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Book 1: How It Works; Together For a Change: A Series on Food Cooperatives

Michigan State University

Cooperative Extension Service

Ron Cotterill, MSU Department of Agricultural Economics

Elizabeth Scott, MSU Department of Agricultural Economics

Jeanne Wasserman, MSU student intern

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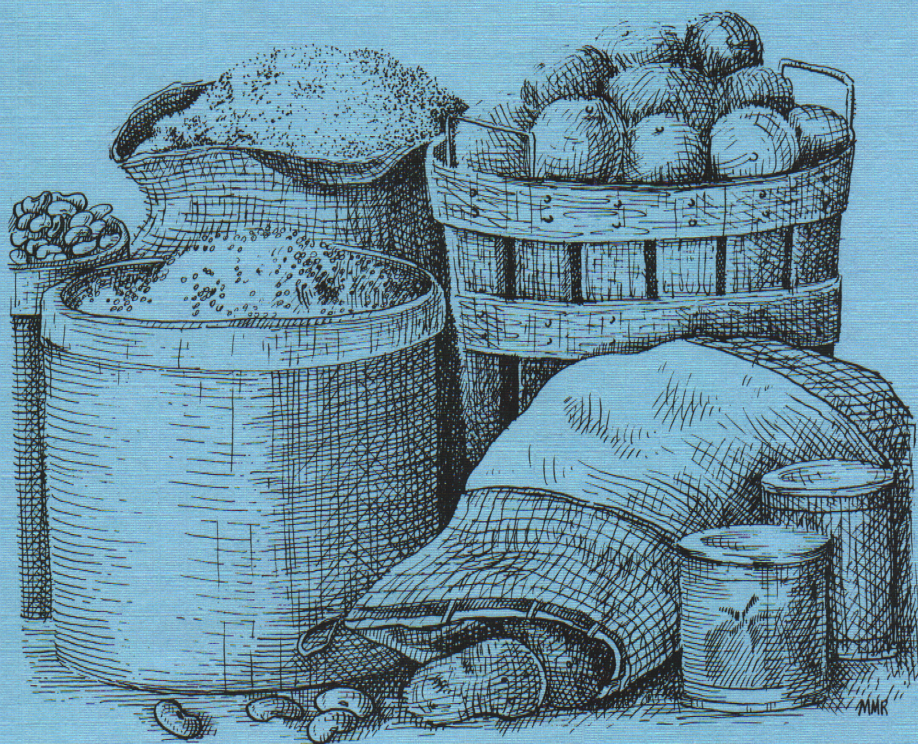
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Book 1: HOW IT WORKS

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Together For a Change

A Series on Food Cooperatives



I: How It Works



BY RON COTTERILL¹, ELIZABETH SCOTT² and JEANNE WASSERMAN²

Why Join or Start a Food Cooperative?

CONSUMERS GET INVOLVED in food cooperatives for a variety of reasons. Some are interested in saving money on their food purchases. Most, but not all, cooperatives do save consumers money. Others become active in co-ops because they want to buy foods not offered by nearby grocery stores. Some co-ops, for example, make a special effort to provide very fresh, top-quality produce at reasonable prices. Others choose to maximize savings by purchasing odd-sized and lower-grade produce that may not look pretty but is as nutritious as higher-priced, smaller-packaged items offered in regular grocery stores. Still other co-ops choose to carry foods that are less processed than many widely marketed products or foods grown without pesticides or fertilizers. Basically, a co-op carries what its members want it to carry.

There are also other reasons for participating in food cooperatives. Many find that a co-op gives them a worthwhile reason to get together with their neighbors. They enjoy the opportunity to meet people and develop community spirit. Co-ops also give individuals the opportunity to develop leadership and business skills. The result may be a new career!

Briefly then, if you are interested in saving money on food, enjoy working with others and can honor the extra effort that cooperatives often require, you may benefit from joining or forming a food

¹ MSU Dept. of Agricultural Economics

² MSU student intern

cooperative. On the other hand, many persons find cooperatives are not well suited to their work schedule or life style. By looking at the principles they are based on and the different kinds of food cooperatives, you will be better able to decide how joining a food cooperative may benefit you.

Rochdale Principles

Most successful cooperatives around the world today—including farm cooperatives, credit unions and mutual insurance companies as well as food cooperatives—are based on the Rochdale principles. These principles of organization were used first in 1844 by a group of English weavers who organized a food cooperative. Unlike pre-Rochdale groups, their cooperative grew quickly and easily. It also managed to prosper for a long time. So modern cooperatives have followed in the footsteps of the Rochdale pioneers. By looking at the principles, we can learn a lot about cooperatives. They are listed below.

