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# What Happened to the Berkeley Co-op?

A Collection of Opinions

*With Introduction by*  
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*Edited by*  
**Michael Fullerton**  
*Editor, Berkeley Co-op News, 1976 to 1990*

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## Preface

Masao Ohya

*Executive Director, Japanese Consumers' Co-operative Union*

*A success story is a record of the victorious. Full of inspiration and pride, it is an encouraging tale that rouses the envy of its readers. In contrast, a story of failure is naturally disheartening. It is filled with the agonies, grievances and shames of many that have suffered and fallen. It communicates a sense of disappointment that wrings the hearts of its readers.*

*This is the story of the fall of the Berkeley Co-op. It is a sorrowful tale that delves for the cause of failure, a story frankly related by the people that were involved with the co-op at that time.*

### **How the book came about**

We were well informed that the business of the Berkeley Co-op was growing worse with each passing year. This was apparent to the co-op people who called on the Berkeley Co-op during yearly visits to the United States. The situation began to quickly deteriorate in the late 1980s. The Berkeley Co-op degenerated into a problem ridden operation, and there seemed little hope it could recover. There were strong feelings among Japanese co-ops that something should be done to help, especially within the Nadakobe Co-op (presently Co-op Kobe) which was Berkeley's sister co-op. There were also calls from the Berkeley side. But as is related in this book, the situation was far graver than many had imagined. The Co-op was in fact spinning headlong to its destruction.

After J. Ikeda, ex-managing director of Tokatsu Co-op, saw with his own eyes the pitiful, weather-beaten Berkeley Co-op stores after they had closed down, and read the sensational newspaper article "Who Killed the Berkeley Co-op?", he suggested that we ask George Yasukochi, former controller of the Berkeley Co-op, to write about the incident so that we might learn a lesson from the tragedy.

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In the beginning, I had misgivings about the proposition. How could I ask a person who was in an organization about to go bankrupt, to do something that was akin to opening an old wound? Coming from a foreign country not directly involved with the Berkeley Co-op, the proposition would be discourteous to say the least. However, when bankruptcy became imminent, I felt that, rather than idly stand by, we should strive to create something positive from the failure.

We discussed the matter at the JCCU executive board meeting and finally agreed to go through with the proposition. After all, the Berkeley Co-op had been a paradigm to the Japanese co-op movement. It had been our guiding star, an advanced co-op that we had all looked up to. Mr. Fukuda, ex-managing director of the JCCU, was invited by the Cooperative League of the USA to visit the Berkeley Co-op in 1959 and stayed there for six months. Since that time, more than 1,000 co-op people had presumably visited the Berkeley Co-op.

Incidentally, I was a guest of the neighboring Palo Alto Co-op at that time. Both invitations had been made possible mostly by funds accumulated through used paperback book sales conducted by the two co-ops.

Co-op products, its logo, supermarket management, and member relations activities are all part of the co-op movement today. Many of the principles which drive the current movement were learned from the Berkeley Co-op. The guiding star, our hope, at last fell. Thus, we finally arrived at the conclusion that we need to learn from the history of its downfall, even at the expense of discretion.

Mr. Yasukochi sent word that he would see me as a friend of long standing, although my visit would be an unpleasant one. Mr. David Thompson of the National Co-operative Business Association (NCBA) consented to act as a go-between.

On November 17, 1989, exactly a month after the devastating San Francisco earthquake, the ceremony for the restoration of the Bay Bridge was held on the bridge. The mood was jubilant, and people enjoyed a song by popular Tony Bennett, "Coming home to you *Oakland*, San Francisco," which rang over the bridge. Mr. Yasukochi, however, appeared dispirited throughout the entire celebration. On the 19th, we gathered at Mr. Yasukochi's home to discuss documenting the causes behind the fall of the Berkeley Co-op. If my memory is correct, there were eight of us: George Yasukochi, David Thompson, Robert Neptune, Robert Schildgen, Bruce Black, Margaret Gordon, Michael Fullerton and myself.

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Mr. Thompson chaired the meeting, and we discussed the reasons behind the collapse of the Berkeley Co-op. Each participant presented a slightly different opinion, but we reached the conclusion that it would be of great benefit, even to the U.S. side, to put together a record. Everyone promised to cooperate. Mr. Fullerton volunteered to act as a coordinator of the project, and everyone agreed to do their share in securing manuscripts and to publish the book simultaneously in Japan and the U.S. Six months later, all of the manuscripts were in.

Nineteen people from various fields agree to contribute. The group included a wide selection of people, ranging from the Berkeley Co-op's chairman of the board, directors, general managers, staff and other personnel, to members and outside people as well.

### Why the Co-op collapsed

Each contributor presents a different reason for the failure. Naturally, their views are affected by the positions they held at the time. Thus, there is no uniform outlook which clarifies the real cause, and their theories cannot be easily categorized. Perhaps the various opinions summed up together define the cause, yet some of the views presented contradict one another.

The internal condition of the Berkeley Co-op described by the contributors shows us that the situation was much more serious than had been imagined. Strong antagonism divided the board members into two opposing parties. This strongly influenced the management which brought about instability among the general managers and the arbitrary execution of decisions. Democracy was stretched to an almost absurd degree, which led to the eventual nullification of democracy altogether. Staff members were confused and became apathetic to the policies of the board and the management. Co-op members were kept uninformed of policies concerning the expansion of the organization, opening of new stores, merchandise policies, and other co-op operations.

Many of the contributors point out that co-op principles were not implemented. Disagreement among the board members gave rise to other internal strife. Members left the co-op one after another, and unity and harmony were disrupted. Discord within the board seems to have had its roots in the political climate of the Berkeley community. More effort should have been made on the part of the co-op to create a system capable of evading such strong clashes and conflicts. It is interesting to note that, among the contributors,

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those that held executive positions stress that the major problems applied to the management, while the others point out the issue of participation of co-op members. While the management side was busy making efforts to reduce costs, members began to sense that they were being ignored. A common merging point was difficult to find. Thus, the two sides gradually developed into opposing forces.

### **What the ideal co-op should be like**

The problem of balance between the management and organizational unity is ever-present, and it must be solved in the daily practice of co-op activities. A co-op, needless to say, is an organization of members. Although there may be various justifications, if the members' involvement in the co-op is neglected and the members are viewed merely as customers so that important decisions and actions are carried out by the management alone, members will begin to turn their backs on the co-op, causing it to lose its identity. Such a situation is often accompanied by a management crisis, because the people that the co-op has depended on as its buttress are no longer there. "Concentrate the wisdom and power of each member to strengthen the co-op," is a long-standing slogan of the JCCU. Management is, of course, important because even a co-op is a live business body. It is the inherent duty of the managers to insure that the co-op stays in the black. At the same time, it is necessary to join forces with staff members and strive towards the goals of the co-op movement, taking calls from the members into consideration. Throughout this process the leadership exercised by the board is very important. Indeed the unity and solidarity of the board members is the mainstay of the organization.

Herein lies the difficulty of the co-op movement: The movement must progress as a harmonious unit, although there may sometimes be inconsistencies. The cause of the Berkeley Co-op collapse can be found in the compiled accounts of the contributors, each representing a different aspect of the case. However, I will let the readers reach their own conclusions.

The 1980s can be described as a bleak period for the co-op movement. On the European continent consumer cooperative societies collapsed in the Netherlands, Belgium, France, and Germany. In Canada, the co-op in the Quebec province went bankrupt. Some argue that these co-ops failed because they could not stand up to the competition of the retail industry. The facts, however, show that the management belittled the members and tried to expand in excess of the co-ops' capacity. Unfortunately, the International Co-



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operative Alliance (ICA) hasn't amply addressed these failures. However, the debate concerning "The Basic Values and Principles of the Co-operative," proposed for the 1992 ICA Tokyo Congress, will be one approach which addresses the true nature of this problem.

The analysis of the Berkeley Co-op breakdown—a co-op which suffered much and paid a great price—should teach us a valuable lesson. The contributors will certainly feel gratified if the reader deeply ponders the messages contained in the accounts and applies them to daily practice in the co-op movement.

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*I would like to express my heartfelt gratitude to the following people for their contribution: Mr. A. Kuimoto, Mr. S. Ohtsu, and Ms. M. Hasebe of the JCCU International Division, and Mr. K. Fukata of Co-op Kobe for helping with the translation; the cooperation of the Twin Pines Cooperative Foundation for the American edition; Mr. M. Fullerton for his unceasing work in editing; Mr. D. Thompson who acted as the organizer of the project with the support of Mr. R. Scherer, Chairman of the NCBA; and every one of the contributors. And lastly, I hope from the bottom of my heart that the co-op movement in California will rise up once again and soar like the phoenix.*



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## INTRODUCTION

Ralph Nader  
*Consumer Advocate*

*What makes this volume so exceedingly valuable to consumer cooperators, consumer advocates and economic historians is the rarity and insight of a diverse retrospective analysis regarding the causes of the decline and sudden collapse of the giant Consumer Cooperative of Berkeley. Over a dozen viewpoints from managers, employees, members of the board, and other skills which participated in this major San Francisco Bay Area institution, provide a valuable array of lessons for present and future cooperators in the United States and abroad.*

At its peak, the Consumer Cooperative of Berkeley came as close to being a modest retail sub-economy as any co-op complex in North America. In addition to several food co-ops, there was a co-op hardware, co-op gas station, an arts and crafts co-op, a co-op bookstore, and a co-op burial society. There was and still is a thriving credit union and student housing cooperative sector. Commencing in 1937, the Berkeley Co-op reached a height of 116,000 members, mostly family households who purchased 82 million dollars worth of goods and services a year. It pioneered numerous consumer reforms in the California state government, demonstrated the value of home economics, a regular monthly newspaper, consumer advocacy, legal services, and on-site child care while the parents were shopping. Visitors interested or involved in the cooperative movement from the U.S. and all over the world, visited this thriving enterprise that was owned and, in principle, controlled by its member customers. The Berkeley Co-op made a particular impression on Japanese cooperators in the Fifties and Sixties during the rebirth of that country's cooperative institutions.

Paul Rauber, editor of the Co-op News from 1985 to 1988, summarized the factors that led to the demise of the Berkeley Co-op: "Too-rapid expansion into areas without a firm member base and increasing reliance on non-members; an attempt to emulate aspects of major supermarket chains beyond the

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organization's ability to do so; political strife at the board level, which kept management of the stores in turmoil; changing demographics of the core area in Berkeley; inability to control labor costs as a percent of sales; a spectacular failure of the Rochdale principles of cooperation between cooperatives; and plain bad luck."

When for-profit institutions get themselves into economic trouble, short of the all too frequent bankruptcy solution, a new strong managerial hand comes in to take over and revive the firm. During this restoration process, a great deal of control is concentrated in the hands of management vis-a-vis shareholders, employees and even the Board of Directors.

A cooperative has to wrestle with the paradoxes of its principles when it is in economic difficulties. There are calls, not for centralization, but for greater democratic control and participation by the members to save or revive the cooperative. There are demands by competing factions—one arguing for the social activism of the cooperative in the areas of opposing discrimination, boycotting goods and services sold by companies accused of unfair labor, consumer investment, environment, and other anti-justice practices.

Cooperatives cannot escape these paradoxes because they are intimately related to the very raison d'être. A balance of decision making procedures is necessary in order to permit prompt and firm administrative and managerial action. If there is too little member participation and rights, co-ops become more like their commercial competition. If there is too much member voice and rights, the community, that is the cooperative, becomes subordinated, anemic and paralyzed. In a competitive economy where there are other choices for consumers, this condition can be terminal.

For any consumer cooperative venture there needs to be an economic philosophy that embraces the total orientation of a just economy. This philosophy includes an appreciation of the multiple functions that any economy should fulfill and its short and long range sensitivities for other values in the society than just mercantile ones — such as environment, clean politics, etc. Such a philosophy, conveyed, discussed and refined by consistent consumer-member education, provides a sense of mission that can distinguish why people should spend time with a cooperative in addition to dollars. In our book *Making Change?*, which studied why European cooperatives succeeded and why they faltered and often failed, the absence of a distinct member-education system around an economic philosophy led to widespread alienation

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*Making Change? Learning from Europe's Consumer Cooperatives*, 1985, Center For Responsive Law, P. O. Box 19367, Washington, DC 20036, \$30.00. (\$35.00 overseas price).

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of consumers and the consequent assimilation of the cooperative toward their commercial model competition.

The history of the Berkeley Co-op illustrates the tensions between these contending forces and also raises the question of scale. Can a giant cooperative be a genuine cooperative, even if it restricts its patronage to members only, which Berkeley did not? Can managers brought into the co-op from their previous experience with commercial supermarkets possess the sense of balance between the social and the economic which comprises a cooperative's mission? Can consumers, who since early childhood have been absorbing advertisements on television that define food the way the huge food processors want it defined, animate the co-op to be different in the kind of food and labelling it offers in its stores? How can members project a cooperative vision of wholesome consumption onto the people who work and run the co-op on a daily basis? Is modern life so busy with daily demands that such a wise consumer culture cannot earn the time it needs to develop and reshape industrial society all the way through wholesalers, producers and raw material extractors?

This volume raises and comments on many of the issues needed to appraise the role of cooperatives in the twenty first century. While credit unions are quantitatively thriving, food cooperatives are in trouble. While buying associations appear more flexible and less risky to their members, information and communication cooperatives are still in their infancy. The nineties should be a period of reassessment of the future of the consumer cooperative movement if it is to regain a dynamism for a buyer-sovereign economy of consequence.



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## Could the Failure of California's Uncommon Markets Have Been Avoided?

By Robert Neptune

*CCB general manager from 1937 to 1943 and AC general manager from 1943 to 1982. While he was AC general manager, for two brief periods he also served as general manager of CCB; these periods were 1979-1980 and 1982. He was a member of the Board of the Cooperative League of the U.S.A. from 1949 to 1982 and is a member of the national Cooperative Hall of Fame. Neptune is also the author of California's Uncommon Markets: The Story of the Consumers Cooperatives 1935 to 1981; some of the material in the above article is from an epilogue to this book published in 1989.*

**C**onsumers Cooperative of Berkeley (CCB), Consumers Cooperative Society of Palo Alto (CCSPA), and Associated Cooperatives (AC) have a long history of success and effective consumer-oriented merchandising activities over a span of more than 50 years. Their successful operations became examples to others—both in the United States and abroad—of how consumers could organize and operate their own business enterprises. The volume of sales that was developed provided a very significant portion of the purchasing power that was consolidated nationally under Universal Cooperatives and under the CO-OP label.

However, during the 1980s operating losses led to the closing and sale of some of the stores, both to try to stop operating losses and to gain the cash flow that came from the liquidation of inventories and capital investments. Unfortunately, these efforts were unsuccessful in stopping the losses. Ultimately, CCB filed for reorganization under the bankruptcy code and closed the last of its stores. CCSPA sold all but one of its stores to pay its debts. And AC liquidated its inventories and sold its real estate, shrinking activities to one employee who supervised investments in other wholesalers who had become agents for handling CO-OP products.

## **Why Did This Disintegration Happen? Could It Have Been Avoided?**

The answers, in my judgment, are not simple. Any explanation will probably fail to take into account some of the reasons. But I don't think this sudden collapse was necessary. I recognize that the problems were massive. Even with shrinking operations, though, it seems to me that much more could have been retained.

To answer these two basic questions in more detail, it will be helpful to review the environment in which operations were being carried on. What were the co-ops' objectives? How were the co-ops being operated?

