greater cooperative consciousness would have improved member loyalty. A more organized Ecology might have moved to a better site long before being blindsided by the zoning crisis, or at least have been able to rent a temporary site while seeking a permanent location.

Embracing its co-op identity may not have been enough to save Ecology, but it did save the two near contemporaries of Ecology that still exist in Philadelphia. Each faced its own crisis by embracing its cooperative identity, and each is now thriving. In the last ten years, West Philadelphia's other food co-op, Mariposa, doubled in size, temporarily capped membership due to lack of capacity, conducted extensive member discussions about its mission and vision, rewrote its bylaws and membership policies, and raised the funds—including hundreds of thousands of member loans and equity—to buy a much larger building nearby.⁴⁴

After Weavers Way's financial manager disappeared after years of misrepresenting the co-op's financial position, that co-op found its assets were \$400,000 less than it had believed. While current day-to-day operations were profitable, the co-op had to shelve its imminent expansion plans and focus on recovery and restructuring debt, as well as instituting new financial controls and processes. While members' faith in the co-op had been shaken, the successful recovery process involved many new members involved in governance and left the membership as a whole even more committed to the cooperative model. They have since opened two additional locations and are considering more in the future.⁴⁵

Would a stronger cooperative identity have saved Ecology? It's difficult to say; each of the co-ops I've discussed faced a different set of external challenges and had different internal cultures as well. It's clear that by the time Ecology closed it was too late, and it may have been even in 1989. But even if the legal and financial problems had really been insurmountable, it might at least have left behind enough committed and experienced cooperators to start something new when conditions were better. In the end, however, it simply fell apart.

Ecology's inability to deal with obstacles of all kinds was starkly limited by its failure to place cooperative values and a clearly defined cooperative identity alongside natural food as the heart of its member experience.

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¹ See Elijah Anderson, *Streetwise: Race, Class, and Change in an Urban Community* (Chicago: University of Chicago Press, 1992) for an ethnographic study of Powelton Village in the 70s and 80s.

² The Swarthmore Co-op had higher sales, but far fewer members.

³ Both theories came up in nearly all the interviews I conducted, but I first encountered them long before beginning my research.

⁴ On cooperative identity, see Ann Hoyt, "And Then There Were Seven: Cooperative Principles Updated," *Cooperative Grocer*, January/February 1996. The International Co-operative Association's 1995 "Statement on the

Co-operative Identity" was adopted after Ecology closed, but is largely an expanded and updated version of the 1966 Co-operative Principles.

⁵ Ecology Food Co-op, "Special Notice: Emergency Membership Meeting," *Simmons Collection*, July, 1992; Ed Hermance, e-mail to author, May 11, 2012. On the Powelton Food Co-op, see also Mariposa Food Co-op, *Butterfly Gazette*, May 11, 1972.

⁶ Ed Hermance, e-mail to author, May 11, 2012.

⁷ *Cooperative Consumer Viewpoint*, Philadelphia: October-November, 1976.

⁸ Ecology Food Co-op, "Special Notice."

⁹ *Cooperative Consumer Viewpoint*. In 1978, the initial share cost \$3 and the renewal share \$1 per year; members had to purchase one share for each adult in the household. While budgets did distinguish between capital and operating income, it's not clear that members understood the distinction or that the share amount was high enough to capitalize the growth in non-member sales.

¹⁰ *Cooperative Consumer Viewpoint*; Ecology Food Co-op, "Special Notice."

¹¹ Martha Fuller, author interview, May 10, 2012; Nicole Hackel, author interview, May 9, 2012.

¹² Fuller, interview; Hackel, interview. While Ecology's reach beyond the neighborhood is notable, it could also easily be exaggerated—until the mid-80s, only one other store in the city offered a wide range of natural and organic products to the general public.

¹³ Fuller, interview; Hackel, interview. Anderson, *Streetwise*, 15. Like most countercultural and leftist organizations in Powelton at the time, both white and African American observers described Ecology as integrated but mostly white. As a generally white-dominated organization, Ecology was like most natural food co-ops of its generation; to the degree that it may have been better than average (at least one general manager was black) it reflects very local history including the influence of Friendship Co-op, a Quaker intentional community that had been established in Powelton in the 1940s as a deliberate challenge to racial segregation and inequality and some of whose former residents had been involved in starting Ecology. For more analysis of race, countercultures, and social justice activism in Powelton, see Anderson (1992).

¹⁴ Fuller, interview.

¹⁵ At one point, the member newsletter asked readers to bring the staff copies of meeting minutes or to write a letter if they remembered a policy but had no written copy. *Ecology* (March, 1984). When the staff wanted to start selling coffee in 1988, the proposal failed at multiple membership meetings until someone consulted the actual product policy and discovered that the product committee was already authorized to make this type of decision. *Ecology* (February, 1988, April, 1988). *Ecology Natural Food Co-op Newsletter* (May-June 1989).

¹⁶ Tim Dunn, e-mail to author, May 15, 2012.

- ¹⁷ In the mid 80s, Ecology theoretically published a substantial quarterly *Newsletter* and monthly 1–2 sheet *Ecolog*, but frequently missed issues. By the end of the decade a year might go by with only a single newsletter distributed.
- ¹⁸ See e.g. *Ecolog* (August 1986).
- ¹⁹ *Ecology Natural Food Co-op Newsletter*.
- ²⁰ Hackel, interview; Marilyn Marter, “A Natural Development: As Supermarkets Move To Compete, Health-Food Stores Are Taking Stock—And Thriving,” *Philadelphia Inquirer*, March 2, 1988.
- ²¹ “Ecology’s 1987 Budget,” *Sally Simmon collection*, December, 1986; *Cooperative Consumer Viewpoint*; *Ecology Co-op Newsletter*, Winter 1987.
- ²² Sally Simmons and Charles Thrall, author interview, May 13, 2012; *Special Notice: Emergency Membership Meeting. Ecolog*, August, 1985; *Powelton Post* (September and October 1983, November 1984, February, March, and November 1985, February and March 1986).
- ²³ *Ecolog* (August 1986); *Ecology Co-op Newsletter* (Autumn 1986).
- ²⁴ *Ecolog* (October and November, 1986). *Ecology’s 1987 Budget*.
- ²⁵ Hackel, interview; *Ecology’s 1987 Budget*; *Ecology Co-op Newsletter*.
- ²⁶ *Ecology Natural Food Co-op Newsletter*.
- ²⁷ *Ecolog* (October 1989).
- ²⁸ Libby Goldstein, “Organic Food Sales Taking Off: Certification and Availability Have Helped Demand Soar in the Area,” *Philadelphia Daily News*, April 25, 1990; *Ecolog* (June 1990).
- ²⁹ Joel Packman, letter to Ecology Co-op members in Simmons collection, May 8, 1991.
- ³⁰ *Ecolog* (June 1990).
- ³¹ Packman, letter. Of the three key staff members in 1989, Harp left at the beginning of 1990 and Deeney some months before; both left Philadelphia for personal reasons; see Ruth Harp, author interview (May 17, 2012). A subsequent general manager also left Philadelphia for personal reasons in mid-1990; see *Ecolog* (June 1990). Newman left in 1989, most likely for health reasons: he died not long after; see gayhistory.wikispaces.com/Newman,+Kenny (accessed May 12, 2012).
- ³² Anonymous personal communication (May 20, 2012). Harp and Deeney had a falling-out in 1989 as well; see Harp, interview.
- ³³ These allegations typically came up when I mentioned I was researching Ecology to people who had been members or neighbors but not personally active in governance or operations and often the amount stolen was said to be . On the thefts by cashiers, see Tim Dunn, e-mail to author (May 15, 2012).
- ³⁴ This board included a number of people who had served previously, but the lack of records from 1989 and 1990 makes it impossible to say whether they had also presided over the crisis or had left returned as part of an effort to revitalize the co-op.
- ³⁵ Tequila Brooks, “Ecology Co-op: a Message of Health,” *University City Review*, January 24, 1992; “Attention All Ecology Co-op Members” flyer (in Simmons collection, February, 1991); Packman, letter.
- ³⁶ Dunn, interview; Vince Pieri, “Ecology Food Co-op,” *Weavers Way Shuttle*, November, 1992; Packman, letter; Brooks, “Ecology Co-op”
- ³⁷ Dunn, interview; Vince Pieri, “Ecology Food Co-op”
- ³⁸ See for example the ad in *Powelton Post* (September 1992).
- ³⁹ Packman, letter; 1991; Joel Packman, “Emergency Membership Meeting,” in Simmons collection, August 5, 1992; Greg McDonald, “Ecology Co-op” in *Weekly Press*, Philadelphia: September 11, 1992.
- ⁴⁰ McDonald, “Ecology Co-op”
- ⁴¹ Mariposa Food Cooperative, “An Open Letter to Ecology Members,” in Mariposa archives, 1992.
- ⁴² The Core Collective [Aisha Bey, Fatima Bey, Ellen Deacon, Joel Packman, and Yatahma], “Join Now” (flyer c. November, 1992).
- ⁴³ Not coincidentally, this period was also the period when the Delaware Valley Coalition for Consumer Education and Cooperation was most active, which encouraged a stronger co-op culture in the city generally and kept staff and board members at individual co-ops thinking about the big picture.
- ⁴⁴ During this period, I was an active member and served as convener, board delegate, and on many committees.
- ⁴⁵ Jonathan McGoran, “Weavers Way establishes accountability, regains trust and profitability,” *Cooperative Grocer*, November/December 2004; Karen Heller, “Weavers Way Co-op Gets a Ritzy Rebirth,” *Philadelphia Inquirer*, September 13, 2012.

chapter 7



South Philly Food Co-op: Building a Democratic Association

Katherine Travaline

Introduction

The South Philly Food Co-op (SPFC), a start-up, consumer-owned grocery store, is in an intensive process of member recruitment, fundraising, and learning. SPFC aims to bring the food co-op model and high-quality, sustainable food back to South Philadelphia, a neighborhood which previously housed the city's first consumer-owned grocery store in 1862 and which spans multiple diverse neighborhoods, making the co-op both a natural fit and a challenge.¹ Although the group faces limited access to funding and resources, SPFC has benefited greatly from the cooperative spirit of the co-op movement and the local community. With a lot of work still to do, the group is steadfastly navigating the muddy waters of building a democratic association among a diverse group of people.

SPFC aims to bring the food co-op model and high-quality, sustainable food back to South Philadelphia.

Historical overview

SPFC began in 2010 with the desire of a South Philadelphia resident to have a food co-op in her neighborhood. She invited a person from Weavers Way, another Philadelphia food co-op, to speak at Passyunk Square Civic Association, her neighborhood civic association, to gauge community interest. She was pleased to find that 30 people were interested in learning more. Keen to keep up momentum, a group of founding members organized a community meeting for the next week, which was attended by 60 community members. Representatives from Weavers Way and the Keystone Development Center, a nonprofit corporation that provides technical and research assistance to groups in the Pennsylvania, Maryland, New Jersey, and Delaware area who wish to organize as cooperatives, gave a presentation about the cooperative model, garnering a positive response from attendees.² That night, April 26, 2010, this

group of new friends and neighbors founded the South Philly Food Co-op, starting a mailing list and forming steering, legal and finance, and outreach committees.³

The following year was spent in the organizing phase, during which the founding members of SPFC defined their mission, educated themselves, and began to engage the community. Studying other co-ops to learn about cooperative structures and best practices, they focused on relatively new co-ops (2–5 years old), including fellow start-up co-op in the city, Kensington Community Food Co-op (KCFC), to learn from those which had recently gone through the start-up process, and other

more long-standing co-ops, such as Philadelphia's own Weavers Way Co-op. They expanded their community engagement by developing outreach tools including a website, a Facebook page, and a newsletter. In August they produced a brochure and launched a community survey. They spent the next year administering about a thousand surveys as a way to both gather information and keep the community engaged.⁴

Having decided there was sufficient interest in starting a co-op from the survey results and a well-attended community forum in March 2011, and with guidance from other established co-ops in the city and a lawyer on the board, SPFC incorporated as a nonprofit cooperative in May.⁵ At that point, they felt the initiative was secure enough to launch a membership drive on June 1, 2011, and members elected the first board of directors. Having surpassed their goal of 250 members,⁶ the co-op has subsequently moved on to the feasibility stage. A real estate committee is developing criteria and building relationships upon which site selection will be based. SPFC will now also start more seriously pursuing finance options with banks and other lending organizations.⁷ The co-op has set 500 members as its next goal, at which point it will be ready to sign a lease.⁸

Contemporary structure and functions

Like other food co-ops in Philadelphia—such as Kensington Community Food Co-op, Weavers Way Co-op, and Mariposa Co-op—SPFC will be a consumer cooperative, owned directly by its members.⁹ Becoming a member-owner requires a one-time, non-transferable investment of \$200 per household, which can be made in installments and is fully refundable. The amount is deemed reasonable given the mixed incomes and demographics of the neighborhood.¹⁰ Each household membership is expected to volunteer a minimum of eight hours a year, toward which various activities currently count, including serving on the board of directors or a committee, staffing membership recruitment and fundraising events, referring new members, and other administrative tasks. In the future, the co-op hopes to enact the International Cooperative Principle of Concern for the Community¹¹ by coordinating partnerships with local civic associations or nonprofits to create additional volunteer opportunities that serve the community.¹²

A consumer cooperative, the co-op store will most likely be open to the public, with members as the primary consumers.¹³ Depending on the store location, there may also be a working membership option. The store will most likely be small due to the land use pattern of South Philadelphia¹⁴ and will not require or have the space for a large staff. Looking to find a balance between providing meaningful volunteer opportunities and good paying jobs for community members, there may be a mix of paid and volunteer staff.¹⁵

Membership essentially means ownership of the store, which includes the “power to influence the initial location, direction, and policies of the Co-op” and a voice in decisions about which items and services the co-op will offer.¹⁶ This power is enacted in the ability to vote at the semi-annual general membership meetings, petition for policy changes, and run and vote for the board of directors. Each household will get one vote. Other opportunities for involvement include attending committee meetings, following the group on Facebook and Twitter, and reading the blog.¹⁷

Reasons for joining at this early stage include pre-existing interest in and positive experiences with the cooperative model, the idea of being a founding member, a desire to expedite the process of starting a co-op in the neighborhood, and interest in participating in a local community-building effort.¹⁸ While food access is not a factor for most people joining the co-op at this point as there are a number of grocery stores of various types

within or adjacent to the neighborhood, many members have a strong desire to address food access and other food justice issues in the neighborhood with the co-op. However, opening the store is the main priority right now. One member explains, “Once we have the store open we can start thinking about bigger issues of access to food and food education issues.”¹⁹

Member-owners currently benefit from access to educational classes and workshops. Through the Shop South Philly Program, SPFC has also partnered with approximately 20 “locally owned and like-minded businesses,” which offer exclusive discounts and specials to members in exchange for encouraging SPFC supporters and members to patronize their businesses through cross-promotion on the co-op’s website, blog, e-news, and Facebook page. When the store opens, members will also have access to exclusive specials, sales, and events.²⁰

In addition to dozens of volunteering members, SPFC is organized into two groups, the board of directors and committees. Members of the board act on behalf of the member-owners who have elected them. The board currently includes a president, vice president, secretary, treasurer, and seven directors-at-large. Board members are elected for two-year terms at the spring general membership meeting. The committees, made up of non-elected member-owners, currently include: book-keeping and administration, financial planning, grants, IT, leadership, legal, marketing and communications, membership, operations, and programs and events. Each committee meets once a month and reports to the monthly board meeting.²¹

During the feasibility phase of development, members will define the role and responsibility of a general manager. The board has adopted a policy governance model²² in which the board sets guidelines and the committees and general manager interpret those guidelines and determine how the co-op will meet those guidelines. Currently, the committees report their goals to the board and the board reviews them; the board does not dictate what the committees do.²³ Eventually the committees will report to the general manager who will, in turn, report to the board.²⁴

SPFC employs a number of strategies to finance this costly endeavor, which includes things like market and feasibility studies that can run into the tens of thousands of dollars. None of the equity garnered through membership investments has been used yet. Rather, all of the money SPFC has used has come from fundraising

events such as happy hours, a portion of the proceeds of which go to the co-op. Their most successful ventures so far have been their garden tours, for the second annual of which 111 participants toured 20 public, private, and community gardens for a fee, and a partnership with The Energy Co-op, which donates money for every referral made by SPFC members. Incorporation as a nonprofit cooperative corporation, however, has limited SPFC's access to grants.²⁵ To get around this, SPFC works with a fiscal sponsor, such as Fair Food, to which the money is granted and which then uses the money as SPFC designates. SPFC is also exploring options to make donations given to a specific cause, such as financing a market study, tax deductible.²⁶

In late 2012, the co-op received two grants. The Philadelphia Activity Fund granted \$1,000 to host 12 events, free to the public, that promote education about food or, more specifically, about the co-op. The Reinvestment Fund provided the second \$25,000 grant (shared with KCFC) which the co-op will use to build its business plan and financial model, advance its search for a store location, and provide training and support for the board.²⁷ In the next phase of development, once a location has been selected and a loan committee has been formed, SPFC will seek loans from members, banks, and other lending institutions.

Analysis

SOUTH PHILADELPHIA: A LEGACY OF ADVOCACY AND CHALLENGE

Philadelphia has a long history of alternative food practices and advocacy, including a strong culture of food enthusiasts and long-standing and recently expanding urban agriculture and food co-op communities.²⁸ South Philadelphia, in particular, has a rich food culture, namely in its famous Italian Market area. In 1862, South Philadelphia was home to Philadelphia's first consumer-owned grocery store.²⁹ Despite the co-op model's recent popularity in the city and historical legacy in South Philly, the cultural and socioeconomic diversity and physical and political characteristics of the area provide some challenges to starting a co-op.

SPFC strives to be inclusive of the very diverse group of seven neighborhoods that make up South Philadelphia,³⁰ an area that is approximately five square miles. Even when alternative food organizations like

SPFC strives to be inclusive of the very diverse group of seven neighborhoods that make up South Philadelphia.

SPFC aim to challenge the model of the dominant food system, they risk reflecting and reinforcing its structural power relations.³¹ So far, most SPFC members are indeed residents of the predominantly white and higher income parts of South Philadelphia.³² This pattern has multiple potential driving forces. Most of the co-op's current committee members live in these areas and thus the co-op has a stronger connection to these communities than those of other parts of the neighborhood. It may also be the case that residents in these areas have a pre-existing interest in the co-op model as it addresses

issues of access to local, organic food.³³

Indeed, the changing demographics of some parts of South Philadelphia may be key to the quick success of the co-op's membership drive. In other words, more young professionals are moving into the neighborhood as part of the gentrification stemming from the revitalization of Center City in the mid-20th century;³⁴ they are motivated by their young families, and they have the resources to improve the neighborhood.³⁵

Emphasizing that the co-op will be constrained by market forces that dictate food prices, the president of SPFC hopes it can be something of which everyone in South Philly *can* and *wants* to be a part.³⁶ To this end, the group is presently focused on intensive outreach and education efforts and exploring ways to more effectively recruit from those neighborhoods that are not as well represented as others.³⁷ For example, guided by the Food Co-op Initiative and in partnership with fellow budding co-op, the KCFC, the SPFC co-hosted a recruitment training workshop to learn how to talk about and recruit for the co-op and how to overcome people's barriers to joining.³⁸

The co-op also enacts the International Cooperative Principle of concern for the community³⁹ as it partners with local South Philadelphia businesses and organizations to host various events that serve not only to recruit new members and to educate residents about the co-op and food issues more generally, but also to support these other local entities. A number of members also volunteer for a speakers' bureau to speak about the co-op with the neighborhood's numerous civic associations and other community-based organizations as a means of reaching and recruiting potential new

members. On average, the co-op hosts 1–2 events per month, which is more of such activity than the start-up co-op to the north, the KCFC, has undertaken.⁴⁰

A LOT OF WORK: BUILDING A DEMOCRATIC ASSOCIATION

Perhaps reignited by the widespread distrust of big business spurred by the recent economic crisis, there is growing interest in the cooperative model both internationally and locally. Advocacy, such as the UN's declaration of 2012 as the International Year of Cooperatives and the National Cooperative Development Act, introduced by Philadelphia's own Representative Chaka Fattah, hints at potential funding and resources which would help newer co-ops like SPFC.⁴¹ Until such support is institutionalized, however, those starting a co-op like SPFC have a lot to do and figure out on their own.

Although most start-up co-ops take on a steep learning curve and invest a lot of time, money, and energy to figure out what they need to do and how, SPFC—a self-described “cerebral group”—has invested extra time and effort into the research and planning phases, waiting for more than a year before they officially started recruiting members. SPFC members emphasize the importance of educating themselves before taking any major steps with members' investments.⁴² Joining approximately 300 other co-ops in various stages of starting nationwide and three local co-ops that have recently expanded, SPFC actively manifests the International Co-operative Principle of “Co-operation among Co-operatives”⁴³ and has greatly benefited from resources and support from within the local cooperative community.⁴⁴ Having another start-up co-op in the city (i.e., KCFC) that is going through the same processes around the same time is proving particularly helpful.⁴⁵ “We definitely benefit from them being the first ones on the block,” explains one SPFC member.⁴⁶ That being said, as levels of risk in their venture rise, the co-op is turning to outside consulting expertise for some of its more complex ventures.⁴⁷

SPFC recruits new members with confidence but tries to balance the messages of “we've got this” and “we need help” as there is a lot of work to do and it can sometimes be difficult to get members more actively involved.⁴⁸ Communicating this point on a growing scale has proven to be a challenge. On one hand, SPFC wants to keep everyone engaged to maximize the number of people informed and involved. On the other hand, SPFC does not want to bombard members with outreach. In this sense, the experience of SPFC illustrates a classic

challenge of scaling up democratic practices: “It's one thing when you're communicating with 5 or 10 people, but trying to communicate and have authentic conversations with 200 people, it gets a little daunting.”⁴⁹ As a means of scaling up engagement, the group held a community forum attended by approximately 100 people in March 2011. Committees reported back to the community and engaged attendees in a dialogue about the progress of the initiative. A “community-minded” group, SPFC emphasizes its role in “building a democratic association of people” over that of starting a grocery store.⁵⁰ In this sense, SPFC is like other alternative food efforts in that, looking beyond the neoclassical economic model's focus on free market, individual competition, large-scale multinational corporations, and profit maximization, it emphasizes community problem-solving, small-scale locally oriented organization, and the social processes of communities.⁵¹ By struggling together to solve problems in local food system projects, participants in efforts like SPFC's potentially gain strong civic virtues and learn the rights and responsibilities associated with participating in a democracy.⁵²

Conclusion

The SPFC has accomplished a lot in the few years it has been active. Board members have been elected, committees have been formed, bylaws and incorporation have been established, outreach efforts have expanded, studies have been conducted, and its goal of 250 members has been surpassed. All this has happened despite limited resources because of the cooperative spirit of the co-op movement and the tireless efforts of a small group of dedicated individuals. Of course, a lot of work remains to be done, including the continued development of this democratic association of people in a diverse area of the city. The co-op's efforts to build a community of people around the issue of access to high quality, sustainable food is part of a larger movement that promotes a shift from a food system that privileges consumerism and profit to one that promotes citizenship.

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- ¹ Stephanie Weaver, "Co-opportunity Knocks," *South Philly Review*, November 18, 2011; David Woo, "How Co-ops Keep Money Local" (blog), Newsworks.org, March 31, 2012, www.newsworks.org/index.php/component/flexicontent/item/36193-coop-essay&Itemid=17.
- ² Alison Fritz (South Philly Food Co-op President), author interview, March 27, 2012.
- ³ South Philly Food Co-op, 2010-2012, southphillyfoodcoop.org/.
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- ⁵ Fritz, interview; D. Pohlig, "Oh What a Night!" *South Philly Food Co-op* (blog), March 22, 2011, southphillyfoodcoop.org/2011/03/22/oh-what-a-night/. Because of SPFC's nonprofit cooperative status, it may be less likely to be the recipient of large grants as incorporation as a nonprofit cooperative corporation does not entail the 501(c)(3) charitable status that many organizations require of grant applicants.
- ⁶ Alison Fritz, e-mail message to author, February 20, 2013. The co-op has a total of 368 members at the time of writing.
- ⁷ Fritz, interview; South Philly Food Co-op, 2010-2012.
- ⁸ Cassie Plummer (South Philly Food Co-op, Membership Committee Chair Person), author interview, February 17, 2013.
- ⁹ K. Zeuli and R. Cropp, *Cooperatives: Principles and Practices in the 21st Century*, (Wisconsin: University of Wisconsin-Extension, 2004) 31.
- ¹⁰ Alison Fritz, e-mail message to author, February 20, 2013. KCFC, which is starting up in a similarly mixed income neighborhood, also has a member equity share in the amount of \$200, while Weavers Way Co-op (located in the Mt. Airy and Chestnut Hill neighborhoods of the city) and Creekside Co-op (located in Elkins Park, PA) each have \$400 member equity shares.
- ¹¹ "Co-operative identity, values & principles," International Co-operative Alliance (ICA). Accessed June 3, 2015, ica.coop/en/what-co-op/co-operative-identity-values-principles.
- ¹² Fritz, interview; South Philly Food Co-op, 2010-2012.
- ¹³ Zeuli and Cropp, *Cooperatives: Principles and Practices in the 21st Century*.
- ¹⁴ Plummer, interview. Due to the historic development patterns in South Philadelphia and political climate surrounding land use in the city, real estate in the parts of the neighborhood in which most co-op members reside is expensive and large parcels are hard to come by. As a result, members anticipate that it will be difficult to find a location for the store that meets the needs of a grocery store including appropriate parking space.
- ¹⁵ Fritz, interview.
- ¹⁶ South Philly Food Co-op, 2010-2012.
- ¹⁷ Ibid.; South Philly Food Co-op (SPFC) Member Handbook, March 2012, southphillyfoodcoop.org/wpcontent/uploads/2012/04/Member_Handbook_March_2012.pdf
- ¹⁸ South Philly Food Co-op, 2010-2012; Plummer, interview; Volunteers (Three Anonymous South Philly Food Co-op Volunteers), author interview, April 28, 2012.
- ¹⁹ Plummer, interview.
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- ²¹ Ibid.; South Philly Food Co-op (SPFC) Member Handbook.
- ²² "The Authoritative Website for the Carver Policy Governance® Mode," PolicyGovernance.com, last modified February 25, 2013, www.carvergovernance.com/. Policy Governance, created by John Carver, is an

- integrated set of concepts and principles that describes the job of a governing board's role in business, nonprofit (NGO), and government organizations.
- ²³ Plummer, interview.
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- ²⁵ Incorporation as a nonprofit cooperative corporation does not entail the 501(c)(3) charitable status that many organizations require of grant applicants.
- ²⁶ Fritz, interview.
- ²⁷ Leigh Goldenberg (South Philly Food Co-op Programs and Events Committee Member), author interview, February 17, 2013; "Two Philadelphia Food Co-Ops Receive \$25,000 Grants," *Eyes on the Street* (blog), PlanPhilly.com, September 27, 2012, planphilly.com/eyesonthestreet/2012/09/27/two-philadelphia-food-co-ops-receive-25000-grants.
- ²⁸ D. Woo, "How Co-ops Keep Money Local". In the last three years, three Philadelphia food co-ops—Weavers Way, Swarthmore, and Mariposa have expanded their operations.
- ²⁹ Weaver, "Co-opportunity Knocks"; Woo, "How co-ops keep money local." The Union Cooperative no. 1 was located on the 900 block of Federal Street. For more on the history of cooperatives in Philadelphia, see: www.philadelphia.coop/phillycoops/philacoophistory/
- ³⁰ South Philly Food Co-op, 2010-2012, southphillyfoodcoop.org/; Fritz, interview. Initially, the target population was South of Washington Ave., including the Passyunk Square, East Passyunk Crossing, Pennsport, and Point Breeze neighborhoods. Outreach was expanded to other neighborhoods, including Graduate Hospital, Bella Vista, and Queen Village. Memberships extend from Lombard St. to the north, Oregon Ave. to the south, 26th St. to the west, and Front St. to the east, most clustered south of Washington Ave. and around or east of Broad St.
- ³¹ Patricia Allen, *Together at the Table: Sustainability and Sustainance in the American Agrifood System* (University Park, PA: Pennsylvania State University Press, 2004).
- ³² Fritz, interview; South Philly Food Co-op, 2010-2012, southphillyfoodcoop.org/; www.city-data.com/forum/philadelphia/474235-philly-gentrification.html. For example, in parts of South Philadelphia, median household income has increased as much as 180%, the White population has increased by as much as 28% while the black population has decreased as much as 39%, and the median house or condo value has increased by as much as \$174,194 since 2000.
- ³³ Plummer, interview.
- ³⁴ J. Goode and R.T. O'Brien, "Whose Social Capital? How Economic Development Projects Disrupt Local Social Relations," in *Social Capital in the City: Community and Civic Life in Philadelphia*, ed. R. Dilworth, Philadelphia, PA: Temple University Press (2006), 159-176. Goode and O'Brien describe the effects of gentrification in Philadelphia, beginning with efforts to revitalize the City's downtown area, that have since spread to adjacent neighborhoods including South Philadelphia.
- ³⁵ Plummer, interview.
- ³⁶ Fritz, interview.
- ³⁷ D. Pohlig, "Oh What a Night!"; South Philly Food Co-op, 2010-2012, southphillyfoodcoop.org/; Fritz, interview.
- ³⁸ South Philly Food Co-op, e-mail message to author, May 13, 2012.
- ³⁹ ICA, "Co-operative identity, values & principles."
- ⁴⁰ Goldenberg, interview.
- ⁴¹ ICA, "Co-operative identity, values & principles"; "H.R. 3677: National Cooperative Development Act," GovTrack.us. Accessed May 7, 2012, www.govtrack.us/congress/bills/112/hr3677.
- ⁴² Fritz, interview.
- ⁴³ ICA, "Co-operative identity, values & principles." ICA's Principle #6: Co-operation among Co-operatives: "Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures."
- ⁴⁴ South Philly Food Co-op (SPFC) Member Handbook. As mentioned throughout the paper, SPFC has in one way or another partnered with and/or learned from Weavers Way Co-op, Mariposa Co-op, Kensington Community Food Co-op, the Energy Co-op, the Food Co-op Initiative, the Mid Atlantic Food Co-op Alliance, Fair Food, Philadelphia Area Cooperative Alliance, and 19 local businesses. They have also used the Cooperative Grocers' Information Network and CDS Consulting Co-op as resources.
- ⁴⁵ Because KCFC started in 2008 while SPFC started in 2010, KCFC has done many things such as becoming incorporated, before SPFC and thus SPFC has been able to follow KCFC's lead and learn from its experiences.
- ⁴⁶ Plummer, interview.
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- ⁴⁸ Ibid.; Volunteers, interview.
- ⁴⁹ Fritz, interview.
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- ⁵¹ L. DeLind, "Place, Work, and Civic Agriculture: Common Fields for Cultivation," *Agriculture and Human Values* 19, (2002): 217-224; T. Lang, "Food Policy for the 21st Century: Can it be Both Radical and Reasonable?" in *For Hunger-proof Cities: Sustainable Urban Food Systems*, eds. M. Koc, R. MacRae, L. J. A. Mougeout, and J. Welsh, (Ottawa: International Development Research Centre, 1999), 216-224; T.A. Lyson, *Civic Agriculture: Reconnecting Farm, Food, and Community* (Medford, MA: Tufts University Press, 2004).
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chapter 8



Kensington Community Food Co-op: Cooperation, Policy Advocacy, and Inclusion

Katherine Travaline

Introduction

The Kensington Community Food Co-op (KCFC) is working to build membership and raise funds to open a member-owned cooperative grocery store. Founding members of the co-op aim to “inspire cooperation among the residents of this community, to provide access to affordable high quality food, and to promote healthy environmental practices.”¹ The exact location of the co-op, yet to be determined, will be somewhere within the area bound by Lehigh Avenue to the north, Girard Avenue to the south, Delaware Avenue to the east, and American Street to the west, and members currently hail from all over the greater Kensington area, located in the lower northeast part of the city of Philadelphia.² The experience of KCFC offers a valuable look at how one group is building a food co-op in the face of multiple challenges by taking advantage of and supporting cooperative networks, developing innovative cooperative models, and supporting federal legislation.

Historical overview

KCFC started with the vision of one woman and a small group of like-minded residents to bring a cooperative grocery store, a model familiar in one way or another to this group, to the Kensington area of Philadelphia as a means of filling an identified void of healthy, affordable food choices in the community.³ In 2008, Lena Helen brought the idea of opening a member-owned cooperative grocery store in the Kensington area to her local civic association. She took the overwhelmingly positive response she received as the green light to start organizing and formed a steering committee.

Drawing on the International Cooperative Alliance’s (ICA) principle of co-operation among co-operatives (see Introduction), these founding members took advantage of the connection to the broader cooperative

community and benefited greatly from the support and guidance of Weavers Way Food Co-op, an established food co-op; the Food Co-op Initiative (FCI), a national nonprofit organization that assists community groups to organize retail grocery cooperatives in an efficient and effective start-up process; and Keystone Development Center, a nonprofit corporation that provides technical and research assistance to groups in the Pennsylvania, Maryland, New Jersey, and Delaware area which wish to organize as cooperatives. They also found support in the North Kensington Community Development Corporation and Philadelphia’s Local Initiatives Support Coalition, a community development support organization that directs private and public funds to local priorities.