The Rochdale principles are:

1. open membership
2. one member, one vote
3. limited rate of return on invested money
4. profits rebated to members in proportion to amounts purchased
5. education of members
6. cooperation among cooperatives

Open membership means co-ops do not discriminate on the basis of race, religion, sex, political beliefs, or social status. This means the co-op is open to anyone who is willing to abide by its rules and take a share of responsibility for operation. It is perfectly acceptable (and often desirable) to limit the number of members allowed to keep business volume at safely manageable levels. Many cooperatives have been destroyed by rapid, unplanned expansion.

One member-one vote firmly establishes cooperatives as democratically controlled businesses. Votes are not based upon how much one invests. Members should not obstruct managers who are carrying out their delegated tasks. Just the same, they should be careful that a select few do not take over and run things. Even if the leadership does a good job, who will replace them when they retire or leave the co-op?

A limited rate of return on invested money removes the profit motive for investing in a cooperative. Members invest money not to make profits, but to provide capital for their business—a business which in turn provides them with goods and services.

Profits returned to members is central to the cooperative type of business. Surpluses are savings, for consumers. They are returned to

members as a refund at the end of each year. Many small neighborhood food co-ops have tight control over income and expenses and can set prices to cover costs and break even every week or month. You might consider this an instant refund. Larger co-ops need to price more conservatively. If all goes well, they give members-users a patronage refund at the end of the year.

Education is often forgotten and easily ignored. When a co-op is formed, a great deal of learning goes on. After things finally get off the ground, members often settle into a pattern of just running the co-op. It is easy to forget that new members don't have the benefits of all the trial and error that the founding members had. When there is a large turnover of membership (which happens eventually) the co-op may be comprised of persons who know nothing about why the co-op operates as it does. They may make some good changes, but they also may inadvertently make changes that are harmful to the co-op.

Cooperation among cooperatives is the final principle. In the long run, co-ops cannot survive unless they develop a system of common support for each other's activities. This is especially true for consumer food cooperatives. They need to pool their purchasing power to buy food in volume, and enjoy the advantages of their own warehousing. A wholesale organization that is owned by several food cooperatives can also provide member cooperatives with management advice, education materials, store development assistance, and financing. These are very important for the survival and success of retail co-ops.

Types of Food Cooperatives

All types of co-ops are based on the Rochdale principles, but as businesses (that is, how they buy and sell) they differ. Each offers a different combination of goods and services. As a result, each has advantages and disadvantages and probably no one type would satisfy the needs of all families. There are two basic types: one is the preorder; the other is the retail store. Small stores are retail outlets with annual sales below one million dollars; supermarkets have more than one million dollars annual sales. Determining which is best for you depends on a number of factors such as your location, family size, buying and eating habits, the amount of time you have to contribute and the savings you want.

Preorder Cooperatives

Preorders rely almost completely upon volunteer work by members who share coordinating the group activity and the handling of the food. Working in a preorder food cooperative involves ordering food in advance of delivery, putting together household orders into a group order,

purchasing ordered items, transporting them to a distribution point or unloading them from a delivery truck, breaking them down into household orders, collecting payment and keeping basic financial records. Preorders usually distribute food on a regular weekly or monthly basis; member households spend, on the average, between one and four hours per month doing their part to run the co-op.

Two of the most popular ordering systems for preorders are the **bag method** and the **itemized list** method. In the bag method, each household puts in a prearranged amount of money for a bag of groceries. Buyers decide what will go in the bag considering what is the most and best food they can purchase for the group's money. This may work well for groups with similar eating habits but could be a problem for those with strong likes and dislikes. A way to help this method run smoothly is to have the group decide ahead of time what the general content of the bag will be, for example, 1/3 protein, 1/3 fruits and vegetables, and 1/3 staples. To deal with disliked items, many groups set up a surplus table on distribution day. Members can sell items they don't want and possibly buy items not desired by others. Experience shows that surplus tables work surprisingly well with little or no waste.