### **What Were the Objectives?**

In the beginning, there were no stated objectives, except to establish a consumer-controlled food-store service. Today, new cooperatives are urged to find a niche in which they can provide their members with unique products or services. At that time, operations were on a very small scale. As they became larger, the co-ops began to offer complete food-store services, frequently pioneering in new or unique products or services. It was soon clear that these cooperatives would compete "head on" with the major chains. To do this effectively would require them to be as efficient in their operations and to buy and distribute as well as their competition. This, then, became the major objective.

### **How Did They Carry on the Operations?**

The two cooperatives in Berkeley and Palo Alto developed during the Depression years. They began on very small scales. In CCB's case, they began by taking phone orders twice a week and making deliveries to individual homes. In CCSPA's case, there was a small basement buying depot.

During the first few years, employees were paid only what the small volumes would allow. Then, when larger quarters made possible larger volumes, the stores became unionized. Basic labor costs were then competitive with those of the large chains. Since labor is almost two-thirds of the total operating cost of a food store, cost competitiveness then became a matter of organizing the work to be at least as efficient as the competition. This is one of management's primary jobs. For many years this was done effectively.

But operating cost effectiveness in the retail store is only part of the equation. Buying costs needed to be competitive too. Here the larger chains initially had an advantage. Their large aggregate volume made possible low-cost purchases, with integrated distribution between a central warehouse and the stores.



The co-ops were buying initially from independent wholesales which, while efficient, sought to make a profit from the wholesale function. At first, the major retailer-owned wholesale in this area (United Grocers) would not service the consumer cooperatives because of opposition from their major independent grocer members and because of the philosophy of their management. Later, they permitted participation in their distribution program by allowing purchasing in the name of the co-ops' management. Ultimately, the co-ops were permitted to become full members. Membership in United Grocers enabled the co-ops to buy basic products competitively, but it did not provide the lowest costs than an integrated warehouse-retail store could attain.

Many of the chain stores featured private-label goods (products labeled with brands owned or controlled by the chain distributing them). A significant part of the net profit of the chains came from the earnings of these private-label products, particularly when they were manufactured by the chain-store company.

The cooperatives needed to compete with these private-label products, not only to have competitive retail prices, but also to obtain the extra operating margins that such products could produce. There was an added advantage in that the co-ops, as owners of a private label, could determine the quality of the products they were to be featuring.

Associated Cooperatives became the agency that provided the integrated distribution between a central warehouse and the stores. It was also the agency picked to develop and distribute the needed private-label product lines, under the CO-OP label.

AC's early activities were focused on procuring and distributing CO-OP label goods, along with some specialized products that carried larger than average margins or were otherwise not available through the usual channels. It was not until the warehouse was moved to Berkeley and expanded in 1959 that it began to carry a full line of grocery products for the stores. By that time, both the Berkeley and Palo Alto cooperatives had added second stores and were well along in their plans for third sites. Shortly after this, CCB purchased five stores from Sid Wallace, who operated Sid's Stores. As a result of this acquisition, earlier expansion, and subsequent stores, AC had the basic volume that enabled the stores to have fully competitive costs and retail prices as compared with the chain stores.

During this period, store sizes in the food business were increasing. Minimum sizes of purchases from manufacturers to wholesalers were also increasing. But as the requirements increased, fortunately, the co-ops were also increasing in size. They were able to keep competitive in store size and in their purchases, buying in carloads when necessary, and keeping turnover at competitive levels.

The co-ops operated a thoroughly modern warehouse, with pallets, racks, coded assembly lines, loading docks, and efficient procedures. Their operations were automated and computerized, and they were at the forefront of innovative distribution techniques.

In the early 1980s, the cooperative system in Northern California was well integrated. Orders were "written" by scanning wands in the stores and transmitted over the phone to the computer center. Invoices were automatically prepared. Goods were frequently delivered to the stores the same day.

Computerized analysis and inventory information provided records and key data to the buyers. The buying at the warehouse and the merchandising for the stores were done by the same personnel. So there was no duplication of personnel costs and no lost motion between the buying function and the selling function. This system provided for the stores a full line of groceries, fresh produce, fresh meats, delicatessen items, health and beauty aids. In the perishables departments, the savings from integrated operations were even greater than in the grocery department.

The integration went one step further at CCB's El Cerrito store (as a pilot project) where scanning, in conjunction with the central computer, was put into effect. The process was then ready for installation at other stores.

Regular price surveys demonstrated that the system provided retail prices that were competitive with those of the largest competitor, Safeway Stores. Price comparisons between the cost of delivered goods to the stores from the central warehouse, compared with the costs from other suppliers, showed significant savings to the stores as a result of the co-op integration.

This integration had resulted from decisions by the managements of CCB, CCSPA, and AC that their competitive positions could best be secured and maintained by integrating the buying and distributing functions between the central warehouse and the retail stores. By 1982, there were 16 supermarkets being serviced in this fashion. This voluntary integration had its problems, to be sure. Communication was not always the best. Agreement was not always 100%. Responsibilities were to three different boards of directors. But, by and large, the system worked.

### **Previous Attempts at Merger**

There had been several unsuccessful attempts at more formal merger and integration. In 1961, the managements of the three cooperatives met for a weekend to discuss the future. They agreed that the long-run economic success of the cooperatives in the Bay Area would be significantly enhanced by merging them. They recommended to their boards of directors that the three cooperatives merge. This was not an easy recommendation for the managers, for none knew what his place might be in such a merged operation.

After a study, the proposal was turned down as premature, although the analysis provided by a consultant indicated that, long-run, this was probably the right way to go. The idea surfaced again in the late 1960s, was studied, and a plan of merger was presented at an AC annual meeting. The timing happened to coincide with a change in political control of CCB with the "progressives" becoming a majority. They had not been a part of the planning process, and they killed the proposal. They were not necessarily opposed to the idea, however, for they soon proposed that CCB "take over" AC unilaterally. This could not be done under the structure then in effect, and the effort failed.

A proposal for merger was finally approved in principle by the AC Delegate Assembly in 1971, with a committee appointed to determine the next steps. But changes in the make-up of the boards of directors again worked against implementing this plan, and no further formal action was taken.

The closest formal integration that took place was during two of the years I managed both AC and CCB. During this period there was no question of people in either organization acting independently in buying and merchandising, for everyone was aware that there was only one general manager involved.

### **What Caused the Disintegration?**

So, what caused this integrated, competitive system of consumer-controlled stores to disintegrate?

1) Cooperatives need to operate and be judged on their effectiveness as businesses. This means they must operate in the "black." This requires management to control costs and live within the margins that the sales develop. This was not done. Continued heavy losses over several years depleted working capital. Sales of property and operating entities to replace lost capital eventually destroyed the volume base. This is the basic reason.

2) There developed a lack of communication between the managements and boards of AC and CCB. Joint planning was dropped. Integrated operations were gradually discontinued. Joint use of computer facilities was stopped. Finally, in December of 1986 the AC manager put CCB on C.O.D. terms, saying that, because of the huge receivable from CCB to AC, all future deliveries would have to be made on a cash basis.

Unilateral decisions of this kind should not be permitted in the kind of situation in which CCB and AC were operating. Discussions should have been held at length to find a solution to what was a real crisis: the lack of cash flow at CCB which resulted from its continuing operating losses. AC's and CCB's futures were locked together. A mutually acceptable answer needed to be found.

The result of the AC ultimatum was not further discussion. It was another unilateral decision—this time by CCB to change its major source of supply from AC to Certified Grocers of Los Angeles. Certified was willing to extend limited credit to CCB in order to get the large volume of purchases involved. AC was suddenly faced with sales volume reduced by 60% or more. Precipitate changes of this kind, without providing for orderly reduction of staff personnel or of inventory or of other costs, result in terrible crises and high costs. The managements were unable to communicate or share problems. Relations became so bad that the AC manager literally constructed a wall between the two, previously shared, office spaces, and locked the doors. Incredibly, the two boards of directors backed up their respective managements.

This was the crisis-cause of the disintegration, and it wiped out relationships that had been developed over almost 50 years in a matter of days.

3) A major contributing cause of the continuing losses at CCB was the decision to reopen the food store in Corte Madera as part of an upgraded, high-style food market and shopping center (called Savories) for Marin County residents. The store was beautifully laid out, with service meat and deli features, bulk goods, and high-style products. There was no significant member participation in the decision to reopen this market, and it was beyond the level of appeal for the co-op members in the Marin area. It failed to come even close to its minimum break-even sales level. Consequently, it was a large cash drain on the organization from its inception.

In the light of the operating and cash-flow problems of CCB, taking a flyer on this kind of project was a bad error in judgement for both management and board. This fiasco contributed greatly to the continuing operating losses.

4) There began to develop a loss of sales momentum. Year-to-year comparisons of sales by store location began to show declines instead of increases. A part of this may have been public relations and communication with the membership, particularly at the end when the board did not keep the membership completely aware of what was going on. But the alienation began much earlier.

a) One cause of the alienation was the dropping of CO-OP label products when the wholesaler was changed from AC to Certified. The members had accepted the CO-OP label well, and a sudden substitution was just not acceptable. Later, the CO-OP brand was partially reinstated. But the loss of full member confidence and patronage continued.

b) I believe a major reason for the alienation of many members was the decision of the Board of Directors of CCB to withdraw items of controversial nature from the shelves of the stores, because of the union stance of the supplier, because of ecological reasons, or because of philosophical differences. Later, this position was modified to post the shelves

with a notice that the product was controversial (with the pro and con arguments posted on a bulletin board), but not to withdraw the product from the shelves. But the initial acts of withdrawing products and forcing customers who might want them to go to another store had a very negative response and caused the loss of members and, more important, the loss of patronage.

c) Another of the negative aspects of member activity that I feel affected the sales in the stores was the political infighting at CCB between two slates of candidates for the board of directors. One slate put political considerations ahead of economic concerns. Sometimes there were 5-4 splits in the board voting, and the predominant view might well change each year, depending on the winners in the annual election. By the time of the closing of the last stores, control rested firmly with the group that put political positions ahead of economic. This was part of the problem, though not necessarily decisive, at the end.

d) Another aspect of the problems outlined above was the alternate system, in which the three candidates for the CCB Board of Directors who were defeated but who were next highest in votes to the winners, became alternate directors. They attended board meetings like regular directors. They participated in the discussions and even voted in the absence of regular directors. The initial purpose of this provision in the bylaws was to provide a training opportunity for learning and orientation for potential directors. But the practical effect of the system was to insure that two contending slates of candidates, with opposing philosophies, would both be represented at board meetings. Debates were lengthened, and controversy was insured.

5) Labor contracts for the most part emphasized the importance of seniority. When stores were closed, employees with the greatest seniority "bumped" into the remaining stores to replace employees with less seniority. Over the years the co-ops had employed a number of people who had developed seniority over time but who did not necessarily perform as effectively as perhaps they might. There were many reasons for these poor performances, particularly a lack of training by the co-ops. But, for whatever reasons, the co-ops developed a large corps of employees entitled to senior benefits and job assignments. Some were good employees and some were not. The result was a disproportionate number of senior, high-paid employees, without the blend of new and lower-paid employees usual in a mix of seniority at most chain stores. This tended to keep co-op labor costs on the high side.

6) As stores were closed, the volume base declined. This meant that proportionate decreases in administrative costs were needed each time a store or department was closed. Proportionate reductions were not maintained.

7) During the last few years of the co-ops' operation, there was no long-

term planning. Decisions were being made on a case-by-case basis. No careful outline was projected as to where the organizations were heading.

8) Because economic considerations were not always the top priority for some of the members of the boards of directors, sometimes management was not asked to account soon enough or effectively enough for actions to resolve poor economic results.

### **Could Disintegration Have Been Avoided?**

Could disintegration have been avoided? I think so. But sometimes it's easier to point out what went wrong than to have said at the time what should have been done. But, in any event, I wasn't asked.

Mainly, I fault management—for not communicating between themselves and even fully with their own boards. More complete discussions could have related problems and decisions to long-range objectives. Integrated operations should not have been given up so quickly over personality conflicts or even over a decision for C.O.D. terms. Problems should have been talked out at the time and measured in terms of objectives and competitive positions. The managements should also have controlled costs more effectively and moved operating results into the "black."

I also fault the boards, particularly at CCB and AC, who backed their respective managements when decisions were being considered to change basic suppliers, to drop the CO-OP label, to stop joint use of the computer facility, and to close down a warehouse. There were many alternative interim steps that could have been taken, and a "hard line" does not make for well-considered solutions.

In a merged operation, none of these drastic actions would have been necessary. One board and one management would have made a more careful and considered evaluation of the total situation. There would not have been two points of view to consider. Only what was good for the cooperative system as a whole would have been the subject under consideration. So I would also fault those who, at an earlier date, failed to approve a merger of the organizations.

### **Was It All Worthwhile?**

We come, finally, to one other major question. Was the 50-year effort to establish viable consumer cooperatives in California worth the efforts involved?

I think the answer has to be a very strong "yes." It's one thing to be sad about the ultimate collapse of an alternative distribution system. But the devoted work of hundreds of employees and lay leaders over several decades had some very positive results.

1) Not everything is gone. There remain vigorous credit unions, housing cooperatives, student cooperatives, a cooperatively-controlled insurance service, an artists cooperative, several natural foods cooperatives, several supermarkets, and a number of buying clubs. Even the annual Co-op Camp Sierra is continuing.

Associated Cooperatives continues in existence and is providing CO-OP label products and other services through its investment in Sierra Foods in San Francisco and NutraSource in Seattle. The North Coast Cooperative provides goods and services to its stores and to other cooperatives from its Eureka warehouse.

A new California Association of Cooperatives of all kinds is being formed. It will be working closely with the new Center for Cooperatives, authorized by the California Legislature, and housed at the University of California's Davis campus. The Center is expected to provide services to all kinds of cooperatives.

2) Many of the co-ops' innovative activities have been copied and are now a part of normal functioning of the food industry. These changes might or might not have happened otherwise. They took place when they did because of co-op initiatives.

3) For 50 years the cooperatives provided unparalleled services for their members. Many who shopped almost exclusively at the co-op stores came to assume many of the products and services available there were normal and were also present at other stores. When the co-ops closed, they were shocked to find this was not always so.

4) For 50 years the members elected directors, provided capital, and monitored the results of their own businesses. They came to depend on the weekly newspaper for information they could rely on and a consumer philosophy unavailable elsewhere.

5) The CO-OP label became a dependable mainstay for the shopping of most of the members. It provided product information, frequently including government grades, and consistent quality that drew wide recognition and support.

6) The cooperatives provided a large consumer organization that advocated consumer rights and demonstrated what consumers could do for themselves in a very competitive economy. It was carefully listened to in local, state, and national bodies when consumer concerns were reviewed.

7) The co-ops helped train a body of both lay and professional leaders and to shape their personalities as they entered other places of employment or

other organizations. Frequently, their democratic economic philosophy has found ways to be expressed elsewhere.

8) At our peak there were more than 150,000 members, mostly families. Each of these members was interested enough to buy at least a modest membership share. In many cases, the investments were substantial. They bought more than \$120 million of goods and services per year. At \$15 a bag full, that is about 8 million bags of groceries.

For me, personally, there has been the opportunity for the friendship and support of colleagues and friends throughout California and nationally, as well as that of hundreds of volunteer leaders of cooperatives in all parts of the state. From our joint efforts in working toward shared objectives has come a satisfying life which has emphasized service, as opposed to personal gain, as the primary motivation.