With survey results from the public and an initial feasibility study⁴ indicating that the endeavor was worth pursuing, the co-op, with about 50 members at the time, launched a formal membership recruitment campaign in 2010.⁵ With a member loan campaign in the works, KCFC incorporated in 2010 and started selling bulk items at local farmers’ markets and through a buyer’s club in 2011. Ongoing outreach efforts include tabling at events, targeted e-mail messages, community meeting presentations, house parties, social media engagement, and a new website launched in 2012. That same year, KCFC, in partnership with the South Philly Food Co-op, hosted a membership recruitment workshop led by the FCI.

Having exceeded the member recruitment goal of 225, KCFC has moved from the organizing stage to the planning stage during which it formed a committee to search for a store site and hired a professional fundraising coordinator in the summer of 2012.⁶ Moving forward, KCFC will continue to raise funds through member investments, donations, grants, and loans

The experience of KCFC offers a valuable look at how one group is building a food co-op in the face of multiple challenges.

to purchase equipment, buy a building, finance construction, and hire a general manager. Once funds are secured they will begin to narrow down location options.⁷

Contemporary structure and functions

Like the other food co-ops in the city, KCFC will be a consumer cooperative owned directly by its members.⁸ Membership entails a one-time investment of \$200, which can be paid in full or in installments, and is refundable under certain conditions but non-transferable. Members own a share of the business, and each membership household is allowed one vote in all decisions where votes are required.⁹ Until the store opens, members are offered a number of perks: discounts at 26 local businesses with which the KCFC has partnered through the Shop Local Program, access to high quality and affordable food through a buyer's club, and opportunities to influence the products that will be offered at the store and how it will be run.

KCFC is interested in finding a way to truly make this co-op and its potential benefits available to the whole community.

Once the store opens, members will receive discounts and predetermined benefits on store purchases and yearly patronage rebates based on the profits made by the store. They will also continue to have a say in how the co-op is run by voting on decisions and serving on the board of directors.¹⁰ Members will also have the option of being working members once

the store opens. KCFC is still in the process of figuring out the details of how this will work (i.e., what being a working member versus a non-working member will entail.)¹¹ However, KCFC is committed to being open to the public, meaning "anyone who wants to shop at the co-op whether they are members or not."¹²

Most current members are from the East Kensington area, where KCFC got its start between 7th Street and the Delaware River and between Spring Garden Street and Allegheny Avenue. However, it has also drawn members from the Fishtown, Port Richmond, Norris Square, and Northern Liberties neighborhoods, as well as a few members from all across the city.¹³ So far, the majority of members are people who are new to the neighborhood and who "understand co-ops or already have a sense of what it means to have access to healthy food."¹⁴ Considering the patterns of gentrification in the

neighborhood, apparent from census data and observations of members, this implies that the co-op is of interest mostly to the upper-class, white residents who are moving into the area.¹⁵

Similar to fellow start-up SPFC, KCFC's governance structure consists of a board of directors,¹⁶ which currently consists of the following offices: a president, vice president, secretary, treasurer, and four directors-at-large. All co-op members are eligible to serve on the board and all board members are co-op members. Once the store opens, the board will hire a general manager to run the store.¹⁷ Members can participate in the co-op by serving on the board, by attending semi-annual member meetings in the fall or spring, and by attending special meetings convened by the board.¹⁸

Current sources of financing consist of membership investments and profits from the group's buyer's club, food stands at farmers' markets, and fundraisers hosted by local businesses. Just as many of these activities serve as funding sources, they also often serve as outreach and member recruitment tools.¹⁹ KCFC members have also earned scholarships to attend cooperative conferences. Along with SPFC, KCFC received a \$25,000 grant from the Reinvestment Fund (TRF), which the co-op will use to finance a market study, do financial modeling, evaluate a store site, and train its board of directors.²⁰

Analysis

KCFC manifests the ICA principles of cooperation among cooperatives and concern for the community. While members are interested in having access to the local, fresh, and organic food most of them desire,²¹ many are also interested in the benefits a co-op can offer the community at large. They are interested in "bringing healthy quality food and products at an affordable price for all of our residents," putting a percentage of the co-op's profits back into the community, and attracting and promoting "supplemental and like-minded businesses, as well as community activities, such as farming, picnics, classes and workshops on health and nutrition, and educational activities for youth."²²

To this end, KCFC is interested in finding a way to truly make this co-op and its potential benefits available to the whole community. Unlike many food co-ops nationwide but similar to other start-up co-ops in the city, KCFC will be located in a neighborhood with many low-income and minority residents who may not know about the cooperative model or have the time or money to participate in one.²³ KCFC is well aware of the socio-

economic divide in the neighborhood that is mirrored in the co-op's membership. It's mostly made up of young, white, well-educated, middle-class residents who are new to the neighborhood and already interested in the cooperative movement.²⁴ Like most alternative food systems, KCFC faces the possibility of reflecting and reinforcing the power and privilege asymmetries of modern society.²⁵

In response to this challenge, KCFC board members are exploring ways to serve their section of the city, comprised of multiple incomes and interests and lacking access to affordable healthy produce, in a way that can be a model for other co-ops.²⁶ They are still trying to figure out what this model (e.g., membership, structure, operations) will look like. In the meantime, they are making efforts to reach out to the parts of the community not currently represented in their membership by developing "strong and meaningful partnerships" with community organizations.²⁷ KCFC also partnered with the Philadelphia Department of Public Health's Healthy Cart program which provided business and food safety training, electronic benefit transfer (EBT) machines, and Visa debit fees for six months, so the co-op could accept food stamps at its farmers' markets.²⁸

KCFC is also developing a program, modeled after the Burlington Food Co-op's (Vermont) Food For All program and similar to a program at Mariposa Food Co-op (Philadelphia), which will solicit members, local businesses, and community members to donate money as "stand-in equity" for people who cannot afford the investment. Believing that a program like this would be a significant step toward making the co-op's membership more inclusive of the community in which it will be located, KCFC realizes that there is still "a ton of work to do" on this front, not the least of which is convincing people that joining a food co-op is worthwhile.²⁹ Indeed KCFC's focus on the Kensington neighborhood may make such inclusivity more challenging, while co-ops with a broader geographic focus (e.g., SPFC's focus on all of South Philadelphia) may have an easier time recruiting members by targeting (at least at first) people who are interested in some aspect of the co-op rather than trying to include everyone in a particular geographic area. Moreover, KCFC acknowledges the need to focus on opening a successful business; if their business model is not secure, KCFC will benefit no one in the community, let alone those who might benefit from access to affordable quality food the most.³⁰

At the same time, like other start-up co-ops in the city, KCFC's efforts are both bolstered and challenged by the current U.S. economic and political environment. Historically, the U.S. Small Business Administration has provided technical assistance and loan guarantees to all small businesses except co-ops, with one exception in 2011.³¹ This limited support is exacerbated by the fact that banks are often not willing, or very hesitant, to lend to co-ops because the cooperative business model is foreign to most banking institutions.³² Furthermore, because of KCFC's not-for-profit cooperative status, it is less likely to receive large grants; incorporation as a non-profit cooperative corporation does not grant the 501(c)(3) charitable status that many organizations require of grant applicants. However, some friendly financing institutions in the area, such as TRF and Philadelphia Industrial Development Corporation (PIDC), may provide project financing.³³

While the international economic crisis may make some potential members less likely to join the co-op if they cannot afford or justify paying the member equity amount, it has also stoked the fire of animosity the working class holds for big business and thus may also increase support for alternative business models like the cooperative among different socioeconomic populations.³⁴ Indeed, the number of member-owned food co-ops is increasing in the region³⁵ and across the country.³⁶

Co-ops have had their cyclic ups and downs since the mid-19th century, but recent attention is notable, particularly the UN's declaration of 2012 as the International Year of Cooperatives.³⁷ In 2011, Philadelphia's own U.S. Representative Chaka Fattah introduced legislation (H.R. 3677: National Cooperative Development Act) to support the cooperative movement.³⁸ In January 2012, the Philadelphia City Council declared in a Resolution on Co-ops that its members officially "recognize the contributions of cooperatives to the economic and social development in our city, state, country, and the world and encourages all citizens to recognize and support cooperative organizations in our City."³⁹

Taking the opportunity to shift the cooperative movement's "contention on the margins of the polity to participation within it," KCFC members are working to support such international and local initiatives.⁴⁰ Legislation such as H.R. 3677 would particularly help KCFC as it aims to promote cooperative development as a means of creating jobs and increasing economic development in "underserved areas." KCFC also hopes that working closely with other cooperatives and

credit unions as members of the Philadelphia-Area Cooperative Alliance (PACA) will help the co-op make fruitful financial connections in the city.⁴¹

In the meantime, KCFC has taken innovative steps to raise funds and support. Unlike some co-ops in the same early developmental phase, such as SPFC, KCFC has already started two retail operations. The co-op purchases wholesale packaged bulk items, such as grains, nuts, and raisins, which they sell at the local Greensgrow Farmers' Market and at farmers' markets in Norris Square and Palmer Park in partnership with The Food Trust. In 2011, KCFC also started a buyer's club, purchasing from two local distributors, the Common Market and Lancaster Farm Fresh, and offering volunteering members the opportunity to pre-order food to be picked up twice a month. The co-op aims to open its buyer's club to all members as incentive to join.⁴²

Conclusion

The KCFC is developing a consumer-owned food co-op amidst a mix of the common driving forces behind cooperative development: market failure (e.g., lack of access to healthy affordable food), economic crisis, cooperative advocacy, and favorable public policy.⁴³ Facing the daunting task of raising funds and accessing resources not readily available to cooperatives, KCFC members are relying on the cooperative spirit to meet their needs now. They are also supporting efforts to craft legislation to help them, and other co-ops like them, meet their needs in the future.

While the cooperative model may be democratic at the microscale, the question remains of what it means for democracy at the larger community food system scale. In other words, although the co-op model includes consumers in the governance of a food system, it doesn't intrinsically include all community members. Thus it is important to ask: Are society's power relations reflected in, and perhaps reinforced by, the co-op? Fully aware that they are starting a co-op in a diverse community, KCFC members are exploring ways to balance the alternative food movement's goal of inclusion ("getting marginalized players into the agrifood system") against the economic imperatives of starting and running a successful food co-op.⁴⁴ These challenges are reflected in the co-op's enactment of the ICA's principles of concern for the community, as its members work to bring the potential benefits of a food co-op to the larger community, and cooperation among cooperatives, as its members take advantage of and support the local and national cooperative community.⁴⁵

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- ⁶ Ibid.; Kensington Community Food Co-op, accessed May 5, 2012, www.kcfc.coop/.
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- ¹⁰ Ibid.
- ¹¹ Helen, interview.
- ¹² Kensington Community Food Co-op, accessed May 5, 2012, www.kcfc.coop/.
- ¹³ Ibid. See Member Map. KCFC has members in the following sections of the City: West Philly, South Philly, Center City, Northwest Philly, and Northeast Philly.
- ¹⁴ Helen, interview.
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- ³⁶ Stuart Reid of the FCI as cited in Marder, "Food Co-ops on Rise." About 325 co-ops currently exist and 300 are starting in the U.S.

- ³⁷ Marder, “Food Co-ops on Rise”; “Grocery Cooperatives,” University of Wisconsin Center for Cooperatives (UWCC), accessed May 5, 2012, reic.uwcc.wisc.edu/groceries/; ICA, “Co-operative identity, values & principles,” accessed June 3, 2015, ica.coop/en/what-co-op/co-operative-identity-values-principles.
- ³⁸ “H.R. 3677: National Cooperative Development Act,” GovTrack.us. Accessed May 7, 2012, www.govtrack.us/congress/bills/112/hr3677; D. Denvir, “Congressman Fattah Shows Co-ops in Philly—and Nationwide—Some Holiday Love,” *Naked City* (blog), December 22, 2011, www.citypaper.net/blogs/nakedcity/Congressman-Fattah-shows-co-ops—ove.html.
- ³⁹ “Resolution on Co-ops,” accessed February 22, 2013, www.philadelphia.coop/wp-content/uploads/2012/02/Resolution-on-Co-ops-IYC-adopted-January-26-2012.pdf.
- ⁴⁰ S. Tarrow, “‘The Very Excess of Democracy’: State Building and Contentious Politics in America,” in *Social Movements and American Political Institutions*, ed. A.N. Costain & A.S. McFarland (Lanham, MD: Rowman & Littlefield Publishers, Inc., 1998), 32.
- ⁴¹ Frank, interview; A. Sharpe, “Kensington Community Food Co-op Working Hard to Expand Influence of Co-ops Around Philadelphia,” *Flying Kite*, January 3, 2012, www.flyingkite.com/devnews/kcfc1312.aspx.
- ⁴² Ibid.
- ⁴³ Zeuli and Cropp, *Cooperatives: Principles and Practices in the 21st Century*, (Wisconsin: University of Wisconsin-Extension, 2004).
- ⁴⁴ G.W. Stevenson, K. Ruhf, S. Lezberg, and K. Clancy, “Warrior, Builder, and Weaver Work: Strategies for Changing the Food System,” in *Remaking the North American Food System: Strategies for Sustainability*, ed. C.C. Hinrichs & T.A. Lyson, (Lincoln and London: University of Nebraska Press, 2007), 40.
- ⁴⁵ ICA, “Co-operative identity, values & principles.”



Values-based Food Supply Chains: Organic Valley¹

G.W. Stevenson

Historical development through 2008

Introduction

Over the past 25 years, Organic Valley has grown to be the largest organic farmer-owned cooperative in North America, with over 1,300 members residing in over thirty states and the Canadian province of Ontario—or about 10 percent of the organic farming community in the United States. The cooperative successfully weathered the recession of 2009 and has made tremendous gains since then. This case study follows Organic Valley from the founding of the enterprise through 2011.

Organic Valley is the brand name used by a group of Wisconsin family farmers who, in 1988, organized an organic vegetable marketing cooperative under the name Coulee Region Organic Produce Pool (CROPP). A short time later, seven dairy farmers joined the co-op, and in 2001 the cooperative changed its name to Cooperative Regions of Organic Producer Pools. Introductions to Organic Valley can be found in the article “Natural Allies”² in the 10/19/07 issue of the Madison, Wisconsin weekly newspaper, *Isthmus*, as well as the “Our Story” section of the Organic Valley website.³

Within a year of CROPP’s initiation, dairy products became the cooperative’s leading sales category. Currently, more than 85 percent of Organic Valley’s sales are dairy related. Dairy farmers make up approximately three-quarters of the co-op’s members, with most residing in the Upper Midwest. In addition to dairy products, CROPP also sells organic eggs and produce under the Organic Valley label, as well as organic fruit juice and soy products. In 2007, sales of Organic Valley products topped \$432 million and the cooperative employed over 400 people, most working in the newly-

Organic Valley is the largest organic farmer-owned cooperative in North America.

constructed headquarters and distribution center in rural, southwestern Wisconsin. The cooperative also sells organic beef, pork, and poultry through a wholly owned subsidiary, the Organic Prairie Family of Farms. This case study does not include an analysis of Organic Prairie. For an introduction to Organic Prairie, see www.organicprairie.com.

Philosophical and strategic goals

According to CEO George Siemon, “Organic Valley is a social experiment disguised as a business.” More information about Organic Valley’s philosophy and goals can be found in a 2002 interview with George Siemon on the Organic Valley website.

- **Organic Valley mission statement.** “The purpose of the Cooperative Regions of Organic Producer Pools is to create and operate a marketing cooperative that promotes regional farm diversity and economic stability by the means of organic agricultural methods and the sale of organic products.”
- **A broad definition of organic.** CROPP defines organic as “a philosophy and system of production that mirrors the natural laws of living organisms with an emphasis on the interdependence of all life.” “Organic, as CROPP has framed it, takes the big view, focusing not just on farming techniques and fair pricing but on the larger values of sustainability and regional food systems.”⁴
- **Evolving organic food paradigm.** Organic Valley has created a pyramid model that illustrates what it calls the “evolving organic food lifestyle.” The USDA organic standards banning the use of synthetic pesticides and fertilizers represent a bottom platform supporting additional agri-food related values such as humane animal treatment, local food, and growing your own food.

- **Multiple background goals.** Within these broad frameworks, Organic Valley engages multiple goals that address fair, farmer-determined food prices; good tasting, nutritious food; ecological and economic sustainability; healthy livelihoods and communities; cooperative principles; and respect for biological and human diversity. The co-op's website describes in detail how its goals go beyond USDA organic certification. The "Natural Allies" *Isthmus* article describes how Organic Valley incorporates economic, social, and cultural agendas in its view of organic.
- **Stable pricing through supply control.** Through matching supply with demand for its products, CROPP successfully maintains a stable pay price for its members throughout the year that reflects their expenses and profit needs. This contrasts with conventional milk pricing systems, which can fluctuate widely over a given time period. For more information, see part three of the *Isthmus* article "Natural Allies" and "Achieving economic sustainability." The case update illustrates how supply management helped Organic Valley weather the economic downturn of 2009.

"We know what our job is: It's to get CROPP to the point where our farmers have a choice—they can farm, they can retire, they can sell to the kids."

Mike Bedessem, CROPP
Chief Financial Officer

- **Commitment to future farmers.**
"We know what our job is: It's to get CROPP to the point where our farmers have a choice—they can farm, they can retire, they can sell to the kids. That's the exit strategy for our current farmers—it's a future for their kids." (Mike Bedessem, CROPP Chief Financial Officer, quoted in the "Natural Allies" Isthmus article.)

Organic Valley is committed to creating opportunities for the next generation of family farmers, as evidenced by their contribution of \$50,000 to the University of Wisconsin—Madison School for Beginning Dairy and Livestock Farmers.

Organizational development

- **A "New Generation" cooperative.** CROPP is a new generation co-op in the sense that it brings on new farmer-members only as markets for their milk are secured.⁵
- **Leadership.** CROPP leadership includes a seven-person, farmer-elected board of directors and an executive management team that guides the marketing and operations functions of the cooperative. For more information about the executive management team, see the CROPP website.
- **Growth with regionalization.** While the Upper Midwest remains the center of the CROPP and Organic Valley enterprise, the cooperative has established milk pools that provide both regional identity and fluid milk for processing and delivery in eight regions of the United States, from New England through Texas to the Pacific Northwest. While the Midwest remains the primary source for "hard products," or cheese and butter, demand has grown to the point where CROPP has begun to manufacture cheese in Vermont and butter in the Pacific Northwest.
- **Growth with specialization.** CROPP has spun off two wholly owned, legally separate entities: Organic Prairie Family of Farms, which produces, processes and sells organic meat products, and Organic Logistics, LLC, which focuses on distribution logistics for Organic Valley, Organic Prairie and smaller organic food companies. These new companies were derived both to provide them the full attention of their own governing boards and management, and to insulate the Organic Valley brand from any liability risks associated with the new enterprises.

Financial affairs

CROPP is in strong financial shape as indicated by several factors:

- **Strong sales.** Sales of Organic Valley products grew at annual rates between 20 to 38 percent during the past several years, with sales of \$287 million in 2006, \$376 million in 2007, and \$462 million in 2008.
- **Stable, premium prices to farmers.** With few, and minor, exceptions, CROPP has maintained stable pay above commodity prices to its dairy farmers in recent years. The base pay price from 2006 through 2008 was \$22.00, \$22.50, and \$24.75 per hundredweight (about 11 gallons) of milk, respectively.

- **Timely construction of new buildings.** To accommodate its growing operations, CROPP has built two new buildings in recent years, including its headquarters in La Farge, Wisconsin (population 786). This is the same rural Wisconsin town where the cooperative began 20 years ago. The second building is a state-of-the-art distribution center in a “green” industrial park near Interstate 90, located in the nearby Wisconsin town of Cashton, population 805. Consistent with CROPP’s broad definition of “organic,” both buildings were constructed according to the guidelines of the Leadership in Energy and Environmental Design (LEED) Green Building Rating System.
- **Annual profit distribution and debt.** For the past several years, the CROPP cooperative has generated profits of one to two percent of gross sales. CROPP’s profits are distributed to CROPP farmers, employees and the community through an established formula. Funds for constructing and equipping the two new buildings were generated by a mortgage provided by the State of Wisconsin Investment Board and by a \$21 million public offering of non-voting stock. This left CROPP with relatively little debt—less than \$10 million—to private banks. For more information, see “Going mainstream” in the *Isthmus* article “Natural Allies” and “Strategic partnerships replace capital and expertise.”

Historical performance indicators

Organic Valley’s strong financial performance is largely due to the success of its dairy pools, as well as the combination of competent leadership and CROPP’s historical timing. Developed in the late 1980s and early 1990s, the Organic Valley brand was well positioned to ride the 22 percent plus growth rates that organic food sales generated beginning in the late 1990s and continuing to the present. The growth of organic dairy products and milk has been particularly robust.

*“The growth of milk has been even faster than other organic products, in part, because of the concerns of parents ... They’re thinking, ‘What are we putting in our children’s bodies?’ A lot of parents are concerned about growth hormones, pesticide residues, antibiotics. Those are the reasons they buy organic dairy.” (Phil Howard, rural sociologist, quoted in the *Isthmus* article “Natural Allies.”)*

Dynamics as of 2008

Creating and marketing differentiated, high value food products

Product differentiation and branding. The Organic Valley brand is “...one of the strongest brands in the entire natural foods business” (*Isthmus*) and the “... number one brand in the country’s natural food stores” (Mike Bedessem, interview, 3/20/07). Including Organic Prairie’s meats, consumers can find the Organic Valley brand on over 200 products. Organic Valley products are differentiated on multiple dimensions including product qualities, stories and values, and logistical services.

1. Leading *product qualities* is the organic differentiation, both the narrow USDA definition, and CROPP’s broader definition. While CROPP frames “... organic as a choice, not a moral issue” (Jim Wedeberg, interview, 3/20/07), it is clear that CROPP positions Organic Valley products as strongly associated with superior taste, nutritional value and food safety, as well as with human, animal and environmental health.

Organic Valley uses powerful and sophisticated *outreach to parents and children* including *Ovie’s Underground*, *The Organic Manifesto of a Biologist Mother*, and *We the Mothers*.

In addition to the core organic messages associated with Organic Valley products, CROPP also seeks differentiation through product value additions including pasture butter, sliced cheese and aseptic packaging: “Greener Grass=Better Butter: Organic Valley Introduces Pasture Butter” and “Who Sliced My Cheese? Organic Valley Now Offering Pre-Sliced Mild Cheddar, Baby Swiss, and Provolone.”

In addition to USDA organic certification, many Organic Valley products carry Orthodox Union Kosher Certification. See “Standards and certification” for more information.

2. *Stories and values* associated with the CROPP Cooperative and the Organic Valley brand engage not only human, animal, and environmental health, but also the health of rural communities and the diversity of the nation’s farm structure. CROPP’s differentiation strategies communicate these values by emphasizing the regional and family farm nature of the cooperative’s membership.

Similar to the Country Natural Beef cooperative,⁶ Organic Valley employs CROPP farmers as “farmer ambassadors” for marketing in retail stores and food service institutions, as well as public appearances and speaking engagements.

Interestingly, with all its emphasis on family farming, CROPP has not been able to craft a definition for “family farm” that works across all regions of the country.

“Early on we struggled with a definition for a family farm but have backed off ... There’s too much difference in regional cultures. For instance, Midwest family farmers milk their own cows ... while family farmers in the West and South hire milkers. We are now more interested in whether farmers want to cooperate, and we do on-farm checks of farms that milk more than 500 cows.” (Jim Wedeberg, interview, 3/20/07.)

3. Finally, CROPP seeks differentiation through important *logistical services* that include food quality monitoring, traceability and recall capacity, and prompt delivery. Organic Valley milk is regularly tested for pathogens at the farm level. Final products are routinely evaluated by inspectors at processing plants, and CROPP has the laboratory capacity at its La Farge headquarters to spot-check products such as cheese, butter, and dried milk powder. Furthermore, the cooperative and its trucking partners have the capacity to trace (and recall, if necessary) every case of product that carries the Organic Valley label.

CROPP achieves logistical efficiencies through regionalization. Organic Valley’s fluid milk can be delivered to a customer’s distribution center the day after orders are received. Other products take longer, but most can be delivered within two to three weeks. Over the past two to three years, Organic Valley has transitioned into being the U.S. price leader for most organic dairy products. With this position comes the requirement that “CROPP couples the highest quality products with on-time delivery. ... To earn the premium, you need to deliver the goods.” (Jerry McGeorge, interview, 9/30/08.)

Standards and certification. All producers, products, and manufacturing plants associated with Organic Valley are inspected annually and certified according to USDA organic standards. Certification is done by Oregon Tilth Certified Organic, a USDA-accredited, independent, third-party organic certification agency based in Salem, Oregon.⁷ CROPP CEO George Siemon was instrumental in creating the USDA standards. For a critique of the USDA’s organic framework and Siemon’s response, see the “Sleeping with the enemy?” section of the “Natural Allies” *Isthmus* article. Some Organic Valley products are also kosher.

Identity preservation throughout the supply chain.

In CROPP’s early days, as much as 60 percent of its milk was sold anonymously into the conventional market. All of CROPP’s dairy products are currently marketed as organic, with roughly 60 percent sold under the Organic Valley label in 2007. The 40 percent of products not sold under the Organic Valley label include milk and non-fat dry milk powder sold to the New Hampshire-based dairy company, Stonyfield Farm,⁸ for yogurt sold under that company’s label (25 percent), as well as milk sold to several supermarket chains for their house brand organic milk (15 percent).⁹ For more information, see “Going mainstream” in the “Natural Allies” *Isthmus* article.

Interaction and feedback from customers. The Organic Valley website is set up for interaction with retail and wholesale customers. CROPP production and logistical functions are sensitive to quality control issues, traceability, and product recall.

Creating effective internal organizational forms

Competent leadership and management structures.

CROPP is led by a seven-person, farmer-elected board of directors and an executive management team.¹⁰ The board of directors meets monthly. CROPP farmers also participate in the cooperative’s governance through a dairy executive committee that is composed of one farmer representative per milk pool, which adds up to about 40 representatives. This committee provides feedback to the board and management through semi-annual pool meetings and other channels.

Selecting markets and supply chain partners

Farmer partners. In addition to cooperative attitudes, requirements for dairy farmer membership in CROPP include such criteria as organic certification, sufficient scale (bulk tank with capacity for five milkings), high milk quality (low somatic cell count), an equity investment of 5.5 percent of annual income, and farm location in reasonable proximity to current milk pool trucking routes.

The “Who’s Your Farmer” section of the Organic Valley website provides a sense of the geographical distribution of the co-op’s farmers. Examples of CROPP farms in the Midwest can be found in the “Natural Allies” *Isthmus* article. The cooperative provides an impressive range of services to its members including a toll-free farmer hotline, consultation from a staff milk quality team and veterinarian, as well as information regarding where farmers can purchase feed, pest control supplies, and veterinary supplies that meet organic standards.

Given the growing market for organic dairy products, CROPP actively seeks new, qualified farmer-members. To bolster recruiting, the cooperative provides consulting and financial assistance to help farmers make the transition to organic dairying.

Retail and food service partners. Sales of organic dairy products are experiencing the fastest growth in mass-market stores, while sales in natural food stores are relatively flat.

“We can’t be afraid of new people coming into our industry... Yes, we’re growing in the mass market, but our love and devotion is still in the natural market... That’s the group we cater to. They are the core organic shopper. They are the pioneers.” (Therese Marquez, interview, 3/20/07.)

Organic Valley’s partnerships with retail customers are characterized by a clear sense of mutual benefit, comfort with financial transparency (cost structures can be shared and honored), and openness to a long-term relationship. CROPP currently does little business with the food service sector, and sees this as a potentially important area for growth.

Organic Valley’s partnerships with retail customers are characterized by a clear sense of mutual benefit, comfort with financial transparency and openness to a long-term relationship.

Processing and distribution partners. CROPP owns only one processing facility—a butter-manufacturing creamery in the rural community of Chaseburg, Wisconsin. Other Organic Valley dairy products, as well as soy and juice products, are processed on contract by outside companies strategically located throughout the country. The processing of fluid milk is the most dispersed, with plants contracted in California, Washington, Colorado, Texas, Minnesota, Wisconsin, Indiana, New Jersey and New York.

Processing partners are selected initially on the basis of geographical location. Matching processors with CROPP farmers is sometimes a chicken-or-egg calculation. In order to be profitable, 30,000 to 40,000 pounds of milk needs to be collected daily on each collection route. The capacity to deliver high-quality products is a second criterion, particularly important for cheese manufacturers.

“We like to partner with family-owned, independent processors where we can... A good example is the family-based Schroeder Dairy in Minnesota. This is easier to do with cheese plants than with milk plants... We contract with a Dean’s milk plant in New York which has

the capacity for ultra-high temperature pasteurization.” (Mary Ewing, interview, 3/20/07.)

Processing agreements are evolving from handshake understandings to more formal contracts. This is particularly the case with regard to assuring the capacity to convert the spring flush of milk to nonfat dry milk powder. CROPP has entered into written contracts for such dry milk conversion with the large Midwestern dairy cooperative, Foremost Farms.

CROPP's approach to distribution parallels its approach to processing. Products are distributed primarily by trucks. CROPP owns no delivery trucks. The cooperative has contracts with transportation companies for the distribution of Organic Valley products across the country. Trucking companies are selected based on their rates, capacity, service, scale, and fit with CROPP's support for smaller, family-owned businesses.

"We seek out trucking firms that specialize in particular geographical 'lanes,' such as from Wisconsin or Minnesota to Florida. It's a win-win deal. We offer them a consistent weekly load which enables them to find return loads. In exchange, they can provide us with better rates and service. ... We do background checks on all our carriers. The best carrier is not always the cheapest. We prefer firms with 50 or less trucks. Family-owned companies are a good fit with family farms." (Doug Bean, interview, 3/20/07.)

While CROPP trucking agreements are handshake understandings, the cooperative requires proof of insurance coverage and rate structures. Organic Valley is considering changes to its current approach to distribution. "We would consider owning our own trucks if contracting became too expensive ... We are looking closely at transporting more product by railroad as fuel prices force higher trucking rates." (Doug Bean, interview, 3/20/07.)

CROPP's manager of product transportation, Doug Bean, has worked in the grocery business and owns a small trucking firm. This is a good example of bringing professionals with key managerial competencies and similar values into enterprises owned by farmers and ranchers.

Strategic partnerships replace capital and expertise. One of the reasons that CROPP succeeded when other organic dairy firm start-ups in the 1980s failed is because, "... through most of our life we did not sink money into bricks and mortar." (Jim Wedeberg, interview, 3/20/07.) By contracting out key processing and distribution activities, CROPP employed strategic partnerships to reduce capital expenditures and broaden its expertise.

However, within the past several years, CROPP has built a new company headquarters and distribution center, and it may build additional distribution centers on the east and west coasts. These decisions to build were made because CROPP was seriously outgrowing its administrative and warehousing space, and was committed to remaining in rural communities. "Given our

druthers, we'd prefer to not invest in bricks and mortar, but we need to look at the available options." (Jerry McGeorge, interview, 10/3/08.) "Build the business and then build the buildings." (George Siemon, interview, 3/20/07.)

Developing the distribution sector as a service and income center. The Organic Valley distribution center at Cashton, Wisconsin, was completed in conjunction with the development of Organic Logistics, LLC, as a new service and profit center for CROPP.

Designed to provide a range of high quality, affordable distribution services for smaller organic food companies, this new enterprise is a win/win for CROPP, which needs full trucks to garner the best "weight breaks" through its contracted freight agreements, and the smaller companies it serves through Organic Logistics. The new, green, state-of-the-industry distribution center is also an important platform on which to build future logistical capacities for the cooperative and its partners.

Developing effective supply chain logistics.

Production and aggregation. In 2007, slightly over 50 percent of the milk from CROPP's 900 plus dairy farmers was processed and sold as fluid milk with the rest used for cheese, butter, cottage cheese, and other Organic Valley dairy products.

CROPP staff members develop milk collection routes within geographical regions that result in efficient, profitable collections and deliveries to the contracted dairy processing plants. These aggregation logistics, as well as farmer relations, are supervised by CROPP-employed pool coordinators who often live in the regions they serve.

Processing and distribution. Processing is done on contract by dairy manufacturing plants located close to the regionally-organized milk pools. Hauling large loads of milk achieves scale and processing efficiencies, as "... scale helps CROPP recruit efficient, high-quality manufacturing plants, and reduces 'line loss,' the eight to 10 percent of milk that remains in the processing plant's lines upon shut down." (Mary Ewing, interview, 3/20/07.)

Within each region, contracted trucking firms pick up Organic Valley-branded fluid milk at the processor's loading dock and deliver it to customers' distribution warehouses. Other Organic Valley products, including cheese, cottage cheese, eggs, and juice, are currently routed through CROPP's distribution center in Cashton.

If plans to establish major CROPP distribution centers on the east and west coasts materialize and Organic Logistics, LLC continues to grow, future distribution of Organic Valley products will be increasingly accomplished regionally.