In the itemized list method each member fills out an order form, checking the specific items and quantities desired. This may also be done at an ordering meeting so, if the total order on any item doesn't equal the unit amount required, an adjustment may be made. Order forms include a price for each item usually determined by the latest prices quoted by wholesalers. When all the orders have been placed and all the money collected, a tabulator combines all the individual orders into a master shopping list and makes sure the total money received equals the total food prices. After the food is delivered, the co-op may make adjustments on the amount its members owe due to any price changes from the wholesaler.

Small Store Cooperatives

Enthusiasm for preorder cooperatives during recent years has not detracted from small cooperative stores in many communities. They are open for business during designated times, and their prices are closer to those of private retailers because they provide similar services.

The options available to a consumer are usually more varied than those in a preorder cooperative or regular retail store. Some small store cooperatives use a **single price method**; that is, all customers pay the same price for an item. But many cooperatives have a **volunteer discount option**, and prices depend upon how much one participates in the cooperative. Members may volunteer time on a weekly or monthly basis

in return for a percent discount on prices. A volunteer for example, may help at the co-op three hours a month in return for a ten percent price discount.

Consumers who volunteer as workers in store operations are not necessarily more cooperative, nor are they always receiving more benefits because they enjoy a price discount. After all, they must account for the increased time spent at the co-op. Some customers will find the discount for participation attractive, others will prefer the convenience of shopping at regular prices.

There are three advantages of a discount for volunteer work: 1) it increases consumer choice, 2) it builds consumer interest and knowledge of cooperative operations, and 3) when properly managed, it can lower operating expenses and allow the co-op to be more competitive in the market place. Volunteer discount systems are most common in stores that are getting started or have less than one half million dollars in annual sales.

Another pricing strategy that some co-op stores use is the **direct charge system**. Members of a direct charge cooperative agree to pay a monthly fee (direct charge). Membership is usually for a 12-month period, and members pay the fee whether they shop in the co-op or not. Direct charges build in an incentive for members to shop regularly and buy as much as they can from the co-op. This keeps sales volume up and costs per unit down so everyone saves more.

The last pricing option, a **surcharge-deposit**, is primarily for investment. If patrons do not pay a deposit, they must pay a nonrefundable surcharge. Deposits are usually monthly installments, refundable and noninterest bearing.

The reason for the surcharge-deposit system is that it can be used by the co-op to purchase or rent equipment, and to build inventory. These assets produce services from which consumers benefit while using the co-op. When a person leaves the co-op, the deposit is refunded.

The surcharge-deposit system is particularly useful for a co-op serving individuals who are unfamiliar with investment securities. A cooperative could raise capital by selling shares of stock, bonds, or interest bearing certificates. But these are often not familiar to many persons, and the return is not as immediate and obvious as it is under a surcharge-deposit system. When members make deposits, they immediately receive lower prices.

Supermarket Cooperatives

Consumer cooperators can also establish and operate supermarkets. A supermarket sells more than \$1 million annually and offers a broader

selection than smaller stores, including grocery, produce, dairy, and fresh meat products. Average-sized conventional supermarkets easily sell more than \$3 million annually, and super stores (units with more than 25,000 square feet) often sell between \$10 and \$15 million of food and nonfood items annually.

Supermarkets are the aircraft carriers of the retail store fleet. They have substantial sales potential, and they must in fact operate at a high sales volume to be cost efficient. Supermarkets also require complex management skills, and closely coordinated warehousing services. One should not expect that volunteer workers and small store managers have the skills to operate a co-op supermarket. More than size is at issue here. Supermarkets require very different managerial, financial control, member relations, marketing efforts, and wholesale support systems.

In the marketing arena, cooperative supermarkets usually use a single price or direct charge pricing system. As the cooperative food distribution system grows we will undoubtedly see more cooperative supermarkets established. Yet, they may never replace preorder and small store cooperatives because some customers may continue to prefer the mix of price savings, direct participation, and services that smaller cooperatives offer.

For Further Information

If you would like to know more about the consumer food cooperative movement, the following book is recommended:

Ronald Cotterill, editor, *Consumer Food Cooperatives*, Interstate Printers and Publishers, Danville, Illinois 61832

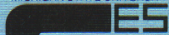
This book reviews the recent growth of consumer food cooperatives. It explains marketing strategies, wholesaling systems, how to incorporate, cooperative finance, and outside resources that are available for consumer cooperatives.

For information on technical assistance and loans to qualified consumer cooperatives, contact the regional office of the Cooperative Bank at the following address:

Great Lakes Regional Office
National Consumer Cooperative Bank
Room 610
144 W. Lafayette Street
Detroit, MI 48226

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