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## Decline and Fall of the Berkeley Co-op

By Paul Rauber

*Rauber was editor of the Co-op News from 1985 to 1988. A longer and more detailed article by Rauber entitled "Who Killed the Co-op?" appeared in the June 17, 1988 issue of The Express, a weekly newspaper published in Berkeley. Rauber now works as a freelance writer. His work has appeared in Mother Jones, California Lawyer, Sierra, San Francisco Focus, In These Times, and The Nation.*

**T**he Consumers Cooperative of Berkeley (CCB) was once the largest retail food co-op in the United States. Its flagship Shattuck Avenue store once claimed the distinction of having the highest sales per square foot of any store west of the Mississippi River, and it pioneered many consumers reforms which later became industry standards. In its heyday, CCB formed part of a cooperative mosaic: in addition to the Co-op grocery stores (which once held three-quarters of the market in Berkeley), there was a Co-op hardware store, Co-op gas stations, co-op housing projects for seniors, families, and students, a cooperative bookstore, an arts and crafts cooperative, a co-op credit union, a cooperative travel agency, even the Bay Area Funeral Society, offering cooperative funerals. Co-op was a way of life, and more.

Little now remains of that cooperative society. The collapse of CCB has been the cause of no small amount of bitterness among former members, many of whom are sadly inclined to blame the very idea of consumer cooperation. Others seek scapegoats among individual managers or board members or among particular political factions. But the disaster was too great to blame on any one party: the death of CCB was a cooperative affair.

CCB was in some respects a victim of its own success. Founded in 1937, CCB experienced a spectacular boom in the years immediately following World War II. The baby boom was a boon for business: the membership of CCB was young, loyal, and fertile, buying lots of food for growing families. The stores prospered enough to provide new services for these young families, like in-store childcare, or "kiddie korralis," which were introduced in 1953. In subsequent years, many of the children of the original members moved out

of town, and birth rates declined: the shopping carts once heaped high began to shrink to suit the area's declining household size.

None of this was anticipated in the boom years of the '50s and '60s. Instead, CCB had embarked on an aggressive expansion program—sometimes at the expense of member involvement. "How do we keep democratic control and participation while we continue to expand?" asked the *Co-op News* in 1955. The question turned out to be prescient: as CCB grew, individual members had less and less control, with momentous decisions increasingly made in executive session by the board.

The first such decision was in 1962, when the board voted in secret to purchase five stores from the failing Sid's chain: three in Berkeley, one in Walnut Creek, and one in Castro Valley. CCB membership swelled to 30,000 with the rapid expansion, which doubled the number of stores. Member participation, however, steadily decreased. With the purchase, CCB also took on many of the Sid's employees, who were totally unfamiliar with cooperativism. Some took an active interest in the organization, even becoming active members, but for most it was just a job like any other.

Only one of the stores turned out to be a moneymaker; the four others were drags on the company and were eventually discarded after years of losses. The lesson was not learned until too late: converting failing stores to co-ops is not a magical remedy to turn them around.

In 1974, CCB repeated the Sid's mistake with the purchase of three stores in neighboring Oakland from the Mayfair chain. The area had no existing base of members, in contrast to San Francisco, which had long lobbied for a store and finally got one in 1975. The San Francisco store's location, however, was a continual problem. This came to a head in the mid-1980s, when the landowners undertook a series of not-so-subtle actions aimed at forcing CCB out. CCB finally abandoned San Francisco in 1986; the site is currently occupied by CCB's traditional nemesis, Safeway.

CCB was seldom able to expand in a logical manner, instead relying on a mixture of messianism and opportunism. The board often made decisions on the basis of a good real estate opportunity rather than from a reasoned plan. In addition, CCB's traditional competition with big supermarket chains like Safeway or Lucky led it into an ironic emulation: from a few small stores, CCB grew into a mid-sized chain. This had its advantages, as the economics of the grocery business favor growth. Opening new stores allows the senior, more highly paid workers to be spread about, and brings more entry level clerks into the system. Chains should also—theoretically, at least—benefit from economies of scale in administration, although CCB's central office administration was habitually larger than what the stores could support. Furthermore, CCB was supplied until the mid-1980s by an allied cooperative warehouse, Associated Cooperatives, which also needed a growing movement in order to com-

pete with the capitalist warehouses.

In practice, the cooperative ideal was not easily exportable, especially in a society with little experience in economic cooperation. "In Berkeley, this co-op is a community institution," wrote former CCB president Fred Guy in the *Co-op News* in 1986. "Elsewhere, it was a tentacle of a foreign organization. In Berkeley, many people join the Co-op because it's just something you *do* in Berkeley; elsewhere, recruitment was more difficult."

As CCB expanded outside Berkeley, member patronage continued to decline as a percent of total sales. That meant CCB was increasingly dependent on shoppers that were less loyal, less educated about the theoretical underpinnings of the store, and who didn't buy the shares which supplied a low-cost source of capital. Until the mid-1960s, in fact, member shares were the *primary* source of capital. But starting in 1961, the average number of shares per members steadily decreased, and CCB was increasingly forced to rely on expensive, conventional financing.

"Nonmember patronage is a drug for co-ops," argued Guy, "and our co-op has become an addict, weak and dependent." Like most dependencies, this one was cyclical: the more CCB moved beyond its original purpose of providing goods and services for its members, the more it depended on nonmembers, the more it resembled its competitors, the less incentive there was to become a member.

As Berkeley was shaken by the events of the 1960s, the politically active and socially aware CCB membership was in the thick of things. In 1966, the radical Students for a Democratic Society organized a "Housewives' Revolt" which won lower prices for hundreds of items. The stores closed when Martin Luther King, Jr. was assassinated in 1968, and again in 1969 to protest the Vietnam War. The free speech debate at the University of California was replicated at CCB; it resulted in the establishment of a marketplace of ideas just outside the doors of the grocery marketplace, although not without a struggle. In 1967, the Walnut Creek store refused to allow a table by a group trying to organize a peace vigil at a nearby nuclear weapons installation; a sit-in at the Berkeley stores soon reversed that opposition. In time, the Shattuck Avenue store acquired a reputation as the best place in the East Bay to collect voter signatures for ballot petitions.

As early as 1963, CCB members were engaged in a fierce debate about consumer boycotts. The question was whether to actually remove controversial products from the shelves, or simply to post informational notices alerting shoppers to the nature of the controversy. In 1968, grapes coming from non-union farms were removed from the shelves and did not return until the union lost its last contract in California in 1986. For years, many CCB members proudly boasted that their children had never tasted a grape.

In time, a rather ponderous but indisputably democratic method for

dealing with controversial products was instituted, involving a lot of committees and warnings and leading finally to a vote of the membership on whether the item should be withdrawn. The only time this procedure was actually completely followed through was in 1985, when the membership voted to boycott nonunion Coors beer. When it came to Chilean and South African goods, a vote of the board was sufficient to keep them from sullyng the shelves.

CCB policy on boycotts, free speech tables and even store purchases tended to fluctuate depending on which political faction happened to control the board of directors at the time. As early as 1964, two opposing slates of candidates were contesting CCB elections, the Moderates and the Progressives. These factions mirrored roughly the factions of the Democratic Party that were contending for control of the City of Berkeley. While the Progressives fiercely opposed the Sid's purchase, they supported the Mayfair deal in the belief that the new stores would be beneficial to low-income neighborhoods.

Contention between the two slates kept management perpetually off balance. For example, in 1971 a Moderate board selected a new general manager, but by the time he started work, control of the board had changed and he was forced to resign. Given the close balance of the two parties, and the fact that the three alternate directors had the power to vote in the absence of regular directors, even temporary absences could result in substantial changes in policy. With one Moderate board member missing on December 28, 1971, for example, a temporary Progressive majority drafted a tough affirmative action policy and voted to boycott five products made by Dow Chemical. Both policies were reversed at the next board meeting.

It is hard to gauge the cost to the organization of the political squabbling. Whenever a controversial stand was taken, like boycotting Coors beer or Chilean grapes, a certain number of members would swear never to shop at CCB again. This would seem like suicide for a store dependent on the greatest possible volume—except that such stands also seemed to *increase* the solidarity of other shoppers. Once the door was opened to politics and social issues, it was very difficult to pick and choose which ones to deal with. The dangers of avoiding controversial stands proved to be as great as taking them.

(In later years, the two factions put aside their differences in the interest of survival. Even so, many members continued to associate the board with political infighting, long after it had ceased to exist.)

The CCB empire started unravelling in the late seventies, with mounting losses from the newer, peripheral stores. The response of the then Moderate-controlled board was to gut the Education Department, laying off all of the education assistants who explained CCB services in the stores, and six of nine home economists. The beloved kiddie korral also disappeared at this time, to the everlasting sorrow of many parents. People started complaining that it was getting increasingly difficult to distinguish CCB from Safeway or Lucky.

Despite the increasing difficulties, however, sales at the big Berkeley stores were large enough to cover the losses from weaker stores. This had the unfortunate effect, however, of postponing the closing of failing stores longer than was prudent. Closures were also delayed by piteous outcries from the loyal members of the affected areas. In some cases, community pressure organized by the stores' members succeeded in winning temporary stays of execution, which only led to further losses. Ironically, the committed, loyal members who should have been the organization's mainstay helped bleed it dry, and the board and management proved they could not compete with the big boys either in the management of stores or in the timely closure of losing operations.

The final disastrous real estate decision came in 1984, when a bare 5-4 majority of the board voted to invest in an upscale new store in fashionable Marin County, across the San Francisco Bay. The elegant "Savories" store barely acknowledged the fact that it was a cooperative: its sole purpose was to make large amounts of money in order to support the other stores. The strategy was a sickening failure: the store lost money from the start and by the time CCB withdrew had cost the organization more than \$2 million.

Meanwhile, another even more crushing disaster was brewing closer to home at Associated Cooperatives, the warehouse which supplied most Northern California cooperatives. As CCB divested itself of losing operations, the number of customers for AC's CO-OP label goods steadily declined, throwing the wholesaler into financial turmoil. By 1985, AC had a debt of over a million dollars and a shrinking market. In the course of an audit it was discovered that AC's accountant had grossly underbilled customers for their groceries, an expense AC had to eat. Beset by its own difficulties, CCB fell more than a million dollars behind in payments to the warehouse.

The final conflict came when AC hired a new general manager from outside co-op circles. Free of the complex web of personal and institutional loyalties which had bound the two co-ops in the past, the new manager went for the jugular. On Christmas Eve, 1986, he started demanding cash on delivery from CCB.

This unexpected and decidedly uncooperative move quickly led to chaos. CO-OP label goods vanished from the shelves; and for several weeks in the middle of the crucial holiday season, the stores were half-empty. CCB quickly moved to get a new wholesaler, but the damage could not be undone. Suddenly, after 50 years of hype about the superiority of CO-OP label goods, a new house label replaced the old familiar CO-OP label, and there was CCB's president in the *Co-op News* explaining how it wasn't really any different. Sales plummeted amid the confusion and never recovered.

The feud destroyed what little morale still remained. Negotiations between CCB and AC quickly degenerated into barely disguised hatred on both

sides. One day workmen arrived at the building which housed both organizations, and actually built a wall to divide the two cooperatives. Under the threat of legal action from AC, which asserted ownership of the CO-OP label, the *Co-op News* removed the familiar logo from its front page. For longtime employees who had once dreamed of a viable, alternative cooperative economy, the whole affair was like a bad dream.

In September 1986, CCB hired new management with the clear understanding that drastic changes would have to be made. The change most talked about was doing something about the cost of labor. CCB had, as a result of all the store closures, an extremely senior labor force. Every store closing would result in the "bumping in" of employees with most seniority; the result was that the least senior journeyman clerk at CCB was a 12-year veteran. CCB's cost of labor as a percent of sales was a full five percent higher than its competition.

The new management attempted to institute an ESOP, or employee stock ownership plan, in which employees would use part of their wages to purchase shares in the company. The clerks' union insisted on an employee majority on the board, and a change in management. Reluctantly, the board agreed. The lenders, however, did not: CCB's new wholesaler called in a \$1 million loan, precipitating the final crisis. On May 10, 1988, the union pulled out of the agreement. The next week, CCB was put up for sale.

Even the sale was messy and contentious. There were two main proposals: management supported a \$9 million offer from a natural food store chain, while many old-time members and employees favored a plan to retain the profitable Shattuck store as a joint worker/consumer co-op. At the unanimous urging of the board, the membership voted for the former.

More humiliation was to follow. The natural foods people couldn't come up with the money they had promised: despite the recommendation of the board, their offer turned out to be incredibly flimsy. (Two years later, one of the two principals of the group was arrested on charges of grand theft and forgery.) Finally, the board voted to sell the three remaining Berkeley stores to a real estate developer for \$7.8 million. As of April 1990, two have reopened as conventional supermarkets, and the third is eventually supposed to reopen as a natural foods store. Several court cases have prevented the final dispersal of CCB assets; after lawyers and creditors are paid, little if anything is expected to remain to redeem member shares.

What was it then that killed the Co-op? Too-rapid expansion into areas without a firm member base and increasing reliance on nonmembers; an attempt to emulate aspects of the major chains beyond the organization's ability to do so; political strife at the board level, which kept management of the stores in turmoil; changing demographics of the core area in Berkeley; inability to

control labor costs as a percent of sales; a spectacular failure of the Rochdale principle of cooperation between cooperatives; and plain bad luck.

The history of CCB vindicates the importance of democratic decision making: the most costly errors came as a result of major decisions made in secret, or those made by only a narrow majority. It also shows the importance of education: there is no school in America where managers can study how to run a cooperative. The result was that many CCB managers, and most of the employees, had only the vaguest notion of how working at a co-op was different from working at a Safeway. The opposite extreme was reached by the board, which in its zeal to adjudicate social issues sometimes seemed to forget its primary goal was to run a grocery store. Committed Berkeley members wanted CCB to be all things; indifferent nonmembers only wanted a convenient supermarket. Although it existed for more than 50 years, CCB was never able to resolve this fundamental identity crisis.



This cooperative store on University Avenue in the late 1930s was forerunner to CCB.



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## How to Kill a Co-op

By David Klugman

*Klugman joined CCB in 1954 and served for several years on the public relations and union committees. In 1962 he started writing for co-op publications in England, France, Denmark, and the Federal Republic of Germany. In 1969 he began publishing in the Review of the International Co-operative Alliance (ICA).*

*In 1955, CCB generated a Funeral Society as one of the services available to members. Klugman was among the very first to join and, in 1984, became the volunteer executive director, serving for five years. During that period, membership and revenue grew considerably and Klugman was elected to state and national functions in the funeral society movement.*

*This article originally appeared in the October 18, 1988 issue of the Cooperative News, published in Manchester, England, and in the July 1989 issue of the Review of the International Co-operative Alliance.*

**K**illing a co-op is not easy. It took the Consumers Cooperative of Berkeley (CCB), once the flagship of American consumers co-ops, 25 years to commit suicide. The decisive moments at which the CCB went wrong could have been pinpointed at the time they occurred. Yet, as in Hans Christian Andersen's tale, the crowds kept "admiring the emperor's clothes" until it was too late, when everyone developed hindsight.

CCB was unintentionally killed through a mixture of miscalculations, policy errors, and personality clashes, most of which reflected a violation of the Co-op Principles.

1) In 1962, a key decision was taken in secret by the board of directors, a violation of the Democratic Control Principle. CCB bought out a larger chain of grocery stores, thereby biting off more than it could chew. This was repeated in 1974 with another chain. The customers of those stores could not be turned into "instant cooperators," yet they had to be serviced by way of notices, election materials, the *Co-op News*, etc.—a huge burden on CCB's resources.