Accounting. All invoicing, payment, and accounting functions are performed by CROPP employees under the direction of CROPP's chief financial officer.

Logistical coordination. Logistical coordination is done through the new distribution center under the direction of CROPP's chief operating officer.

Achieving economic sustainability.

Pricing philosophy. Stable prices for farmers are fundamental to CROPP's mission and business model. Price stability is accomplished through controlling the supply of Organic Valley products. Operationally, this means:

- Managers from CROPP's marketing, sales and production departments participate in weekly coordination meetings
- New CROPP farmers are brought on only after markets have been secured for their milk
- A reserve pool of organic dairy farmers supplies milk during periods of the year when demand outstrips supply
- Fluid milk is converted into dry milk powder and stored during periods of the year when supply exceeds demand, and
- The cooperative retains the right to drop purchases from its newest farmer-members. Reaching the point where 100 percent of CROPP's milk is sold as organic has been crucial to making the numbers work.

CROPP translates its values into business decisions about pricing. In 2000, CROPP was facing an oversupply of milk and needed to decide whether to drop the farmers most recently signed on to the milk pools or to reduce all farmers' pay price by 30 cents per 100 pounds. "The farmers voted to drop the collective pay price." (Jim Wedeberg, Mike Bedessem and Theresa Marquez, interviews, 3/20/07.) A parallel decision by CROPP's board of directors dropped the pay price and reduced farmers' milk quotas to manage supply and price in the 2009 recession.

In 2004, CROPP had been selling Organic Valley products to Wal-Mart for several years. In keeping with its business model, Wal-Mart began pitting its organic milk providers against one another, demanding lower prices and more milk from each of them. Meeting Wal-Mart's

demands would not only have shortchanged CROPP's smaller customers, but also altered the cooperative's vision for values-based business relationships and long-term economic sustainability. So, CROPP made a decision nearly unheard of in the conventional food industry and said 'no' to Wal-Mart.

"We asked ourselves 'Which retailers have been with us in the past and will stick with us down the road?' We're independent. We answer to ourselves, not Wall Street, so we can do it. We can keep our soul." (George Siemon, quoted in The Nation article, "How to Swim Against the Current.")

Payment practices. The cooperative's board of farmer directors, in dialogue with the executive management team, determines the target payment price to CROPP's 900-plus dairy farmers. Payments are initially calculated on a base component price determined by adequate levels of butterfat, protein, and other solids of a given farm's milk. The base component price is then adjusted up or down after a series of milk cleanliness tests including somatic cell and other bacteria counts. Finally, a regional premium is added to the adjusted price based on the costs of producing milk in given regions of the country.

In 2008, regional price premiums per hundredweight of milk varied from \$1.50 in the Upper Midwest and West to \$5 in New England and the Southeast. Finally, \$75 is deducted from each month's milk payment to pay for trucking, and CROPP farmers are required to make a one-time purchase of preferred stock in the cooperative equal to 5.5 percent of their gross annual sales to CROPP. For a description of CROPP's payment plan and information on regional premiums, see the CROPP website.

CROPP is currently reviewing its methodology for calculating its base price and regional premiums. Farmer contracts with CROPP can be terminated by either party with a 180-day notice, and CROPP makes it clear to its members that the pay prices are target prices that can be adjusted downward depending on the financial performance of the cooperative. For the past several years, CROPP has earned a profit of one to two percent of gross sales, and nearly half of this profit has been distributed to its farmer-members. For some farmers in some years, this bonus has amounted to over \$100,000.

Pricing Organic Valley products. When pricing its dairy products, CROPP starts with the price paid to farmers and adds on layers of costs associated with the processing and distribution of the product, including a reasonable profit margin. Pricing decisions are made by the cooperative's vice president for sales and chief financial officer, who also take into account market conditions and the competitive landscape.

Communicating sustainable economics in the marketplace and with enterprise members. CROPP spokespersons emphasize the importance of stable, cost-of-production-based pricing for both farmers and customers through negotiations based on financial transparency. Given the volume of organic milk that CROPP markets, the cooperative is able to influence the price paid to organic farmers throughout the industry.

Acquiring technical support. In its early years, CROPP received assistance with organizational structuring from groups like Cooperative Development Services and similar groups. Currently, CROPP provides support to other groups on a range of fronts, including distribution services for smaller organic companies through Organics Logistics, LLC, and targets 10 percent of annual profits to a range of community organizations.

Future dynamics, as envisioned in 2008

Internal organizational issues.

Revitalizing company culture. The CROPP cooperative is growing rapidly. 50 percent of its farmers and 35 percent of its employees have joined within the last three years. This makes socialization into company culture particularly important. "Culture is key and needs to be reinforced from all sides: employee culture, farmer culture, and consumer culture." (George Siemon, interview, 3/20/07.) Mechanisms for reinforcing company culture include significant use of the Organic Valley website, interaction between employees and farmers at outreach events, and the semi-annual meetings of the milk pools. CROPP screens for "cooperative" people in selecting farmers and employees. "CROPP spends considerable time exposing employees and farmers to the co-op's mission and the meaning of that mission." (Jerry McGeorge, interview, 10/14/08.)

Leadership succession. While the current CROPP leaders are not near retirement, the cooperative's management is concerned about succession issues. "The first generation of managers is either organic farmers or people with a passion for organics. ... There's a concern about the second generation." (Mike Bedessem, interview, 3/7/07.)

"Company culture is strong ... I'm not worried about the managers. ... I'm more worried about the farmers ... Democracy can be weak ... I have faith in the current board, but need to educate them on succession issues." (George Siemon, interview, 3/20/07.)

Issues with supply chain partners.

Food service as a growth area. CROPP sees food service as a potentially significant growth area.

Challenges with organic grain production. Organic feed production is not keeping up with organic live-stock production, resulting in expensive feed prices and a growing advantage for dairy farmers with sufficient land to grow their own feed.

Potential shifting of distribution by rail. See "Processing and distribution partners," and the section below on distribution efficiencies.

Economics and efficiencies.

Increased distribution efficiencies. CROPP has laid out the following scenario for its future logistics: East and West Coast distribution centers, with the Cashton, Wisconsin, complex serving as the Midwest's distribution hub and the replenishment center for the other distribution centers; increased use of railroads for CROPP distribution—both east/west and north/south lines—as fuel prices climb and regulations on truck drivers increase; and increased use of "inter-modal systems," which are wheeled containers that interface with trucks, railroads, and ships for product transportation to Hawaii and Alaska.

Reducing farmers' input costs. Farmers' input costs can be reduced through on-farm energy generation including methane digesters, windmills, solar power, micro-hydropower, and biodiesel; and regional purchasing collectives for organic animal feed.

Strategies for a maturing market.

Continued growth of Organic Logistics, LLC as a service and profit center. See “Selecting markets and supply chain partners.”

Growth in new market sectors. CROPP has targeted several new market sectors: food service; value-added products such as pasture-based butter and sliced cheese; and markets outside the contiguous 48 states, such as Alaska and Hawaii. “Milk has been the leader in mainstream supermarket outlets, but we still have plenty of room for placement of other products such as cheese, butter, juice and eggs.” (Jerry McGeorge, interview, 10/14/08.)

Organic plus. Moving up the organic pyramid. What features of Organic Valley’s pyramid model for the organic lifestyle might be effectively engaged to further differentiate and sell its products in an organic industry that is becoming more like the conventional market?¹¹ Fair trade? Pasture-based farming systems? Bioregional foods and diets? Food miles? Animal welfare? Family farming?

“I have teenage children who are very aware of issues like global warming and carbon footprints. ... Their purchasing choices are very likely to be quite different. ... That should be good news for an organic food company.” (Jerry McGeorge, interview, 10/3/08.)

A mature Organic Valley: Has CROPP grown up?

Criteria for “too big.” CROPP has historically believed the cooperative would be too large when it could no longer serve its farmers and customers well (Mike Bedessem, interview, 7/20/07; Jerry McGeorge, interview, 10/3/08.)

Size has important positive consequences. CROPP’s size and the strength of the Organic Valley brand enable the cooperative to exert significant influence over product quality and farmer pay price in the organic dairy sector.

Regionalization has enabled CROPP to grow and remain effective. Clearly growth through regionalization has been a successful strategy for CROPP, enabling logistical efficiencies as well as regional identity and brand growth.

“One future scenario would be toward more autonomy by our regional pools and a ‘federation of co-ops’ ... but that would be a ways down the road and require lots of discussion ... Our regional structure is currently working well.” (Jerry McGeorge, interview, 10/3/08.)

Positioning values-based food supply chains in a troubled and contracting economy.

“This is a time of incredible flux. We don’t have many answers because things are too fluid at the moment ... sales are definitely slowing down and we run the risk of becoming oversupplied. However, like all prudent businesses, we are currently testing our assumptions, re-examining our business practices and trying to position ourselves to provide our customers with products that they truly value.” (Jerry McGeorge, interview, 10/14/08.)

Case update

The following statistics provide a framework for understanding Organic Valley’s experience during 2009-2011:¹²

- The number of organic dairy farmers belonging to Organic Valley’s parent cooperative, the Cooperative Regions of Organic Producer Pools (CROPP), grew from 1,024 in 2008 to 1,411 in 2011. CROPP remains the largest organic farmer-owned cooperative in North America in terms of farmer-members and annual sales.
- The number of regional milk pools increased to 43, representing many geographical regions of the U.S.
- Due to the recession, sales of Organic Valley dairy products remained flat in 2008 and 2009 at about \$460 million. Sales grew in 2010 and 2011 to \$483 million and \$639 million, respectively, producing annual growth rates of five and 32 percent. Dairy product sales of \$774 million are projected for 2012, an increase of 21 percent.
- During 2009 and 2010, branded products accounted for slightly less than 50 percent of the cooperative’s dairy sales, while private label sales accounted for nearly 20 percent. The sale of bulk organic milk to dairy manufacturers accounted for more than 25 percent of total sales. During 2011, sales of branded products rose to 52 percent of dairy product sales.

During this time period, Organic Valley has also:

- Weathered the recession through a combination of supply management strategies within the cooperative and an external partnership with Stonyfield Yogurt;
- Aimed at maintaining Organic Valley-branded dairy product sales at 50 percent or more of total dairy sales;
- Increasingly recognized its financial investors and treated them as stakeholders;
- Increased enterprise efficiencies through generating on-farm energy, initiating a new market exchange for organic grain and animal farmers, and further developing the Organic Logistics food distribution company; and
- Launched a company-wide effort to identify and develop new leaders for the CROPP cooperative by focusing internally on Organic Valley farmers and staff.

The following discussion provides a deeper understanding of Organic Valley's opportunities, challenges, and actions during this time frame.

Adapting and protecting values-based supply chain pricing principles: The recession and supply management. As conventional and organic milk prices plummeted in early 2009 due to weakened demand brought on by the recession, CROPP decision makers responded through two supply management strategies. In February 2009, the cooperative's seven-farmer board of directors, acting on the advice of the executive management team, reduced farmers' pay prices by \$1 per hundredweight of milk shipped, representing a decrease of 3.5 percent. In July, they introduced a quota program that required farmers to cut by seven percent the amount of milk they delivered to the cooperative until January of 2010. According to one observer, Organic Valley dairy farmers experienced about a 10 percent reduction in revenues, probably less than one-third of conventional dairy farmers' reductions, which averaged more than 40 percent.¹³

One reason these supply management strategies were successful was that Organic Valley is a lead player in the organic milk market. Other major organic dairy processors, such as Horizon and Hood, had to reduce pay prices and purchased volumes during the same time period.¹⁴ Thus, organic dairy prices as a whole stabilized in the latter part of 2009, and Organic Valley's production quotas were lifted everywhere except California early in 2010. According to Divisional Manager Kevin Kiehnau, "When we came out of 2009, we had our full

pay price. By using a quota system, we were able to offer a steady pay price through that period. The return to normalcy was quick." (Kevin Kiehnau, interview, 2/22/2013.)

Supply management strategies built into Organic Valley's organizational architecture were available when needed in 2009. Since the 1990s, Organic Valley as a new generation cooperative has successfully coordinated supply with demand regionally through pools. These pools are organized to add new farmers at a rate commensurate with the cooperative's penetration and sales growth in new markets. Each year, contracts with farmer-members specify both price and volume. Members seeking to significantly expand or increase production need Organic Valley's permission to add more milk to their regional pools. For Organic Valley, a fundamental aspect of developing an effective supply management strategy has been limiting the number and rights of members and coordinating their production.¹⁵

As a result of the economic downturn in 2009, Organic Valley learned this lesson that will inform future supply management responses: *Create a flexible system that recognizes differences among farmer members and regions of the country.* At the heart of a system built around this lesson is a meaningful appeals process that recognizes that every farm has a different story. For example, Organic Valley learned through the 2009 experience that farmers who have recently made capital investments to increase production deserve to be treated differently with regard to quota levels.

During 2009, demand for Organic Valley's products varied across regions by as much as seven percent. Supply management responses needed to reflect regional differences. For example, in 2010 the California pool was subject to production quotas for several months longer than Organic Valley's other regional pools.

Because Organic Valley successfully employed these supply management strategies, the co-op was able to maintain transparent price levels for all customers and resist pressures to provide special deals during periods of low demand.

Organic Valley also faced price pressures from the growth in private label organic dairy products in some of the nation's largest supermarkets. In fact, about 20 percent of Organic Valley's sales come from processing organic dairy products for private labels. After much discussion, the cooperative decided to enter the private label business to gain another income stream for the co-op's members and diversify the enterprise. As the cooperative's vice president of sales indicated, "The recession hit, and people traded down to less expensive private labels right away. We were very glad through the recession to have private labels. When you milk, you have to have a place for it to go" (from "The Big Organic Challenge").

Organic Valley also supplies bulk organic milk to a range of organic food manufacturers, including Stonyfield Yogurt in the Northeast. In 2010 and 2011, bulk sales of commodity milk accounted for approximately 25 percent of Organic Valley's total dairy product sales. The cooperative's management is well aware of risks involved in depending too heavily on these commodity sales. As one of Organic Valley's senior staff put it, "We don't ever want to become predominantly a bulk milk supplier from which margins can be extracted by being played off against other suppliers." (Jerry McGeorge, interview, 8/10/11.)

Such awareness informs Organic Valley's push to maintain its own strong brand identity in the marketplace. The cooperative's goal is to have 50 percent or more of its total sales from Organic Valley branded dairy products. In 2011, sales of branded products accounted for 52 percent of total dairy sales, up from 42 percent in 2010. The cooperative's top executives continue working to strengthen the brand through analyses and consumer surveys. The comparative margins of Organic Valley's three major product areas show the importance of maintaining a significant percentage of branded products: branded—23.3 percent margin, private label—9.1 percent, and manufactured (ingredients and bulk milk)—4.5 percent.

Strengthening relationships with strategic partners:

Collaboration with Stonyfield. Organic Valley maintains strong relationships with processors, distributors, and supermarkets across the country. But the cooperative's most important collaborative work in the last several years has been reframing and expanding its partnership with the Northeast-based organic yogurt company Stonyfield. During the 1990s and early 2000s, the two organic companies worked under an informal understanding that Organic Valley would not market yogurt and Stonyfield would refrain from entering the fluid milk market.

However, in the mid 2000s, Stonyfield announced that it would produce and market organic fluid milk in the Northeast, where its brand is strong. After several challenging years of attempting to coordinate a fluid milk system, Stonyfield approached Organic Valley for assistance. Organic Valley agreed to manage the production, aggregation, and processing of Stonyfield fluid milk in the Northeast, while both companies collaboratively marketed the product.

This new agreement is proving to be mutually beneficial. Instead of managing logistical systems with which it has little expertise, Stonyfield can focus on strengthening its brand in the Northeast. The collaboration provides Organic Valley with an opening to Northeast markets through an established brand, as opposed to competing with Stonyfield.

In taking over the aggregation and management of the Stonyfield milk pools, Organic Valley has added 270 organic farmers. In addition to the Northeast, these farmers are located in Michigan, Indiana, and Ohio. Coupled with strong membership in Wisconsin and Minnesota, these new farms create a significant ring of organic dairy farmers around the Great Lakes. According to a senior staff member, "The Stonyfield deal helped fuel the co-op's growth in 2010. It helped get us out of the recession." (Jerry McGeorge, interview, 8/10/11.)

Strengthening communication with customers and consumers; Investors as a new stakeholder group.

As detailed in the initial case study, the Organic Valley website serves as an effective platform for communicating a broad range of information about the company to farmers, customers, consumers, and investors. For example, the website allows consumers to locate an Organic Valley farmer in their area, shares information about products and recipes, points out the advantages of organic foods and farming systems, and

explains Organic Valley's mission and principles. Organic Valley is also using social media such as Facebook and Twitter.

Complementing these communication platforms, Organic Valley has established a farmer ambassador program. Organic Valley farmer-members represent the cooperative and its products at store demonstrations and community or industry gatherings. Similar to the adopt-a-store program pioneered by the Country Natural Beef cooperative,¹⁶ Organic Valley provides farmer training and staff support for this successful avenue of outreach.

In addition to communicating with its constituencies, Organic Valley has lured new financial backers. Over the past six years, the cooperative has recruited more than 2,000 values-based investors. Through the sale of preferred (non-voting) stock to investors, Organic Valley has partially funded the construction of a new distribution center in southwestern Wisconsin and an addition to a new company headquarters. Communication with these investors revealed that they want to support the cooperative more than just financially. The leadership of Organic Valley now views these persons as more than passive shareholders and is developing ways for these consumer "influentials" to actively support the co-op, such as speaking with their neighbors or sharing coupons for discounts on Organic Valley products with them. As one of cooperative's senior staff members put it, "In addition to farmers, staff members, customers, and consumers, we're now including investors as important stakeholders in Organic Valley." (Jerry McGeorge, interview, 8/10/11.)

Developing deeper distinctions: Differentiating the Organic Valley experience through improved customer service. Organic Valley has historically differentiated itself in the marketplace through high quality products, stories, and values associated with the cooperative's business model. They also make their mark through logistical services that include on-time delivery, traceability, and recall capacity. The cooperative is now embarking on a new company-wide initiative to improve the experience of doing business with Organic Valley that involves a deep understanding of customer service. New service-oriented transactions throughout the supply chain include farmers, processors, distributors, retail buyers, investors, and employees. The cooperative plans to provide educational and training sessions for staff prior to evaluating employees based on this deeper framing of customer service.

The cooperative also seeks to differentiate itself from privately-owned competitors like Horizon by highlighting their cooperative business structure and farmer ownership. While Organic Valley emphasizes their "un-corporate" nature and cooperative structure on their website, their research indicates that many consumers have a hard time understanding the cooperative business structure. They have found that the term "farmer-owned," now featured prominently on their product containers, communicates their values more effectively.

Recognizing that the USDA organic standard is strictly production-oriented, Organic Valley has joined with others, such as the Domestic Fair Trade Association, in exploring "organic plus" standards, focusing on animal welfare, fair trade, and/or grass-based farms. For instance, the cooperative was a leader in developing the pasture standards for the USDA organic program and is currently involved in a pilot project to explore domestic fair trade in organic dairy farming. Organic Valley seeks to strike a balance between the value of these deeper differentiations and the layers of bureaucracy involved in creating and verifying new standards, with particular attention to the impact on farmers.

Achieving greater farm and company-level efficiencies. Organic Valley seeks to support efficiency gains at both the farm and company levels. The Farmer Renewable Energy Program, established in 2008, supports efforts by the cooperative's farmer-members to reduce input costs and address environmental challenges through on-farm energy generation including methane digesters, windmills, solar power, micro-hydro-power, and biodiesel. The cooperative supports such initiatives through sponsoring research, providing energy audits, and offering technical assistance, including help with grant writing and administration.

Based on the cooperative's pool structure, Organic Valley created a grower pool to address the increasing challenge of ensuring an adequate supply and stable prices for organic feed grains. The grower pool pairs organic crop growers with organic animal farmers to negotiate fair and stable prices for both sides. The pool offers annual contracts for feed-grade grains, beans, oilseeds, and hay grown in rotation.

Organic Logistics, LLC, a wholly owned subsidiary of CROPP, Organic Valley's parent cooperative, was established in 2004 to help the co-op achieve greater efficiencies in the processing and distribution sectors of the supply chain. Operating from a state-of-the-art distribution facility near Organic Valley's headquarters, Organic Logistics offers refrigerated and frozen food logistics with weekly deliveries to organic, natural, and national grocery distribution points in all major U.S. markets. Designed to provide a range of high quality, affordable distribution services for smaller organic food companies such as yogurt and juice manufacturers, Organic Logistics creates significant efficiencies for Organic Valley, which needs full trucks to get the best rates through its contracted freight agreements.

As discussed in the original case study, Organic Valley has historically chosen to contract with other companies for dairy processing rather than own a facility. However, if Organic Valley leadership decides it would contribute to stability and efficiency, they may consider partnering with or buying partial ownership in existing processing facilities.

Addressing organizational maturation: Revitalizing company culture and growing leaders internally.

Organic Valley is a rapidly growing enterprise. Nearly 50 percent of its farmer-members and employees have joined the company within the past three years. In 2011, more than 100 new farmers and 130 new employees joined the CROPP cooperative. This influx of new people makes socialization into company culture particularly important. In addition to screening for "cooperative" people, Organic Valley reinforces its company culture through employee seminars, its website, interaction between employees and farmers at outreach events, and semi-annual meetings of farmer-leaders from the 43 milk pool regions. A national farmer-leader meeting was held in October 2011 to get input on the cooperative's future and discuss the responsibilities of farmer-leaders.

A new leadership development program at CROPP will focus on developing leaders from within the organization. As the co-op's director of cooperative affairs, who will facilitate the program, said, "How much longer can we successfully recruit high-quality leaders and managers from the outside to relocate to a small rural town like La Farge, Wisconsin?" (Jerry McGeorge, interview, 8/10/11.) Consistent with the cooperative's overall approach, the new leadership development program will focus on both farmers and employees.

Policy note

Some Organic Valley farmers participate in subsidy programs, but it's uncertain how many (Jerry McGeorge, interview, 2/14/11). Jerry McGeorge believes that a small minority receives funds for conservation projects. Organic Valley members do not benefit from the WIC program because states rarely allow the purchase of organic foods. CROPP has received two different USDA Value Added Producer Grants. The co-op has facilitated the participation of their farmers in some federal and state research programs. A few farmers have accessed grants for producing biomass for energy.

George Siemon was heavily involved in the development of the National Organic Act in 1990, and Organic Valley also worked on the grass-fed beef standard. Many Organic Valley farmers have used the federal organic cost-share program, though McGeorge thinks few have taken advantage of crop insurance. Organic Valley products carry several federally approved labels, such as organic and kosher. Because most of Organic Valley's fruit and vegetable producers are small scale, the co-op lobbied for appropriate protections in the Leafy Greens legislation.

McGeorge is on the Organic Advisory Council of the Wisconsin Department of Agriculture, Trade and Consumer Protection, but Organic Valley does not receive state support for its activities. The company does keep abreast of federal programs implemented at the state level, such as the Farmland Protection Program. Organic Valley has not utilized any local programs, but if a co-op member asks for help with a grant application, the co-op will provide assistance. As for private sector support, Organic Valley offers its own organic transition support program for dairy farmers joining the co-op.

Organic Valley was involved in talks surrounding the USDA decision to fully deregulate GMO alfalfa. They participated in the Farm Bill discussion for the first time in 2008 and will probably do so again in 2012. They would like to see the federal milk marketing orders dismantled and a better program put in place.

Credits

Jerry McGeorge and other Organic Valley managers provided the interviews upon which the original case study, the update, and policy note were based. The policy note was authored by Kate Clancy, University of Minnesota Institute for Sustainable Agriculture.

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Organizations involved with this report:

The National Initiative on Agriculture of the Middle

is concerned with a disappearing sector of mid-scale farms/ranches and related agri-food enterprises that are unable to successfully market bulk commodities or sell food directly to consumers. See www.agofthemiddle.org. The initiative has three areas of emphasis: new business and marketing strategies; public policy changes; and research and education support.

The Center for Integrated Agricultural Systems

(CIAS) is a research center for sustainable agriculture in the College of Agricultural and Life Sciences, University of Wisconsin—Madison. CIAS fosters multidisciplinary inquiry and supports a range of research, curriculum, and program development projects. It brings together university faculty, farmers, policy makers, and others to study relationships between farming practices, farm profitability, the environment and rural vitality. For more information, visit www.cias.wisc.edu or call 608-262-5200.

Endnotes

Some hyperlinks may no longer be current.

- ¹ This updated version of this case study was done in April 2013. The original version was published June 2009.
- ² This article is available at isthmus.com/news/cover-story/natural-allies.
- ³ The Organic Valley website can be viewed at www.organicvalley.coop.
- ⁴ A broad definition of “organic” provides CROPP with a framework for adding additional values and differentiations to Organic Valley products as the organic industry becomes increasingly more like the conventional market.
- ⁵ For a critical analysis of aspects of new generation cooperatives, see www.rurdev.usda.gov/rbs/pub/jan01/critical.htm.
- ⁶ See the Country Natural Beef case study for more information.

- ⁷ CROPP’s organic certificates can be viewed on its website: www.organicvalley.coop/trade/certificates.
- ⁸ For an introduction to Stonyfield, see the “About Us” page on the company’s website (www.stonyfield.com). Stonyfield offers an example (parallel to Whole Foods) of increasing corporate concentration in the natural foods sector with the acquisition in 2002 of a controlling interest in Stonyfield by the large French-based consumer products company, Groupe Danone www.danone.com. In turn, the West Coast yogurt company, Brown Cow Farm www.browncowfarm.com, was added to the corporate mix in 2003.
- ⁹ Since 2008, Organic Valley has entered the private label market and continues to provide bulk milk to organic food manufacturers such as Stonyfield. The cooperative’s goal is to have 50 percent or more of its total sales from Organic Valley branded dairy products.
- ¹⁰ See the biographies of the CROPP management team and their mixture of agriculture and food system-based backgrounds, often organic-related www.organicvalley.coop/our-story/our-cooperative/our-leaders.
- ¹¹ The pyramid model can be viewed at www.organicvalley.coop/organic-defined/evolving-organic-lifestyle.
- ¹² All statistics were provided by Jerry McGeorge, CROPP’s director of cooperative affairs.
- ¹³ Barham, Brad. 2010. “Price Stability in an Era of Roller-Coaster Rides,” *Status of Wisconsin Agriculture 2010*, Department of Agricultural and Applied Economics, University of Wisconsin-Madison www.aae.wisc.edu/pubs/status/docs/status2010.pdf
- ¹⁴ Ibid.
- ¹⁵ Ibid. www.organicvalley.coop/about-efined/evolving-organic-lifestyle/.
- ¹⁶ See the Country Natural Beef case study for more information.

Lancaster Farm Fresh Cooperative: Linking Country to City and the Traditional to the High-tech

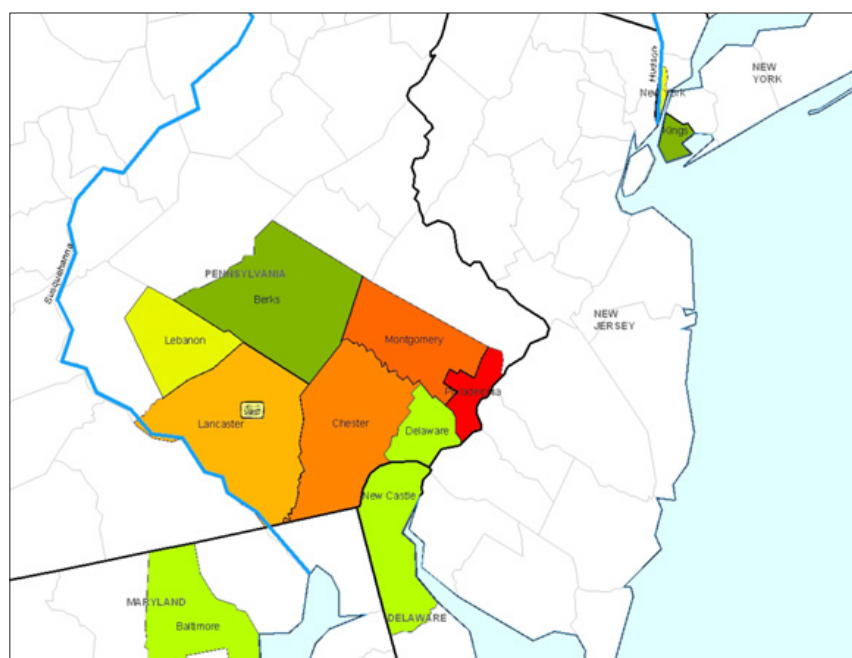
Christian Hunold and Melanie Jeske

Introduction

Lancaster Farm Fresh Cooperative (LFFC) is a non-profit, certified organic farmers' cooperative of some 75 Amish and Mennonite family farms located in Lancaster County, Pennsylvania, about 60 miles west of Philadelphia. Given its rural location and Plain Sect membership that largely foregoes the use of modern technology, the co-op links country to city and the traditional to the high-tech.¹ Particularly for those Plain Sect member-farmers who wish to limit their contact with the outside world, direct farm-to-table marketing to urban markets would be difficult, if not impossible, to accomplish in the absence of the co-op's handling of marketing, distribution, and sales. The farms range in size from ½ an acre to 25 acres.² A wholesale business supplies restaurants and stores in Pennsylvania, Delaware, Maryland, Virginia, Washington, D.C., and New York City, while a Community Supported Agriculture (CSA) program serves some 60 pick-up sites, with 70% of the spring/summer 2012 pick-up sites being located in eastern Pennsylvania. Twenty-two host sites are located in Philadelphia alone (see map).

LFFC is headquartered in the farming community of Leola, Pennsylvania, located in the heart of Pennsylvania Dutch Country northeast of Lancaster City and southwest of Reading. LFFC is a pragmatic, business-oriented organization that disseminates organic farming expertise among its member-farmers, coordinates growing cycles and crop rotation among them, and handles marketing, distribution, and sales. The co-op scales up what might otherwise be struggling farming operations to a vibrant model of regionally competitive food production and distribution centered on small and mid-sized, family-owned farms.

FIGURE 1. LFFC is located in Leola, PA and delivers to several PA, NY, DE, and MD counties. Philadelphia County, shaded red, has the most customers, with more than 440 CSA shares and 22 pick-up sites.



Given LFFC's Amish member-farmers, a brief note on Amish demographic developments is in order. The North American Amish population is booming, doubling every 18–20 years due to high birth rates and a church retention rate of approximately 85%.³ One consequence of this rapid population growth has been that Amish-owned farms in Lancaster County have tended to become smaller as a result of being divided among a family's sons from generation to generation. Access to new farmland, moreover, is limited and expensive in densely populated Lancaster County, encouraging some Amish to move westward, where they may join existing Amish communities or seek to establish new ones.⁴

The co-op's capacity to aggregate and diversify products and to disseminate organic farming expertise and modernize other business practices dovetails squarely with the member-farmers' desire to preserve family farming as one of the pillars of Amish culture.

Though farming remains a popular occupation, the shift to non-farm labor such as home construction and tourism-oriented commerce has been the biggest change in Amish society in the last century.⁵ For some Amish farmers in Lancaster County, however, the popularity of organic foods in nearby urban areas has made switching from commodity agriculture to specialty operations a viable strategy to keep farming on relatively small farms.

Accessing those urban markets, however, poses challenges associated with the scale of family farms generally and more specific challenges associated with the separationist religion and culture of the Amish. Enter the LFFC. Its chief contribution to economic development in Lancaster County, we argue, has been its role in boosting agriculture-of-the-middle, a term sometimes used to describe "a spectrum of farms and ranches that are declining because they are too small to be served well by commodity markets and too large to be served

well by direct markets."⁶ Many non-Amish agriculture-of-the-middle farms across the country participate in business organizations such as co-ops that serve as product aggregators and work to establish a regional, multi-state network, as opposed to a more local market presence.⁷ For LFFC's Amish farmers, the cooperative model of business organization would seem to be a good fit for their community's longstanding, religiously-motivated tradition of mutual aid (e.g., Amish barn raisings). Arguably less romantically, the co-op's capacity to aggregate and diversify products and to disseminate organic farming expertise and modernize other business practices dovetails squarely with the member-farmers' desire to preserve family farming as one of the pillars of Amish culture.

Historical overview

LFFC was founded by nine Lancaster County Amish farmers in 2006. Unhappiness with their treatment by major food distributors and the desire for greater control over their businesses led to the co-op's creation.⁸ The Keystone Development Center, a nonprofit corporation dedicated to providing technical and research assistance to groups who wish to organize as cooperatives, helped LFFC incorporate, develop bylaws, and hire employees.⁹ The acquisition of a warehouse and, in 2008, the creation of its own trucking division gave the co-op greater control over its operations and helped lay the foundation for its subsequent growth and expansion. Co-op sales grew from \$300,000 in its first year of operation to over \$6.5 million in 2010.¹⁰

Contemporary structure and functions

In addition to its 75 member farms, the co-op runs a CSA with several hundred subscribers. CSA share pick-up sites include farmers' markets, restaurants, meeting halls, college campuses, and private residences. In Pennsylvania, designated pick-up sites require a minimum of 20 CSA subscribers; in more distant New York, Delaware, and Maryland/D.C., the co-op asks for 30 CSA subscribers to be designated a pick-up site. Our conservative estimate of the number of shares for the spring/summer 2012 season is just shy of 2,000 subscriptions.