2) For years the board of directors was dominated by different factions, reflecting Berkeley city politics. This violated the "Principle of Political Neutrality." Business concerns clashed with social concerns.

3) Starting in 1971, following the departure of CCB's general manager, who had served for 24 years, there was a seemingly unending flow of general managers, each recruited at great expense, hailed as a savior, and greeted with

great expectations. A year or two later, each went out the revolving door, freely or by request, under a cloud, with a great deal of bitterness on all sides. No manager can satisfy opposing factions.

4) CCB and its co-op wholesale supplier engaged in open warfare, in violation of the "Cooperation Among Co-ops Principle."

5) General managers were permitted to indulge their whims, regardless of cost. One wasted tens of thousands of dollars on luminous signs at each store, spelling out his favorite slogan, at a time of financial stress. Another launched a pet project ("Savories") which became a \$2 million disaster before it could be terminated. This turned out to be "the straw that broke the camel's back."

6) Despite repeated promises, no serious co-op education for employees ever took place, a violation of the "Constant Education Principle." In 1968 the education director, who had served for 18 years, was sacked following a riotous membership meeting. He received a so-called "golden parachute," one year's paid leave. He was succeeded by a string of education directors, most of whom did not last very long.

From 1937 to 1962 CCB operated well, all indicators rising. Those were the golden years. The following 25 years, 1962 to 1987, were the years of decline. The year 1962, with the acquisition of a larger food chain (its debts included), originally drove all indicators way up. They were not to stay up. Starting in the early 1970s, with the purchase of yet another chain of food markets, CCB had to throw out ballast, like balloonists trying to regain altitude.

Education assistants, home economists, child care supervisors, gas stations, a repair garage, a hardware store, and finally the grocery stores themselves were eliminated. The closing of each store forced CCB, in accordance with the union contract, to relocate the most senior, most highly paid employees to the remaining stores, greatly increasing operating costs.

In the changing America of the '60s, '70s, and '80s, bad checks became more common. At CCB bad check losses soon ran into many thousands of dollars each year. Yet, despite alarm signals by concerned members, little was done. A proposal to reserve one check-out stand for "cash only" was halfheartedly attempted and it predictably failed.

## Conclusion

Successful co-ops are those for which the need is clearly perceived, such as housing, credit, agriculture, or production. The need is much less clear in a consumer co-op and, as services at CCB decreased, the perception grew that this co-op was no different from competing supermarkets, which were larger and could offer better prices owing to a greater volume of sales and lower la-

bor costs. Yet, over the years, CCB had set some standards which other supermarkets adopted.

CCB had one asset left, namely membership loyalty. It took 25 years to kill even that asset. When, in 1988, CCB offered to sell the last remaining stores to repay \$6 million in debts, a vote was held, as required by law. Over 90,000 ballots were mailed out, only 8,000 were returned. When membership input was finally sought, under pressure, membership loyalty had worn thin.

If a lesson can be drawn from this tragedy, it points to the need to abide by the Co-op Principles. Breaking them is like breaking the Ten Commandments. You pay for it in the long run.





or true picture, if there be one. Having personally participated in costly studies of CCB by outside professional consultants, I hold a healthy skepticism of such efforts, even though some did go beyond the perfunctory motions of experts who look at your watch and tell you what the time is.

A person's selective memory in reviewing the last decade of decay in CCB's half-century of existence is another handicap. To document properly all of one's exposition, claims, and interpretations is an ambitious research job, and it's likely that much pertinent data is unavailable. The considerable statistics that still are on file may not lie; but they are subject to misuse, especially with the vantage point of hindsight.

Having said all this, I will likely now succumb to the same failings of this Rashomon-like series of articles as I delve into my own version of what went wrong at CCB. If my irreverent cliches and metaphors (some mixed) cause confusion, blame it on my overreaction to 40-plus years of bondage in the accounting world dealing with a never ending flow of static numbers.

### The Berkeley Co-op Community

The factual history and background of CCB, especially its period of travail, is presented elsewhere. Although there ought to be little controversy about basic information like that, judgments and evaluations inevitably creep or rush in and must be viewed as those of the particular writer. The perceptions of the role and influence of CCB are many, some bordering on myths. They have been circulated nationwide and written about in august publications like the *New York Times* and *Washington Post*. Overseas, more so in Japan where the cooperative movement is strong, CCB is renowned.

Within the Bay Area itself, for an energetic segment of the membership, CCB was the anti-establishment symbol of consumer power, a rallying place for those opposed to the exploitation of the common people and minorities by the American economic system. CCB afforded activists and the disenchanting a channel for flaunting their democratic rights, hassling the old guard and tweaking the nose of the power structure. These supporters ran the gamut from 100% CCB shoppers who could never step into "Lucksafe" without a pang of guilt to nonshoppers simply in need of a cause.

For another segment, CCB was a neighborhood enterprise to which it was traditional or fashionable to belong. There members met friends and people of like persuasion, and they appreciated CCB's honest, healthful merchandising practices and democratic approach. They came from the well-educated and liberal university community, from church groups imbued with social conscience, and from the working class comfortable with CCB's pro-labor policies. There were ethnic groups like the Finns who had been reared in a co-op environment, Japanese-Americans who immediately after their arbi-

trary World War II internment by the American government found CCB one of the few friendly local employers, and blacks to whom CCB extended a welcoming hand.

All of them likewise formed a range from 100% CCB shoppers to those who succumbed to the blandishments of Lucksafe specials, their more convenient locations, or whatever. Shall we say that some were lazy idealists? I painfully recall a university professor confiding sorrowfully to me that his wife didn't always shop at CCB because she felt Safeway had lower prices, quicker checkouts and cleaner stores. Admittedly, there was a basis for that kind of complaint but often it stemmed from the unreasonably high expectations that are part of a traditional family syndrome. What is excusable for an outsider is out of bounds within the family.

Still others barely tolerated CCB, associating it with a radical fringe of noisy agitators lacking business sense. They cringed at petition tables in front of the stores and stormy calls for boycotts of goods made by companies with allegedly unfair labor practices, racial and sexual discrimination records, poor environmental practices, or war production contracts. CCB was an easy ideological witch hunting ("red baiting") target during the days of strong anti-communism in the 1950s. Beginning in the 1960s, CCB debates and actions frequently reflected what was happening in the political arena of the City of Berkeley, which had gained fame as the American city with its own foreign policy. The City Council was not shy about making pronouncements on El Salvador, Nicaragua, Lebanon, South Africa, and other global hot spots where bitter struggles were being waged on social and economic issues. All this, critics would add, while the city's infrastructure was crumbling with potholes in the streets and schools in financial disarray.

Naturally, a considerable overlap existed between these groups, as well as with others of various thinking and bent. Within Berkeley itself possibly, but certainly in the outlying areas, a "silent majority" gave only passing thought to the social significance of CCB. The frenzied pace of urban life did not afford everyone the luxury of time and energy to attend membership meetings, volunteer for committee work, or participate in never-ending rallies to reform the community or remake the world, sympathetic though they may have been to cooperative ideals. Minority rule by default often occurred, one of democracy's recurring maladies.

Characterizing CCB's complex persona is not unlike the case of the proverbial committee of blind persons standing around an elephant, each one projecting his or her idea of the animal based upon the part that person's hand was touching. That is exaggeration, but we had an identity crisis. Our game players and the membership had differing opinions of where to draw the line in going afield from the nitty-gritty business of procuring and selling merchandise to making statements on consumer, health, environmental, community,

and political issues. Here the seeds of dissolution were sowed, and the saga of self-destruction began.

The strength and energizing of a democracy, it is said, lie in the ferment of diversity within the populace and the dynamism of their beliefs. A necessary ingredient, however, is a willingness among people, diverse as they are, to tolerate and *respect* the feelings and opinions of others around them. It is important not to alienate neighbors who see things somewhat differently, whether they are more radical (progressive?) or reactionary (moderate?) than yourself.

For a democratic society to be viable, there must be fundamental agreement on basic rights and goals, and we were never too sure of that in CCB. In 1978, while I was heading an interim management team, I met informally at the home of education director Don Rothenberg with a small group of the "progressive" leadership in an attempt to build a bridge between CCB factions. To my assertion that, "After all, we're all agreed on the basic reasons for CCB's existence," a militant ex-president retorted, "I'm afraid you're wrong, George."

### Co-op Growth

By the close of its first two decades in 1957, CCB membership had mushroomed to 9,000. The University Avenue Center, with its supermarket, hardware-variety store, and service station, was operating successfully and the first major expansion to Walnut Creek was beginning to click. Plans were afoot for a second store in Berkeley that would materialize as the Shattuck Avenue Center, destined to become the jewel in the crown.

Under the leadership of president Robert Aaron Gordon, general manager Eugene Mannila, education director Emil Sekerak, and a host of other lay and employee stalwarts, business was pursued aggressively and efficiently. The education and member relations program was second to none. CCB's innovative ideas like its home economist program and kiddie korral were widely hailed. Morale was high. Patronage refunds peaked to an unbelievable 4%. Being not so small was still quite beautiful. At times, there was an illusion that everything touched by CCB turned to gold.

Large as the membership was and still growing, a neighborly presence persisted. The leadership and the general membership mingled easily on a first-name basis. Unanimity of opinion was not always the rule, but once decisions were made, they were accepted in good grace by dissenting parties. CCB had made some ill-advised moves in the early years, such as not purchasing an adjoining lot on University Avenue (that became the Homer Lee Nursery) in 1942 for the modest sum of \$2,000 and again in 1946 for not much more. That severely impeded the mother store's expansion in 1953, 1964, and 1974,



with the price of that property escalating beyond reason to six figures. The two small satellite stores of the WW II years were also failures.

Later, the potential of the 1959 Shattuck center expansion was grossly underestimated. Property additions were passed up and facilities underbuilt. CCB bent over backwards in its centers to provide space and services for satellite groups and associates, like the credit union, book co-op, funeral society, ecology center, Mutual Service Insurance, and United Nations Association. This sometimes meant higher cost and inconvenience to CCB's own operations. Regrettably, as leadership personnel changed, gnawing frictions sometimes developed with the tenants. The overall contributions of these groups to the co-op community, however, were considerable. The problem was how to resolve differences in a friendly way with mutual satisfaction.

These were minor flaws, however, in the context of the tremendous growth CCB generated, a growth that masked some shortcomings. An astute top staff person quietly noted in the mid-sixties, "Volume hides a lot of faults." And eventually they catch up with you, he might have added. In 1980, CCB annual volume reached the \$83.6 million high point with pre-tax net savings of \$829,000 after years of minimal or negative earnings. Membership roles totaled 102,500 but 30,000 of them had moved away or were totally inactive. At its peak, CCB ran 12 supermarkets plus natural food stores, a hardware-variety, a wilderness supply, pharmacies, service stations, bottle shops, and a garden nursery.

### **The Seeds of Dissolution**

A prominent characteristic that began to evidence itself in the 1960s among CCB's active leadership was the intensity of an almost self-righteous zeal, a numbing inability to suffer opposing viewpoints without extreme anguish and bitterness. How that squared with a belief in Cooperation was somewhat of an enigma. Do we chalk it up to immaturity or just self-aggrandizement? Or was it simply a reflection of the times dominated by the ominous shadow of the distressing American misadventure in Vietnam? Perhaps it was inescapable in Berkeley where the so-called "Free Speech Movement" and sitdown strikes at the University of California had achieved worldwide notoriety. In any case, an insidious adversarial cloud soon pervaded the entire cooperative.

A few attempts at reconciliation by the more temperate leaders proved abortive. Once the director of Canada's Cooperative College was brought down to conduct a series of sessions for the express purpose of creating constructive dialogue among opposing board members. The hardliners among the progressive activists showed up only for the first session, at which they participated nominally, leaving the others thereafter just to talk to themselves.

It wasn't clear whether they had other pressing engagements or just regarded those sessions as unproductive and futile.

The principal casualty of divisive membership and leadership was sound business practices. "A co-op that is not run first and foremost as a business won't be around long enough to start any kind of revolution," Phil Kreitner declared at the 1977 "Wind Through the Pines" symposium of the budding "new wave" co-ops, held in Austin, Texas. Co-ops uncomfortable with that emphasis preferred the other side of the coin. Like Dr. Toyohiko Kagawa, they were convinced that a cooperative dedicated solely to business would lose the larger vision concerned with peace, justice, and general moral—and for some, religious—principles. If the business was not run first and foremost as a co-op, they wanted no part of it. There appeared to be no acceptable middle ground at CCB.

Among the consequences of political turmoil was the inability to attract and retain top managerial talent, resulting in a rapid succession of top personnel changes with the inevitable waste of time, energy and progress towards CCB's stated goals. We were continually reinventing the wheel. The general manager faced the Herculean task of balancing the demands of a lay board with business realities and trying to change directions each time the political balance shifted. A posturing board member once chastised management publicly for the latter's "temerity" in encroaching upon board powers with policy change recommendations.

Under the guise of promoting an egalitarian business organization, board members with pro-labor blinders invariably sided with the rank and file or lower management in disputes with supervisors. Upper management would be characterized as dictatorial and arrogant. Once, after a three-month search, when a qualified black applicant for office manager had been selected, a reversal was ordered because of pressure from the board for affirmative action, this time on behalf of women.

A less qualified woman applicant was hired, who turned out to be heavy-handed and paranoid. Several office employees were on the verge of quitting. It was my responsibility to terminate this office manager, who in turn appealed to an all-woman personnel appeals committee. That committee ordered reinstatement, even though it was not in the best interests of the employees on the lower rung. The board eventually overruled the committee after some tough talk by top management. The person fired was Sara Jane Moore, who a year later gained her 15 minutes of spotlight and fame by attempting to assassinate President Gerald Ford in San Francisco. Hearing that news on TV while I was in Chicago for a conference, I thought, "There but for the grace of God go I."

CCB's future planning stuttered badly. The already slow and involved democratic decision-making process was further stalled by internal bickering

and protracted disagreements. There was a lack of continuity in efforts to obtain the kind of financing needed for improvement of facilities and expansion. CCB had to resort to a sale-leaseback deal to replenish its depleted capital. No longer could CCB rely on earnings from which reserves would be retained and patronage refunds plowed back into shares by members. Proposals were repeatedly rejected to increase the absurdly low membership joining requirements of one \$5 share and a \$1 fee.

Staff demoralization led to further breakdown of discipline and precipitated the departure of capable employees. Perhaps an effective ongoing employee training program or quality circles like those pioneered in Japan might have ameliorated the situation. At the membership level, those tired of complaining about deteriorating store conditions and strident internal dialogue reduced their shopping or stayed away altogether.

### **Business Decisions in the Supermarket World**

Outside competitive pressures also took their toll. The supermarket industry was one of the most competitive in the U.S., and certainly so in California. CCB's competitors were giants with deep pockets. Their aggressive managements could preempt choice locations and afford to sit on them until they became profitable. They had little difficulty in obtaining capital to remodel their facilities, update equipment and open new units. In their large stores they could broaden product lines into high margin nonfoods to offset the industry trend of sagging gross margins. Their buying power and integrated production gave them lower costs and enabled them to employ predatory pricing.