Because LFFC's general manager, Casey Spacht, who is the organization's gatekeeper, declined to cooperate with this research, we have no reliable information about the nature of the professional relationships among the co-op's member-farmers. The co-op seems to exist, at least in part, to shield its member-farmers

from needing to interact with the “English” world. (Many Amish speak Pennsylvania German as their first language and use the term “English” to refer to non-Amish people.) That said, in published interviews Spacht has extolled the farmers’ spirit of mutual aid and cooperation. An early account of LFFC published in *Rural Cooperatives* notes the co-op’s contribution to community development, having connected farmers in southern Lancaster County to their counterparts in the northern part of the county.¹¹ And in a 2010 interview, Spacht relates an incident where co-op farmers volunteered to rebuild another member’s burned down barn in a matter of weeks.¹² Current member-farmers, moreover, observe and evaluate the operation of new farms wishing to join the cooperative to assure their consistency with LFFC’s values of organic production.¹³ We speculate that the co-op may be governed by the same mixture of communitarian values and obedience to authority that otherwise regulate the affairs of Amish communities, but we lack hard evidence for this claim.

CSA subscribers, on the other hand, enter into a straightforward business relationship with the co-op. In exchange for an upfront fee, CSA subscribers receive a weekly box of farm products during the growing season. (There are spring/summer, fall, and winter CSA shares.) Unlike some single-farm CSAs in the Philadelphia area that arrange regular farm visits and working days for their subscribers, LFFC offers less contact between farmers and subscribers. Some outreach activities exist, however. CSA members are invited to attend farm potlucks organized by the co-op, and, according to LFFC’s website: “Once a month, one of our farmers opens his or her home to our members for a meal, tour of the farm and an opportunity to participate in harvest activities. There’s also a question and answer session so our members have an opportunity to hear directly from our farmers.”¹⁴ The co-op also maintains a CSA blog as well as a Facebook page where members may access cooking recipes and share other CSA news and information.

In the 2012 spring/summer season, a 23-week full vegetable share cost \$690; a half vegetable share cost \$425. Other share options include a fruit share and a cheese share, among others. As indicated by figure 1, Philadelphia County has the most CSA host sites, representing a minimum of 440 shares. Because the co-op’s CSA also supplies several popular Philadelphia markets (Market East, Rittenhouse Square, Reading Terminal) and various restaurants, we conjecture that the city’s pick-up sites add up to considerably more than 440 full shares.

Though headquartered in Leola, a farming community with a median income of \$45,000, the vast majority of CSA members reside in higher-income neighborhoods of the region’s big cities, primarily Philadelphia and the Main Line suburbs northwest of the city. Note, however, that the co-op offers a payment plan, which may reduce the barriers to entry for lower-income members. Subscribers of the 2013 winter CSA share, for example, have the option of paying 50% of their balance upfront and then to schedule up to two payments to pay off their remaining balance.¹⁵ Anecdotal evidence known to the authors suggests that this option is popular with some Philadelphia college students; it is doubtful, however, that such a payment plan suffices, by its mere existence, to entice low-wealth urban residents to become CSA subscribers. Attracting low-income families to CSA shares is notoriously difficult, even with subsidized shares, and requires sustained educational programming and frequent follow-up on the part of urban farmers who have tried to do so.

The co-op’s transportation needs are handled by Lancaster Farm Fresh Organics (LFFO), a limited liability company founded by the co-op in 2008. LFFO has five refrigerated box trucks and a van.¹⁶ The trucks are leased rather than owned because the Amish farmer-members (most of whom draw the line at using electricity and gasoline-powered machinery) do not wish to own trucks.¹⁷ The trucking division hires additional full-time and part-time drivers for the spring/summer CSA season each year.

Analysis

LFFC has increased the viability of small and medium family farms by assisting in their conversion from traditional to certified organic growing methods and crops—not traditionally practiced by Amish farming communities¹⁸—which command higher market prices. There are multiple identifiable motives for this approach.

MARKET EXPANSION

A service area as large as the LFFC creates would be out of reach for each individual farm because it wouldn’t be cost-effective; each farm would be constrained to operating on a smaller scale and in its more immediate local market. The co-op helps its member-farmers capture a growing customer base throughout the wider mid-Atlantic region, thus effectively increasing each farm’s customer base. This sort of scaling up by aggregation is fairly low hanging fruit among “agriculture-of-the-mid-

dle” business strategies, though it’s also crucial: without access to Philadelphia markets, LFFC could not grow, and perhaps not survive.

PRODUCT DIVERSIFICATION

Specialization has been a trend among Amish farms for several decades. The co-op can build on this trend and adapt the farmers’ operations to serve urban and suburban organic food markets. In its published materials the co-op is emphatic that the farmers would likely not use organic growing methods in the absence of its CSA subscribers’ demand for them. Subscribers, of course, also value variety during the growing season. Coordinating what is planted where and when is one of the co-op’s chief coordinating functions. Managing the extent of overlap among member farms helps diversify crops as well as prolong the growing season. In the absence of such diversification, customers might choose a one-stop shop, such as a regular grocery store, as opposed to a CSA.

PROTECTION FROM COMPETITION

For the farmers, moreover, joining forces also creates some protection from competition. In the co-op’s absence, many of these farmers, insofar as they operate in the same local market, would directly compete with one another, with more successful farmers outcompeting their less successful competitors (perhaps moderated, in this case, by Amish cultural preferences for communal well-being rather than individual self-interest.) By limiting competition and raising revenue for all via the more formalized county-wide cooperation provided by the co-op, however, the organization enables a larger number of family farms to operate successfully than might be true in its absence.

The co-op directly benefits its farmer-members and their families, though it has also created a handful of full-time and part-time staff positions. Rather than serve as an economic engine for the wider community—in the sense, for example, that urban food co-ops sometimes anchor community revitalization in transitional neighborhoods—LFFC provides an economic benefit that is moderately exclusive to its members (farmers and subscribers). CSA subscribers receive fresh organic produce at market prices and, depending on the

weather and other farming variables, of higher quality than in a grocery store. Many CSA subscribers also value obtaining their food from local sources and supporting the local and regional farming economy as a matter of principle. Member farms, in turn, secure upfront funding for some operational expenses and enjoy the benefits associated with co-op membership discussed above. Indirect benefits that go beyond the farmer-subscriber relationship would include strengthening of Amish family farming in Lancaster County and preservation of open space in an urbanizing county that has been subject to considerable residential and commercial development pressures.

Conclusion

LFFC’s cooperative business structure enables its Plain Sect farmers to take advantage of cutting-edge marketing and business practices to boost farm income and to manage the extent of their involvement with non-Amish society. The co-op’s mediation, via its English staff’s handling of business interactions with the outside world, between traditional and modern ways of life is, we suspect, a chief attraction of the cooperative form of economic organization for its member-farmers. Co-op membership, moreover, has boosted farm revenue and enabled more Amish family members to continue working on the farm as opposed to having to find employment elsewhere. Farming remains central to the cultural and religious cohesion of Plain Sect rural communities. “The main thing is they want to stay with their families,” notes Spacht.¹⁹

The extent to which LFFC realizes the sort of values-based food supply chain heralded by agriculture-of-the-middle advocates merits further research. Values-based food supply chains are “strategic business alliances among farms and ranches of the middle and other agri-food enterprises that: (a) handle significant volumes of high-quality, differentiated food products; (b) operate effectively at multi-state, regional levels; and (c) distribute profits equitably among the strategic partners. *Values-based supply chain business models place emphasis on both the values associated with the food and on the values associated with the business relationships within the food supply chain.*²⁰

CSA subscribers receive fresh organic produce at market prices and, depending on the weather and other farming variables, of higher quality than in a grocery store.

It seems fairly clear that the co-op and CSA have enabled farmers and subscribers to converge around issues of locally grown organic food production and consumption, to their mutual satisfaction. But what is not discussed in the published materials about (or by) the co-op is the potential for contradictions between the farmers' conservative, explicitly patriarchal way of life, on the one hand, and their urban and suburban customers' presumably more progressive social values on the other. In the materials we have analyzed here, for example, the family farm is black-boxed as a force for good and does not figure as a site where some wield power over others. Rural-urban cultural differences are an integral part of the larger food system, of course, and might be expected to surface in any direct-marketing organization connecting conservative rural producers with more liberal urban consumers. The bracketing of gender roles and labor relations in discussions of sustainable agriculture, moreover, is certainly not specific to discussions of Amish agriculture.²¹ To what extent, however, might such differences be experienced more acutely as value conflicts between rural growers and urban buyers when the cultural frames of reference between them are as distinct as they appear to be in this case?

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chapter 11



PART 3: WORKER COOPERATIVES

Isthmus Engineering and Manufacturing

Michael Billeaux, Anne Reynolds, Trevor Young-Hyman, and Ayça Zayim

Introduction

Although the U.S. manufacturing sector has faced significant challenges in the past 40 years, the small cooperatively owned firm, Isthmus Engineering & Manufacturing (IEM), has thrived. Located in Madison, Wisconsin, IEM competes in the customized automated manufacturing machinery industry, serving customers who need solutions to complex automation challenges. Its team of engineers and fabricators takes projects from concept development through proof of process to on-site installation. IEM's customers have included industry leaders in medical equipment, the automotive industry, and industrial manufacturing.

Although IEM began as a partnership of engineers, it is now organized as a worker-owned cooperative. Membership in the cooperative is open to all employees, regardless of their position in the company. IEM employs about 50 people, of whom 29 are members. These members include machinists, engineers, assemblers, electricians, and administrative staff. IEM extends a high degree of substantive, rather than simply nominal, empowerment for its entire workforce.

The last three decades have witnessed a gradual decline of the manufacturing sector in the nation. The changing landscape of the global economy, with the integration of low-cost labor from developing countries and the consequent shift in the comparative advantage of the United States, has led many to declare the demise of the manufacturing sector in the United States, notwithstanding the heterogeneity of this sector.

In contrast to this general pessimism, IEM stands out as a success and presents a story of survival. IEM, as a worker-owned cooperative, has not only been successful in

surviving in a high-technology industry for more than three decades, but has grown, recorded stable revenues, and provided competitive incomes for its employees.

Methodology

This study was conducted in 2011 through interviews, direct observation, and document review. After presenting the research proposal to the IEM board of directors and obtaining permission, 25 interviews were conducted with employees who volunteered to be interviewed. Interviewees included long-term and new members, members and non-members, engineers, assemblers, machinists, administrative staff, and electricians. The semi-structured interviews enabled investigation into the daily workings of IEM; attitudes toward work processes; perceptions of prior workplaces; and the governance, management and history of the company.

The second method of data collection was direct observation. Field visits to the company, in order to conduct interviews, provided opportunities to observe the company and its workforce. We were given an extensive tour of the company, and observed one of the weekly lunch meetings, which bring all IEM employees together to review the status of current projects.

IEM also shared important corporate documents, including bylaws, an employee handbook, and an owner's manual. These documents helped corroborate and verify some of the data we gathered from interviews. As there was no prior study on IEM, secondary data was not available.

IEM, as a worker-owned cooperative, has not only been successful in surviving in a high-technology industry for more than three decades, but has grown, recorded stable revenues, and provided competitive incomes for its employees.

Historical overview

Isthmus Engineering started in 1980 as a partnership of three mechanical engineers who had worked together for a family-owned business, plus a bookkeeper. Initially, they did contract engineering work for nearby firms. When they added a machine shop, they were able to extend the design process from concept and blueprints to actually building machines. As they brought in partners with additional skills and acquired machining equipment, they needed to find a business model that would limit the partners' liability and allow for the efficient entry and exit of new members. Two of the partners heard about worker cooperatives at a conference and learned about the success of the Mondragon Cooperative in Spain. With the help of attorneys and other advisors, eight of the nine partners (including two machinists) incorporated the business as a cooperative in 1982.

IEM grew quickly after incorporation, working largely in the automotive industry. Its location in the Upper Midwest gave it access to a large customer base, a skilled labor force, and a competitive supply chain. A major milestone in the late 1980s was the decision to build a building. The decision required significant financial risk for the members, since they had to personally co-sign the bank loan. However, their investment in a building gave them customized space and an improved identity in the marketplace, allowing them to grow significantly.

IEM's workforce increased from the initial eight partners to 50 people in about 12 years. Employees were hired and became members quite quickly. Although membership required a significant investment (described as the price of a small car), the application process was fairly undemanding. During the 1990s, the board went through a protracted and difficult process of terminating some members. A rigorous membership process was put in place during the early 2000s. Cooperative membership is open to every IEM employee, except the general manager, but the member approval process gives the board significant flexibility in considering applications.

Isthmus Engineering has seen huge changes in its market. At its inception, 90% of its customers were within a five-mile radius of the shop. As manufacturing downsized in the United States, and particularly in the Upper Midwest, IEM made the decision to proactively expand their customer base. It moved into new industries, like consumer products, solar equipment, and medical equipment, and developed relationships with large, innovative, and global companies.

Currently IEM competes in the highest end of the automation manufacturing industry. Global work presents challenges, since their business model includes installation and service of the machines that they design. In the past few years, they've had several international projects, and more global customers are on the horizon.

Contemporary structure and functions

Isthmus Engineering is a mid-sized firm in its sector, with annual sales of about \$15 million. There are 50 employees, divided into six areas: administration, sales, electrical engineering, mechanical engineering, controls (electrical) assembly, mechanical assembly, and machining. The limited administrative staff includes a human resource manager, sales staff, a purchasing agent, a scheduling manager, and a general manager. Contract workers allow IEM to take on larger jobs than the current workers could handle alone, and they help ease the peaks and valleys in workforce needs. Many of the contract workers are retired former IEM employees, who are highly skilled and understand its projects and culture.

Production at Isthmus Engineering is primarily organized around project teams, as is typical of firms in the custom automation field. As a high-tech, lean firm, IEM has much in common with its competitors. According to worker testimony, most custom automation work is performed by teams, with quality assurance processes that include design review mechanisms. Yet IEM does differ from more typical firms in fundamental ways. While it is clear that empowerment is not equal among workers, for reasons related to division of labor and membership status, the extent to which IEM is able to maintain an egalitarian workplace, despite these constraints, is striking.

When asked about the important distinctions between IEM and its competitors, workers talked about the sources of their motivation. It cannot be overstated that the cooperative structure of the firm has a major impact on how employees experience their work. They consistently pointed out absence of hierarchy. There is no particular person within the firm to whom they must answer, who is continually compelling them to work, or who has the last word on project designs. Instead, they pointed to self-motivation and mutual monitoring as the most important incentives to work, as opposed to being “under the thumb” of management.

This experience of the firm was widely held among all workers in the firm.

None of our informants presented IEM as a stratified and disciplinary organization, with highly asymmetrical relationships. Rather than being motivated by managerial pressure from above, workers are generally self-motivated, and the self-motivation is ensured by peer monitoring. All employees, both members and non-members, participate in a diverse set of peer-monitoring activities. These include formal reviews, weekly project status reports, design reviews, and frequent project-related communication.

GOVERNANCE

The IEM board of directors consists of all worker-owners and is responsible for managing the business and affairs of the cooperative, including the establishment of rules and regulations, the guidance of executive officers, the management of personnel, and ultimate oversight of management. The board is organized around a number of permanent and ad hoc committees, including an executive committee, which organizes and administers board activity. Non-members are invited to join committees, which facilitate many administrative tasks. With some exceptions depending on the pace of business, the board meets biweekly to govern the organization.

Another important meeting at IEM is a weekly lunch, catered by the cooperative and attended by all employees. During the lunch, the status of every current and future project is reviewed with budget, personnel needs, and scheduling issues discussed and examined. In a project-oriented business, this means that all employees, regardless of status, are equally informed on many of the most critical issues of their workplace.

It cannot be overstated that the cooperative structure of the firm has a major impact on how employees experience their work.

MEMBERSHIP

Any full-time employee that has worked at IEM for two years can submit an application to join the cooperative.

This is the first stage of the membership process. Unless an employee's application is rejected by two-thirds of the membership, the applicant has an interview with the board and must attend both open and closed sessions of board meetings. Applicants are also encouraged to serve on select board committees during the application phase. Only one applicant can be under consideration at a time. After a maximum three-month review period, the board must approve or reject the application. Applicants receive an offer of membership if they receive no more than 3–5 no votes (varying with the size of membership). In the final stage, an applicant must purchase stock in the cooperative, currently priced under \$20,000.

All workers at IEM receive an hourly wage, with the exception of two salaried employees: the sales manager and general manager. Wages are set along a “laddered” scale when a worker is first hired. When workers become members, their compensation is dependent on the profits of the business. Profits are shared according to a formula that includes hours worked and a laddered skill factor. This skill factor is assessed annually by all members and may move up or down. Members are paid a percentage of their estimated profit-share weekly, with the remaining distributions made after the close of the fiscal year. Distributions are made in cash and stock. Since IEM's goal is to equalize the amount of stock owned by each member, members receive a larger percentage of stock during their early years of ownership. If an owner leaves IEM, their stock is repurchased by the cooperative.

Analysis

Members and employees generally agreed about the quality of decision making and efficiency of management at IEM. While some lamented the time-consuming and sometimes stressful nature of decision making, no interviewees suggested that the company was poorly managed. In fact, the quality of decision making and attention to detail was consistently highlighted as an added value of the cooperative structure. One member described the cooperative's management decision

making as a bell curve: At the tails were outstanding and poor decisions, but the majority of decisions were somewhere in the middle. The cooperative structure helps IEM to avoid bad strategic decisions and to make effective decisions most of the time.

New employees remarked on the distinctiveness of a lack of formal management positions at IEM, and described the costly and inefficient layers of middle and upper management at competitor firms. Team-based project management is an increasingly common organizational feature in manufacturing industries, but the IEM structure distinctively blends managerial and administrative roles into production roles. In other firms, customer communications, scheduling, and purchasing may be wholly handled by an administrator or manager. At IEM, many of these responsibilities are shared by the project teams, the board, committees, and the limited administrative staff.

While much of the motivation that drives the cooperative's success is due to monitoring, self-censure, and structured management roles, a fundamental source of IEM's effective governance and overall success can be attributed to its choice of personnel. The application for membership constitutes possibly the most important weeding stage. Membership is formally open to all employees and new employees are able to, if not encouraged, to attend the open parts of board meetings. A long-time member emphasized that members will seek out particularly motivated new employees and use membership to create a commitment to the organization.

As IEM has grown, it has faced issues that illustrate important aspects of its challenges and successes as a worker-owned cooperative in a high-tech, highly competitive industry. Globalization and structural changes in the economy have had major impacts. IEM has needed to be extremely flexible and productive, while attracting and maintaining a skilled workforce. They have invested in sales and marketing, technology, and their facility. At the same time, they have explored and invented responses to expansion and change that are consistent with the vision of their cooperative owners.

IEM started as an engineering design firm, in a manufacturing environment heavily dominated by the automotive industry. As the automotive industry declined, IEM developed specializations that were independent of any particular sector. In a rapidly changing environment, they increased their value through innovation. They have taken advantage of their small size, skilled work-

force, and low overhead costs. Crucially, IEM's cooperative structure encourages long-term strategies. They don't have the pressure of showing consistent short-term profits or a single owner demanding significant return on investment.

When asked how IEM succeeds in a competitive sector, employees talked about IEM's flexibility, talent, and incentives to succeed. IEM has a clear interest in having a skilled and experienced workforce available. The board controls human resource decisions very closely, and these decisions are a critical factor in IEM's ability to respond to changes in its market.

Although several interviewees mentioned concerns about their personal income when asked about the pros and cons of future growth, more people speculated on the culture changes that might come from growing larger. Unlike many firms, IEM's leadership group (the board) includes a diverse age group, with at least half of the members in their 20s, 30s, or 40s. Although the two remaining founders are nearing retirement age, IEM is not facing change due to an imminent departure of a large group of baby boomers. As membership grows, however, it may become increasingly difficult to maintain the current board structure.

Aside from adding more employees, the other specific growth strategy that came up was buying another company. Although this sort of expansion is being discussed, it was only mentioned by a couple of workers in our interviews when they were asked about future plans. We didn't hear enough about these plans to declare that IEM is at a crossroads, but it is certain that purchasing another business, especially at another location, would mean a radical change for the cooperative.

In 30 years, IEM has grown significantly in diverse industries. At the same time, important characteristics of the project work and governance structure have remained stable for many years. One founder characterized it as a "conservative" organization, and he talked about the strength of having many viewpoints when decisions are made. As IEM looks to the future, the owners will consider opportunities like increased globalization or acquisition of another firm. Balancing these changes with their rich culture and governance institutions will speak directly to the ability of worker-owned businesses to operate in a dynamic global economy.



Just Coffee: Roasting Social Transformation

João Alexandre Peschanski

Introduction

This case study examines how a small coffee roasting cooperative in Madison, Wisconsin challenged prevailing fair trade social relationships through its unique model of commerce. At the heart of this case lies a paradox of fair trade.¹ A worker-owned cooperative created in 2002, Just Coffee developed a distinct model of trade based on social justice and economic democracy and challenged existing fair trade institutions while becoming a reference in Madison. Despite periods of financial difficulties, Just Coffee's growth eventually stabilized and the cooperative managed to build and reinforce what one of its members calls "the fair aspect of fair trade."

As many stories of fair trade business go, Just Coffee was born as a channel for the commitment to social justice of its founders. The roaster was founded to help small farmers from Chiapas, Mexico, from whom founders bought coffee beans. However, it soon expanded to source from other countries. As of 2010, Just Coffee bought coffee beans from growers in Bolivia, Colombia, the Dominican Republic, Ethiopia, Mexico, Nicaragua, Peru, and Uganda, sometimes paying the producers more than twice the minimum price set by the fair trade movement for a pound of beans. Establishing fair relationships with growers, who are themselves organized as cooperatives, has been a core element of the Just Coffee way of doing business. The Just Coffee approach to business has also involved creating new relations with potential competitors and customers.

In spring 2010, I observed operations at Just Coffee, taking part in meetings and interviewing five members and two employees. In 2010, Just Coffee had seven members who were worker-owners and four employees. Except for financial statements collected from Just Coffee's website, the data in this case study originates from direct observations and interviews.

Historical overview

According to its founders, Matt Earley and Mike Moon, Just Coffee was created to provide resources for impoverished rural coffee producers in Chiapas, Mexico. In the late 1990s, Earley and Moon were part of a solidarity campaign to help rural producers from this area.² Their vision was to pay a fair price for green coffee from producers in Chiapas and roast it in Madison, where they lived.³ Earley and Moon came from different backgrounds, but neither had experience with coffee roasting or trade. Earley was a graduate student at the University of Wisconsin–Madison who focused on Latin American politics. Moon was a farmer, but had never worked in the coffee business. Non-governmental organization (NGO) activists in Chiapas taught

them how to transport coffee from Mexico to Madison and put them in touch with Cooperative Coffees, a coffee-importing cooperative created in 2000 that was starting to build trade relationships between North American coffee roasters and producers in developing countries. Earley and Moon also sought advice on how to build their business plan from the University of Wisconsin–Madison School of Business, but were told that their enterprise was impossible: "The person we talked to said we were doomed to failure. 'It was not profit-motivated.' 'You won't make enough money.' 'There are too many roasters in Madison.' We were escorted to the door with some literature," Earley recalls.

At the end of 2001, Just Coffee incorporated as a limited liability corporation, and by September 2002, it started selling coffee. The company had only two members, so it did not legally qualify to be a cooperative—a firm must have at least five people signing the articles of incorporation to legally become a cooperative in Wisconsin—but it was nevertheless run as a cooperative. Just Coffee officially became a cooperative in 2005. The investment to create the coffee roaster came from the members' savings and from a local nonprofit orga-

Establishing fair relationships with growers, who are themselves organized as cooperatives, has been a core element of the Just Coffee way of doing business.

nization, the Madison Development Corporation. Two local banks refused to give loans. Roasting equipment was bought from another coffee roaster, and production began at the Madison Enterprise Center, an incubator for small businesses that offered Earley and Moon a reduced rate for business space. Sales strategies were (and remain) linked to the founders' social justice commitments. Products were sold in few places: a farmers' market and some cafés in Madison. According to one of the founders, the most ambitious expectation at this initial stage was to sustain two part-time jobs.

Just Coffee oscillated between losses and profits from 2002 to 2007. An interviewee described this initial period as "financial chaos," associated with the fast pace with which they were growing. In 2002, its sales were \$13,450; in 2007, it reached more than 1 million, but the roaster still faced a deficit. Because of its financial situation, Just Coffee borrowed money from Cooperative Coffees, was late to respond to demands, and wasn't always able to pay producers on time. The owners considered closing Just Coffee, especially when they were unable to pay back loans. With the stabilization of internal production dynamics, growth, and the devotion of more time and resources to social justice commitments, 2008 marked the beginning of a new phase. The cooperative moved to a larger space, which was risky given the financial imbalance of the previous years, but was eventually paid in full. Since 2008, the cooperative has been profitable and has met its payments.

Contemporary structure and functions

Since 2003, several new members have joined Just Coffee. As one of them said, "We started showing up, and we were self-selected. We started by volunteering and never leaving, making a job for ourselves over the years." In 2010, all seven members were white males, and most of them were under 40 years old. Several of the interviewees had activist backgrounds.

One becomes a member by working 400 hours for the cooperative or by giving the equivalent in money or equipment. Buy-ins have varied throughout the years, mostly depending on people's willingness and capacity to invest in the cooperative, but were always at a minimum of \$6,000. According to one interviewee, the buy-in process generally takes 1–2 years; the varying length depends on the amount of earnings that workers pay toward membership. All owners have remained workers; a key difference between members and nonmembers is that the former sit on the board of directors, co-sign loans, and are financially liable if the cooperative

is unable to repay debts. Wages are determined by work time and number of years in the cooperative. Members' hourly earnings range from \$18.50 to \$21.50, and members are eligible for 75%–100% of health care benefits depending on the financial situation of the cooperative. Just Coffee also has nonmember employees who earn less than members and have different benefits and decision-making opportunities. Nonmember employees earn \$13.50 per hour, and only those who have worked at least 20 hours per week are eligible for healthcare benefits.

Just Coffee activities are divided into departments: sales, production, mission control, administration, and finances. A member leads each department, with leaders regularly changing. Two members generally take part in each department; the number of nonmembers in each department varies. Officially, members are not part of more than one department, although activities often overlap. Each department is responsible for routine decisions; important matters are reported at monthly board meetings (though meetings can occur more frequently). There is no general manager. Interviewees raised concerns about the decision-making process. For instance, one interviewee remarked: "People who are new to Just Coffee do not know how to tell the difference between what is important and what is not, and they just don't talk. They are too afraid to sound inappropriate or foolish." Interviewees also expressed concern that the need to report decisions made in each department has transformed board meetings into long reports of "decisions that have already been made." One interviewee complained that nonmembers do not have consistent means to take part in decisions, even though they sometimes have worked as hard as members.⁴

The sales department focuses solely on what members call "friendly markets." It has divided markets into café/restaurant, co-op/market, group sales and fundraising, and web sales. Sales to cooperatives represent more than 50% of business. No commission is attached to sales. Just Coffee does not sell products to companies with policies and practices that contrast with fair trade deals. Each new account needs to meet Just Coffee's criteria. When members have doubts about whether or not they should sell their products to a company, they hold a meeting and vote. For instance, members engaged in an internal discussion when Whole Foods, a supermarket chain specializing in organic products, asked to sell their coffee. Some members did not want to sell to Whole Foods because it might have generated unfair competition for other groceries with which

they worked. Members were also concerned about the treatment of Whole Foods employees. After voting, members decided to sell to Whole Foods, but only in Madison. According to one interviewee, Whole Foods asked to expand sales beyond local markets, and Just Coffee refused.

The sales department's general guideline has been to maintain, as much as possible, a personal relationship with the businesses and people to whom Just Coffee sells coffee. They generally visit the eight coffee shops they work with in Madison weekly and call other businesses at least once a month. The personal relationship with these businesses is important, according to an interviewee, because Just Coffee's products are more expensive than others, so "we need to explain why our price is higher than others, [and this is] because we pay more to growers." Higher prices to customers are the main strategy to absorb extra costs related to paying more to coffee growers. According to an interviewee, Just Coffee's wages are lower than those of large commercial coffee roasters, but are equivalent to or higher than those of most small coffee roasters. The cooperative keeps updated accounts of how its prices are set on their website, highlighting how much it pays growers. As of May 2011, prices negotiated with growers ranged from \$2.05 to \$3.11 per pound. Just Coffee also attempts to maintain good working relationships with other roasters with similar practices and visions. According to one member, it's careful not to impose its products—which have acquired prestige in Madison's activist scene—in Wisconsin coffee shops where other cooperative roasters are present. It has mapped potential buyers in what one of the interviewees called "our Midwest basis of operation," which includes Michigan, Minnesota, Illinois, Ohio, and Wisconsin. Just Coffee also has buyers on the West Coast.

Analysis

Just Coffee's founding mission is to enhance economic democracy. This involves the internal practices of the cooperative—making sure that members and nonmembers have a say in decisions—and a business model built around transparency. As one member described, it is "a model in which businesses are transparent about what they are selling, show their entire chain, going down to the production and showing how people are being treated, developing and expanding a model of trade based on transparency, equality, and human

dignity." The business model that Just Coffee is building is still at an early stage, though the cooperative has been investing in it since 2008.⁵

Just Coffee intervenes on almost all steps of the traditional coffee supply chain, aiming to change existing social relations. An interviewee described the traditional supply chain as a four-step process:

First, corporations buy coffee very cheap from growers, and growers compete among themselves, sometimes from the same community, to sell their coffee. Second,

Just Coffee intervenes on almost all steps of the traditional coffee supply chain, aiming to change existing social relations.

the corporate pressure leads to unfair work relations in large plantations, where workers are treated poorly. Third, when it comes to the consumers' market, competition among corporations drives the price-setting, and buyers have little information about how products were produced and

where prices come from. Fourth, corporations use everything they get from selling coffee to develop new schemes to increase their rate of profit, leading to worse working conditions for growers.

The trade strategy of Just Coffee goes beyond what is generally regarded as fair trade in the United States. Just Coffee was previously part of the fair trade certification system but left in 2004, claiming that the model of Fair Trade USA did not provide equal opportunities for growers, especially from poor countries, to voice their opinions and interests. They also oppose Fair Trade USA's tendency to grant fair trade certification to larger businesses in North America that do not prioritize worker and grower empowerment. Just Coffee is instead involved in the building of a new certification system, called the Small Producers Symbol, that combines fair trade and fair production practices.

Just Coffee is developing additional strategies to empower coffee growers. They have taken intentional actions to help strengthen the cooperative aspect of producers with whom they work, but they are also sensitive to the local experiences and knowledge of producers. As a Just Coffee member describes, "We don't go to, let's say, Nicaragua and tell families who have produced coffee for centuries how they should produce

it, but we try to find enough roasters in North America that want to buy from a producers' cooperative and the producers' cooperative gets more involved with this international community of cooperatives." Just Coffee is also considering the possibility of pre-financing production so coffee growers are less vulnerable to unexpected problems that may arise during production.⁶

As part of its social trade model, Just Coffee has organized delegations to meet coffee growers. Just Coffee members, employees, and customers, mostly from Madison, have taken part in these delegations. The general idea, as one interviewee explained, is to create bonds between Madison and the rural communities with which Just Coffee works. The organizing of these delegations has made Just Coffee a reference point for socially committed people in Madison who want to be involved with an international social justice agenda.

Just Coffee attempts to have as much direct contact with customers (coffee drinkers) and Madisonians as possible. They do so by demonstrating their products, with delegations, and by stimulating customer involvement with Just Coffee through their website and occasional cooperative meetings. Just Coffee has participated in events and street demonstrations that members and nonmembers have felt politically connected to, giving away coffee to show solidarity and make their product known among activists in Madison. For instance, Just Coffee set up free coffee stands during the demonstrations against anti-union policies that led to the occupation of the capitol in Madison in February 2011.⁷ Coffee deliveries in Madison are made with bikes that advertise Just Coffee while also connecting with the city's bike-friendly culture. According to one member, many customers are activists in Madison or people who have political commitments to social justice. As an interviewee put it, by Just Coffee being deeply embedded in the Madison activist scene, a form of "activist peer pressure has been created." "Every customer that I talk to reminded me that we had to be consistent to [sic] our principles." On some occasions, customers have written complaints to the cooperative. For instance, when customers complained about the excessive use of plastic bags, members of Just Coffee discussed how to respond to this valid complaint.

One Just Coffee founder has described the cooperative as "an ongoing process that still faces enormous difficulties." One notable challenge has been balancing the commercial and the political aspects of the cooperative. This has required internal cohesion, an expansion of the cooperative-friendly supply chain, and determining the amount to reinvest into production and the amount to spend on the social justice agenda.