Their multiple stores made possible area-wide advertising programs to develop a low-price image. They had no compunction about adapting CCB innovations into their own merchandising to give the impression of consumer advocacy without the cost burden of in-store personnel like the CCB education assistants. They had access to sophisticated data processing programs for accounting, purchasing, warehousing, and merchandising. By constantly expanding, they kept their average wage costs lower, since new employees entered at the apprentice level. Inexorably, they drove independent merchants into mergers, sell-outs, or closings, because the Federal Trade Commission under the Reagan administration no longer effectively policed monopolistic practices.

It was not a level playing field on which CCB was battling toe-to-toe with the food chains. The name of the game was volume and economy of scale. The industry standard of a 1-2% net income was megabucks for the supermarket private entrepreneurs who concentrated on return on investment and zeroed in on marginal income. For CCB, which in the early years attracted members with patronage refunds based on return on sales, that same small marginal net

income served only to depress the patronage refund rate. A 1-2% refund on annual purchases of \$2,000 was \$20-\$40, just a modest bonus. And by the 1970s the patronage refund had petered out completely, except for those few years when CCB took advantage of strikes against the major food chains. CCB was exempt from union picketing because it had agreed in advance to accept whatever settlement terms were reached in the collective bargaining process.

Instead of trying to keep up with the Joneses in the supermarket world, some felt that CCB should seek its own niche. They said give the members and the community a simple but nutritionally sound grocery program in the consumers' true interest and carry on most of the education work on a volunteer basis. That concept received little consideration, perhaps because it had the overtones of retreat.

### **The Ups and Downs of Expansion and Contraction**

The early policy of CCB was to grow slowly but surely on a pay-as-you-go basis, owning rather than leasing. This changed suddenly in 1962 with the purchase of the five-store Sid's Stores in a closed board meeting without membership approval, a process that came under fire from some segments of the membership. The seller had refused to become involved in protracted public discussions and negotiations. Although the deal provided a plum in the Telegraph store, some of the others were lemons whose leases were difficult to market later. It was a mixed bag that changed the entire complexion of CCB operations in one fell swoop, yet undeniably offered great opportunities that unfortunately didn't live up to all the rosy expectations.

The mid-seventies purchase of the three inner city Mayfair stores in Oakland was a flawed judgment. The board under "progressive" control felt an obligation to serve the low income neighborhoods of Oakland. The North Oakland store purchase was predicated on a "bare bones" type of operation when pro forma statements were prepared to forecast its viability, particularly because it was so close to the full service Telegraph Avenue Center. Once the store opened, however, management caved in to charges of discrimination and reverted to the conventional supermarket format which would never allow the store to cover its overhead expenses. Even after several years of dismal financial results, the closing of that Oakland store became a bitter political issue and the board was unable to halt the severe hemorrhaging for several more years.

Biting the bullet and closing losing operations was a trying task. Management's documentation of a store's inability to be economically viable would spark heated protests from patrons of that store and rebuttals that it was all due to mismanagement, inadequate promotion, lack of local input on store operations, and a "doom and gloom" approach. The discrimination cry

would come up, whether it was an inner city or "country" (suburban) store. The board would then vote a reprieve for a drive to build the needed patronage and reduce excessive operating costs—a temporizing strategy at best. The closings were eventually packaged, balancing inner city stores with the suburban, including even the El Cerrito Center in 1984, a store that had generally paid its way. A major sell-off was believed essential to raising capital as well as cutting losses.

All funds derived from the sale of the stores eventually went down the black hole of continued operating losses. Although losing operations were eliminated, the fixed costs could not readily be reduced in line with the volume decrease caused by store closings, and the bottom line remained red. The alternative of raising shelf prices simply reduced patronage, a vicious circle. The admonition to expand or die became an ultimatum. CCB, however, after all the closings and property sales, had financial resources for but one last expansion.

That one last chance resulted in perhaps CCB's most egregious mistake. An upscale "Savories" store was opened in the very same Marin site that CCB had sold to developers. CCB, and most members in Marin, were not ready for that kind of image change and high cost venture. Despite a squeaky 5-4 board decision, including two doubtful ayes, CCB went ahead on a gamble that far exceeded the projected investment budget and eventually cost upwards of \$2 million in losses. From that point it was a rapid downhill course.

The mid-eighties also witnessed a disastrous, internecine (obscene, one could say) battle between CCB and its regional wholesale Associated Cooperatives, aggravated by personality conflicts. The dispute revolved around CCB's inability to pay current obligations to AC and its unilateral decision to seek another wholesaler to lower its cost of goods. Whatever the merits of the case, the failure to resolve family differences in a sensible and conciliatory manner was inexcusable. The monetary cost was huge, and the damaging effects on organizational relationships and the entire California cooperative movement was irreparable. After all, CCB provided as much as 80% of AC's volume. The abrupt lopping off of AC was a major amputation.

The closing of Savories in 1987 because of mounting losses was the curtain call for CCB. Even though by this time internal hostilities had toned down, the "peace dividend" was meager. The spark was gone and a massive comeback effort had become an impossible dream. The facilities had run down, the board and staff were discouraged, and the bank account registered zero. Creditors were making hard-nosed demands causing bare shelves, operating costs were excessive and irreducible, shelf prices remained outrageously but necessarily high, and store volume was inadequate because only the diehards shopped regularly.

A last-ditch attempt was made in 1988 to convert to a consumer-worker co-op, but the employees and their unions eventually reneged on their commitment. Although many of them professed deep loyalty and attachment to CCB, in the end they seemed resigned to let it die, lose their jobs, and take their chances on finding employment elsewhere. During the final few years, had certain concessions been made in the collective bargaining contracts—not onerous changes—the employees might have staved off what was otherwise inevitable and provided CCB a slim chance for recovery.

### Sayonara

This anecdotal laundry list of shortcomings, errors, and mishaps, at times sounding like a loose cannon, does not readily lead to a summation of what went wrong at CCB. Like the famous Russian wooden doll, there are layers upon layers. A simplistic answer might be that cooperation fell through the cracks and denuded CCB's ability to cope resourcefully with its problems. Yet even with a united cooperative, it would have required exceptional efforts and ingenuity, and perhaps fortuitous circumstances, to have succeeded.

Too many of those involved began to follow their own private agendas. Fatigue set in. In a way, we had the ironic triumph of human failings—egotism and greed, both material and psychic, in which all segments of CCB shared. The shopping members wanted the best of merchandise at the lowest prices without a quid pro quo. Activists insisted on foisting their ideology in toto on everyone else, regardless of economic consequences. Board members and committee chairs in their pursuit of prestige and power lost sight of priorities that would assure CCB's survival. Management didn't control margins and costs, nor did they take certain difficult but necessary actions; a few may have been more interested in feathering their own nests. Employees demanded top wages and benefits regardless of efforts or results.

In a perfect world, co-ops will prosper forever. In our real world, they struggle for existence. Although CCB is now in the past, those of us who were deeply committed have the satisfaction of some memorable accomplishments achieved by working together with a large number of noble individuals devoted to the cause of democracy, justice and peace. We can view our co-op's existence as part of an ecosystem in which flowers bloom then wither, giving off seeds that will germinate and start a new cycle of growth.

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## A Home Economist's Point of View

By Helen Black

*She was a Co-op Home Economist from 1964-1986.*

**W**hat did we do wrong? This is the question we all ask ourselves about the recent collapse of the Co-op, or CCB, the Consumers Cooperative of Berkeley.

My viewpoint is that of a home economist employed by CCB between 1964 and 1986. Working as part of the Education Department, the home economists provided consumer information to shoppers and advocacy of consumer issues as well as some quality control. The program was already well established and highly respected by 1964, largely because of the efforts of our first two home economists, Mary Gullberg and Betsy Wood. Though I had been trained as a hospital dietitian, when the opportunity came to become a CCB home economist, I jumped at the chance. Having lived in the University Students' Cooperative during my college years in Berkeley, and having been a member of CCB since 1943, I was quite familiar with cooperatives.

Both Mary and Betsy consulted with me in writing this article. We all believe there was a serious ambivalence within CCB regarding goals. We see this as an important reason why CCB gradually lost its strong position in the shifting marketplace of a changing society. The home economists experienced this problem firsthand because one prime example was a vacillation about consumer education and advocacy. There was a lack of support for and even outright opposition to the consumer education program from within the organization, yet the program functioned well and inspired great confidence from shoppers.

This uncertainty towards the home economist program is an example of CCB's major malady: the inability to resolve conflicts, identify and agree on goals, then work together to achieve them.

## The Co-op and Changes in Society

To gain some perspective into CCB's problems of survival, it is worth mentioning some of the great social changes that took place in the last several decades.

One that tends to be overlooked has to do with changes in the grocery business that accelerated after World War II. During the 1940s and 1950s, the number of supermarkets greatly increased, with their large variety of foods and nonfoods, self-service, and other innovations. These stores increased in number as smaller, old-fashioned, independent stores were pushed out of business. CCB grew during that period. By the early 1960s, however, the number of supermarkets was not increasing and the smaller stores were mostly gone. Supermarkets then started competing more against each other. When I started work for CCB in 1964, we were already experiencing serious competition from Lucky and Safeway. By the time I left in 1986, we were competing not only against Lucky and Safeway, but also against several nonunion independents who specialized in providing excellent produce.

There were other, profound changes. One was that many more women held jobs. This depleted our supply of competent, eager volunteers to work on committees and projects, and we had to choose from people who tended to be ideologues. It also resulted in changes in food habits, such as more eating in restaurants and greater use of prepared foods. There was the rise of the yuppies—people who indulged themselves, wanted more gourmet foods, and disdained the homely virtues of being economical, even while complaining to CCB if prices were too high! Concurrently, there was an enormously increased interest in nutrition and health. After I retired from CCB in 1986, the consumer information program became almost exclusively about nutrition. The cost of foods, or product information, or information about nonfoods were rarely mentioned. The interest in nutrition was accompanied by burgeoning sales of food supplements, many of which were unnecessary and sometimes even dangerous. It was difficult and controversial to combat this trend. The consumer movement which started to accelerate in the 60s, crested in the 70s, and declined in the 80s. But the *activism* of the 60s resulted in an increase in the distrust of authority (that of CCB as well as government) and a move towards grass-roots control. This seemed to increase the number of issues and the formation of groups taking sides on issues. It had the effect of splintering rather than unifying CCB.

### Our Consumer Education Program: Its Role and Effectiveness

The most important purpose of this program was to provide shoppers with the information necessary to make intelligent buying choices. Such infor-



mation, by definition, must be accurate and *complete*. The latter term distinguishes information from advertising, which may be accurate as far as it goes but is not necessarily complete. So in providing information, it is not acceptable to say only positive things about products; any negative aspects must be pointed out too.

For example, one could say that apple juice is 100% juice from pressed apples with nothing added. But to complete the information, one must also say that apple juice is of low nutritive value, not much better than a soft drink, and not a suitable substitute for milk for a child. When we said such things, we were criticized by staff members who thought it would decrease sales. But that kind of information was appreciated by shoppers and it was crucial to our role as home economists to provide it.

Information was presented in different ways. There were exhibits in the stores on subjects ranging from cost comparisons of dietary protein to how to handle hazardous household chemicals to how to clean and cook squid. Home economists had food tastings each week in the stores and answered shoppers questions. Fact sheets were distributed. Part of the time a home economist was in the main office to answer questions by telephone. Articles on various consumer or nutrition issues appeared in the weekly *Co-op News*. Product information was an especially valuable service, made available through our suppliers.

Home economists also acted as advocates of consumer issues on regulatory and legislative levels. Mary Gullberg testified as an expert witness at hearings in Washington, D.C. Home economists worked with legislators, nutritional scientists from the University of California as well as CCB members to pass a state law requiring the enrichment of refined breads and cereals, on the federal Fair Packaging and Labeling Act, and on Food and Drug Administration regulations for the nutrition labeling of foods. Over the years, around 100 written and oral comments on consumer issues were prepared by CCB home economists.

There were some other functions. One of our home economists worked in an employee training program for a period of time, explaining the CCB consumer education program. We assisted in maintaining quality control, channeling complaints on products back to the warehouse, and sometimes did store inspections for sanitation, etc. For many years, a home economist also served as consultant for the grocery buying committee, providing technical advice on new products. Many an inferior product never reached our shelves because the home economist on the buying committee recognized the label as illegal, or the quality as too poor to satisfy our shoppers.

Was the program successful? If success means being popular with members, the answer is yes. This is shown by surveys of the membership conducted variously by outside firms or by CCB itself and reported in the *Co-op News*.

Also, members expressed appreciation for the service frequently and strongly to home economists in the stores and in letters to the *Co-op News*; we concluded that the program met the needs of the membership. Furthermore, the program helped to develop member loyalty. There were two reasons. One is that because home economists "told it like it was," explaining both sides to a question, members trusted our information and trusted CCB for giving it to them. Advertising is pervasive in the marketing of foods in America. It is one-sided, often outrageously over-stated, and indifferently regulated. Our information service countered advertising and shoppers repeatedly told us how deeply they valued this. Secondly, advocacy of certain consumer reforms in the 60s and 70s gave a *unifying sense of purpose* to CCB members and Education Department staff. These reforms included the Fair Packaging and Labeling Act, the Nutrition Labeling Regulations, and the Enrichment of Refined Breads and Cereals. We worked together to bring about these reforms and had a feeling of pride in our accomplishments.

If success means increasing sales, the answer is not clear. Usually, there was not the time or money for careful evaluation of our programs. Sales were tracked in the case of the "Cereal, Champion of Breakfasts?" project, which involved classifying breakfast cereals as to nutritional values in an insert in the *Co-op News*. Eventually, the cereals were rearranged on store shelves by the same categories. The Recommended whole grain unsugared cereals increased in sales volume, while the Not Recommended highly sugared ones declined. An issue that received much publicity was that of the killing of dolphins during fishing for light meat tuna. When white meat tuna and bonito were identified on our shelves (and in the *Co-op News*) as not threatening dolphins, sales of those products went up.

But if success means having the wholehearted support of management and employees, we failed. We were often seen by employees as a financial liability. The problem was that providing good information inevitably means that some negative comments have to be made about products. This was seen by some employees, both rank and file and management, as being in conflict with their goals of increasing sales as much as possible. This attitude was shared by some board members and by some center councils, who protested to the general manager. At one time we were ordered by the general manager *not* to make such comments; we considered this unacceptable and unethical and prepared for a confrontation that never actually came about. There remained, however, the troubling divisiveness. In my 22 years as a CCB employee, this conflict was never resolved. Many employees never appreciated the tremendous credibility the information program gave to CCB. And CCB was never able to steadfastly and clearly affirm a policy of providing such information. Hence, we were like those two donkeys in the Co-op Movement poster, pulling in opposite directions.

## What Might Have Been

In the view of some, CCB lost its identity because it tried to respond to so many opposing goals. The advocacy of controversial issues had a divisive effect; while some of these were consumer issues (such as water fluoridation), most were political. The boycott of nonunion grapes was one which drew many people to CCB while it antagonized others so much that they stopped shopping at CCB. In the early 1980s, the dispute over carrying Chilean fruit pitted those wishing to boycott the repressive Pinochet regime in Chile against shoppers wishing to buy the fruit together with produce employees who saw a ban as putting CCB at a serious disadvantage with competitors. With opinion so sharply divided, any decision CCB made was bound to antagonize some groups. Members frequently abandoned CBB when a favored issue was not supported.

In contrast, when the issues espoused were clearly consumer issues, more wholehearted support within the membership could be developed. In retrospect it appears to me that in the '60s and early '70s, there were more such issues. Later, issues tended to be more controversial.