Conclusion

The case of Just Coffee shows possibilities and challenges of combining trade and social justice ideals. Its trade model is original, because it relies increasingly on the building of a fair commodity chain that involves growers, roasters, and customers. Through trade, Just Coffee attempts to empower growers by stimulating cooperative aspects of production, setting fair prices with growers, and establishing other strategies to lower risks and vulnerabilities throughout production. Within Just Coffee, governance is democratic among members, even though nonmembers—who have less at stake in the financial aspect of the enterprise—remain less involved. Sales strategies consider social justice issues, such as coexisting with roasters sharing Just Coffee's political commitments. The relationship with customers is as transparent as possible.

Guaranteeing the continuity of its commercial-political model is likely Just Coffee's greatest challenge. The cooperative has continuously grown in number of member and nonmember workers, net income, and social and commercial impact. Yet, Just Coffee depends on maintaining a balance between profitability and social justice priorities; this might be difficult to negotiate internally, especially amongst new members and nonmembers. Future stability will entail sustaining internal cohesion, which may become threatened with increasing task specialization. Just Coffee members appear to be aware of these difficulties, and have been in touch with scholars and activists in other cooperatives to help them face with these challenges.

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- ¹ For an in-depth analysis of the paradox of fair trade, see Daniel Jaffee's *Brewing Justice* (2007), especially chapter one.
- ² The founders of Just Coffee see their connection to Chiapas as a political turning point in their lives. They did not consider themselves activists before getting to know Mexican farmers, and as one of them put it: "Chiapas changed my way of understanding the world, [and] validated my beliefs. It was inspiring to see what they were doing on the ground. I wanted to be near a movement that could teach me, and then I found out that we could do something to support them." The motivations that led to the creation of Just Coffee reflected an understanding that not only another way of organizing the system of social relationships was possible, but that it was also feasible "on the ground"; the experience in Chiapas was, therefore, a learning moment that connected new conceptions of the world and practical agendas.
- ³ In the coffee business, roasting always happens close to where consumption occurs, because roasted coffee goes stale quickly. Stored and transported under proper conditions, green coffee beans can be kept for several years. Such circumstances have led to a clear distinction between peripheral countries—where production happens—and core countries—where consumers are—since exporting countries have little room to move forward along the commodity chain. The international commodity chain is controlled by relatively few corporate traders, who pay as little as possible to growers in poor countries. For a detailed overview of coffee commodity chains, see J. Talbot, "Where Does Your Coffee Dollar Go?: The Division of Income and Surplus along the Coffee Commodity Chain," *Studies in Comparative International Development* 32, no. 1(1997): 56-91.

- ⁴ One year after my research, a member I had interviewed reported that tensions between employees and members had become more severe, mostly related to goals and governance aspects of Just Coffee. There was an internal dispute about whether Just Coffee should focus on its profit margin, increase workers' wages, or improve the trade conditions for the coffee producers. Nonmember employees, some of them who had recently joined the cooperative and had an activist background, expressed their discontent with how members had dealt with this dispute and the resulting tense working conditions. Eventually, employees organized and threatened to quit Just Coffee if members did not properly deal with this internal problem and create a document and a governance strategy to inform dispute solutions. Ultimately, these tensions led to organizing retreats with workers to strengthen the cohesion among workers and a commitment to change aspects of the governance structure to be more efficient in dealing with internal crises. Just Coffee decided to use profits they were making with increasing sales to better conditions of coffee growers; shortly after, a member who had strongly argued in defense of increasing workers' wages left the cooperative.
- ⁵ The activist origin and the continuing investment to a social justice agenda has led Just Coffee to be identified as a "real utopia," broadly defined as functioning institutions or institutional designs that contribute to improving human conditions. See E. O. Wright, *Envisioning Real Utopias* (London: Verso, 2010).
- ⁶ Just Coffee is engaged in strategies to "deepen fair trade," as an interviewee put it—that is, working on a business model that is not merely defined as "paying more to producers." This is especially important in a period in which coffee prices have reached a peak, when non-fair trade companies are paying close to what fair trade-certified companies are paying to growers. Just Coffee supports pre-financing production: in order to secure the coffee and to help producers cope with potential problems that might arise during production, Just Coffee prepaid some of the contract. This is a form of strengthening bonds with coffee growers.
- ⁷ For more on protests in Madison, see Acar, T., R. Chiles, G. Grainger, A. Luft, R. Mahajan, J. Peschanski, C. Schelly, J. Turowetz and I. Wall, "Inside the Wisconsin Occupation," *Contexts* 10, no.3 (2011): 50-55.

chapter 13



Union Cab: Democratic Worker Ownership in the Taxi Industry

Trevor Young-Hyman

Introduction

This chapter presents the history and organization of the Union Cab of Madison Cooperative, a fully worker-owned cooperative providing taxi and transportation services to the city of Madison, Wisconsin. The organization is distinctive, even as a worker cooperative, due to its size and its participatory governance structure. Its history offers some insights about the conditions under which such an organization can emerge. The first section lays out the governance and operations of the business. The second section presents the history of the cooperative's growth. In the final section of the chapter, I identify points of intersection between the Union Cab case and various literatures on worker ownership and suggest ways that the case might be more broadly relevant.

Chapter data was gathered through narrative interviews, archived newsletters, newspaper articles, and company policy manuals. I conducted three in-depth interviews with cooperative members, each in different occupations. A fourth interview followed up on themes that emerged in the first round of interviews and was conducted with two other researchers. The interviews were conducted at the Union Cab facility, and were recorded and transcribed.

Contemporary structure and functions

OPERATIONS

Union Cab derives revenue from two related areas of business. The first is the cash business for consumer-based taxi services, which garners the majority of the business's earnings. Second, Union Cab accrues nearly 40% of its revenue from contractual business, in which the cooperative provides transportation services for an organization. Over time, the cooperative has held

such contracts with the city of Madison, the University of Wisconsin, local health care providers, and the local school system.

The organization is distinctive, even as a worker cooperative, due to its size and its participatory governance structure.

The workforce is composed of six general occupational groups: drivers, dispatchers and phone answerers, administrators, IT workers, maintenance technicians and mechanics, and management. Union Cab was the first cab business in Madison with an IT department. Union Cab's 187 drivers, however, make up the majority (about 85%) of the workforce.

After a three- to six-month probationary period, which was described by interviewees as mainly intended to ensure basic professional competencies, workers are required to take a membership share in the cooperative for \$25. Each member gains a single vote in board elections and the option to serve on various governance bodies. Members also gain access to a share of any annual surplus, which is allocated according to the number of hours worked, the income contributed to the cooperative, wage level, and seniority. Seniority also manifests itself in the governance process, where some committees require senior members. Lastly, members have substantial autonomy over their schedules, in terms of both when and how much they work. Some members work overtime, some work fewer than 20 hours per week, and others vary their hours seasonally.

GOVERNANCE

The company has a highly decentralized management and governance structure. An organizational chart lays out the range of bodies that oversee and implement the organization's management and governance. Consistent with the company's background in unionist traditions, governance mechanisms position worker-owners to oversee the management of both administration and operations. On the administrative side, the highest

level of oversight is the board of directors, which is a nine-member body, elected by the membership. In order to avoid the establishment of coalitions, elected members are randomly assigned to one-, two-, or three-year terms. Board members are selected from the membership and any member may propose his or her candidacy to the board. Historically, they hire the general manager (GM), whose direct responsibility is to oversee and monitor the general operations of the cooperative and the activities of each division manager. However, changes to the governance structure have replaced the GM position with a steering team, of which the business manager is part. Seven permanent committees handle governance responsibilities ranging from strategic planning to education. Some of these committees have members appointed by the board and others are appointed by the GM.

Union Cab has made frequent efforts to democratize disciplinary processes, and these efforts continue today. Disciplinary processes have progressively shifted towards management by committees, as opposed to a single individual. Since the founding, the workers' council has served as an oversight committee for disciplinary decisions from management. In December of 1979, an accident review committee was created to peer review driver accidents. Within the past three years, the initial review of all internal behavioral misconduct has been removed from management's hands and transferred to a peer-based committee. A mediation council was also established for workers to resolve conflicts through non-punitive avenues. This committee is even used by managers seeking to address conflicts with employees. Finally, the stewards' council shepherds worker-owners through the range of governance bodies and committees.

Historically, a divisional manager hired by the GM has managed each occupational group. However, in an effort to further democratize management of operations, divisional teams have been established to serve as partners to the divisional managers. Furthermore, the cooperative has revised its governance policy such that workers from different occupational categories serve on the different division teams. This means, for example, that both drivers and dispatchers are required to serve on the operations team.

Ultimately, approximately one-third of the membership participates in governance or management. Eighty-four of the 219 members currently participate in a committee, council, or managerial team. One member estimated that approximately 20% of membership attends annual meetings, where board elections occur. Responding to members' concerns about the cost efficiency of participatory governance, one worker-owner began conducting an annual internal audit in 2011. According to this report, the company paid \$86,312 for 5,756 hours of governance work from its members.¹ Considering that this work is equivalent to approximately 2 ½ full-time positions, Union Cab pays relatively little for their management of a cooperative with \$6 million in annual revenue and more than 200 employees.

HISTORICAL EVOLUTION OF UNION CAB²

Union Cab emerged out of a flurry of union organizing activity in Madison during the 1970s. Starting in 1973, workers at various Madison cab companies began successful negotiations and strikes to demand stronger benefits and rights. By 1978, failed negotiations and strikes had already led to the closure of one Madison cab company and threatened another, both of which were dominant in the local market.

FOUNDING

In January 1979, five workers from one of the embattled companies left and resolved to establish their own company and organize it as a worker cooperative. The model was not entirely foreign to the Madison business community. Long-standing Madison-based cooperatives like Community Pharmacy Cooperative, Madison Housing Cooperative, Williamson Street Food Cooperative, and Isthmus Engineering and Manufacturing were all established between 1968 and 1982. Madison also had an existing set of resources to provide legal guidance to the nascent cooperative. The founders enlisted the assistance of Toby Reynolds, a local lawyer who specialized in cooperative business law, and organized their bylaws around the detailed Wisconsin cooperative statute.

In 1980, the upfront costs to commence operations were estimated at \$150,000, and the company took more than six months to find financing. The company was able to obtain it from a combination of public and private sources, all of which were locally based. The cooperative negotiated a \$95,000 loan from First Wisconsin National Bank, which was based in Milwaukee. This loan, however, was facilitated by

the guarantee of a \$35,000 loan from the Madison Development Corporation (MDC). The MDC is a quasi-public economic development organization that has, since its founding by Madison Mayor Paul Soglin in 1977, provided commercial loans at competitive rates to Madison small businesses. MDC also provided startup funding to other local Madison cooperatives, like the Williamson Street Food Cooperative. Union Cab received an additional \$15,000 in financing from a Madison-based public-private partnership called Wisconsin Horizons and raised the remainder from sale of preferred stock. The purchasers of preferred stock were friends, family, and community members committed to cooperative ideals. Ultimately, the cooperative was able to raise sufficient resources to purchase 11 taxis and start operation. Despite several initial profitless months, the company was quickly profitable, adding five cars in the first year. During its first decade, Union Cab outgrew its initial location, replaced its taxi fleet, and integrated computer systems into the cabs.

EARLY REVISIONS TO COOPERATIVE GOVERNANCE

During its first decade, Union Cab made substantial revisions to its governance mechanisms, as it sought to find a balance between democratic representation and the centralizing tendencies of organizational growth. By the winter of 1984, traditionally the busiest season because of the cold Madison winters, the cooperative had grown substantially due to several competitors' bankruptcies, but it was receiving high numbers of customer complaints. Management reacted by identifying several worker-owners primarily responsible for the poor customer service and disciplined them. The discipline was contentious and a board member resigned, citing dissatisfaction with relations between owners and management. In response, the board of directors voted to work with an outside advisor and establish a reorganization committee to redesign the management structure. The roles of personnel and operations manager were split into distinct positions, the committee established a GM position, and four permanent committees were established to advise the board on finance, education, personnel, and planning. Simultaneously, members created a monthly newsletter and a steward program to increase worker-owner information about the business. Member interest in board participation also grew. After having failed to garner enough interest to field competitive board elections in the winter of 1983–84, the 1985 spring elections drew 11 candidates for 4 seats.

CATALYSTS AND OBSTACLES OF GROWTH

In the company's first decade of operation, several of the leading taxi companies in Madison closed due to labor disputes, and public transit drivers went on strike. Thus, demand for transportation services was high, and unemployed drivers fundamentally concerned with workplace rights and interested in a cooperative ownership structure were in abundance. The cooperative expanded during this period because it met the demands of both consumers and workers. By 1990, it had approximately 100 members.

Union Cab's second decade was characterized by a second generation of owners and a failed effort at diversification into alternative transportation services. Until 1990, all board members were workers who had started their careers in the polarized and contentious context of the 1970s Madison labor protests. In the 1990s, members who had not been exposed to those influences took board positions for the first time. New managers entered from outside of the company, as opposed to the early management who had risen through the ranks and were often founding members.

In the early 1990s, the owners decided to expand and diversify the business by taking contracts for school bussing and paratransit services. A range of differences between the human resource and management demands of the new and old areas of the business strained the organization. Driving school buses and paratransit vehicles for contracts with the city of Madison attracted workers who were comfortable working with children and disabled individuals, who received an hourly wage as opposed to a commission rate, and who were willing to work in a drug-free workplace. This was a different population from the more senior Union Cab members. The drug testing issue was so contentious that the cooperative had to set up a separate call center so that some worker-owners would not have to be regularly tested. Governance conflicts and financial losses resulted. This turmoil culminated in 1999, when Union Cab lost its contract for school transportation services.

After the failure of the previous decade, the membership recommitted to its core business model, core organizational structures, and core members. As a longtime employee described it, in the first decade of the 2000s, Union Cab "really focused on being a cab company. No more busses, no more schools. We built back our cash business." The cooperative did, however, provide transportation service to publicly subsidized medical assistance programs during this period. Union Cab grew

consistently between 2002 and 2008. Similarly to earlier decades, the board membership and management continued to change frequently. However, while some previous managers had come from outside, all four GMs during the 2000s were previous board presidents.

In the 2000s, in contrast to the negative experience with school bussing and paratransit, the company effectively took on medical assistance transportation. Growth through medical assistance was highly profitable and led to the sustained expansion of the cooperative. These services were paid, in part, through funds for publicly subsidized medical care. However, the patients had autonomy in selecting their transportation provider, and these jobs were treated as commissioned jobs and more closely resembled Union Cab's traditional line of work.

Ultimately, this aspect of the business was undermined in 2011 when the state government contracted with a private management company to provide medical transportation. According to several Union Cab workers, they were popular because they provided reliable and timely service. However, when the private management company took over regulation of medical transportation services, it began to select the transportation providers for patients. Union Cab's percentage of total revenue from this business declined from 40% to 15%.

Since 2011, Union Cab has been characterized by renewed focus on governance reforms and expansion of participatory democratic institutions. The cooperative has shifted responsibility in the peer review process directly onto worker-owners and is implementing team-based management. The cooperative has also prioritized environmental sustainability, through the conversion to a fleet of hybrid cars, the installation of solar panels at the headquarters, and incremental changes like encouraging drivers to turn off their engines while waiting to pick up passengers.

SITUATING UNION CAB IN THE ACADEMIC DISCOURSE

While this chapter's length constraints and limited data preclude a deep critical engagement with academic literature, we can at least identify several points of intersection between the Union Cab case and some ongoing debates about democratic employee ownership.

First, scholars have dedicated substantial energy to examining the rarity of worker cooperatives.³ Many explore reasons why they shift into conventional ownership structures or why they fail to compete, but fewer have examined the foundational moment. Some of the only scholarship to address this issue attributes the rarity to a lack of awareness. Having examined economics textbooks and business curricula, scholars have shown that the cooperative business model is almost completely absent from post-secondary education.⁴

The experience of Union Cab offers a new and compatible dimension to the awareness argument. The cooperative was founded during a period when a number of other cooperatives were being established in Madison. Both legal and financial institutions with knowledge of the worker cooperative ownership structure provided key supporting resources.

A. R. Levinson has recently introduced the argument that the foundation of worker cooperatives can be usefully analyzed as an instance of a social movement.⁵ Here, too, the case of Union Cab resonates. Founders and early members all emerged out of an environment of contentious labor-management relations, experienced job loss and exploitation, and viewed Union Cab as a mechanism with which to organize their material and human resources. Uniting the awareness and social movement arguments, many institutions that supported Union Cab and other emerging worker cooperatives during this period were locally grounded institutions like local banks, quasi-public development organizations, and social networks in the labor movement.

Second, the Union Cab case speaks to the issue of member heterogeneity and growth. H. Hansmann was one of the most prominent scholars to advance the view that worker-owned firms are limited in their growth by the heterogeneity of the workforce.⁶ As a cooperative diversifies, the governance costs increase. As a result, worker cooperatives are thought to remain small organizations, for the most part. Union Cab's experience speaks to this question. In some senses, the case supports Hansmann's claim. The effort to diversify into state contracts for medical and school transport required new and different employees, which created insurmountable governance costs. At the same time, Union Cab has continued to grow, but only in certain areas of production. This case suggests that heterogeneity is not an unmediated variable, as it impacts growth, but one that is necessarily tied to the organization's area of production. The type of service that Union Cab sought to provide and the character of its membership

were intertwined. Some types of member heterogeneity, for example between dispatchers and drivers, were acceptable because they fit the demands of the commercial taxi service process. Other types of heterogeneity, however, like that between bus drivers and taxi drivers, were insurmountable because of the differences between their occupational routines.

Third, the Union Cab case speaks to the relationship between growth and democratic governance. J. Nilsson argues that growth, business diversification, and increased worker heterogeneity may lead to degeneration of democratic participation in worker cooperatives.⁷ In this view, governance is a mechanism for worker-owners to monitor their ownership stake in the cooperative. As a worker's stake becomes proportionally smaller and the range of interests widen, the costs of advancing individual interests increases and the payout shrinks, leading to high free-riding costs. While the case requires further examination to speak to this issue, growth at Union Cab has resulted in a narrower segment of the membership participating in governance, but it has not resulted in degeneration of the cooperative ownership structure.

Conclusion

This chapter has sought to present the unusual case of broad democratic participation and growth at Union Cab of Madison Cooperative. A better understanding of the historical contingencies, key actors, and environmental characteristics that shaped the cooperative's evolution may help to understand the likely obstacles and catalysts that broad-based workplace democracy faces in a competitive market context. First, not so surprisingly, this case lends evidence that a supportive network of enabling institutions, like banks, universities, government agencies, and other businesses, facilitates the establishment and growth of cooperatives. Second, worker cooperatives are much stronger and are also deeply impacted organizationally when they are associated with social movements, like the '60s labor rights movement in Madison. Third, the cooperative ownership structure does not preclude growth, but does shape the type of growth that is possible. In particular, growth is most likely when it does not challenge existing managerial structures. Certain types of innovation are enabled and other types are precluded by the organization's ownership structure, as in the case of Union Cab's effort to enter the school bussing program. Union Cab offers a rich case of workplace democracy, and its historical evolution merits greater examination.

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Some hyperlinks may no longer be current.

- ¹ Kemble, Martha, "Union Cab's Democracy Report and New Peer Review Structure," (paper presented at North America Conference of Cooperatives Annual Conference, Quebec, 2012).
- ² This section draws extensively from Richard Chamberlain, "History: The First 20 Years," accessed May 14, 2012, www.unioncab.com/History.
- ³ For a review, see G. K. Dow, *Governing the Firm: Workers' Control in Theory and Practice* (New York: Cambridge University Press, 2003).
- ⁴ R. Hill, "The Case of the Missing Organizations: Co-operatives and the Textbooks," *The Journal of Economic Education* 31, no. 3 (2000): 281–295; P. Kalmi, "The Disappearance of Cooperatives from Economics Textbooks," *Cambridge Journal of Economics* 31, no. 4 (2007): 625–647.
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Home Care Associates: Empowering Home Health Workers in Philadelphia

Linda S. Stevenson

Introduction

Home Care Associates (HCA) offers quality training for home health care workers, who provide personal care for elderly and persons with disabilities in their homes and in community living institutions in Philadelphia, Pennsylvania. (Personal care includes a wide range of tasks such as assistance in mobility, shopping, visits outside the home, hygiene, toileting, and supervision of individuals taking medications.) Since its founding in 1993, HCA set out to raise the bar in the industry—to provide higher quality jobs in order to provide higher quality care, as their motto goes—in an industry riddled with labor and management issues, as well as consumer complaints from a highly vulnerable population. Unique in the industry as a for-profit cooperative,

HCA set out to raise the bar in the industry—to provide higher quality jobs in order to provide higher quality care.

HCA provides above-standard training to its workers. More than that, it empowers its workers by offering membership, which means a part ownership of the business, the opportunity to further their education, and the potential to rise into higher level positions in the company.¹ As these kinds of jobs are often entry-level positions for minority women professionalizing their traditional home and family caregiving abilities into a set of marketable skills, and/or moving from welfare into a formal work setting for the first time, HCA's approach is informed by and contributes to social justice ideals advocating for “decent jobs” and social mobility opportunities for low-income workers, particularly women of color. (“Decent jobs” is a term used by the International Labour Organization and global labor rights movements to make demands that minimum wage and low-income labor jobs should be dignified and just [i.e., include health insurance and other benefits]).

Historical overview

The idea for HCA grew out of creative collaboration and thinking by a progressive, entrepreneurial group of leaders and workers in response to the increasingly conservative political climate in the 1980s and 1990s, particularly regarding shifts in Medicare coverage and welfare-to-work policies. These shifts, in combination with the growing need for home health care for the increasing number of people over 60, led this group to create a cooperatively owned business called the Cooperative Home Care Associates (CHCA) in the Bronx, New York City in 1985.² The primary purpose of the organization is to create and enhance decent jobs for low-income workers, not just in their own organization, but across the entire home health care sector. Not only does the group work for profit as a business, but they also actively participate in political advocacy to increase wages in low-income sectors such as home health care, and to raise the standard of quality for home health care consumers across the country.³ The founders believed that in order to create a socially responsible, stable workforce adequately trained to provide quality care, more investments had to be made in, and power shared with, the home care workers themselves. Hence, the motto arose: Quality jobs lead to quality care.⁴

CHCA was founded with the support of a larger non-profit social service organization, the Community Service Society (CSS). After slowly growing in its first two years, and managing initial financial losses by leaning on the larger nonprofit, in 1988 the Bronx-based location turned a profit, a trend that has continued ever since. After seven years of success, the leaders attempted to replicate the model in Philadelphia and Boston in the mid-1990s, as consumer need was growing and grants supporting innovations in the area of welfare-to-work were also growing for this sector.⁵ With the goal of starting the new cooperative businesses, Steven Dawson, founder of the Industrial Cooperative Association, and his associates created an informal federation to link and oversee the three organizations. It was called the Paraprofessional Health

care Institute (PHI).⁶ From the founding to the present, the PHI and HCA are bound together directly through the presence of one PHI member on the board of HCA. Over the years, the federation's informal mentoring and support has ebbed and flowed as needed.⁷

Home Care Associates in Philadelphia was founded in 1993, when the founders hired the first CEO of the company, Scott Gordon. Gordon is a high-powered, socially conscious white Philadelphian, with an MBA from Yale.⁸ He worked in the corporate world for a number of years, but then opted for more socially concerned companies.⁹ By combining initial startup capital from the CHCA and support from their development office, along with grants from some local foundations, Gordon primarily founded HCA, emulating the model of CHCA, in close consultation with and support from the PHI. According to an HCA worker-owner, Terrell Cannon, who started in the second class of trainees under Gordon back in 1993, "Mr. Scott [Gordon] was driven and dedicated, yet he looked to the workers to lead."¹⁰ The CEO is one among equals, according to Cannon. The CEO has only *one* vote whereas the board as a whole calls the shots for the organization.

During Gordon's time as CEO, HCA was challenged with major changes in Medicare reimbursement policy resulting from the passage of the Federal Balanced Budget Act in 1997. Faced with these new issues and drawn toward other social entrepreneurial challenges, such as charter schools, Gordon stepped down as CEO in 1998.¹¹ HCA then hired Stephanie Fine, a white woman with a strong business background, but less familiarity with nonprofit or cooperative organizations. Her particular strength was knowing how to work through the business challenges of the new payment structures that affected consumers and home health aides. This approach aided the organization as it adapted more of an outsourcing style of business, becoming less reliant on external grants. However, structural changes were difficult, and tensions rose in the process. Fine left HCA in 2002.

Soon after, Karen Kulp was hired as a consultant to aid the organization through this change in leadership, and eventually was invited to take over as CEO. Kulp is a white, middle-class professional with ample experience combining administration with education and women's empowerment initiatives. Kulp's personal and professional experience—in women's movements, teaching, management, and institutional politics with a progressive female Pennsylvania politician—mirror the diverse processes that make HCA a caregivers' cooperative employing and empowering mostly African American female workers in Philadelphia.¹²

While the Philadelphia organization survived these policy and organizational changes, these challenges, combined with other structural issues, led to the Boston location's closure. One of this location's weaknesses was that demand was in areas removed from the city center, so the organization reformed to be more decentralized—but at great social cost. This decreased the contact of the workers and diminished the collective sense of empowerment made possible by the cooperative model.¹³

By contrast, one advantage of the Philadelphia location's set-up—affirming a sociocultural factor that should not be overlooked—is that all HCA workers are connected with the central office, and many take great pride in its

beautiful environs.¹⁴ Workers come in for work assignments, initial and on-going training, and other tasks. This contributes to what is often the invisible glue of any successful organization: the reinforcement of workers' social capital, underpinned by a sense of belonging and built on personal, face-to-face contact and exchange. Cannon noted this as one of the differences that sustained her—and the organization—through thick and thin: "...we are not only a business, we're like a family—not too many home health care businesses work in that way."¹⁵ Cannon's words attest to the organization's spirit, which helps to strengthen the Philadelphia location.

This contributes to what is often the invisible glue of any successful organization: the reinforcement of workers' social capital, underpinned by a sense of belonging and built on personal, face-to-face contact and exchange.

Contemporary structure and functions

HCA began its first training session of new health care home aides in 1993 with 20 employees, and inquiries for work from nearly 350 callers. Capital to start the company came from several sources, including \$375,000 from the Pew Foundation, and support from the Bronx parent company CHCA. In the first month, client billings were \$123, and after 2½ years, they had risen to \$135,000, enabling the organization to offer stock to its employees for the first time in 1995. Thirty-four out of the thirty-eight employees bought the shares for \$500 each, payable through payroll deductions of \$3 per week for three years. Also in 1995, the first three seats for worker-owners on the nine-person board became available and elections followed. In 1996 another worker-owner position was added, and finally in 1997 a fifth worker-owner position was added, giving the worker-owners the one-person-one-vote majority on the board.¹⁶ The board was expanded over the next 15 years to the current size of 12, with five permanent advisory positions and seven worker-owner positions. The external board members are the PHI president or a leader of the Bronx CHCA, a health care industry consultant, a psychologist specializing in women's issues, and an attorney. Internal board members are the HCA CEO, plus seven elected worker-owners. Four of the worker-owners are elected for two-year terms, and three are elected for one-year terms.¹⁷

The number of cooperative members rose gradually and consistently to 217 by 2008. However, the 2008–2011 economic crisis decreased revenues and membership, settling at about 150 employees by May 2012.¹⁸ At this time, the number of cooperative members declined to 45, or approximately 30% the HCA. However, in the latter half of 2012, HCA made a comeback by collaborating with another home health care business that had lost its contract with the state. HCA worked with the other business to reorganize and maintain some of its services, but the home health care workers were absorbed into HCA's training programs and approximately 90 of the workers opted to stay with HCA thereafter, dramatically increasing the number of workers to almost 250. CEO Kulp said it would take 1–2 years for the company's increased revenues to significantly benefit new and existing worker-owners, but she is optimistic about the organization's future.¹⁹ This influx left the percentage of cooperative members out of the workforce at 18%. The next few years will be instructive

in whether the business will be able to maintain its cooperative mission or if it will default to a more corporate model.

HCA offers one type of membership, which allows workers to buy the \$500 Class A stock, as described above, via a small payroll deduction over a three-year period (or sooner if preferred). If workers experience hardships, they can request a no-interest loan against the amount that they have paid for their stock, except for \$35 maintained by the company for administrative fees. Then, they can pay it back in the same way they purchased the initial stock, at a minimum of a \$3 weekly payroll deduction. Membership also puts workers in the pool of worker-owners who might be elected to the board, and offers participation in high-level decision making for the company.²⁰ Finally, when profits permit, cooperative members receive a modest dividend at the year's end. This was the case with the exception of 2011 and 2012, when the organization declined because of the economic crisis.

The workers of HCA are 95% female, 92% African American, 4% Latino/a, and the rest are other ethnicities. Approximately 75% of HCA's aides were on welfare until their successful training as home health aides. HCA provides intensive worker training and screening, followed by on-the-job training for three months, after which workers qualify as certified home health assistants. (HCA requires 150 hours of training over a four-week period to initially certify its workers, while the state minimum is only 40 hours. Likewise, HCA aides must update their knowledge and skills with internal continuing education trainings required 5–6 times per year.)

The services offered by the workers range from part-time home care companions for fairly independent people with disabilities or elderly clients who need occasional or post-hospital stay support to those with greater needs including: daily help with basic medical or rehabilitative care, assistance with daily living tasks, and communication with health care providers.²¹ Approximately 90% of the workers are full-time; the remaining workers are often part-time because they are attending school part-time, which HCA highly encourages.²²

Cannon is a worker-owner who returned to school to obtain more training and education and was promoted into training and administrative staff positions over her 19-year tenure with the organization.²³ In the mid-1990s, Cannon began to take part-time courses at community college, and then completed her BA in Education in Human Services at St. Joseph's University. In 2008, she completed her MA at Lincoln University. Cannon was elected to the board consecutively from 1995 to 2010, and continues to be an important organizational leader as the primary trainer.

As mentioned previously, HCA affirms its primarily African American female workers' strengths in the traditional gender roles of caregiving for local disabled and elderly populations in need, while at the same time it offers its workers what most mainstream caregiving organizations do not: fair wages and decent benefits. Only 10–20% of aides in this field receive benefits with wages.²⁴

Furthermore, as a cooperative, HCA offers aides the empowering potential of being an owner of their cooperative. This is an option for HCA workers after three successful months on the job, in contrast to thousands of home health aides in the limited role of wage worker. Despite existing in a competitive sector, HCA manages to offer these benefits. Kulp notes that for the first decade, external grants helped to make up the difference and got the cooperative to the productive point at which it could move to a more self-sustaining model. Since then, part of HCA's success is attributed to its interest in focusing on the aides themselves. They are not trying to grow exponentially. HCA trains aides well, serves their clients well, and seeks to better the standards for all involved in that relationship, given the constraints on workers and consumers alike. Unlike some of their sector counterparts, they do not offer more highly trained nurses or other medical practitioners. They are considering ways to strengthen the skills of their aides. Some aides are now adding to their skill sets and becoming "health coaches." For example, the aides offer more support and education in preventative techniques to improve their clients' quality of life. As different and more potential clients may be included with the implementation of the Affordable Care Act, such as those receiving Medicaid, HCA is considering ways that they may offer their services to a more diverse clientele.²⁵

Another way to measure the difference between a cooperative and a non-cooperatively owned business is by worker turnover. The home health care industry in general has a 50–60% turnover rate. For HCA's first 10

years, the turnover rate hovered in the 20–30% range. From 2005 to 2009, the turnover rate more closely matched the industry's rates, but in 2010, it again fell well below the industry average, with 43% turnover.²⁶ This fluctuation might be explained by the organization's growing pains, as it shifted from partial dependence on grants to being more self-sustainable.

In addition to the CEO, 18 staff members work in the downtown office managing finance, human resources, and scheduling as well as the various types of trainings that are continuously offered to new and experienced aides. They are also cooperative members. A number of the office staff began as aides and gained the skills to move into staff positions, so relations between staff and workers are generally amicable and supportive, with a sense of "we're all in this together."²⁷ In 2011, HCA earned approximately \$6 million in revenue, so the model is becoming self-sustaining.²⁸

Analysis

Although revenues in the millions and lower-than-average turnover rates are excellent signs for HCA, the decline in the number of cooperative members from 80 to 45 in 2012 reveals some of the tensions faced by workers—not just at HCA, but across this low-income sector. Although the concept of part ownership might be appealing and camaraderie with co-workers is important, when money is tight, receiving every dollar earned in each paycheck apparently trumps the long-term benefits and potential of the cooperative model for the majority of workers.

That said, it is important to put HCA's efforts in broader perspective. Many of the workers they train and employ—who are beginning their lives in the formal economy—use this training and initial work experience as a springboard to better or higher-paying jobs. This is not to say that workers are never fired from HCA, as a fair number do not meet the quality standards the cooperative sets and are dismissed after poor evaluations. But, the fact that HCA has been able to span years with lower-than-average turnover rates and maintain cooperative membership through difficult political and economic stresses signifies that it continues to fulfill its mission of quality jobs leading to quality care.

Regarding the HCA clientele, the organization is addressing the needs of a part of the population nationwide that is projected to more than double over the next 20 years, with the baby boomers reaching retirement age and older.²⁹ Pennsylvania ranks fourth in the nation in the percentage of the population age

65 and over; at 15.4%, it ranks behind only Florida, West Virginia, and Maine. Furthermore, Pennsylvania is tied for the state with the third highest percentage of total population age 85 and over. In Philadelphia, the sector of the population age 85 and over grew by 38% between 1990 and 2006,³⁰ contrary to the trend of population decline during the same period. The first year that Philadelphia grew in total population in several decades was 2012.³¹ According to 2000 census data, there were more than 20,000 people age 65 and over with physical disabilities, and more than 30% of the age 65 and older population lived alone.³²

With the burgeoning demand for trustworthy, highly trained, and dependable health home aides to serve the elderly and people with disabilities, HCA's work can mean the difference between life and death for customers. HCA's philosophy of quality care through quality jobs is an excellent solution to some of the most intransigent issues of its industry:

- Societal perceptions that caregivers can be poorly compensated (since a majority of women play caregiving roles at home for much of their reproductive and adult lives, society perceives that they do not deserve decent wages and benefits);
- Burnout from long hours and low pay, which can lead to serious mistakes or customer neglect; and
- High rates of turnover with widespread worker and customer dissatisfaction.

HCA's basic philosophy of fair wages and excellent benefits for home health aides is an initial best practice for its sector. However, it is HCA's cooperative ideals—offering its workers deeper personal empowerment from realizing the potential that a collective of female workers can share in earnings, loans, mutual support in education and ongoing trainings, and even the power to run a company—which make it stand out in the field.

HCA made the necessary adjustments to accommodate the new and changing regulations over the last decade, but new challenges arose with the new political context in the state capital of Harrisburg. Political leadership changed in the wake of the economic crisis (2008–2011). The election of conservative Republican Tom Corbett as governor in 2010, and the subsequent budget cuts to public welfare programs that support many HCA clients resulted in a deficit, leaving HCA unable to produce an annual dividend for the cooperative's members for the first time in eight years.³³

Likewise, HCA currently faces constraints and problems daily.³⁴ More structure in the field is needed to supervise or visit aides on-site as they gain experience or work with higher-needs clients. In addition, the organization needs to enhance its support systems and case management for workers, to make caregiving a vocation instead of a temporary job. CEO Kulp would also like to promote more coaching through supervision of the aides on the job. These are common issues in the field, and HCA shares them.

HCA has direct ties within a network of home health aides in New York, and other initiatives in Boston, New Hampshire, and Wisconsin.³⁵ They have relations with credit unions, particularly the American Heritage Credit Union, in the region. More recently, Kulp has introduced interested workers and staff to the idea of constructing a policy action committee, in order to lobby in Harrisburg. She and another HCA representative have frequently been invited to Washington, D.C. in recent years to support President Obama and the Department of Labor on home health aide issues for workers and their clients in the context of national debates on affordable health care.

Conclusion

In sum, HCA offers a philosophy based on a quality care, a model based on quality jobs, and 19 years of experience, which are mutually beneficial for home health care aides and their clients. As demand for quality aides is only expected to grow in the coming decades—particularly in Philadelphia and Pennsylvania—HCA's empowering model is one worth emulating in the future. Social services budget cuts will challenge HCA in the next few years to overcome the financial impact of these issues on its profits and ultimately on the cooperative's dividends. Nevertheless, given its track record in overcoming political and policy hurdles in the past, the political connections and savvy of its leadership, and the dedication of the worker-owners, there is good reason to expect that HCA will find new solutions to these problems and move forward.

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- ² The founding organizers were Rick Surpin and Peggy Powell in New York, eventually with technical support from Steven Dawson, founder of the Industrial Cooperative Association (now The ICA Group), a professional consulting group for worker ownership in Boston. Surpin and Powell had worked to help organize low-income restaurant and carpentry workers previously with less success. See “A Brief History of Cooperative Home Care Associates,” *American Worker Cooperative*, 2011, accessed December 28, 2012, www.american.coop/content/brief-history-cooperative-home-care-associates; Steven L. Dawson, “Start-Ups and Replication,” in *Jobs and Economic Development: Strategies and Practice*, edited by Robert Giloth, 123-136 (Thousand Oaks, CA: Sage, 1998); R. Surpin, K. Haslanger, and S. L. Dawson, *Better jobs, better care: Building the home care workforce* (New York: United Hospital Fund, 1994).
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- ⁸ I mention Gordon’s race because 95% of the workers in the organization are African American. Although some worker-owners have risen in the ranks of the organization, CHCA has not—as is critiqued by Michael Elsas, one of the white Bronx CHCA leaders—hired African Americans to fill positions in the top echelons of leadership in the organization. See Elsas, “Cooperative Home Care Associates.”
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- ¹⁰ Cannon, interview.
- ¹¹ Education policy changes at this time opened up the possibility for charter schools to be started in the city. Gordon left HCA to take on this challenge. He has been very successful at opening up a new network of charter schools in the city, called “Mastery Charter Schools,” most recently receiving a \$1 million grant from Oprah for the Mastery Schools. See Martha Woodall, “Mastery charter schools aim to transform education,” *The Philadelphia Inquirer*, October 1, 2009; Julie Peterson, “New 2010 Class of Fellows Names for Entrepreneurial Leaders for Public Education Programs: Scott Gordon, Founder and Chief Executive Officer, Mastery Charter Schools,” *The Aspen Institute*, March 4, 2010; Dale Mezzacappa, “Mastery chief speaks about Oprah,” *Philadelphia Public School Notebook*, September, 21, 2010. thenotebook.org/blog/102865/mastery-chief-speaks-about-oprah; “America’s Competitiveness through High School Reform: Scott Gordon,” YouTube video, 6:47, May 12, 2009, www.youtube.com/watch?v=5DLpuwTAjow.
- ¹² Kulp began her career as an English teacher in the 1970s, and outside of the classroom was an activist in the women’s movement in the New Jersey/Philadelphia region, where she learned early on the importance of building cross-racial and cross-class alliances, working with African Americans and Latinos in the region. She later served as the executive director of Women Organized Against Rape for the state of Pennsylvania, and was highly respected among progressive women’s leaders in the region. This led to working for Allyson Schwartz in her campaign for Pennsylvania State Representative, and then as chief of staff for Schwartz for several years. After Schwartz lost her campaign for PA senator in 2000, Kulp consulted for the United Way for a short period before beginning at HCA. With the Schwartz 2014 campaign for Governor of Pennsylvania, HCA continues to have important political connections.
- ¹³ Dawson, *Cooperative Home Care Associates*.
- ¹⁴ Kulp, interview, 2012.
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chapter 15



Case Study of Childspace

Michelle C. Kondo

Introduction

Childspace represents three separate but closely connected organizations operating in Philadelphia, Pennsylvania: Childspace Management Group (CMG), a for-profit worker cooperative; Childspace Day Care Centers (CDCC), comprised of three nonprofit childcare centers in the Mount Airy, Germantown, and West Philadelphia neighborhoods; and Childspace Cooperative Development, Inc. (CCDI), a nonprofit organization focused on policy advocacy, training, and leadership development among childcare center owners, directors, and workers. This case study focuses on the structure, collaboration, and cooperative practices among the three organizations.

CMG operates out of the Childspace Mount Airy Day Care Center, located on the New Covenant Campus on 7500 Germantown Ave. This worker cooperative primarily provides services to CDCC and CCDI: It sets policies and hires and pays staff for them. As this case study will reveal, the Childspace organizations collectively provide valuable lessons for other cooperative organizations. It models best practices with its innovative organizational structure, its emphasis on member investment and commitment, and its use of democratic decision making.

Historical overview

Childspace was founded in 1988 by three mothers (Teresa Mansell, Cindy Coker, and Karen Guyton) living in the Mount Airy neighborhood. According to Mansell, these women met one another through an infant playgroup and found that although they wanted to return to work, the supply of high-quality, affordable infant care in the area was very limited.¹ These women decided to start a cooperative day care center. They wanted this business to differ from typical childcare cooperatives

in which parents provide labor in an organized way to reduce costs. Instead, they sought to build a worker cooperative that provided full-time childcare without requiring substantial parent labor.

Childspace organizations collectively provide valuable lessons for other cooperative organizations. It models best practices with its innovative organizational structure, its emphasis on member investment and commitment, and its use of democratic decision making.

The inspiration to incorporate cooperative principles came primarily from Mansell and Coker, who both had prior exposure to the cooperative model. Coker had prior experience with housing cooperatives and cooperative assistance. Mansell, current CMG president and director of Childspace West Day Care Center, had prior experience with cooperative models through her employment with the Philadelphia Area Cooperative Enterprise (PACE), which, at its peak in 1987, had developed six O&O Supermarkets across the city. While this enterprise eventually dwindled (only one supermarket remains), PACE's use of cooperative principles, management structure and meeting procedures, bylaws, and training and advocacy methods provided a basic framework for the new Childspace

organization.² The founders aimed to avoid many of the common problems in the childcare industry. According to the U.S. Bureau of Labor Statistics, the 1.28 million childcare workers in the United States³ in 2010 were predominantly women, and approximately 46% were women of color.⁴ They earned a median hourly wage of \$9.28, far below the \$16.27 per hour median wage for all occupations. In the Philadelphia metropolitan region, childcare workers represent 6.3% of the total workforce and earn a mean hourly wage of \$10.29. According to the 2010 U.S. Census, less than 30% of center-based childcare workers received health insurance coverage from their employers, compared to 60% of all workers. And approximately one in five childcare workers had no health insurance coverage at all.⁵

The childcare industry experiences high rates of staff turnover, which is problematic for both staff and clients.⁶ At a national level, the American Public Human Services Association found annual staff turnover rates of up to 40%.⁷ Lack of job security, lack of advancement opportunities, and low pay contribute to these high turnover rates.⁸

Childspace began as a childcare co-op at Coker's home. However, the group initially faced some challenges: Operating out of Cindy's home limited space, and revenues did not begin to cover worker salaries. In 1988, the Germantown Presbyterian Church granted the group the use of 1.5 classrooms, which opened spaces for more children and allowed the group to cover staff salaries. The center grew to accommodate more families until moving at the end of 2011 to its current location.

Over the years, various grants have helped the group expand its operations into two additional childcare centers. A grant from the Ms. Foundation funded development of the Childspace Too Day Care Center in Germantown (1992) and a grant from the Mott Foundation allowed development of the Childspace West Day Care Center in West Philadelphia (1999). The Pew Trust provided a grant to support an accreditation process at Childspace, as well as the development of business practices and training programs. Catholic Campaign for Human Development has also been a supporter of Childspace initiatives.

Childspace Cooperative Development, Inc. (CCDI) was established in 1995 as the training and advocacy arm of Childspace. While its original emphasis included replication of the Childspace model (in California), this nonprofit found that its resources and efforts were more efficiently spent on training and policy work on a local and regional level. This organization is led by Janet Filante (executive director) and Susan Kavchok (financial director and trainer).

Contemporary structure and functions

CMG employs 70 workers, 20 of whom are cooperative members (also referred to as "worker-owners") and 50 are non-member staff. Through a management contract, CMG provides staff, payroll, insurance, grantwriting, and other business management services to CDCC and CCDI (figure 1). In other words, all employees fulfill their work duties at one of CDCC's childcare centers or CCDI.

All cooperative members must serve on CMG's board and at least one of the three committees (finance, personnel, and bylaws). CMG committees and, ultimately,

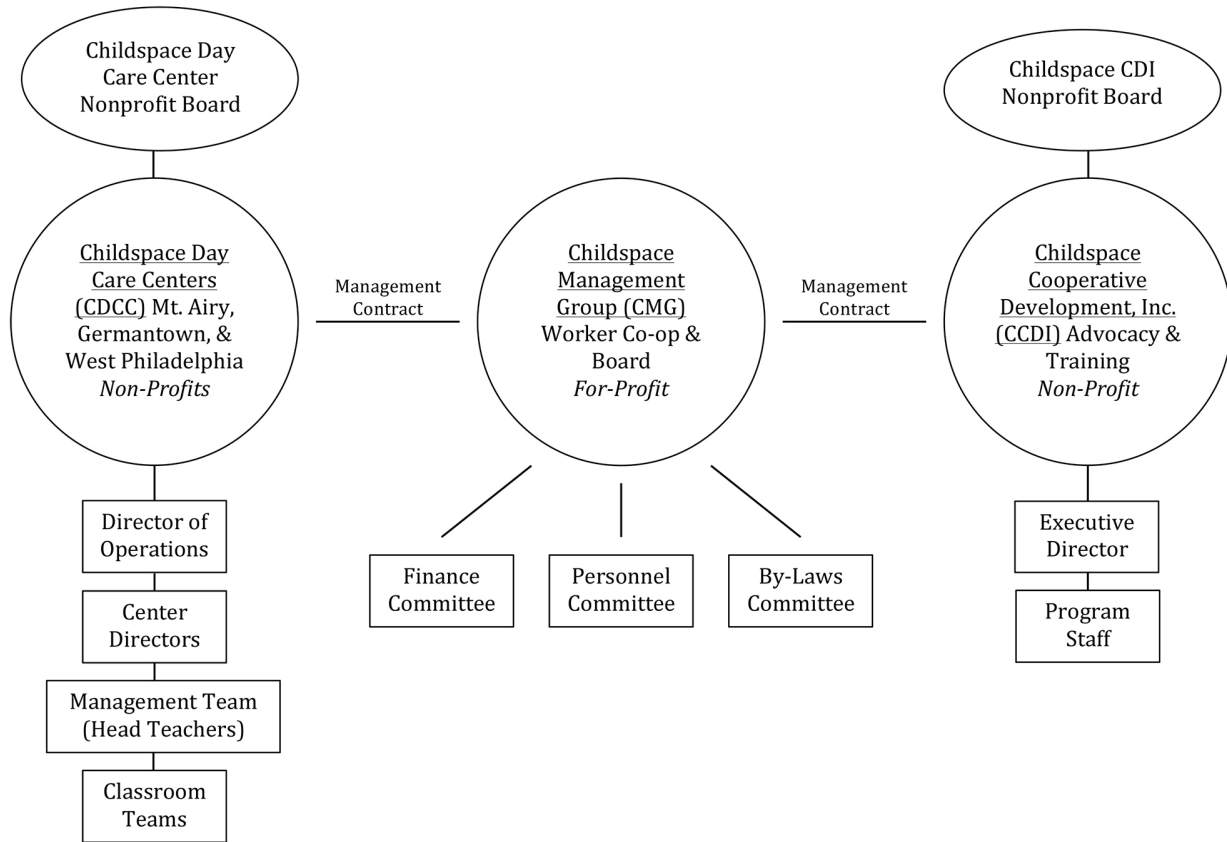
its board set policies that affect all employees at CDCC and CCDI. Members are required to attend all monthly board meetings and monthly meetings of their assigned committee. New members are required to serve on the finance committee for their first year, so that they may gain a basic understanding of financial operations of the organizations. Matters pertaining to personnel issues are discussed in the personnel committee and brought to the board for decision. The committees make policy and finance recommendations, which receive consideration and a vote at board meetings. While CMG has offices of president, vice-president, treasurer, and secretary, these members do not (directly) wield a more powerful influence on board decisions; each member has one vote, and decisions are made by majority vote.

CDCC is a nonprofit organization with the purpose of providing childcare. It is comprised of three childcare centers, each with its own director (or center director). A director of operations oversees directors from each childcare center. Center directors oversee a management team (consisting of head teachers) and classroom teams (consisting of other classroom staff).

CCDI is also a nonprofit organization, and it grew out of the worker cooperative with the purpose of engaging with the outside community. CCDI's main objectives are policy advocacy, training, and leadership development. CCDI employees provide training (e.g., financial training to home-based centers) to other childcare providers. They also organize campaigns for policies relevant to the childcare industry, such as the Paid Sick Leave Ordinance, which passed the Philadelphia City Council in June 2011 (partially vetoed by Mayor Nutter). CCDI frequently provides transportation to the state capital for lobbying. This organization has its own director and program staff, including a director-mentor, trainer, community organizer, communications specialist, and administrative assistant.

Some employees devote all of their work time to either a childcare center or CCDI. For example, teachers spend all of their time providing childcare at one of the Childspace day care centers. On the other hand, employees that serve in management and administrative roles commonly split their time between different organizations. For example, the financial director splits her time between CMG, CDCC, and CCDI. Childcare center directors, or the director of operations, might teach classes via CCDI, and CCDI's communications specialist might assist childcare centers with marketing tasks.

FIGURE 1. Organizational structure of Childspace



Childspace staff members are eligible to become cooperative members after one year of employment. Cooperative membership entails a one-time membership fee (\$5 for stock share purchase and \$245 contribution) to ensure investment in the organization. It also requires that members attend monthly meetings and serve on one of three committees. While tenure, or number of years served as a member, affects the options members have, CMG does not otherwise distinguish among members; there are members and non-members. Members and non-members receive the same wage rates, and some current non-members have been with the organization for more than 20 years.

Employees, regardless of membership status, receive wages (starting at \$9/hour) that are higher than the industry standard, which was an average of \$9.70 in 2010.⁹ Employees that work more than 15 hours per week receive family health benefits (for themselves, spouse, and dependents), paid sick days, and vacation time, all of which are often lacking in the childcare industry. While other childcare agencies commonly have seasonal layoffs as enrollment fluctuates, Childspace retains employees even if enrollment is down, ensur-

ing higher job security for employees. In 2012, of 50 staff only four left Childspace. Several of CDCC's head teachers have been with the organization for more than 20 years.¹⁰

Both members and staff also benefit from CMG's participatory decision-making process. Members are required to take part in monthly co-op meetings and committee meetings, which are often held during work hours and therefore paid. If meetings are held outside of work hours, childcare and other measures are provided to support member and staff attendance. Staff members are welcome to attend non-finance co-op and committee meetings and to voice their concerns. Members' and staffs' concerns are considered carefully within these meetings, and may lead to action.¹¹ For example, non-member staff were influential in promoting development of a sick-time bank for CMG. CMG committee decisions are made by majority vote among worker-owners, and each person has one vote and therefore an equal say in cooperative decisions.

In addition, members and staff alike benefit from the organization's commitment to employees' education and development. All employees are encouraged to increase their skills (and subsequently, their pay) or to move up within the organization.¹² For example, child-care staff are encouraged and supported in obtaining the training and credentials necessary to become head classroom teachers. The organization's efforts to expand are in part a reflection of its commitment to developing, and making space for, lead teachers.¹³ The organization also provides opportunities and incentives for employee leadership that may directly benefit the organization and its mission. For example, rather than contract out for services that fall outside of existing staff duties and roles (such as ordering supplies or driving buses), Childspace offers these jobs to its existing employees for additional pay.

Childspace has an annual operating budget of approximately \$1.5 million. In 2012, approximately 85% of revenues came from childcare fees (from state subsidies and private pay), 10% came from public grants, such as Pennsylvania's Keystone STARS accreditation program, and 5% came from program-driven foundation grants. Yet revenues often do not allow for retirement benefits or yearly salary raises, especially in years when the percentage of subsidized clients is high, because subsidies do not match actual costs of childcare provision.¹⁴

While public subsidies and grant programs help cover care fees and materials for children, no public programs support job creation, program development, or physical expansion.¹⁵ Instead, childcare facilities such as Childspace must seek outside funding to support these needs. The dual structure of Childspace, where CDCC and CCDI have nonprofit status while CMG has for-profit status, has helped expand the portfolio of options for grant funding. For example, a current grant from the Catholic Campaign for Human Development supporting the expansion of the worker co-op model has allowed Childspace to fund new staff positions. Other grants over the years have helped Childspace expand physically.¹⁶

Analysis

Childspace's innovative triad structure (figure 1) is fundamental to its survival and success as a cooperative endeavor and provides an important model to other cooperative organizations. The combination of CMG, CDCC, and CCDI allows Childspace to provide more than just day care. Rather, it allows Childspace to provide clients with quality, affordable childcare; to provide its employees with living wages and benefits, opportunities for cooperative ownership and management, and career advancement; and to provide the surrounding community with training and advocacy. For example, each day care center on its own could not afford the cost of administrative overhead necessary to maintain facilities, provide training, and seek grants. Instead, CDCC and CCDI contribute to the salaries of administrative and business staff required to maintain and grow the overall venture. In addition, the fact that Childspace incorporates both for-profit and nonprofit organizations broadens its options for revenue seeking.

Childspace also provides lessons to other cooperative organizations through its adherence to best practices related to the Seven Cooperative Principles, adopted in 1995 by the International Co-operative Alliance.

Among these seven, voluntary and open membership, member economic participation, organizational autonomy and independence, and community concern are elemental principles of practice at Childspace. However, Childspace's best practices revolve around two of the remaining principles.

First, Childspace models a best practice with its emphasis on ensuring member investment and commitment. Other studies have shown that factors such as ideological or financial commitment promote greater loyalty among worker-owners compared to non-cooperative businesses.¹⁷ Childspace's primary mechanism for promoting member commitment is the one-time membership fee and stock ownership fee, a total of \$250. Yet membership is not required largely because of an emphasis on worker choice. For some employees, the \$250 fee is a financial hardship. The required time commitment required can also be a barrier; membership entails attending up to four 1½-hour meetings per month, often during staff break time.

Ideological opportunities, such as the chance to be an owner of the organization and to take part in decisions, provide a main incentive to membership. According to worker-owners Janet Filante, Mindy Barbakoff, and Doris Young,¹⁸ one benefit of working at this cooperative

organization is the lack of an “us versus them” scenario, where staff are subject to the policies set by managers and directors. Cooperative members are worker-owners, and they are expected to meaningfully participate in the financial and program operation of Childspace. In essence, this empowers members to create the kind of workplace in which they wish to work. As Filante, executive director of CCDI and worker-owner put it, “If I want something fixed or cleaned up, I can either fix it myself or I can bring the issue to the co-op or create a committee to work on the issue.”¹⁹ These patterns support findings from a study which compared a private company with a worker-owned cooperative²⁰ and found that cooperative workers were more satisfied with their jobs²¹ due to cohesion among workers (shared values and goals) and feelings of autonomy, collaboration, and equity (instead of competition and hierarchy). While hierarchy exists in terms of professional role and pay, it is not necessarily present within cooperative decision-making processes in which each member has only one vote.

At the same time, challenges surround this lack of hierarchy in decision making among cooperative members. Worker-owners must learn to act along community and organizational interests, in addition to their own personal interests. At times, these interests clash at Childspace; the case of worker pay is an example. While workers may know that they require and deserve higher pay, they also know from their intimate knowledge of the budget that the organization might not be able to afford to pay more.

Individual and organizational interests also may clash as a result of the time and effort required to fully participate in the cooperative. First, it is difficult to motivate staff to become worker-owners. Benefits that come from the cooperative structure and philosophy are very much accessible to staff, such as opportunities to participate in decision making, and many staff choose not to become members. Childspace has few financial incentives to motivate staff to become members, other than the potential to receive a share of yearly dividends (which is not a common occurrence) and more access to financial decision making. The organization continuously strives to develop incentives for staff to become members, but restricting benefits to certain employees, including staff, is not a part of the organization’s philosophy.

Motivating members to take leadership positions on committees or workgroups—to go a step beyond baseline attendance at group meetings—is also a challenge. The cooperative operates on its members’ ideas and labor. Members and the broader organization benefit from the investment of time and energy that members devote to maintaining and improving their workplace. Yet, similar to Castel et al.’s²² findings, the group has found it difficult to motivate members to go beyond their employee roles to take more of an owner or leadership role.

Second, Childspace offers an important model of democratic control and decision making. Members and staff are either required or encouraged to participate in decision making at CMG, CDCC, or CCDI. Monthly meetings among members and a majority-vote, decision-making model are important elements. Childspace has found that lowering barriers to the participation of staff and members who have children and family commitments is fundamental. For example, Childspace provides childcare and food during meetings, and, as much as possible, holds meetings during work hours.

Childspace is a vibrant example of a cluster of organizations operating under cooperative principles. In many ways it is fulfilling its founders’ original aim, which was to avoid common problems in the childcare industry, such as low pay, lack of benefits, low job security, and few advancement opportunities. Childspace provides premium health benefits, sick and vacation time, opportunities to contribute to decision making, and other benefits which are rare in the childcare industry and other service-based industries that largely employ women. Its innovative practices, and the challenges surrounding these practices, regarding structure, decision making, and employee commitment provide valuable lessons for other worker cooperatives.

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chapter 16 PART 3: WORKER COOPERATIVES

Emergence of a Worker Cooperative: Greensaw Design & Build¹

Dorothy Ives-Dewey

Introduction

Greensaw Design & Build is an employee-owned cooperative located in the Northern Liberties neighborhood of Philadelphia. The firm specializes in the installation of architectural salvage for custom residential and commercial renovations, using locally sourced and reclaimed material for most of its projects. Established by a single individual in 2006, the company was restructured into a worker cooperative in April 2011.

Greensaw's founder, now a member-owner, has remained strongly committed to the vision and core principles of a worker cooperative, believing that

workers should have a say in organizational governance and share evenly in the profits. The company operates along the self-reinforcing principles of democratic leadership, personal development, green building practices, and community engagement.

While the structure holds great promise, Greensaw continues to face a number of challenges in its formative stage as a cooperative, and its future is uncertain. In adapting to its new structure, the company's biggest challenges include maintaining profitability, establishing an appropriate sharing of risk for potential member-owners, and managing personal dynamics. Its early experience provides insight into the structural and human issues a company will likely encounter in converting to a worker-owned cooperative.



Historical overview

Greensaw Design & Build was founded by Brendan Jones as a limited liability corporation (LLC) in 2006. Prior to establishing Greensaw, Jones had worked for a number of years on his own as an independent builder. He was not content to follow standard design-build business models; with Greensaw, he sought a more sustainable and humanistic approach in his work and his company. After reading John Abrams' book, *The Companies We Keep*, he was inspired by the experience of the South Mountain Company, a design-build company in Martha's Vineyard.² The book chronicles the company's experience in its conversion to a worker cooperative and details its organizational and operational design.³ The worker cooperative model resonated with Jones, and he passed the book around the office to educate and inspire his employees. Soon after, he set to work restructuring his company as a worker-owned cooperative, and it was officially unveiled two years later in spring of 2011.

The cooperative form was a good fit for Greensaw. Prior to the conversion, Jones had been looking for a way to appropriately recognize and reward the efforts of his employees who were highly talented and committed to the firm's mission. He considered selling company shares or instituting an employee stock ownership program (ESOP), but was concerned that problems would inevitably arise from him maintaining a majority interest.⁴ The shift to a cooperative would, in some respects, formalize business practices that were already in place. Similar to the functioning of a cooperative, many employees at Greensaw (prior to its conversion to a worker cooperative) had a considerable degree of decision-making responsibility. Project managers, for example, had a high level of autonomy in making decisions about managing their projects. Jones trusted their abilities and valued their strategic insight and thereby empowered them to make decisions without regular

consultation. Further, project managers were consulted in establishing broader policy within the company on matters such as company structure and strategic planning. While policy making was ultimately the authority of the owner, the existing practices, which encouraged and considered the input of all the employees, resembled a democratic approach.

Greensaw had an ambitious mission from its founding. Jones' goal was, and continues to be, creating a company that preserves high standards and integrity in multiple areas, including profitability, human development, community development, and minimizing environmental impact. Many parts of the company mission are supported, formally and informally, by the cooperative structure. Greensaw is a place-based business with strong connections to Northern Liberties, its local neighborhood. The core business of architectural salvage is, by its nature, an environmentally sustainable practice. Architectural salvage is the practice of reclaiming old materials and reusing them in new and innovative ways. What it can't source through salvage, Greensaw tries to purchase from local or regional suppliers. Greensaw's member-owners believe that the principles of a worker cooperative and a sustainability mission are linked, even though sustainability is not formalized in its governance and operational structure.⁵ It's generally recognized that workers in a worker cooperative are more likely to operate in a sustainable way than workers in a capitalist business organization, although the reason remains unclear.⁶

Another more personal reason prompted the conversion to a worker cooperative. Jones wanted to free himself from the daily responsibilities of managing the company so he could pursue other interests. A successful writer, Jones spent long periods of time away from the company to develop new projects, and needed to cede managerial duties.⁷

Greensaw sits poised at a critical juncture which began with its transformation to a worker cooperative in 2011. It is still in a formative stage and continues to navigate a number of obstacles, tangible and intangible, including maintaining viability, defining liability and risk for potential member-owners, and managing personality conflicts.

Contemporary structure and functions

Just outside Philadelphia's core, the Northern Liberties neighborhood where Greensaw's office and workshop are located historically housed manufacturing firms (e.g., mills and breweries). In the nineteenth century, German immigrants settled in the district, and later, in the twentieth century, Eastern European immigrants arrived. Through much of its settlement history, the neighborhood housed a considerable number of artisans and has been a stable work-residence community.⁸ The Northern Liberties Artisan Historic District was established in 1985 and covers most of the neighborhood. The proximity of Northern Liberties to downtown Philadelphia makes it a desirable location today for commercial and residential development. It presently houses boutiques, cafes, community gardens, and trendy restaurants, and is disproportionately populated by young professionals, artists, and students. Old row homes and warehouses have been converted into an eclectic mix of living and working spaces. Because Greensaw employees see themselves as connected and accountable to Northern Liberties, they are responsive to local social and environmental concerns and consciously reinvest in the community.⁹

Greensaw's core business is architectural salvage and custom renovations, but it also creates smaller objects, such as furniture and custom fittings, from salvaged material. It serves a local, and fairly small, niche market, and the majority of its customers are higher-end clientele in Philadelphia. It's also slowly acquiring suburban projects.

Architectural salvage is labor- and time-intensive and therefore more costly than renovation using new materials. While it isn't at the top of the price scale for custom renovation, Greensaw's prices are moderately high compared to other custom builders in the region. To offer more competitive pricing, it would need to compromise product quality; since it values the quality of its craftsmanship, it is unwilling to do that.¹⁰ It sources most of its salvage materials from the city and most of its non-salvage materials come from the greater region, especially Lancaster County, from where it sources much of its lumber. It satisfies as many of its input needs as possible by purchasing locally and regionally with minimal reliance on imports.

The process of restructuring Greensaw from a single owner to a worker cooperative took two years. In 2009, a founder's committee was formed to guide the conversion process.¹¹ It made fundamental decisions, including the design of governance and management systems, establishing members' rights and responsibilities, and determining a path to membership. It crafted the business structures to support worker cooperative principles and other broad aspects of the company mission, such as sustainable building practices. The founder's committee drew on the South Mountain Company's example, ultimately adopting many of its organizational structures and policies.¹²

The founder's committee determined that a board of directors would be responsible for most business decisions. As stated in the bylaws, the board is elected by member-owners, with member-owners each having one vote and one membership share. Member-owners of the cooperative are owners of the company and vested with the rights and responsibilities of ownership. They are entitled to a portion of the company's profits, but share in any losses and are liable for any future company debts. One of the big early questions related to the initial buy-out of the founding owner's interest. The founder's committee explored this issue and settled on a \$100,000 payment to Jones, tied to the company's profitability.

A consensus of existing member-owners would select and invite new member-owners to join after the latter had worked for at least three years. Invited member-owners could buy in to the cooperative for an amount of \$3,500, made in annual installments of \$500.¹³ Based on research of fees charged by similar worker cooperatives, the fee was meant to be affordable, yet significant. It wanted the fee to be not so high as to discourage potential member-owners, but considerable enough to encourage a commitment.¹⁴ The fee will increase over time if the company continues to profit.

Since its conversion to a worker cooperative, Greensaw has implemented some management and operational changes. On the eve of its 2011 restructure, Greensaw had one owner and 13 employees, including project managers, carpenters, designers, and office staff. Most jobs stayed the same after the conversion, with the exception of the addition of a chief operating officer and a shop manager. The chief operating officer directs daily office management, and the shop manager oversees the daily management of the shop. Project

managers are still responsible for their projects, and member-owners are responsible for overall business policy decisions.

Member-owners are expected to grow to handle different jobs, from restoring materials to designing renovations to actual construction. As owners, members must understand a broad range of business elements such as marketing, policy, finance, and more. Effective programs for employee training and development are vital, and the present owners carefully consider how to craft a management technique that supports the personal development of each worker.¹⁵ The three-year waiting period is designed to help ensure a gradual transition, allowing time for the necessary training and evaluation of potential member-owners. Hiring processes are rigorous as new employees are partly evaluated as potential owner-members. The company thoroughly screens applicants to ascertain their fit with the business' mission and structure and their potential to operate in multiple capacities within the organization.