The divisive effect of controversial issues might have been ameliorated by taking less drastic action. Instead of products being dropped by CCB buyers because of protests, or actually banned by board action, we might have limited ourselves to providing pro and con information posted in the stores near the products and explained in the *Co-op News*.

Our splintered organization needed more; it needed to be united by common goals. Our membership had responded strongly to CCB's consumer education and advocacy; we think that CCB had a role to play in serving consumers, beyond being a good grocery store, and that this was the unifying force that might have saved us. The consumer education program was trusted by the membership even during the times when there wasn't much trust. Moreover, the uniqueness of the program derived from the uniqueness of CCB itself; it would have been highly appropriate for all of CCB to solidly support its consumer role.

But whatever binding goal might have been our salvation, we didn't have it. We needed strong agreement on our values at all levels—board, management, employees, members—just to counter the pressures of vocal activists, just to be able to focus on attainable goals. We didn't have that kind of agreement.



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## Failure From Neglect of Co-op Principles

By Robert Schildgen

*Mr. Schildgen has special ties to Japanese co-ops because he is the author of the definitive American biography of Toyohiko Kagawa (Toyohiko Kagawa: Apostle of Love and Social Justice). Schildgen has published many articles on co-ops in various magazines, and was co-editor of CCB's Co-op News from 1978 to 1985. He also served on the CCB Board of Directors in 1986 and 1987. He was the first co-op scholar-in-residence at Oberlin College in Ohio and is currently senior editor at China Books and Periodicals in San Francisco.*

**M**any of the explanations of CCB's decline focus on 1) *external* circumstances, such as intense competition or demographic changes; or 2) *internal* circumstances, such as excessive wage costs, decisions for unwise expansion, or divisive factions in the cooperative. On the surface, such explanations are plausible. But they do not examine what mistakes CCB made specifically *as a co-op*. After all, *any* business may fail for these reasons, whether co-op or capitalist, and thousands do fail, every year. All businesses, co-op or capitalist, must grapple with these problems, and all business schools teach us how. But very few if any business schools teach us how to deal with those economic and cultural problems that are specific to co-ops. Co-ops must still learn these things mostly from each other, and if co-ops hope to learn anything new from CCB's dismal experience, they must understand where CCB failed as a co-op.

A closer examination indicates that the underlying cause of CCB's demise was its *neglect of cooperative principles*. The more obvious causes of CCB's collapse can be traced to this fundamental problem. In fact, neglect of principles became so serious in the later years that CCB had, in many respects, *ceased to be a co-op*.

Of course CCB still had a structure featuring the cooperative principles of democratic control, sharing of net savings, member ownership, education, open membership, and cooperation among co-ops. But it was no longer a vital democratic social organization with the high level of member participation it

once enjoyed. Democratic in name only, in practice it had come under the control of management and a leadership elected from an increasingly diminishing number of candidates by an increasingly smaller fraction of the membership.

The following scrutiny of several crucial points in CCB history will give some clues how this neglect of principles led to specific disastrous decisions.

The 1974 decision to expand into the contiguous city of Oakland is perhaps the most often-cited cause of CCB's decline, but one must ask why and how such a decision was made. The board of directors supported the acquisition of three Oakland supermarkets from another chain for two reasons. It was believed that CCB should acquire the sites in order to spread the benefits of cooperation to the lower income districts where the supermarkets were located. Also, it was hoped that more stores would bring greater "economy of scale" to the operation, by lowering overhead as a percentage of sales and increasing the co-op's buying power.

The most conspicuous violation of a co-op principle here was that the expansion was driven by a "missionary motive," which is basically an undemocratic notion that cooperation can be brought from the outside and given to a community. It is a perfectly sound idea to expand if a community is socially ready for a co-op and has asked for one. But to be successful in a highly competitive environment, the community generally must have time to internalize the cooperative idea, to make that idea its own.

A second problem was serious economic risk. Despite the possible advantages of economy of scale, the fact was that the three stores CCB planned to acquire had not been successful. The basic principle of distribution of net savings implies that a co-op must render some type of economic benefit, which is why modern co-op theoreticians have broadened the concept of distribution of savings into a more general principle of "economy." From the very beginning of the cooperative movement, this economic aspect of redistributing income to consumers was considered a significant means of empowering people. If a co-op fails completely in regard to this principle, it will cease to exist, for the simple reason that members will go to a business where they can obtain greater economic advantages.

To expand without extreme caution and for reasons external to the economic interests of the membership—no matter how idealistic those reasons—can be a violation of this economy principle, which demands scrupulous guarding of the members' assets and an unrelenting effort to achieve economy for the members. CCB leadership, however, was driven by another motive, that of using CCB resources to bring cooperation to those outside the co-op.

Some members understood these problems, and as the board was deliberating the move into Oakland, they objected for several reasons. They argued that Oakland did not yet have a large enough membership base or a thorough

enough understanding of cooperation to sustain three separate centers. They also contended that the facilities under consideration were not adequate for CCB members. Most other facilities designed and built by CCB had been conceived of as multi-purpose community centers, with space for child care, meeting rooms for members and community groups, offices and facilities for other co-ops and affiliates such as the credit union. They were seen as serving a social as well as an economic need.

These were serious objections, coming from experienced cooperators, and they expressed a collective wisdom cautioning against ill-conceived expansion. Yet this wisdom was not fully respected, and many members felt there was too little public discussion of the issues, because the board was eager to conclude the lease agreement. Some members objected to this process, complaining that the decision was arrived at too hastily and with all too little consultation with the membership.

From a superficial point of view, the decision was "democratic," in that a democratically elected board made the decision. But the experience showed that merely electing officers and delegating them to make decisions does not necessarily make for effective democracy. It is only the first act in a democratic process. For cooperative democracy to function fully, people should be empowered through a process that involves participation and communication on many levels. Genuine cooperative democracy is a give and take process involving discussion, lobbying and a respect for the opinions of the membership. In arriving at the decision to expand, the board not only failed to take full advantage of that social power, but chose to neglect it. I say "take advantage of social power," because the collective wisdom of a cooperative is often far greater than the wisdom of a board. The principle of democracy means that the membership is a co-partner. When the leadership starts to regard the members as anything less, it begins to treat them as objects, and begins imitating the capitalist relationship between enterprise and consumer, creating what consumer advocate Ralph Nader has called a "seller sovereign" rather than a "buyer sovereign" situation.

This episode demonstrated a weakening of cooperative democracy which had actually been taking place for some time. The percentage of members voting in elections and the number of people running for the board and other offices and serving on committees had been steadily dropping since the mid-1960s. In 1967 the organization had 39,000 members and almost 25% voted in the annual board elections, choosing from a crowded field of 15 candidates. Fifteen years later, a mere 10%, or 11,000 out of a membership that had swollen to over 100,000, managed to vote among only six candidates.

Clearly the cooperative had a much bigger pool of talented and active members to draw on in 1967 than it did later, at a time when external circumstances made it much more vulnerable and therefore more in need of that tal-

ent. Although there had been a slight decrease—down to 20%—in the percentage of members voting through the early and mid-1970s, there was a steep drop in the 1978 elections, with only 13% of the members voting.

Unfortunately, instead of being alarmed at this and giving it full attention, CCB leaders tended to ignore the problem.

Although the decision to expand was reached undemocratically and without sufficient regard for the economy principle, the Oakland stores might have been more successful if sufficient attention had been paid to a third principle: education. However, at about the same time that a massive education effort was needed, the majority of the education staff was laid off. So there was a serious shortage of education personnel to inform the community about CCB at this crucial point.

The Oakland centers operated in the red from the time they were opened; and by 1978, the board decided to close two of them. However, in one center the community erupted in protest, demanding that CCB remain in the location. Nor were they alone in their desire to keep the site open. CCB members from other locations thought this store still had potential, and they were willing to give it another try. The public board meetings were packed, as members and community leaders mounted a campaign to persuade the board to reverse its decision. The board relented and allowed the store to stay open on the condition that it reach a minimum sales volume. The local members responded with a neighborhood campaign, and for the first few months, the store met the sales criteria.

On the positive side, the board did respond to its membership in keeping the store open. In making this decision, the board also respected the principle of economy, because it set a measurable performance standard. It was made clear that the large losses could not be subsidized indefinitely by the cooperative. At this point too, some extra effort was being expended in another area of cooperative principles: there was an attempt to persuade more residents to shop at the store. However, none of this was the type of education work that develops long range loyalty or an understanding of cooperative principles, goals and values. It was more on the order of door-to-door canvassing, which has short-term effectiveness but cannot build cooperative consciousness or loyalty because it does not actively engage members in co-op activities.

After a few months of initial excitement, there was no sustained attention either to the principle of economy or to education at this location over the next five years. In less than six months, the store's volume slipped below the performance standard set earlier, but the board allowed it to remain open. The store bled on for another four years, losing over a million dollars, before it was finally closed.

Oakland was by no means the sole cause of problems. A decline in co-op



education was weakening CCB at all its locations. For many years, there had been a full-time "education assistant" in each of the stores. These employees usually staffed an education booth, offering brief explanations of the cooperative to prospective members, doing community relations, coordinating various member activities at each center, and generally providing a link between co-op and community. Yet the board and management considered these education personnel expendable, and in the summer of 1978 all of these education assistants were laid off, purportedly to save money. At the same time, CCB launched a costly media advertising campaign, with poor results.

The leadership of CCB at this point basically abandoned the traditional approach of educating through person-to-person contact and attempted to imitate the large supermarket chains with conventional advertising. In doing so, the leadership not only offended many members and neglected a co-op principle, but ignored a basic cultural reality of American life. Corporate advertising in the U.S. is so pervasive and so powerful that it is an intrinsic part of the culture, something millions of people are more familiar with than any other cultural tradition. All Americans literally have big businesses programmed into their nervous systems (by the age of eight, the average American child has spent almost a year of life watching television). The TV jingles and slogans of major supermarkets float continually through American minds, and proof of the effectiveness of this propaganda is that the companies themselves spend billions on it.

Because of this propaganda, people moving into an area instinctively look for a major supermarket, without even considering the cooperative possibility, which they may very well never have heard of. It is obvious that CCB could not hope to undo the effects of such psychological conditioning through advertising alone. A different approach was necessary, and that was to rely on the power of personal contact—a sort of guerrilla counterattack on the prevailing cultural forces which not only lure people to big chains, but socialize them to feel that the chains are an essential, positive part of their lives. (In fact, one supermarket chain, Safeway, has a famous slogan, "Since we're neighbors, let's be friends.") The education assistants provided this genuine personal contact and gave continuity to members' involvement. They enhanced the social dimension of community in CCB, a noneconomic element that drew many people to CCB and a dimension that is as significant as the economic.

One of the most commonly heard complaints in CCB's declining years was that it was becoming "just another supermarket"—and it was the loss of the old sense of community that was a major element in those legitimate complaints. A particularly unfortunate consequence of the layoffs occurred the following year, when CCB's competitors were involved in a strike. Many non-CCB shoppers poured into CCB stores during this period, but there was no education staff to explain the co-op and its policies or even to help with the

mechanics of signing up new members. As a result, a rare opportunity to build membership was squandered.

There was also a deeper problem with the quality of cooperative education which had begun even earlier. Serious education of cooperators, as opposed to merely signing up new members, had not taken place in years. Little was being done to build up a base of committed members who thoroughly understood the demands and responsibilities of cooperation and could have provided the loyal core of members necessary for success. By the mid-1960s, in this organization that was soon to grow to 120,000 members, there was no cooperative library, no organized classes or study groups in cooperation, and only on rare occasions such as annual meetings were there guest speakers or seminars on cooperatives and related topics. By contrast, in the 1940s, 1950s, and early 1960s, there had been considerable activity in these areas. This type of activity diminished as the years went by, as the focus became increasingly on the volume of recruitment rather than the quality of member education. In the mid-1960s, the library, which had once been in a local store, was actually moved to the corporate headquarters, four miles from Berkeley, even further from Oakland, impossible to reach by public transit, and appreciably closer to only two of the twelve supermarkets CCB operated at its peak.

The decline in the quality of education was described by a former board member, Anne Dorst, who recalled that prior to the mid-1960s: "We were extremely careful in educating new members. When I first joined (in 1952) we actually did not accept new members until the person had taken the material home and read it. Then, beginning in the 1960s, we seemed to have a new approach to membership, focused on increasing numbers, not on educating members as to what they were joining and what their responsibilities were."

Though based in a city which boasts one of the world's great universities, CCB was, to put it with brutal frankness, intellectually dead. It had lost the ability to engage the attention of more than a very small portion of the many gifted and innovative people who continued to shop there and who might have had the energy and creativity to revitalize it.

As the years passed, there was no serious effort either to improve education or to use it to invigorate cooperative democracy. Instead, a vicious cycle began, with continuing sales slumps forcing additional cutbacks in education which led to further decreases in sales.

The problem of deterioration of democracy was related to the disregard for a fourth principle, the principle of open *membership*. Again, as with the other principles, it was superficially honored. CCB had open membership and barred no one of any race, creed, or sexual persuasion from joining. However, while the letter of the law was observed, there was neglect in considering the full meaning of the concept of open membership. Just as democracy means more than mere voting, open membership means more than merely allowing

anybody to join a co-op. Open membership, in the fullest sense of the word, means being open to one's fellow members. This is another subjective aspect of co-op democracy, one which is always more complex to manage than mere personnel and consumer relations in an ordinary business. To capture the full meaning of this principle, it is instructive, as always, to go back to the Rochdale situation itself. The Rochdale Society of Equitable Pioneers was founded in a time and place highly charged by both political and religious sectarianism. As its earliest historian, George Holyoake, pointed out, the 28 charter members were themselves a rather disparate group in both politics and religion. And some apparently had no politics or religion at all. To have excluded or antagonized any of the half-dozen sects and factions to which they belonged would have immediately limited the market and created divisiveness within the membership.

The Rochdale pioneers consciously avoided this, and took pains to emphasize the importance of tolerance in discussion, as Holyoake pointed out with a few pungent examples. This is because open membership meant not only allowing any individual to join, regardless of beliefs, but tolerating that individual's beliefs. This was a *social* style of tolerance which was very much a part of the cooperative *culture* the pioneers were attempting to build. It was explicitly borrowed from the socialist thought of Robert Owen, who opposed sectarianism and saw as his major goal the creation of a more harmonious, open society.

In its broadest sense, then, open membership means a cultivation of open-mindedness and avoidance of the kind of doctrinal conflicts that can tear an organization apart. It was precisely this type of open-mindedness which disappeared from CCB in the 1960s. Debates over issues such as consumer boycotts, for example, grew extremely strident and two factions developed. Indulging in increasingly bitter disputes, both factions lost sight of the overriding value of the cooperative by getting into standoffs on their own particular agendas, instead of practicing cooperative democracy. By the mid-1970s, CCB elections began to ape American political campaigns, with the co-op broken up into two "parties." Each faction raised money for campaigns and each sponsored a slate of candidates. The more conservative faction invoked the old Rochdale principle of political neutrality, and misinterpreted it to mean that the cooperative could not take a stand on social issues without jeopardizing its neutrality. (Ironically, in dogmatically holding to this position, they exhibited the very intolerance which the Rochdale Pioneers had sought to avoid.) The more radical faction responded in kind, pressing its demands in an abrasive manner and escalating the hostility. The very style of the debates alienated some of those members who cherished the idea of cooperation as a form of social harmony. They had had their share of harsh debates too, but there was a general understanding that the co-op had to maintain a sense of solidar-

ity that would override other disagreements.