At the time of Greensaw's conversion to a worker cooperative, three senior employees were offered ownership opportunities. Only one, David Wing, joined and became the second member-owner. The other two employees declined the membership offer, but stayed with the company as employees. One of the thorniest issues in attracting owners at the time of conversion dealt with concerns over the company's viability. Revenues have been unsteady since the company's founding, and, due in large part to its niche market, the business remains highly sensitive to economic swings. At the height of the recession in 2008, Jones laid off nearly all of his employees—four at the time.¹⁶ Business picked up again in 2009, and since then revenues have been positive and the company has grown, reaching 13 employees by 2011. The company earned approximately \$1.5 million in gross revenue in 2011 and generated a comfortable profit.¹⁷

A second concern for potential member-owners related to liability. For years, Greensaw operated with two loans, including an outstanding line of credit. The extent of personal liability for any outstanding debt for new member-owners was unclear to the three invited to join. New member-owners were not required to personally guarantee the outstanding debt; that obligation remained with the founding owner. However, there was concern about how the outstanding debt would impact future business decisions, especially in the case of future losses.¹⁸

Substantial work goes into a cooperative’s creation and the start-up costs can be high. Greensaw secured legal, financial, and accounting services at greatly reduced prices through the University of Pennsylvania’s Penn Entrepreneurship Legal Clinic, which provides pro bono legal services to small businesses and entrepreneurs. Financial consultants and attorneys also provided pro bono services.¹⁹ The conversion would have been impossible without this support.

Greensaw’s current member-owners expect the full conversion process to take some time. Of 12 current employees (excluding the two member-owners), only two employees have worked at Greensaw for three years or more, and are thereby eligible to be considered for membership. The current member-owners believe that, if the company remains viable, ownership will become increasingly attractive to employees, and the number of member-owners will increase over time.

Analysis

Greensaw is an early example of a green, worker-owned cooperative in Philadelphia. Embracing the principles of sustainability, equity, and workplace democracy, Greensaw supports the environment, its employees, and the local and regional economies within which it operates. Its concept of green building transcends standard notions of sustainable materials and energy efficiency. By sourcing materials close to home, it supports the regional economy and minimizes transportation demands to import materials from overseas.

The quality of craftsmanship is typically higher with salvaged materials than with standard materials. Greensaw customers value this, and they appreciate the stories that accompany the materials. In a global world where construction materials are mass produced and routinely shipped from China and other distant locations, drawing local connections and preserving local stories is increasingly esteemed. Greensaw illustrates how better craftsmanship and reduced impact on the environment can be the foundation of a viable business model.

Greensaw’s two current member-owners view the cooperative model as directly and indirectly benefiting employees, customers, and the community. As noted on a cooperative blog:

“Allowing employees to have a stake in the company where they work encourages them to remain at their job and invest time and energy into improving the business any way they can. This in turn benefits the local economy, and in the case of Greensaw, helps to revitalize Philadelphia’s abandoned city blocks, and recycle useful material that could have ended up clogging our landfills.”²⁰

Member-owners believe that being a worker cooperative enables Greensaw to function better as a business. Operating as a cooperative increases Greensaw’s appeal to its customers by attracting and retaining great people and by engaging employees to make it a desirable workplace. The degree to which the cooperative structure makes a difference to its customers is difficult to gauge. Member-owners and employees believe that their clients support the company first and foremost because of the quality of their product. The extent to

which the company’s structure and mission reinforce worker loyalty and support quality craftsmanship is significantly, although indirectly, connected to overall customer loyalty.

Greensaw supports a number of community development efforts in Northern Liberties. Workers who have a particular interest in or connection to a local organization typically initiate these activities. Among other projects, it has worked with the New

Kensington Community Development Corporation (NKCDC) to support the “Sustainable 19125” initiative. Using recycled materials, it created a shelter for the NKCDC Garden Center compost bin to bring affordable composting to the neighborhood.²¹

Attracting owners to the cooperative has been a challenge for Greensaw. As previously noted, three employees were initially offered cooperative membership, but only one chose to join. Of the two employees who declined membership, one left the company shortly after the conversion; the other is still employed at Greensaw, but is not currently interested in ownership. He has two primary concerns: assuming liability for any future debt, and uncertainty over how the outstanding debt might create conflict in business decision making; and interpersonal dynamics with the company founder. He was particularly concerned that Jones’ writing would potentially interfere with his interest in the company.

Greensaw supports the environment, its employees, and the local and regional economies within which it operates.

Personality and group dynamics are an important factor in worker cooperatives. To reach good decisions in a democratic system, decision-makers need to be fully informed and have a rich understanding of the interconnections between the business' many facets and how it operates. Member-owners also need to trust that other member-owners are equally as informed and committed to the organization's success. It's possible that with a sustained period of viability, some of these issues could be addressed.

It's still too early to gauge the company's success as a worker cooperative, but a few early lessons emerged from this case study. Greensaw's experience reveals the many challenges, tangible and intangible, in launching a cooperative. Successful worker cooperatives evolve over a long period of time. The proper business structure has to be in place to support their emergence: a solid system of management and decision making, support for professional development, and a clear understanding of risk and the legal implications of ownership. Greensaw's experience further shows that less tangible variables, such as personal dynamics and trust, are equally as important. Moreover, regardless of whether it is a cooperative or not, a firm needs to be financially healthy. Ultimately, the cooperative has to make a sufficient profit to stay in business and offset the perceived risk held by potential member-owners.

Conclusion

Greensaw Design & Build is part of Philadelphia's history of cooperative businesses. Their architectural salvage model is well-suited to the environment of Philadelphia, with its rich history imprinted in the local environment. The company's member-owners, employees, and customers find meaning and value in the stories behind the materials salvaged by Greensaw. The company holds much promise in promoting sustainable building practices and workplace democracy.

Structuring a company that makes a high-quality product, supports an ambitious mission, and provides fulfilling jobs in a creative environment requires an innovative business model. Greensaw exemplifies a business serving a new creative economy; it is a cooperative that emphasizes values, lifestyle, and human development and that crafts highly specialized and customized products rather than generic commodities.²² Considerable work remains to establish the company's sustained viability and attract more member-owners. The worker cooperative model could improve Greensaw as a business, attracting and retaining talented people

who make superior products while supporting an important mission, thereby increasing the company's customer appeal. Greensaw holds promise for what a worker cooperative can be.

As a final note, Greensaw's short period of time as a worker cooperative presents constraints on this case study. Since the conversion process is not complete, decision making and management structures have yet to be fully implemented. Presently the two member-owners control most decision making. The management and operational structures envisioned in the new company bylaws won't be fully established until there are a proportionally larger number of member-owners. The timing does, however, permit an opportunity to peer into the conversion process and view aspects of the transition that are perplexing and might be obstacles to forming other worker cooperatives. The Greensaw case tells us that profitability, liability, and personal dynamics are critical concerns in the conversion process. A record of stable profits is perhaps the most important element in the establishment of a worker cooperative.

Note: This case study was completed in 2012. In the fall of 2013 Greensaw Design & Build closed permanently.

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chapter 17



Riverland Energy Cooperative Case Study

Brady Williams

Introduction

Riverland Energy Cooperative is an electrical utility distribution cooperative headquartered in Arcadia, Wisconsin with district offices in Alma and Onalaska, Wisconsin. Riverland's primary service is providing electricity (distributing it from the power substation to homes or businesses) to approximately 14,600 members located in rural areas of Trempealeau, Buffalo, and La Crosse Counties. The cooperative also provides monitoring services for Gold'n Plump Company (producers of chicken products) by inspecting barns for high temperature, loss of water pressure, and power outages. Similarly, through their subsidiary, Riverland Communications, Inc., the co-op provides a personal emergency response system for rural residents with physical disabilities. Riverland Communications also provides DirecTV and internet service, the latter via a fixed wireless system running along the Mississippi River or through satellite-based service for its more remote members.¹

Historical overview

Riverland Energy was created through a merger between Trempealeau Electric and Buffalo Electric Cooperative in 1999. These two cooperatives had been in existence since the late 1930s and were a direct result of President Franklin Roosevelt's New Deal Rural Electrification Administration (REA). While investor-owned utilities in the 1920s and early 1930s brought power to more populated areas, rural areas were often left in the dark due to the lack of profitability in extending lines to sparsely populated areas. Although rural residents who lived near the distribution lines benefited from this system, those who lived farther away were left without power. The REA made loans available to groups of rural people, primarily farmers, who wanted to create electrical utility cooperatives to extend power to outlying rural areas. This often met strong opposition

from investor-owned utilities (and their supporting politicians). Sometimes opponents threatened that farmers would lose their farms if the cooperative failed.²

The decision to merge and create Riverland was not just viewed as a way to save money through economies of scale, but was also seen as a way to utilize resources more efficiently.

Many early electrical cooperatives were organized by county, and the Trempealeau and Buffalo Cooperatives succeeded. They persisted for more than 60 years before merging to form Riverland Energy Cooperative. This merger was one of the most significant events in the cooperatives' history. The general manager notes that the decision to merge and create Riverland was not just viewed as a way to save money through economies of scale, but was also seen as a way to utilize resources more efficiently. While some members

opposed the merger, it was generally well-received and was eventually passed unanimously by the two boards of directors and by more than 85% of the membership (a two-thirds majority vote in each cooperative's membership was necessary to approve the merger). After the vote, however, one board member wrote a letter to the editor in a local newspaper opposing the merger, causing significant disgruntlement on the new board. Although the board member served out the rest of his term at the newly created Riverland Energy Cooperative, significant trust issues persisted. Particularly, the board was concerned whether he kept internal discussions confidential.³

Contemporary structure and functions

While the more urban areas of Trempealeau, Buffalo, and La Crosse Counties are served by the investor-owned utility Xcel Energy, Riverland Energy Cooperative's members are rural electricity users. Having a line that runs from Riverland's distribution grid to one's property, whether private residence or business, conveys membership in the cooperative. Some members do have multiple accounts, and there

are more meters (about 17,000) than members (about 14,600). While multiple people usually reside at a given household, the membership is treated as a household membership rather than as an individual one. While rates vary according to the size of a member's account, all members have equal standing since Riverland strictly adheres to the cooperative model. This can sometimes create tension among members, with members who have very large accounts feeling like they have a disproportionately small amount of control in the cooperative. Some members are individuals or families, while others are businesses or institutions. In order for businesses and institutions to vote, they must produce a signed document officially designating a voting delegate at the annual meeting. Of the 45 current employees of Riverland Energy, about 12–15 of them are members (membership depends entirely on whether individuals reside within Riverland's service area).⁴

The cooperative is governed by a nine-person board, and each member must also be a co-op member. All board members receive a minimal per diem stipend for their service on the board. The first step in constituting the board is having members from each of Riverland Energy's nine districts elect 15 people (135 total) to serve on the district committees. District committee members then meet to be briefed about the cooperative's experiences over the past year, plans for the coming year, and details about how the cooperative operates. Then, district committees caucus and nominate potential board members, upon whom the membership votes in late March or early April. Voting and participating in both the district and annual meetings are the principal means by which members can participate in the cooperative. An estimated 30% of members vote in board elections.⁵

Board members are limited to serving a maximum of four consecutive four-year terms and may return to the board after sitting out a term. Most directors end up serving an entire span of four terms. The competitiveness of elections fluctuates greatly from year to year, depending on the significance of issues to be addressed. The last open seat had six candidates vying for it while at other times directors have run unopposed. In recent years the length of the term was increased from three to four years so that in years 1–3, three districts are up for election and in year four there is no election at all. Having a non-election year every four years has led to immense savings in the expense of mailing ballots and conducting an election. Also, training new board members is very time-intensive and expensive.

By having no new board members every fourth year, the cooperative saves money on training.⁶ The board doesn't specify expertise requirements (e.g., training in law or accounting), so Riverland invests heavily in ensuring that board members have a good understanding of the cooperative model and the functioning of the business. Training, seminars, and other work takes place 3–4 days per month.

Riverland Energy has annual revenue of about \$31 million. To continue operations, they borrow exclusively from the National Rural Utilities Cooperative Finance Corporation (which uses the abbreviated acronym CFC), a lending institution for electric and telephone cooperatives. Debt levels may seem surprisingly high since about 55% of the annual \$3–4 million in construction costs are usually borrowed and paid off over 30 years. According to recent data released by the CFC, this figure is on par with national trends among electrical cooperatives. Riverland's general manager notes that it is important to spread these costs out over time, especially when developing infrastructure that will last for the next 30–50 years. Otherwise, if money is not borrowed heavily, current members' bills will increase. In effect, today's members would subsidize infrastructure for future residents.⁷

Analysis

In understanding and evaluating how Riverland serves its members, it is vital to recognize the context within which the co-op is situated. Wisconsin energy distribution takes place in a highly regulated market. By contrast, Pennsylvania, New York, New Jersey, and all of New England, with the exception of Vermont, have restructured their electric utilities industry to replace a regulated monopoly system with competing sellers.⁸ Despite a brief move toward deregulation in the 1990s, price spikes in Midwest wholesale power markets in 1997 and 1998 fueled concerns about power reliability and led Wisconsin policymakers to pull back from the idea of decentralized competitive energy markets.⁹ Currently, the Public Service Commission of Wisconsin must approve utility rate changes, new construction projects (e.g., building power plants and transmission lines), and the issuing of stocks and bonds. According to the commission, regulation is necessary to "ensure that, in the absence of competition, adequate and reasonably priced service is provided to utility customers."¹⁰

Due to its highly regulated environment, it is tempting to view Riverland's cooperative structure as purely vestigial and something rural customers must simply accept

if they want electrical service. To a large extent, this is true: the cooperative was originally used as a tool to combat market failure, providing electricity to areas that wouldn't be served by investor-owned utilities; now the state ensures reasonably priced electricity for everyone.

Riverland's cooperative structure provides an advantage in two circumstances where it faces a competitive market: obtaining new electricity customers and providing communications services. Once a distributor builds a line to a new home or business, the owner is required to purchase electricity from that distributor from that point on. Riverland Energy and the investor-owned utility Xcel Energy do, however, compete for the right to become the permanent supplier for these new customers. For particularly large clients such as sand mines (which procure sand for hydraulic fracturing, or fracking), Riverland will make a tailored presentation to attempt to acquire its business. In addition to the new sand mines, fringe areas between urban (served mainly by Xcel) and rural (served mainly by Riverland) parts of Trempealeau, Buffalo, and La Crosse Counties are particularly contested when there is new development.

Riverland and Xcel offer electricity at similar rates. How does Riverland distinguish itself? According to Riverland's general manager, the big selling point is responsiveness. Without the need to put outside investors first, the cooperative structure allows Riverland to quickly and easily respond to member needs and interests. In the communications market, competition is more straightforward: Riverland Energy's subsidiary, Riverland Communications, is the exclusive area DirecTV provider, competing directly with Dish Network and cable packages. Overall, however, because Riverland's primary market is highly regulated, its cooperative structure gives it a limited conventional competitive advantage.¹¹

Lack of competition in the energy market also affects the prospects for renewable energy in the region. Individual retail customers currently have no say over their power's source material. Dairyland Power Cooperative, which generates the power Riverland distributes, derives 88% of its energy from coal and 12% from renewables such as wind, hydro, biomass, landfill gas, and dairy methane digesters.¹²

In 2006, Wisconsin Act 141 required that all state utilities generate 10% of their electricity from renewable sources by 2015.¹³ While Dairyland exceeds these standards already, Riverland makes little effort to influence or increase Dairyland's renewable energy choices.

According to the general manager, Riverland aims to exceed renewable requirements, but not by much. With current technology, the use of renewable resources must be carefully balanced with keeping member rates reasonable, especially when individual households can't control how their power is generated. While Riverland's Evergreen program allows members to contribute \$1.50 monthly to offset the higher cost of renewable energy generation, providing renewable energy is not an essential part of the cooperative's identity.¹⁴ Unlike investor-owned utilities which can more easily make large, long-term investments in renewable power, rural electricity cooperatives are often directly constrained by their members' more immediate needs.¹⁵

Riverland doesn't offer a vastly different product from similar investor-owned utilities, and it doesn't offer substantially different rates. Outside of those serving on the board of directors and regional committees, member participation is relatively low. In the highly regulated utilities market, then, does it matter to Riverland's members that it is a cooperative? The answer to this question lies in how Riverland provides its services, since it is quite limited in offering new or innovative products. Member satisfaction surveys suggest that Riverland's members are more satisfied with their service than are customers receiving electricity from private companies. Riverland's American Customer Service Index rating (measured on a 100-point scale) has been increasing, and, when most recently measured, it was eight points higher than an area investor-owned utility. It scored particularly high on "friendliness," and it emphasizes communication with its members, especially when things don't go as planned. For example, if an outage affects more than 25 members and conditions don't seem to warrant an outage (i.e., no storms or wind), Riverland sends a postcard to the affected households explaining the reason for the outage. While customer satisfaction is high, one of Riverland's biggest challenges is effectively communicating the nature of rural electricity distribution to members who grew up in urban areas. For them, interruption in electrical services rarely occurred, and they often don't understand the degree of exposure in rural areas (Riverland has more than 3,000 miles of lines). Thus, clearly conveying how the cooperative functions, it is important for its employees.¹⁶

Several innovations have helped Riverland provide better service to its members. True to cooperative principles, Riverland's general manager emphasizes that it is service quality, not bargain-basement rates,

toward which the cooperative strives. Innovations that make the cooperative more efficient, however, may also save its members money. Using state-of-the-art software and flyover maps of its service area, employees can monitor their lines using a geospatially correct system. Additionally, an automated vehicle-locating system shows exactly where the trucks are in relation to outages, which allows for more efficient responses. Metering is also performed by an automated system. This extensive use of automation helps employees focus their attention on response rather than monitoring.¹⁷

Riverland is also involved with a new program aimed at reducing members' energy costs. Currently, it will pay for an energy audit for members, but has found that most recommended changes are not implemented. The pilot Cooperative Home Energy Retrofit Project (CHERP) is a partnership with the Center on Wisconsin Strategy (COWS) and two other rural electricity cooperatives to assist members who struggle financially, but don't quite qualify for government assistance programs. CHERP focuses on pre- and post-retrofit energy audits; energy improvements that will, within 10 years, have a positive return on investment; and, for qualifying members, bill financing options to offset the loan payments needed to implement changes. The program is meant to remove barriers that prevent rural residents from making their houses more energy efficient, such as access to capital, uncertainty about whether the upgrades will pay off financially, and lack of commitment by homeowners through the entire retrofit process. The program is structured to save cooperative members money and to streamline the retrofit process and make it easier to stick with by running it through the rural cooperative itself.¹⁸

Particularly notable about Riverland Energy Cooperative is the degree to which it is nested within, and cooperates with, other cooperatives. Riverland exemplifies cooperative principle number six: cooperation among cooperatives. First, Riverland is a distributor and not a producer of electricity, so it relies on Dairyland Power Cooperative to produce the electricity (Dairyland owns the power plant, transmission lines, and substations). Riverland, along with 25 or so other rural electric co-ops, cooperatively owns Dairyland. For financing, Riverland relies exclusively on CFC. Riverland is a member of state and national associations for rural electric cooperatives, and the current general manager serves on the national board for the Cooperative Response Center, which manages all after-hours calls and monitoring. Additionally, through Restoration of Power in an Emergency (ROPE), Riverland helps other electric

cooperatives during times of need. During Hurricane Katrina, for example, all of Riverland's crew served at one of Louisiana's electric cooperatives. Without this high level of cooperation and integration, Riverland Energy couldn't operate in its current fashion.

Conclusion

Riverland Energy's cooperative structure is more than just an irrelevant vestige of a market failure more than 70 years ago. But this can be difficult to discern given the highly regulated energy market in Wisconsin where geography, not consumer choice, predominantly dictates one's energy provider. Nonetheless, the experience of a Riverland Energy Cooperative member differs from that of a customer of an investor-owned utility. The benefit isn't in the form of lower rates or niche products (e.g., renewably sourced energy). Instead, Riverland's 14,600 members benefit mainly from the cooperative's commitment to efficiency and member service. Through automation of monitoring systems, an emphasis on communication with its members, and a willingness to employ particular services and programs catering to individual members' needs, Riverland has earned a high degree of satisfaction.

The co-op adheres strictly to cooperative principles and prioritizes service over cost-cutting. Where cost-saving techniques, such as organizational innovations (e.g., structuring elections so that every fourth year is an off-year) can be implemented, they are. Because it is a large utility cooperative in a regulated market, Riverland does not have extensive member participation beyond voting and board membership. Given customer satisfaction rankings, however, members appreciate that it is a cooperative as opposed to an investor-owned corporation.

It is clear that, while managerial experience and a long history contribute to Riverland's smooth functioning, its existence would be less possible without being situated within a network of cooperating cooperatives. Power generation, capital procurement, manpower in emergencies, and certain special member programs depend on the effective functioning of other cooperatives and on strong relationships between them. Riverland could not operate in a vacuum. CHERP, in particular, is a poster child for collaboration with other cooperatives and non-profits that would likely be absent in an investor-owned utility. These cooperative relationships produce efficiencies that might not show up on a monthly electrical bill. Instead, they allow for greater responsiveness and

a greater array of innovative member-oriented services that might not occur if Riverland Energy Cooperative were simply Riverland Energy Company.

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chapter 18



The Energy Co-op: A Case Study

Allison H. Turner

Introduction

The Energy Cooperative Association of Pennsylvania (ECAP), commonly known as The Energy Co-op, is a member-owned, nonprofit, service-driven energy company. Motivated by a mission to create and strengthen healthy communities, ECAP seeks to

Motivated by a mission to create and strengthen healthy communities, ECAP seeks to provide residents of the Delaware Valley region with affordable, sustainable energy.

provide residents of the Delaware Valley region with affordable, sustainable energy. Located in Center City, Philadelphia, ECAP's membership is dispersed over a five-county area in southeastern Pennsylvania. By leveraging the considerable group-buying power afforded by

its thousands of heating oil and electricity consumers, ECAP negotiates with local energy suppliers to reduce energy costs and demand more sustainable energy sources, including conventional and renewable heating oil, electricity generated by state wind farms and solar power, and the distribution of waste oil-derived biodiesel produced from sustainable and local feedstocks.

ECAP is a pioneer within the cooperative utility sector for many reasons, including its unique hybrid structure and organization, rapidly growing (in both size and geographic scope) urban and suburban membership; progressive and expanding product offerings; and young, capable, and dynamic executive leadership and staff capacity. Such innovations have thrust ECAP onto the regional stage as a leader in heating oil group buying, the generation and distribution of local, renewable energy, and the distribution of biodiesel to diesel vehicle fleets in southeast Pennsylvania. However, its cumulative effect has made the identification and implementation of best practices extremely challenging. A recent and ambitious strategic planning effort has

nonetheless positioned this mature cooperative organization to achieve sustainable growth and move forward along the continuum of organizational success.

Historical and programmatic overview

Initially established as a heating oil cooperative in 1979, ECAP was founded by members of the Weavers Way Food Cooperative in the Mount Airy neighborhood of Philadelphia.¹ After experiencing the benefits of belonging to a relatively successful food cooperative, Weavers Way members endeavored to apply cooperative concepts to the provision of energy. Today, ECAP is an incorporated 501(c)(12) nonprofit organization licensed to supply electricity and biodiesel within the Commonwealth of Pennsylvania.²

PROGRAMS AND SERVICES

The Energy Cooperative's group buying program for heating oil consumers continues to secure energy cost savings for its members. From its geographically concentrated inauguration in Mount Airy, the heating oil program has expanded to a five-county region of southeastern Pennsylvania and a large portion of the Philadelphia metropolitan area, the fifth most populous metropolitan area in the country.³ With owner-members in Bucks, Chester, Delaware, Montgomery, and Philadelphia Counties, ECAP represents a unique mix of urban and suburban needs and interests, which require the careful cultivation and maintenance of vital relationships.⁴ In order to meet such diverse and geographically diffused needs, ECAP partners with ten largely locally owned heating oil suppliers, five of which supply bioheat or combinations of bioheat and conventional heating oil. (Bioheat is the industry-accepted term for any blend of pure biodiesel with conventional high or low sulfur home heating oil. Both the heating oil and biodiesel must meet specification set by the American Society for Testing and Materials (ASTM) before being blended together.) Prices vary by supplier and are determined by an annually negotiated and fixed margin above the daily wholesale rate. Members accrue an average cost savings of up to \$0.20/gallon.⁵

In the late 1990s, The Energy Co-op expanded its mission and product offerings to incorporate the promotion and use of renewable energy.⁶ Following the Electricity Generation Customer Choice and Competition Act of 1996, which gave Pennsylvania electricity consumers the right to choose their generation supplier, ECAP became a licensed Electric Generation Supplier (EGS).⁷

Currently, ECAP provides residential and small commercial Pennsylvania Energy Company (PECO) consumers with two electricity options—100% or 20% renewable—through its EcoChoice product platform: EcoChoice100 and EcoChoice20.⁸ The electricity composition of these two options reflects ECAP's revised mission of purchasing local, renewable energy. In 2012, EcoChoice100 consisted of 99% wind and 1% solar. Seventy-four percent of the wind energy came from state wind farms, including ECAP's own Highland Wind Farm in Cambria County, which contributed 25% of the wind energy.⁹ The solar energy was provided by cooperative members' photovoltaic arrays in the region and by PA Solar. For EcoChoice 20, 5% of the energy came from Highland Wind and 15% came from PA Wind.¹⁰ In addition to their overall cost savings, the EcoChoice products appeal to ECAP's members because they positively impact the state's economy and environment.

In 2006, ECAP introduced its biodiesel distribution program and began providing the Great Valley School District with biodiesel to fuel its fleet of school buses.¹¹ As of 2012, the program serves 12 school districts from within the five-county service area, Philadelphia, Krapf Bus Companies, the Philadelphia Eagles, and the Philadelphia Zoo. The biodiesel distribution program gives precedence to waste oil-derived biodiesel that is locally sourced, produced, and distributed and has developed quality control protocols to ensure that participating members receive ASTM-grade fuel.¹² Eligible ECAP members participating in the biodiesel distribution program also receive support in the application and administration of Pennsylvania's Alternative Fuel Incentive Grant.¹³

Contemporary structure and functions

OWNERSHIP STRUCTURE

By expanding both its mission and portfolio of energy programs, The Energy Co-op has established itself as a model within the cooperative utility sector.¹⁴ Unlike the majority of electric cooperatives, which can be categorized as either distribution cooperatives or generation and transmission (G&T) cooperatives, ECAP utilizes ele-

ments of both. Distribution electric cooperatives serve end users, such as residences and businesses, which make up their membership. G&T cooperatives generate power, typically selling it wholesale to distribution cooperatives, and are cooperative federations owned by their member co-ops.¹⁵

Like most utility cooperatives, ECAP is governed by a board of directors elected by and from within the membership. It returns any revenue surpluses, after investing in the utility, to its members in the form of patronage rebates.¹⁶ Membership primarily provides access to the different energy programs offered by the cooperative for both cost-savings and access to renewable energy. Annual membership dues secure members' ownership stake and cost \$15–\$30, depending on the membership class. While membership fees constitute a small percentage of ECAP's annual operating budget, they allow the co-op to maximize its group buying power and respond to the needs of current members and a growing membership base.

FINANCES

In 2011, membership fees accounted for less than 1% of the co-op's total revenue and support. ECAP's primary source of revenue was biodiesel sales, accounting for approximately 72% of its revenue; electricity sales accounted for approximately 25%, and heating oil commissions accounted for slightly less than 2% of ECAP's revenue in 2011. With operating expenses slightly less than \$800,000 in 2011, The Energy Cooperative's income from operations exceeded \$300,000—almost double the 2010 income from operations.¹⁷

MEMBERSHIP COMPOSITION, BENEFITS, AND ENGAGEMENT

Largely due to the expansion of its programs and services, coupled with a concerted marketing and outreach strategy, ECAP has experienced significant growth in the past decade with explosive increases in membership in recent years. In February 2012, it had approximately 7,606 members, up from approximately 5,600 households and organizations in 2009.¹⁸ Members are defined by their use of ECAP services and their annual payment of dues. There are three classes of membership: class A, B, and C. Class A members include any cooperative organization, credit union, unincorporated association, community association, or nonprofit organization belonging to The Energy Co-op. Class B members include any residential household or residential consumers of energy. Class C members include any busi-

nesses or for-profit enterprises not in Class A, including landlords who are purchasing and managing power and oil on behalf of their properties.

The overwhelming majority (93%) of ECAP members who utilize the electricity program are households, or Class B members. Business, or class C, members account for 5% of electricity members, while organizations, or Class C, members account for the remaining 2%. Of those electricity program participants, 33% opt for EcoChoice20, while 67% opt for EcoChoice100. The distribution of heating oil program members is similar: 97% are households, 2% are businesses, and 1% are organizations.

In addition to the three membership classes, ECAP members are categorized as active, inactive, or supporting.¹⁹ Active members use ECAP services and products and are current with their annual dues payment or have requested an annual dues waiver. Inactive members also use ECAP services and products, but differ from active members in that they didn't pay their dues or request a dues waiver within the appropriate period of time before their renewal date. An inactive membership allows member-owners who are experiencing financial hardship or organizational instability to avoid service disruption. Supporting members are organizations, households, and businesses unable to use ECAP services or products due to their temporary or permanent unavailability, as well as those members who choose not to use ECAP's service, but elect to support The Energy Co-op's work in return for limited member benefits. Of the three categories, only active members can vote at the annual member meeting and are eligible for patronage rebates. ECAP's recent Strategic Plan Membership Analysis revealed that approximately 70% of its membership is active; 23% is inactive; 2% is supporting; and 5% has been awarded a grace status.²⁰

This analysis also revealed much about the individual and demographic makeup of ECAP's membership. An online survey administered via Survey Monkey asked members to identify their reasons for originally joining The Energy Co-op. Of the approximately 1,400 members who responded, the top reasons, both economic and environmental, included saving money on and receiving a fair price for energy, and the desire to support a variety of local, renewable energy sources.²¹ Members were also asked to provide information regarding household and demographic characteristics and preferred means of communication. The diffuse geographic distribution of its membership coupled with minimal participation requirements makes it difficult for ECAP's

staff and directors to stay abreast of its member-owners' evolving interests and concerns. The 2012 analysis represents a significant effort by the cooperative to strategically manage its growth; it has been instrumental in identifying member-owners' interests to determine appropriate future directions for the organization.

Depending on the membership class, a single membership can cover a variety of situations, including: a single location using multiple kinds of energy services (i.e., heating oil and electricity), a single location with multiple occurrences of the same type of energy (i.e., multiple electricity accounts, multiple oil tanks), or multiple locations of the same or different type of energy services, provided that they are all of the same membership class designation and being managed by the same member. All members, regardless of class, must designate an individual to represent them in connection with all essential business, rights, duties, and responsibilities concerning their ECAP membership. Additional contacts may be listed for service-related needs, but only the designated representative is authorized to vote at membership meetings or to otherwise conduct business on behalf of the member.²²

Designated representative members can exercise their voting power at the annual membership meeting, weighing in on co-op policy, bylaw changes, and the election of board members.²³ Generally held in the fall, these meetings also serve as a venue to review organizational finances, present new information concerning ECAP programs and services, expose members to the staff and board of directors, and facilitate the interaction and familiarity of the wider member community. All types and classes of members are encouraged to attend, but only active members are eligible to vote.

Inability to attend the annual meeting, however, does not prevent designated representatives from voting on important co-op business; online and mail absentee ballots are available and widely used by ECAP members.²⁴ Two proposals, which included 10 bylaws changes and the reelection of 10 members to the board of directors, were presented at the 2011 annual meeting. Approximately 25% of ECAP active members submitted ballots on the various proposals; however, only 1% of the total ballots received were cast in person. The bulk of ballots received, almost 80%, were cast online with the remaining 20% submitted by mail.²⁵ While these figures indicate a seemingly low level of attendance and member participation in general, the

bulk of members responding to the 2012 Strategic Plan Member Analysis indicated a high level of satisfaction with their current level of engagement.

In addition to annual member meetings, member communication occurs through a variety of electronic (e.g., website, e-newsletters, e-mail reminders, online ballots) and print formats (e.g., mailed renewal reminders, mailed ballots, service change notices).²⁶ Through these communications, members are encouraged to communicate directly with staff members, whose contact information is made accessible on the co-op's website and other print materials. When asked which statement best reflected their views on The Energy Co-op's mix of print and online communications, slightly more than a third of the 2012 Strategic Plan Member Analysis survey respondents reported that The Energy Co-op should continue with its current mix of print and online communications. Almost half of the member respondents expressed the desire that The Energy Co-op should use online methods of communication (website, e-mail, etc.) primarily or exclusively and discontinue most, if not all, print materials.

Two staff positions, in particular, help maintain the accessible, transparent, and service-driven culture that has come to characterize The Energy Co-op. ECAP's manager of membership and administration primarily focuses on meeting the needs of the co-op's growing membership base, while ensuring that the organization's website and IT needs are compatible with an increasingly tech savvy membership. Similarly, ECAP's outreach associate engages current and potential members through the co-op's various social media sites and is the face of the organization at local events.²⁷

EXECUTIVE LEADERSHIP AND GOVERNANCE

Board of directors

Members are not required to do any work as a part of their membership, but participation in the democratic governance of the co-op as a member of ECAP's board of directors is an option open for members who wish to be directly involved with the business of the cooperative. Currently, the board of directors is comprised of ten volunteer board members with an array of backgrounds ranging from petroleum sales and distribution to non-profit development. Five of the ten joined in 2011, filling needs in legal finance, social media, and grassroots marketing management. Recruitment efforts by current board members and ECAP executive leadership seek to fill the remaining vacancy with an individual who has

expertise in cooperative governance. Members from all classes can self-nominate or nominate other individuals interested in serving.

At any time, the board consists of between five to eleven directors solicited from all classes of membership. While the ideal board is comprised of at least 50% active members, up to six at-large directors, who contribute necessary technical or professional expertise but are not necessarily cooperative members, may serve. Directors serve for two years and their terms are staggered to ensure a desirable mix of classes A, B, and C and at-large members. Directors' terms can be renewed by vote of the membership, as in the case of those board members reelected at the 2011 AMM, for a maximum of four consecutive terms. After serving the maximum consecutive terms, board members are required to rotate off the board for two years, after which they can be reelected for a new term of service.

Staff

In addition to the manager of membership and administration and outreach associate positions, The Energy Co-op's staff includes five other full-time positions: two co-directors, a marketing coordinator, and program managers for the electricity and biodiesel distribution programs. The co-director of operations manages The Energy Co-op's membership, marketing, and outreach departments, while providing executive leadership for responsibilities and opportunities at the organizational level, including the implementation of overarching strategic goals. This position previously oversaw the heating oil distribution program before those responsibilities were assumed by the co-director of programs in 2012. The co-director of programs also oversees ECAP's existing energy programs and is tasked with directing research and development of new energy programs. In addition to supervising the strategic direction of the cooperative's energy programs, this position manages and reports on the financial condition of the organization. Both co-directors report to the board of directors. The co-director of operations reports on the co-op's operational conditions, and the co-director of programs reports on the its financial condition. ECAP's electricity program manager is responsible for managing and growing the electricity program and identifying and obtaining the contracts for their primarily local energy sources. While the institution of a shared directorship is an unconventional management approach, it was a natural development and continues to be a logical choice for an organization that plans on expanding its already diverse portfolio of products and services. Both

co-directors joined The Energy Co-op as junior staff at approximately the same time. When the previous director left, the board of directors determined that the organization would benefit more from the shared expertise and mutual advancement of these individuals.²⁸

The Energy Co-op's biodiesel distribution program manager oversees the daily operations of the program by maintaining inventories of biodiesel and additives; ensuring quality control through regular and seasonal laboratory testing; arranging and processing deliveries; and reporting on grant deliverables. Under the capable executive leadership of its co-directors, ECAP has grown to become the largest heating oil cooperative in Southeast Pennsylvania, with over 5,000 members and one of the largest biodiesel distributors in Southeast Pennsylvania. While each staff member dons an official title with designated responsibilities, the culture is one of collaboration and shared responsibility. Collectively, they work to meet the demands of the co-op's growing membership while maintaining a competitive edge with its product offerings.

Governance

As dictated in ECAP's bylaws, the member-elected board of directors acts as the administrative and managing agent of the cooperative, overseeing its strategic direction. Due to the technical nature of the industry, services, and products, the cooperative's co-directors and staff largely determine decisions regarding the rates and availability of products and services as well as product development. The synergetic relationship between the board of directors and executive staff can be characterized as effectual and collaborative, successfully balancing profit goals with The Energy Co-op's mission and broader cooperative principles. The 2012 strategic planning effort undertaken by ECAP co-directors, staff and board of directors suggests that the governance approach adopted by the cooperative's executive leadership is consistent with what Ernst & Young refer to as "enlightened co-operative governance," focusing on improving member proximity, branding, and competitiveness.²⁹

Analysis

ECAP was founded in 1979 to provide cost-savings to its members on heating oil. Since that time, it has expanded its mission to the provision of energy cost-savings and advocacy, the promotion and efficient use of energy and renewable energy, and support for cooperative concepts and the cooperative movement.³⁰ The Energy Co-op's improved product offerings reflect efforts from its executive leadership and board of directors to stabilize ECAP's financial position and enhance the co-op's organizational capacity. In 2012 The Energy Co-op initiated a strategic planning process to evaluate the organization's overall impact on the region, and to identify opportunities for sustainable growth. Scholarship and practical guidance regarding the identification of strategic issues, strategic planning, and strategy implementation in nonprofit organizations are widely available; however, there is little empirical research that highlights the unique aspects of strategic management in cooperatives.³¹ Thus, with its best practices and distinct business structure, ECAP represents an exceptional example of how the intersection of cooperative values and innovative organization can impact strategy formulation and implementation.

Looking toward the future, participants in the strategic planning process (primarily The Energy Co-op's co-directors, its board of directors and staff members) compiled the following definition for organizational success: "By 2020, The Energy Co-op has 20% market share, sources 100% of its renewable energy from within the region, and reduces overall greenhouse gas emissions by more than 20% compared to conventional energy usage."³² Referred to as the Big Hairy Audacious Goal (BHAG), this long-range goal envisions ECAP as "a regional leader in providing innovative, locally sourced, renewable energy alternatives that improve the air quality and local economy" of Southeast Pennsylvania.³³ Achieving the BHAG will require The Energy Co-op leadership to transition away from the internally focused efforts of the past decade and adopt an externally oriented strategy focusing on marketing, coalition building, and brand development. Integral to the formulation and implementation of this vision of success are The Energy Co-op's organizational values, unique business structure, and universal cooperative principles.³⁴

STRATEGIC ISSUES: EXPANSION AND DIVERSIFICATION

Strategic issues in cooperative organizations are largely influenced by their profit distribution system and equity structure.³⁵ Profits to ECAP members, as in many other cooperatives, are distributed in proportion to use. Rather than receiving a direct return on their investment equity, members benefit through continued use, or patronage, of the cooperative. As a result, any changes in the cooperative's strategic direction, such as the expansion of ECAP's programs and services throughout the region of Southeast Pennsylvania, must take into account how to distribute patronage rebates to new members.³⁶ Because much of a cooperative's equity is created from retained profits, new users may receive benefits that are disproportional to their share of the equity investment. Existing members may be reluctant for the cooperative to use the equity created through their patronage to fund operations benefiting new users.

The continued diversification of its programs and services also represents a cooperative-specific strategic issue for ECAP. A 2011 strengths, weaknesses, opportunities, and threats (SWOT) analysis identified several organizational weaknesses and threats with regard to ECAP's position in the renewable energy market. These include the increased presence of mainstream energy companies selling green products, consumer preference for natural gas and the corresponding decline of the heating oil market, and the increasing volatility of the electricity market. In order to maintain a competitive edge, ECAP needs to capitalize on its track record of innovation, enhancing existing programs and developing new ones. As recognized in the 2012 strategic plan, the identification of such diversification opportunities, as well as their eventual implementation, necessitates the elevation of research and development activities to a position of primacy within ECAP's operations. Like the strategic move toward expansion, the impact that ECAP's commitment to diversification could have on the co-op's profit distribution system and equity structure needs to be considered. Investments in the research and development of its programs will undoubtedly yield unequal results, enhancing some of ECAP's programs at a faster rate or varying magnitude. Such uneven or irregular diversification could result in patronage rebates that are disproportionate to members' equity investment.

Conclusion

Consensus regarding the importance of mission and values in nonprofit strategic planning is well documented in academic research and is widely recognized by industry best practices as a beacon of the strategic planning process. The case of The Energy Cooperative Association of Pennsylvania, however, provides a unique perspective of how the identification of strategic issues and, subsequently, best practices consistent with cooperative principles, can be complicated and challenging. ECAP's innovative products and unconventional business structure pose specific challenges with regard to the cooperative's profit distribution system and equity structure. Moving forward, in their attempt to realize the BHAG, ECAP executive leadership, board of directors, staff, and members will have to take care to balance the influences of the co-op's progressive business structure, organizational values, and universal cooperative principles.

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chapter 19



Making Financing Fun and Engaging: Summit Credit Union

Amy M. Gannon and Denis Collins

Introduction

Summit Credit Union (Summit), headquartered in Madison, Wisconsin, is a nonprofit cooperative that provides affordable financial services to individuals and businesses. Wholly owned, operated, and governed by its members, Summit offers a full spectrum of financial services, including savings, checking and money market accounts, CDs, IRAs, other investment options, mortgages, and business lending programs.

In 2011, Summit was the second largest of Wisconsin's 206 credit unions with 25 locations, 329 full-time employees, 122,074 members, \$1.7 billion in assets, and \$17 million in annual income.¹ Summit's total assets place it among the top 100 credit unions in the United States.² It is also the largest mortgage lender in Dane County, where the state's capital, Madison, is located. Over the past two decades, Summit has experienced tremendous growth through a series of mergers and yearly organic growth averaging in the double digits.

Credit unions were originally founded as a "people helping people" model of banking. As Summit continues to grow, it is finding innovative ways to uphold this founding principle, capitalizing on the benefits of its size. In recent years, Summit has begun to leverage technology and social media to foster member engagement and facilitate community outreach initiatives. CEO Kim Spone explains, "We want to have a different feel, look and personality. We want to make finance fun and engaging so people want to be a part of Summit."³

Historical overview

To understand Summit's history, one must understand the history of the Credit Union National Association (CUNA) Credit Union and the credit union movement. Summit was originally chartered in 1935 as CUNA Credit Union in Madison, Wisconsin. Its mission was to serve the credit union industry and ensure that everyone had access to a credit union.⁴



Credit unions were initiated in Germany during the 1850s to provide access to low-rate loans for people who had difficulty obtaining credit from traditional lenders.⁵ They began as small financial institutions, referred to as the "people's banks," pooling deposits from tradesmen, small business owners, and artisans, and, in turn, making the funds available to members as loans. Credit unions were able to provide their members with access to low-rate loans because members were essentially lending money to one another. Lending risks were reduced because members tended to know each other and held one another accountable.

In the early 1900s, Edward Filene, owner of Filene's Department Store in Boston, pioneered the credit union movement in the United States. Filene had a strong humanitarian interest in his employees' well-being. He offered them profit sharing, a living wage, health benefits, paid vacations, and collective bargaining. Filene established the Filene Employees Credit Union to provide employees access to affordable loans. Previously, employees were routinely denied credit by banks and had to rely on costly loan sharks.

In the midst of the Great Depression, the Federal Credit Union Act of 1934 granted credit unions legal status and created industry regulations. Unlike banks, they were exempt from state and federal taxes due to their nonprofit status. Soon thereafter, CUNA, a national federation of credit unions, was established in Madison,

Wisconsin, and soon became the hub of the credit union movement. In 1935, the CUNA Credit Union was formed to serve CUNA employees, affiliated credit union leagues, and people in the local community who did not have a credit union. During this period of national economic collapse, CUNA Credit Union made loans available to low and moderate income individuals and small businesses.

In these early years, credit unions were very small, usually run by volunteers, and grew slowly. In 1965, 30 years after its founding, CUNA Credit Union had just \$7 million in assets; though still largely run by volunteers, it had a few paid employees, including its first general manager.

In the 1980s, the credit union industry was deregulated, generating significant industry growth and consolidation. As a result of several mergers with small credit unions, by 1990 CUNA Credit Union operated in three locations and had grown to \$60 million in assets and 16,438 members. In 2002, without any additional mergers, its assets grew to \$214 million.

Current CEO Sponem assumed leadership in 2002 and, over the next decade, assets more than quadrupled. In 2005, CUNA Credit Union changed its name to Great Wisconsin Credit Union, primarily in response to name confusion with several CUNA entities in the marketplace. In 2008, Great Wisconsin Credit Union merged with Summit Credit Union, making it Wisconsin's largest credit union, and changed its name to Summit Credit Union to position it for future growth beyond Wisconsin.⁶

Summit continues to experience significant growth and financial progress. In 2011, Summit had 25 branch locations, 329 full-time employees, and assets totaling more than \$1.7 billion. It has 17 branches in the Madison area, four in the Milwaukee area, and four in other Wisconsin communities. Summit plans to continue expansion in southern Wisconsin with a focus on the Milwaukee area, and expansion beyond Wisconsin remains a possibility.

In 2011, Summit earned \$95 million in revenue, with \$17.7 million in net income after expenses.⁷ Annual total assets grew 10% (or \$154 million), member savings increased by \$131 million, and loans grew 10% (or \$106 million).

Callahan and Associates, a credit union research organization, ranked Summit 13th nationally among peer credit unions in providing overall "return to the member."⁸ Nearly 93% of Summit's members rated the credit union's services as "good" or "excellent." A CUNA study determined that, during 2011, Summit provided \$13.1 million in direct financial benefits to members when compared to using the same services at Wisconsin's for-profit financial institutions. Members saved \$1.9 million in interest and fees on mortgages, with the average member household saving \$207, and high-end users saving an average of \$656.⁹

Contemporary structure and functions

As noted, Summit is a nonprofit cooperative that is owned, operated, and governed by its members; its customers are its shareholders. The credit union's products and services are available only to members. All that's needed to become a member is a \$5 savings account. The average age of Summit's 122,074 members is 38.

Summit's executive management team consists of the CEO/president (Sponem), chief lending officer, chief financial officer, senior vice president of human resources and organizational development, senior vice president of operations, and senior vice president of marketing. It is governed by a nine-member, volunteer (unpaid) board of directors, all of whom must have been Summit members for at least one year. There are no outside (non-member) board members. Credit union members elect the board. Each member, regardless of deposit size, gets one vote. The board elects its officers, which include a chair, vice chair, secretary, and treasurer.¹⁰ The entire board meets monthly and is responsible for strategic planning, approving policies and budgets, and overseeing risk management reports, audits, and regulatory compliance. Members may serve on advisory committees and participate in focus groups.

Three of the nine board seats come up for election each year, rotating every year. A call for board candidates is announced in Summit newsletters, on its website, and posted at all branches. The board nominations and elections committee reviews the submitted applications. A maximum of six candidates can be placed on the ballot, unless those not chosen to run by the committee obtain 200 signatures from members. Members vote for board candidates online or by paper ballot prior to the annual meeting, when the election results are announced. Although all members can vote, typically fewer than 2% actually cast ballots.

Summit's co-op status and all-member board allow it to focus attention on the best interest of its members. Summit does not pay dividends to outside stockholders and is not beholden to external investor demands. Profits are reinvested in the organization to serve members. This means Summit can use earnings to offer lower rates on loans, higher rates on deposits, and lower fees than traditional for-profit banks. For instance, in December 2012, Summit's four-year new car loan rate was 2.99% with no fees,¹¹ while the same car loan at Associated Bank, a competitor, had a 5.2% rate.¹² Similarly, Summit offered a 3.25% rate for 30-year fixed mortgages, compared to a 3.5% rate from Associated Bank.

Analysis

Summit has grown from an influential, yet relatively small, credit union to being one of the largest credit unions in Wisconsin's competitive marketplace. The International Cooperative Alliance has adopted seven core principles for cooperatives, and Summit embodies all seven. This section examines Summit's performance regarding three of these principles— democratic member control, cooperation among cooperatives, and concern for community—along with a brief discussion about its latest marketing and promotion efforts.

DEMOCRATIC MEMBER CONTROL

Summit is a \$2 billion credit union operating in a highly regulated and highly competitive industry. As a result, substantial decision-making authority is entrusted to the board of directors and the executive management team to maintain sound financial standing and the financial well-being of its members. While many of Summit's members join because of the low loan rates rather than a deep desire to participate in a democratically governed organization, they do have a voice in decisions by electing board members to represent their interests. In the spirit of transparency, members have full access to Summit's monthly financial statements and annual external audits. Members are continually invited to share their opinions through newsletter items, website links, and opportunities at branches.

The annual membership meetings are a prime venue for direct engagement with Summit's executive team and board members. Yet, just 250 members, representing less than 1% of total membership, attended the 2012 meeting. In 2013, the annual membership meeting was held on Earth Day, and a family tie-in event increased attendance to 325 members. To foster higher levels of

engagement, a video of the event was made available on Summit's website and received several thousand views.¹³

COOPERATION AMONG COOPERATIVES

Summit actively promotes the use of cooperatives, and many cooperatives use Summit's services. In 2011, Summit helped organize the first annual Cooperative Connection, an event at Madison's Monona Terrace Convention Center that brings together more than 30 area cooperatives. The event provides them with an opportunity to exchange ideas while educating the public about cooperatives.

CONCERN FOR COMMUNITY

Summit's numerous philanthropic endeavors include supporting community development initiatives, providing free financial education seminars in schools and community centers, awarding scholarships, partnering with charitable organizations, and allowing employees to use eight hours of paid time to volunteer each year.¹⁴ In 2011, employees donated 2,109 volunteer hours to local organizations.¹⁵ Summit also coordinated a teen volunteer day which included sorting 15,063 meals for Second Harvest Food Bank.

The Do More Team is a Summit innovation wherein employees host special, and often impromptu, events and activities throughout the community.¹⁶ Events have included employees serving pizza to college students on moving day, helping people shovel on a snow day, and biking through a community to hand out popsicles on a hot summer day.

Summit encourages members to think about how they can help others through its Pay It Forward project.¹⁷ Summit asks, "If we gave you \$10, what would you do for someone else?" Members submit ideas, are given \$10 to implement the idea, and then submit posts about their experiences doing so on the website. As of spring 2012, Summit had distributed more than \$20,000 through this project.

Summit is in a unique situation to serve the community through its regular business activities. Summit partnered with Green Madison and Me2 and Shine in Milwaukee to help citizens finance energy efficiency in their homes.¹⁸ By the end of 2011, Summit had closed on 53 loans and disbursed \$496,648 to support energy efficiency.

Similarly, Summit has reached out to low-income communities through its Community Home Loan Program. Summit has allocated \$23 million to the program, which provides an opportunity to own a home to people whose income is 75% or less of the HUD median income, and who have higher than usual debt-to-income ratios.¹⁹

Helping young people develop healthy and responsible financial patterns to benefit them throughout their lives is of great importance to Summit. It's created and underwrites related costs for Saving to Achieve Results (STAR) Credit Union, the only youth-chartered credit union in the world.²⁰ STAR is housed in the Boys & Girls Club of Dane County, which is located in a neighborhood dominated by check-cashing and payday loan stores. More than 450 youth ages 7–18 have opened savings accounts. STAR promotes financial literacy and responsibility by providing Boys & Girls Club members and staff with financial services and the opportunity to develop business skills by managing the credit union. STAR has its own charter; it is not a branch of Summit.

In addition, Summit opened a branch office, which has 150 student members, in LaFollette High School in Madison in 2011 and a second school-based branch office in Memorial High School in 2013.²¹ As with STAR, the emphasis is on teaching students responsible money management. These high school credit unions cost approximately \$20,000 each to operate.

Sponem, a Madison native, is very active in the community. She serves on several boards, including the board of United Way, where she chairs its marketing committee; the University of Wisconsin–Madison School of Human Ecology's board of visitors, and the Edgewood College board of trustees. She is president of TEMPO Madison, a peer-to-peer organization that connects women leaders with diverse backgrounds and experience. She's also actively participates in the credit union movement, serving on the board of the Corporate Central Credit Union and as a member of the Filene Research Council and the Credit Union Executives Society.

MARKETING AND PROMOTION STRATEGIES

Credit union leaders have long maintained that the general public lacks awareness about how credit unions differ from banks. Awareness improved modestly recently due to publicity surrounding banking practices associated with the 2007–2010 global financial crises. In 2011, an internet-spurred movement, Bank Transfer Day, stimulated consumers to shift their business from large, transnational banks to smaller, local banks and credit unions.²² Some financial pundits and celebrities have begun promoting credit unions as good options for consumers.

Summit has successfully implemented a differentiation strategy based on high-quality service within the banking and credit union industries. It is now creating a niche as a “fun” place to do business by fostering a culture and atmosphere that is welcoming and entertaining. Summit branch offices are designed to be comfortable, spacious, and surrounded by bright primary colors. Branch employees are encouraged to develop surprises for members and to find silly ways to celebrate meaningful moments, such as closing on a house or paying off a mortgage.

Additionally, employees come up with fun ways to recognize important days. On National Women's Day, for example, Summit employees gave flowers to female customers, and to male customers to give to their female significant others. On April 15, in honor of income tax day, members were given massages and Roloids. According to CEO Sponem, “We want people to feel as though they are missing out on a fun experience if not a member.”

Summit is leveraging technology and social media to promote its brand and engage members, with a focus on engaging women and young adults. Strategies include a revamped website and Project Money. In 2009, Summit relaunched its website as a social networking site, creating a member community online. Members can create a My Summit page with a personalized profile. They can also create groups, share ideas, and learn from others.

Summit created Project Money in 2009 based on the popularity of reality TV programs. Four participants are selected to compete for a \$10,000 grand prize; the three runners-up win \$2,500 each.²³ Over a seven-month period, participants work to increase their savings and reduce their debt, with Summit employees serving as coaches. The entire experience is shared through various social media tools, allowing Summit members to

share in the journey and learn from it. Some participants credit the experience with saving their marriages, which had been torn apart by financial disagreements and worries. The contest changes how people talk about money and increases their willingness and ability to take control of their financial health. In 2011, the Project Money teams increased savings and reduced debt by \$33,239. Over three years, the 12 participating households improved their overall net worth by \$154,383.

Conclusion

Summit's future looks bright, despite challenges associated with consumer awareness of credit union benefits and competition with for-profit banks. It started as a small credit union, servicing the credit union infrastructure—both the CUNA and credit union leagues across the country. It remained relatively small until industry deregulation in the 1980s triggered growth. Over the last 30 years, Summit has become one of the largest credit unions in Wisconsin through a series of mergers and by focusing on exceptional service to its members. It now has more than 122,074 members and \$1.7 billion in assets.

Recent trends, including technological advancements and the rise in merchant-offered financial services, are affecting the relationship between individuals and their banking institutions. Summit is responding to these trends by actively reframing that relationship. Through a series of internal and external initiatives, Summit is creating a culture of fun while helping members develop financial plans and holding them accountable. They are targeting women and young people, and promoting the notion that managing finances can be an interesting, exciting, and entertaining process in which Summit can be a partner.

Summit is also finding new and innovative ways to apply its founding principle of people helping people. According to Sponem, "One of the greatest benefits of being a credit union is the opportunity to share information and collaborate in ways that for-profit banks cannot and will not, to provide better value to members."²⁴

Lastly, Summit continues to promote the credit union movement. It does not try to compete with other credit unions, but focuses on taking market share away from for-profit financial institutions. As Sponem indicates, "Strengthening the credit union movement strengthens Summit."

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TruMark Financial Credit Union: A Case Study

Daniel Dougherty

Introduction

Similar to other cooperatives, credit unions share the attributes of democratic control, open membership (within particular affinity groups or geographic areas), return of profits to members, and education of members about services and operations of the credit unions. However, credit unions are a distinct form of consumer cooperatives in that membership, as a form of a common bond that is critical to the nature of cooperatives, varies across employment, associational, or geographic areas.¹

TruMark Financial is a state-chartered credit union that has over 96,000 members and operates in southeastern Pennsylvania. It is headquartered in Trevose, Pennsylvania, a suburb of Philadelphia in Montgomery County, and it operates 14 branches across four counties including four branches in Philadelphia and the remaining branches in Montgomery, Bucks, and Delaware Counties.

According to TruMark's website, the mission of the credit union is "to help members reach their financial well-being" based on its core values of integrity, service, and soundness. TruMark's goal is to provide comprehensive financial services to its members and to be "the first place our members turn for all their financial needs."

The National Credit Union Administration points out that credit unions are similar to banks in the types of financial services they provide; they differ significantly because they are member-owned nonprofit organizations that function to provide financial services in safe and affordable ways, while encouraging thrift and returning profits to their members.² Therefore, the scope and scale of membership is critical to a credit union's function and purpose.

TruMark's original inception as an employer-based credit union expanded along with its role in the region. After 2005, with the change in membership from an employer-based to a community charter credit

TruMark's goal is to provide comprehensive financial services to its members and to be "the first place our members turn for all their financial needs."

union, TruMark served more of the southeastern Pennsylvania region. The growth of TruMark Financial reflects the same shifts that have transformed major American cities in the twentieth century. The credit union was founded as a response to the economic insecurity of the Great Depression. It was initially located in Philadelphia neighborhoods, but it moved from the inner city to newer, post-war neighborhoods and ultimately into the Philadelphia suburbs. By the start of the twenty-first century, TruMark's story became the story of the

movement of people and capital within the Philadelphia region for more than 50 years.

Historical overview

Founded in 1939 by employees of Bell Telephone of Pennsylvania, TruMark Financial was known as Philadelphia Telco Credit Union until 2003. Originally located in a founding member's apartment in West Philadelphia, it moved to Eleventh and Indiana Streets in eastern North Philadelphia in 1941. At the time of its creation, the credit union's goal was to pull its money together to support thrift.

From 1941 to 1960 Philadelphia Telco operated at the Eleventh and Indiana Streets location. In 1960, the credit union moved to the 7800 block of Castor Avenue in Northeast Philadelphia where it operated until 1991 when it moved to its current location in Trevose. This move to northeast Philadelphia and then to the suburbs represented the credit union's strategic decision to follow the population to more recently developed parts of the city and region. In 1988 Philadelphia Telco opened a branch in Center City, Philadelphia at Eighteenth and JFK Boulevard. From 1991 to 2010 Philadelphia Telco/TruMark opened 12 new branches in southeastern Pennsylvania, but only two of those were in Philadelphia: eastern North Philadelphia and South Philadelphia in 2009.

Contemporary structure and functions

TruMark is governed by a nine-member board of directors and a three-person supervisory committee. According to the credit union, members of the board and the committee are elected by the general membership and are responsible for protecting members' funds and interests while ensuring the effectiveness of the credit union's internal control structure.

Anyone within TruMark's geographic area of southeastern Pennsylvania can become a member with a minimum deposit into a regular savings account. Upon becoming a member, individuals receive one share of TruMark Financial that must be maintained in order to remain a member. All members hold equal membership shares in the credit union. Membership provides individuals with access to all of the financial services of the credit union at no or low cost. All members also can participate in deciding the board leadership of the credit union.³

An important change happened to TruMark in 2005, when the credit union was granted a community charter by the National Credit Union Association (NCUA), an independent federal agency responsible for supervising federal credit unions. This meant a change in membership to include anyone who lives, works, worships, volunteers, or attends school in the southeastern Pennsylvania counties of Bucks, Chester, Delaware, Montgomery, and Philadelphia. Credit unions, like TruMark, tend to pursue community charters with the goal of increasing membership in size beyond the often restrictive or limited employer-based charter.⁴ However, no noticeable increase in membership took place for TruMark after the field of membership expanded in 2005. The first significant change in membership took place in the first quarter of 2008 with a nearly 10% increase from the past several years. In the first quarter of 2009, TruMark reached 93,000 members, and since 2010, membership has been steadily increasing.⁵

TruMark's experience in transitioning to a community charter is not unusual, as compared to the trend in charter change for credit unions across the United States. In the last decade, an increasing number of credit unions changed from an employer-based to a community charter as companies and industries changed, and with it the membership landscape. Moving to a community charter typically presents more potential for increased membership, by way of a larger potential base, but also presents challenges. Three challenges, in particular, face credit unions transitioning to a commu-

nity charter: "First, consumers must be educated about what a credit union is, second, they need to have a compelling reason to join the credit union over another financial institution. And third, they need to be made aware they are eligible to join."⁶

As of December 2011, TruMark Financial had 96,134 members and assets just under \$1.4 billion. In terms of combined membership level and assets, TruMark is the third largest credit union in the Philadelphia region, fifth largest in state, and just shy of being among the 100 largest credit unions in the country.⁷ As a financial cooperative, TruMark derives its financing from member deposits. It has 242 full-time employees and 45 part-time employees supporting 14 branches along with a variety of virtual banking services.

ACCORDING TO A TRUMARK PRESS RELEASE:

After allowing for reserves and operating expenses, TruMark Financial is able to pay its members higher rates on deposit accounts, lower rates on loans, and fewer fees, and, at the same time, reinvest its earnings to develop new products and services. All deposit accounts are insured for at least \$250,000 by the National Credit Union Share Insurance Fund of the National Credit Union Administration, a U.S. government agency.⁸

This deposit insurance is required by the NCUA and is applied to all credit union members regulated by the federal government.

Also, similar to other credit unions and types of financial institutions, TruMark provides members with savings, checking, loans, business accounts, insurance, and investments services. They provide more than 20 types of services from the more usual services (savings and checking accounts) to innovative services such as financial literacy workshops, in-school branches, and international remittances. TruMark provides competitive rates for its members in the form of loans and return on deposits and investments. In the quarter ending March 2012, interest rates for TruMark members were better than both the national averages for credit unions and banks on loans. For example, on a 48-month loan for new vehicles, TruMark offered an interest rate of 2.44% compared to a national average of 3.26% for credit unions and 4.90% for banks. Additionally, TruMark paid more to members on interest in savings and money market accounts, but slightly below the average of other credit unions and banks on checking accounts.⁹

Analysis

As alluded to earlier, the role of credit unions, similar to other cooperative associations, is to provide democratic ownership with a focus on benefits for members as opposed to outside investors. Of the seven Rochdale Principles that have set the basis for the cooperative movement, TruMark Financial is strongest in supporting the principle of member economic participation and weakest in the principle of democratic member control.

Arguably, TruMark is a more responsive financial institution than traditional banking institutions because, as a relatively large, member-owned nonprofit, it has the capacity to provide innovative services. By operating as a not-for-profit economic cooperative, TruMark is able to return revenue to its members through higher deposit rates and lower rates on loans, rather than to generate a return to outside investors, as banks operate.

As far as innovation in its operation, compared with other credit unions and some smaller banks, TruMark provides increased access in hours of operation (including weekend hours), virtual banking services, and enhanced home banking products. As far as the principle of “cooperation among cooperatives” goes, TruMark is a member of the Montgomery County Chapter of Credit Unions and participates in Shared Branching, a national and international network of credit unions that allows members of credit unions to use branches within the network to conduct basic teller transactions. The Shared Branching network has more than 4,000 partner locations nationwide.

TruMark provides opportunities for democratic member control through the election of certain leadership positions. Member participation in TruMark takes place through election of board members and supervisory committee members. TruMark’s bylaws provide that directors or members of the supervisory committee can be nominated from the general membership through member petitions containing at least 500 signatures that are submitted to the secretary of the board. If positions are contested, members can vote by a mail-in ballot, and the results are announced at the organization’s annual meeting. If an election is uncontested, nominees are elected by acclamation at TruMark’s annual meeting. Positions for both the board of directors and the supervisory committee serve staggered, three-year terms. It is difficult to say whether this provides more or less democratic control.

The biggest obstacle reported by TruMark is a general misunderstanding of credit unions by the public. People tend to think they are “worker unions” or that they need to belong to a particular employer or industry in order to be a member. In TruMark’s case they have instituted several public relations campaigns, both to educate their membership and to attract new members throughout the southeastern Pennsylvania region. Secondly, executives in TruMark report that the power of banks (e.g., large size, more resources) place credit unions at a disadvantage in terms of marketing, building the membership base, and overall influence in the region. Also, there is a reported general resentment from banks because TruMark is a not-for-profit entity and the perception is that credit unions are advantaged because they do not have to pay taxes.¹⁰

In addition to providing services across communities of southeastern Pennsylvania, TruMark supports community initiatives and community-building programs in Philadelphia. In 2009, TruMark partnered with Asociacion Puertorriquenos en Marcha (APM), a community development, housing, and human services organization in North Philadelphia to establish a branch at Fifth and Berks Streets in eastern North Philadelphia, a heavily Latino section of Philadelphia. It was the first time the neighborhood had a financial institution in 50 years. More than simply locating to the neighborhood, TruMark did market research and began an education campaign with APM for the benefit of community members. Given the history of predatory lending and distrust of financial institutions, TruMark wanted to make sure they responded to community concerns.¹¹ In addition, the branch hired bilingual and bicultural staff to accommodate its Spanish-speaking members. Also, in the same eastern North Philadelphia neighborhood, TruMark supports programs with organizations such as Norris Square Civic Association, and co-sponsors the neighborhood’s annual Sugar Cane Festival.¹²

Conclusion

The case of TruMark represents a combination of two trends: the rise of credit unions as a form of mutual self-help going back to the early twentieth century combined with decisions by Philadelphia Telco/TruMark Financial to follow people and capital out of the city and then to reinvest in it. TruMark’s original inception as an employer-based credit union expanded along with its role in the region. After 2005, with the change in the definition of membership allowing it to expand to serve the southeastern Pennsylvania region, the growth of

TruMark Financial reflects the same shift that has transformed major American cities in the twentieth century. Similarly, TruMark's reemergence into the Philadelphia financial market in 2009 with new branches in South Philadelphia and eastern North Philadelphia represents a new kind of investment that recognizes the opportunities for growth that cities provide.

As an economic cooperative, TruMark has continued to grow to the benefit of its expanding customer base. Innovative services have been developed over the past decade and interest and loan rates remain low relative to other financial institutions such as banks. Considering cooperative principles, TruMark seems to do very well in several areas including membership, economic participation, education, cooperation among cooperatives, and concern for communities. Given TruMark's size and the limited opportunities for democratic participation, it's less clear how well they support and implement democratic member control.

An interesting area for future research on economic cooperatives is whether the size of membership has much to do with the quality of democratic participation (as measured by frequency and duration of participation by members). TruMark has played a strategic role for the credit union movement in Philadelphia by subsuming smaller credit unions that ran into financial failure, and thus supporting credit union members and extending their own membership base. But what deserves attention is whether going from a smaller to a larger credit union, such as TruMark, or joining a large credit union in the first place, makes a substantial difference in the ownership and operation of the cooperative.

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