Besides driving some members out of active participation, these polarized attitudes further stunted democratic dialogue. Had sufficient attention been paid to the real meaning of open membership, this schism might have been averted. But because of the basic weakness in cooperative education, few people were thinking seriously about the problem. (It is interesting to note how the cooperative principles are interlinked and how ignoring one can affect another. This is especially true of cooperative education—the basic education which enables members to participate in and reflect intelligently on the cooperative.)

Aside from these examples of the erosion of democracy and education, there were three other crucial points at which the cooperative suffered from a neglect of its principles:

- 1) The first was in the area of labor costs. As early as 1981, CCB's auditors had called attention to the fact that labor costs were out of line with the industry average in the trade area by a factor of about one percent of sales (which in the American supermarket industry can mean the difference between success and failure). The primary reason for these rising costs was that in the union contract there was a rather large spread between the wages of apprentices and journeymen. Under such a contract, a company that is not adding new units, or is in fact closing units, soon finds itself with a larger proportion of higher paid journeymen than an expanding operation. This meant that CCB was caught in a situation of escalating labor costs, because it had ceased expanding and each time it closed a location, the employees lower in seniority were laid off, leaving only higher paid staff. By late 1985, the gap between CCB and the industry average had widened to more than five percent of sales, meaning that CCB had to pay approximately \$2 million a year more than a competitor with a similar contract would have paid in wages at the same locations.

In negotiations, CCB did not ask for concessions from the union which even approached this figure. Most members of the board felt (wrongly, in my opinion) that it was inappropriate for CCB, which had a long record of support for union causes, to ask workers for a concession. Traditionally, the organization had always accepted the same general contract as the major capitalist supermarkets in the area. There was a strong attachment to the union cause and an almost reflexive reluctance to engage in any serious conflict with the union. Moreover, the board was afraid to demand a large concession because it feared provoking a strike. (There was a feeling that the financially weak organization could not weather a strike in a strongly pro-union city like Berkeley—a questionable assumption, as CCB's affiliated credit union had survived a strike in 1974 and is still thriving.) Because of this reluctance to demand a more realistic wage package, the cooperative went into negotiations in 1986

asking for only a \$500,000 adjustment from the standard contract, and received even less in concessions from the unions.

This failure to fight for a wage package that would put the cooperative on a par with its competitors was the ultimate betrayal of the cooperative principle of economy, because it basically subordinated the members' economic interest to the interest of another group. Instead of tackling the labor cost problem early on, the leadership covered operating losses by selling property and leaseholds. Between 1978 and 1986, three sites worth over \$6 million were sold. The cooperative was in effect transferring the assets of the members to its staff, by selling off assets to pay wages. There can be no clearer abdication of the principle of economy for the members than this. Even in the worst case scenario, a decision to declare bankruptcy because of a lengthy strike would have at least preserved some of the substantial equity which the members had built up in the cooperative over its 50-year history. Again, faulty education comes into play. There had been little effort over the years to give cooperative education to CCB staff, and the majority of employees remained as alienated from CCB as they would have been from any other employer. Many employees were not even members, knew nothing of co-ops, and related to CCB as they would have to any other supermarket employer. Had the employees known more, both of CCB's purpose and its problems, they might have been both more productive and more willing to help develop a solution to the wage problem.

2) In 1984, there was another example of a profound neglect of both the democratic and economic principles. A CCB-owned site in Marin County, across the bay from Berkeley, had been sold because of its persistent losses. CCB management then proposed opening a smaller, "upscale" store to be leased at the same location. The cost of setting up this new operation was projected to be \$600,000. The idea was to do some innovative marketing, charge high prices, and make money from an affluent clientele in one of America's wealthiest counties. To put it in the crudest terms, the management saw a large contingent of "yuppies" and believed a profit could be made from their willingness to purchase gourmet foods at a premium price. The conception itself was completely capitalistic and predatory, though it did contain a rather twisted element of the old Robin Hood sentiment of robbing the rich to give to the poor. The antithesis of cooperative economics, it was a seller sovereign approach of going out, creating a market, and making money from consumers, rather than developing services for consumers. Worse yet, there had been no demand from members in the Marin area for this type of a store, and indeed some objected to it strongly, as being non-cooperative and not something their community wanted. A very basic element of the principle of economy is the emphasis on thrift in a cooperative, thrift in the broadest sense of avoiding predatory marketing practices which extract money from consumers for

profit. And CCB had built a national reputation by teaching consumers how to avoid wasting money on uneconomical or unhealthy purchases. Yet extracting profit from consumers was precisely the technique applied in this venture.

As might be expected, there were some members who questioned the wisdom of returning in a new format to a location which the cooperative had recently sold because it was not successful. These members felt that the wisest course of action was to use CCB's limited resources to strengthen remaining locations rather than embark on a new venture.

However, by this time in CCB history, the level of active participation was so low that these objections were not expressed forcefully enough by a large enough group of members. In the end, at a meeting attended by less than 50 members, the board voted by a five to four margin to embark on this venture, which turned out to be a greater disaster than even the worst pessimist had predicted, losing as much as \$60,000 a month.

3) During this same period, CCB became involved in a complex and bitter dispute with Associated Cooperatives (AC), a wholesale owned by about 20 California co-ops. At its peak, AC did about \$55 million in sales per year, but because CCB was its main customer (65 percent of its volume) it was severely hurt by CCB's retrenchment. At the time problems arose, CCB had over a million dollars on deposit with AC. Far behind in its payments to the wholesale, CCB proposed using this deposit as a payment for goods. AC, however, did not regard this money as a mere deposit, but as an equity investment in the wholesale, and therefore insisted that CCB pay the more than a million dollars it owed. Negotiations between the two cooperatives broke down, and the matter went to court, which ruled in AC's favor. The legal battle turned out to be an ugly public display of the complete breakdown in a fifth co-op principle: *cooperation among cooperatives*. Indeed, the only one of the six international cooperative principles which had not been ignored or violated in the decades of decline was that of limited interest on share dividends, but CCB was hardly in a position to flout this one, because it hadn't been able to pay dividends during this period anyway.

In conclusion, while the surface explanations of this sad story are certainly plausible, the deeper roots of CCB's problems were in the failure to inculcate and study cooperative principles and arduously apply them to day-to-day operations or the crucial decision-making process. Indeed, CCB had drifted so far from democratic control and from even perceiving the very need to engage people in democratic activity that major decisions were being made by a handful of officers elected by a small percentage of the members. The problem was further aggravated by the fact that leadership sometimes completely lost sight of the principle of economy, allowing itself to be swayed by concerns and interests which were directly and strongly at odds with this principle. Violation of the spirit of open membership led to a divisiveness and dis-

affection which further weakened both the organization and its democracy. At the heart of the problem was lack of education, which resulted in a lack of involvement and a dearth of members thinking seriously about what a co-op is, what its specific needs and problems are, and how co-op principles should be applied. The reason members complained that CCB had become like other supermarkets was because elected officials and management had forgotten the basic operational and social features which make co-ops different in the first place.

There is no doubt that because of the intensity of the competition, the diversity of the community, and the complexity of the clashing interests, an urban supermarket co-op of this size is more difficult to manage than a single purpose co-op, such as a credit union. But the sobering lessons learned about applying co-op principles are relevant for any co-op, any time, anywhere. The experience at CCB makes it plain that attention to principles must consist of more than merely learning the Rochdale catechism (though too many American co-ops don't even require this minimum knowledge). Attention to principles should involve continual study and investigation of what they mean, both in their historical roots and in how they might be applied to concrete situations in a modern co-op.



The Co-op News was popular with members. This weekly paper was CCB's main advertising vehicle and covered a wide variety of consumer issues as well as news of CCB and other co-ops.



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## An Unsuitable Job for a Cooperative?

By Lynn MacDonald

*From 1973 to 1981 Lynn MacDonald worked her way from substitute checker to general manager at North Coast Cooperative. She then moved to the Bay Area to accept the position of director of development at Associated Cooperatives where she provided technical assistance and management consulting to AC's member co-ops. For most of 1983 she also served as education director at CCB. In late 1983, she became general manager at CCB, a position she held until 1986. After leaving CCB she completed a Masters of Business Administration with honors at St. Mary's College. She is now vice president of sales and marketing for a specialty food manufacturer.*

**O**n January 15, 1990, Andronico's Park and Shop, a small grocery chain, opened its fifth and glitziest store at the site of the formerly phenomenal Shattuck Avenue Co-op Center. As crowds thronged in to view the newest addition to Berkeley's so-called gourmet ghetto, many remembered the former Co-op store but relatively few mourned its passing. Once Consumers Cooperative of Berkeley (CCB) was the heart and soul of Berkeley; CCB was the only place for Berkeley's multitudes of politically conscious and correct consumers to shop. And yet, when the warning sounds of the final days of CCB were heard, few came to its aid. By 1986, all but a handful of members were willing to let CCB go by the wayside with other relics of Berkeley's radical past.

Much has been and will be said and written about why, who, where, and when CCB failed. I would like to step back from the personalities, the specific management decisions, and the conflicts to examine the proposition that the root of the problem lay in the cooperative structure itself, that the cooperative by the 1980s was in fact an inappropriate structure to compete effectively in the U.S. food retailing industry.

### The Industry

Let us first examine the structure of the retail grocery industry in which CCB operated its core business. The economic foundation of CCB's success from founding until the 1960s had been based on an environment where inde-

pendent retailers flourished. However, by the early 1970s, the retail grocery business had become a market share game.

In 1973, independent retailers in the Bay Area had a 58% market share and numerous chains controlled only 42%. By the end of the following decade, however, three chains, Safeway, Lucky, and Alpha Beta, controlled over 60% of retail food sales. Small operators consolidated, went bankrupt, or were bought up by larger chains. Enormous economies of scale began to accrue to these large chains—in product buying power, in site acquisition, in equipment purchase, and in employee bargaining and utilization. As the major participants gained experience, their costs also began to decline. This phenomenon, known as the “Experience Curve,” has been widely observed and studied for decades across many different industries. A graphic depiction of this phenomenon looks like this:

The chains, by accruing “experience” and volume faster than the independents (by virtue of more and larger stores), were able to decrease their unit costs more quickly and thereby increase their profitability.

In general, the chains operated larger stores with broader product lines. The larger format permitted more efficient utilization of labor and a more profitable mix of products. In a larger store, management could add high margin nonfood products not included in the older formats and thereby increase overall store profitability.

Chains built an ever lower cost of goods through centralized warehousing and increasing volume. When chains operated over 150 stores with a central warehouse, the buying power and efficiencies were tremendous.

In the 1970s, power shifted in the U.S. food industry from the manufacturers to the retailers as the chains realized they controlled what the manufacturers needed—access to the customer through retail shelf space. The concentration of retail shelf space in the hands of a few very large retailers allowed them to exert tremendous pressures on the cost of goods. The chains began to demand payments from manufacturers for simply putting a product on the shelf, for advertising monies, for price protection, and for a host of other services which added up to large monetary advantages to the chains that were unavailable to smaller retailers. While the theory of the Robinson-Patman Fair Trade Act runs that all customers must be treated equally (i.e., manufacturers must offer the same deals to the same classes of customers), the practice remains that the bigger the chain, the more money it can extract from manufacturers and distributors. Companies as small as CCB could expect to receive very little income from this source.

Associated Cooperatives (AC) was established in the late 1930s to meet the needs of the emerging cooperative businesses in the state of California. It provided cooperative grocery stores with their own private label—CO-OP brand. However, by the 1980s, CCB’s unshakeable commitment to its own

wholesale actually increased its cost of goods. By 1980, fewer than twenty supermarket-sized cooperative stores were purchasing from AC. But industry standards at that time required at least 100 stores to maintain an efficient warehouse operation. Rather than improving the economies of scale through centralized warehousing, AC actually decreased the stores' profitability by adding a cost of goods at 7 to 8% of retail sales rather than the 3 to 4% of the chains.

CCB also found itself losing ground on the labor front. While all major chains were unionized as was CCB, beginning in the late '70s contract negotiations resulted in cost savings available only to expanding businesses. However, the number of CCB employees was contracting as losing stores were closed. Not only was CCB unable to take advantage of the lower new hire rates, its workforce consisted entirely of senior clerks at the highest rates of pay and benefits. By 1983, CCB average labor costs were \$2 to \$3 per hour higher than its chain competition.

In the '50s and '60s, as the chains increased their economies of scale, they were relatively content to maintain a consistent level of pricing. This had the effect of creating a price umbrella for CCB and tremendous profits for the chains, which they could use to increase their market share.

CCB experienced some very profitable years during this period and was able to return substantial patronage refunds to its members. But it was living on borrowed time and it wasn't watching the clock. As in all industries, prices tend to follow costs based on the business imperative, "Price along the experience curve or lose market share." In the late '70s, as the chains began to aggressively seek market share, they decreased their prices and placed an inexorable price squeeze on CCB. The chains with lower cost structures could lower prices and remain profitable. The inefficient independent retailers, including CCB, began to be weeded out.

As CCB struggled to maintain its competitive position, it found it could no longer provide many of the services that had differentiated it from other supermarkets in consumers' minds. The kiddie korral was closed and consumers could no longer find a home economist in every store. Because CCB was no longer operating profitably, it could no longer afford to pay patronage refunds to the members. As Lucky became the dominant price leader in the Bay Area, consumers began to perceive CCB as a more expensive place to shop.

At the same time, Safeway and Andronico's began to usurp another of CCB's particular niches—a wide variety of food products. These stores added natural foods, ethnic foods, gourmet foods, delis, and bakeries. CCB was unable to respond appropriately largely because its major source of capital—the retained portion of the patronage refund—was no longer providing capital since there were no more profits. The patronage refund only generated capital when CCB was operating profitably. CCB's smaller and more inefficient stores

continued to degenerate as all investment in them was put off until a more profitable year.

### The Cooperative Democratic Structure

CCB was run by a nine-member board of directors elected by a membership of over 135,000. In general, elections are won by a set of skills unrelated to the skills required for business decision making in a fiercely competitive industry in which one is clearly the underdog. Quick action, mid-course alterations, flexible financing, and a clear focus are required to compete effectively as a niche marketer. Group leadership at its best has difficulty in maintaining the entrepreneurial spirit and the mobility and momentum required to be a guerilla marketer in a world of efficient giants.

In fact, democratic leadership lends itself better to a stable environment run by a bureaucracy than to a swiftly changing, highly competitive market. Diffused power tends to be conservative and democratic leadership is often more concerned about its public image and electability than today's hard business decisions. Democracies can be held hostage to minority rights resulting in corporate paralysis when swift bold action is required. At numerous times in CCB's history, a community outcry resulted in keeping open a losing operation far beyond any hope of salvage.

The democratic nature of the cooperative also introduced a host of other nonbusiness issues into the company which hampered efficient business operations. CCB was almost schizophrenic as it vacillated between trying to decide whether its mission was to achieve social and political change or economic change. The board was often bogged down with decisions about which products to boycott instead of how to deal with rising labor costs or the inefficiency of the wholesale. Members wanted a "politically correct" co-op, but few agreed on what that meant in practice. Freedom of choice or restriction of choice? Information or boycott? Involvement in community issues or stick to the knitting? Activists from different sectors of the membership put CCB in the position of being all things to all people—an impossible dream for any organization. One member proclaimed righteously, "If the Co-op is going to sell Chilean produce, I'll shop at Safeway"—which of course sold unlabeled Chilean produce and didn't care what she thought about it.

Democratic structures are by their natures bureaucratic and slow to change. For CCB, this meant among other things an inability to understand that the wholesale which had been so important in the past for maintaining retail competitiveness had become a drag on CCB in the retailing environment of the 1980s. It also meant that CCB had no politically acceptable way of dealing with the unions which it had always supported but which were now putting it into a noncompetitive position. Further, CCB had lost its market niche and uniqueness. It seemed only capable of calling up the solutions of the 1960s

to meet the challenges of two decades later. Kiddie korrals and home economists were no longer possible. But what would differentiate CCB in the '80s? The democratic structure made it difficult to come up with a new coalescing strategy.

Another difficulty with the democratic structure in an intensely competitive industry was a lack of consistent vision and leadership. Every year one-third of the board was up for election. Two "political" parties dominated the elections with slates of candidates. Control of the board shifted back and forth between the two and hence so did the vision guiding the cooperative. Management changed almost as rapidly. From 1976 to 1986, CCB experienced seven different general managers. The board that hired a given manager was often not the same board which was then to work with that manager. Often management and the board found themselves painfully at odds, thus further polarizing the membership and the employees.

By the 1980s, CCB was a business woefully out of sync with its industry and chaotic within its own structure. The impact of all these conflicts on the rank and file employees was the final nail in the coffin. A general sense of failure pervaded the company. As the years of losses continued, board and membership, and board and management continued to feud, and employee morale plummeted. Employee loyalty turned toward the union which appeared far more stable than the cooperative. When it came down to a choice between the union and the cooperative, the employees did not have enough faith in CCB.

The corporate culture at CCB was fragmented, uncertain, and poorly understood; the corporate values were unfocused and conflicting. New boards often brought in a new set of values to impose on top of, but sometimes in conflict with, the old. In their book, *In Search of Excellence*, Peters and Waterman indicated that most successful firms are value driven. CCB often found its cooperative value system in conflict with the value system of the retail grocery industry. The cooperative value system believed that product boycotts, political statements and actions, consumer education, and member participation would attract more customers. The industry value system believed that new store formats, increased price advertising, clean stores, and product variety would attract more sales. The clash of these two value systems left the CCB value system less and less clear externally and internally. A clear vision and sense of purpose did not exist for membership, board, management, or rank and file employees.

In the late '70s and early '80s, a new retail format emerged that seemed perfect for a cooperative venture—the club store. Consumers became members of these clubs and paid annual dues for the privilege of buying a wide variety of merchandise at extremely low prices. The National Co-op Bank had the money to fund such large ventures. While a few voices in the cooperatives did recognize the opportunity presented by the club format, not one consumer

co-op in the U.S. came forward with a realistic business plan to take advantage of one of the last frontiers of the grocery retailing industry. In fairness, the grocery industry itself seemed to miss the potential of this format. While a few chains mimicked the clubs (e.g., Kroger with its now sold off Price Savers division), the pioneering work and the most successful applications were done by people outside the industry—Sam's Wholesale Club, Price Club, and Costco.

On page one of the April 14, 1990 *New York Times*, an article appeared entitled "The fall of Bonwit Teller [an upscale U.S. department store]: Did Time Pass Chain By?" The similarities with CCB's demise are striking:

*"The unhappy story of Bonwit's demise, according to analysts, is a case of a retailer that first lost its edge in marketing and then became a repeated takeover target with each new owner shifting strategies. The result understandably confused customers, who fled to other stores. And so Bonwit's once-profitable marketing formula of catering mainly to affluent, fashion-conscious women was squandered. 'I don't mean to be unkind,' said Marvin J. Rothenberg, head of the retail marketing consulting firm bearing his name, 'but Bonwit Teller was dead for years, only no one buried it.'"*

CCB too lost its marketing edge without clearly understanding why or when. Although not subject to buyouts and takeovers, CCB's numerous changes in management and strategy led to the same lack of focus and consistency. CCB management attention (I include both board and line management in this) was focused on almost everything but running a successful business.

The conclusion to which I am led is that the cooperative democratic structure is an inappropriate structure for a successful business operation in the U.S. food retailing industry. While poor decisions by board and management and political infighting may have hastened CCB's demise, the structure itself doomed the cooperative to be an ineffective participant in the retail grocery industry. Much of the cooperative's original niche—price, variety and consumer information—had been co-opted and even surpassed by CCB's competitors. In an industry where the requirements for success are a significant capital pool, volume, economies of scale, focused strategy, flexibility, mobility, and most of all market share, the democratic structure was too cumbersome to allow CCB to change as much and as rapidly as was needed to survive. The cooperative structure was imposed on an industry where it could not effectively compete. The management dictum, "Structure follows strategy" was ignored. In fact, consumer watchdog organizations and government lobbying efforts may better serve broad numbers of consumers in the 1990s than direct economic participation in an industry controlled by efficient and powerful giants.

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## The Rise and Fall of CCB

By Margaret S. Gordon

*Margaret Gordon is a Professor of Economics, University of California at Berkeley, and was a Co-op Board Member, 1980-1988.*

**I**t is almost exactly 50 years since my late husband and I joined the Consumers Cooperative of Berkeley (CCB). We had moved to Berkeley from Cambridge, Massachusetts, in the summer of 1938, when my husband was appointed Assistant Professor of Economics at the University of California. Not long after, we were driving west on University Avenue one day when we saw a sign that said "Co-op." We immediately stopped and went in, having been familiar with a co-op in Cambridge.

It was a tiny shop, with, as I recall, only dry groceries—no produce or meat. There was a single clerk, and we were the only customers in the store as we looked around. From that small beginning there gradually developed the largest consumer co-op in the Continental United States, with, at its peak, 12 supermarkets, a hardware/variety store, more than 100,000 members, and annual sales of slightly over \$80 million, even bigger than Greenbelt in the DC area. Three of the supermarkets were in Berkeley, and the others were in neighboring communities of the San Francisco Bay Area.

What were the reasons for the initial impressive success of CCB and its ultimate failure? In facing this question, I shall be writing as an active participant. My husband and I were very much involved with CCB over many years. He was an economist with a strong interest in business management and was a member of the CCB Board for nine years between 1951 and 1960, serving as president for five of those years. Afterward, he continued to be involved as chair of the management committee or as a member of various ad hoc committees.

My involvement came much later. Although I served on a few committees in the 1970s, it was not until 1979, a year after my husband's death, that I was persuaded to become a candidate for the board. I served on the board from 1980 through 1987 (part of the time as first alternate) and was president in 1982. Like my husband, I had a doctor's degree in economics.

I propose to consider: 1) the chief reasons for CCB's strength during its first few decades; 2) some of the factors that contributed to the gradual weakening of its position from the 1960s on; and 3) a series of interrelated developments from 1985 on that finally led to disastrous losses which could not be overcome.

### CCB's Strength

A primary reason for CCB's strength and healthy growth during its first few decades has to be found in the characteristics of Berkeley's population. Berkeley is a university community, in which a sizable proportion of the population is somewhat informed about co-ops and sympathetic to them. There are other examples of university communities in which strong co-ops developed, at least for a time—Palo Alto (the home of Stanford University), Hyde Park (near the University of Chicago), Hanover (the home of Dartmouth College), and several others.

Another important aspect of Berkeley's population was the presence of a large number of Finns with a tradition of interest in co-ops. The Finns had opened a cooperative gasoline station, which later merged with the cooperative food store. During the 1950s, several of my husband's fellow board members were Finnish-Americans. Moreover, the late Eugene Mannila, who was general manager of CCB from 1947 to 1971, and who played a major role in guiding CCB through its most successful years, was a Finnish-American.

We shall find, when we consider the results of a 1982 membership survey in the next section, that Berkeley members tended to spend more at CCB than members in other areas where stores were developed. This was at least partly attributable to the fact that most members in Berkeley lived not more than a mile or two from one of the three Berkeley stores, whereas members in the areas of some of the other stores were much more scattered.

### Growing Weaknesses

As Robert Neptune concludes in his chapter, there were a number of reasons for what he calls the growing "disintegration" of the three large cooperative organizations in Northern California—CCB, the Palo Alto Co-op, and Associated Cooperatives, the wholesale. Since I am in virtually complete agreement with him, I shall not repeat what he has to say, but will present some illuminating data based on a large-scale membership survey that I organized while I was president in 1982, as well as an analysis of population data from the 1980 Census that I undertook in the same year.

In designing the membership survey, which was carried out in cooperation with the Survey Research Center of the University of California, we sorted



the members in the area of each CCB supermarket into four groups, according to their total expenditures at CCB in 1981 and their holdings of membership shares, and then drew a random sample from each of these groups. Group 1, for example, included members who had spent \$500 or more at CCB in 1981 and held \$100 or more in membership shares. If we had simply drawn a random sample of all members, the data would have been swamped by the many members who purchased very little at CCB.

One of the most striking results of the survey indicated that Berkeley members tended to spend more at CCB than members in other areas (Table 1). Among the Group 1 members, median expenditures in 1981 were considerably higher at the Shattuck Avenue supermarket (by far the most successful of CCB stores in terms of total sales and net earnings) than at any of the other supermarkets, but median expenditures at the other two Berkeley stores—

Table 1

**Differences in Spending Patterns at CCB by Supermarket Area**

	Median Spending in 1981—Group 1 Only	Percent of Food Budget Spent	
		All or Most	Little or None
(Percent of All Respondents)			
University	\$1,547	37.1	15.4
Shattuck	\$1,987	35.3	21.2
Telegraph	\$1,624	23.8	23.8
North Oakland	\$1,241	33.8	25.0
Geary Road	\$1,389	19.7	45.9
El Cerrito	\$1,161	16.0	23.7
Marin	\$1,274	28.5	25.2
Northpoint	\$1,218	33.3	27.7

**Percent Giving Selected Reasons for Not Shopping at CCB  
(Respondents Spending Little or None of Their Food Budgets There)**

	Prices Not Competitive	Store Too Far Away
University	68.2%	22.7%
Shattuck	48.8	16.3
Telegraph	65.0	12.5
North Oakland	64.7	19.4
Geary Road	50.0	63.9
El Cerrito	58.1	45.2
Marin	39.5	57.9
Northpoint	26.5	65.3

University Avenue and Telegraph Avenue—were also considerably higher than at the stores outside of Berkeley. On the other hand, the percentages of all respondent members who indicated that they spent all of or most of their food budgets at CCB were almost as high among North Oakland and Northpoint (San Francisco) members as among those in the University Avenue and Shattuck areas, whereas the percentage was low among Telegraph Avenue members, many of whom were students and belonged to CCB for only a few years before graduating.

The percentages of all respondent members who said they did very little or none of their shopping at CCB were relatively low among University Avenue and Shattuck members, although not greatly lower than in most of the other areas, with the exception of Geary Road (Walnut Creek), where 46 percent of the members said that they spent very little or none of their food budget at CCB.

Of special interest are some of the data on reasons for not shopping at CCB—note that only those respondents who said they spent very little or none of their food budgets at CCB were asked to respond to this question. “Prices are not competitive” was mentioned particularly frequently, but the proportion giving this as a reason for not shopping at CCB was particularly high in the areas of the University Avenue, Telegraph Avenue, and North Oakland stores—areas that tended to have many low-income residents—whereas it was mentioned considerably less often in affluent Marin and among respondents affiliated with the Northpoint store in San Francisco. Also particularly illuminating were the percentages of respondents mentioning “store too far away” as a reason for not shopping at CCB. These percentages were relatively low among the respondents from the areas of the three Berkeley and the North Oakland stores, but were very much higher in the other four areas, which tended to have a more scattered population.

Not widely recognized in the discussions of the problems of a number of the CCB stores was the decline in population in the 1970s in the areas around some of the stores. I became curious about this question and undertook an analysis of the 1980 Census data when they began to become available in 1982.

We begin with changes in the population of cities in which or near which the CCB shopping centers were located. Table 2 shows that between 1970 and 1980 only the cities that may clearly be regarded as suburban experienced population increases. Even among this group, Corte Madera, in which the Marin center was located, showed a slight drop in population, while nearby Mill Valley experienced no change. There were declines, some of them quite pronounced, in the populations of Berkeley, El Cerrito, Richmond (included because parts of Richmond are quite near the El Cerrito center), Oakland, and San Francisco.

The drop in the white population was even more pronounced than that in the total population in Berkeley, El Cerrito, Oakland, Richmond, and San Francisco, and there was a slight drop in the white population in Mill Valley. Moreover, in many of these cities, there were sizable increases in both the black population and the population of "other races," chiefly Asian. On the other hand, Berkeley experienced a sizable decline in its black population, which may well have had an adverse effect on CCB sales, especially in the University Avenue store, which was located in an area with a large black population, and where CCB had gradually come to be favorably viewed by blacks because of its affirmative action policies.

Table 2  
**Percentage Changes 1970 to 1980 in the Total Population and in the White Population of Cities With CCB Shopping Centers (or Near Such Centers)**

	Total Population	White Population
Berkeley	-9.4%	-13.7%
El Cerrito	-9.8	-25.3
Oakland	-6.2	-39.2
Richmond	-5.5	-37.4
Walnut Creek	-34.6	28.7
San Francisco	-5.1	-22.7
Marin Cities		
Corte Madera	-4.6	n.a.
Mill Valley	0.0	23.2
Larkspur	5.5	n.a.
San Rafael	14.7	8.6

*Source: 1980 Census*

Using Census tract data, I attempted to define the estimated marketing area of each of the eight stores and found sizable decreases in population in all of them with the exception of Marin and Geary Road.

### The Last Four Years

Although CCB increasingly experienced losses in most years from 1976 on, it was a series of interrelated developments from 1985 to 1988 that so weakened CCB's financial position that it was forced into bankruptcy.

The early 1980s was a period of alternating control of the board by the two factions that were constantly struggling for control, associated changes in managers, continuing severe losses in a number of the stores outside of Berkeley, and decisions to close or sell these stores. By the time the 1982 survey was conducted, four of the 12 supermarkets had been closed. The Corte Madera store in Marin and the North Oakland store were closed in January 1984, the Geary Road store in February, and the El Cerrito store in April. The closures had been preceded by continuing losses, as members in these areas, and particularly in North Oakland, resisted closure.

The Marin store had been part of a small shopping center owned by CCB. The shopping center was purchased by two developers who proceeded to invite CCB to reopen a food store, of the ranch market type, with emphasis on expanded service departments: bakery, bulk foods, wine and beer, etc. A unique feature of the proposal was the installation of sophisticated testing equipment for produce pesticide/contaminant residue, and washing processes. In September 1984, the board approved by a five to four vote the proposal for CCB participation in the Marin center, subject to sale of the El Cerrito property on satisfactory terms, and subject to board approval of the contracts with the association that had been formed to oversee the revamped center. Those who voted in favor of the proposal were strongly influenced by the thought that the pesticide feature would appeal to Marin shoppers and, if successful there, might be adopted for one or more of the Berkeley stores.

The proposal, as approved, was a relatively modest one and did not include a meat department. However, no suitable meat vendor was found, and it was agreed that CCB would take over the meat department. Meanwhile management reported that the association was seeking outside financing to cover the cost of equipment and remodeling of the shopping center. When the food store opened, it was far more elaborate than the board had envisaged, including an expensive glassed-in meat and fish service counter and an extensive produce department. On the opening night, in August 1985, I happened to have a conversation with Gene Mannila, the former general manager of CCB, who commented that the labor costs would be very heavy. Indeed they were, and the store proved to be a loser from the start. With a breakeven point of about \$100,000 a week, sales hovered around \$60,000 a week. Moreover, the pesticide apparatus was never installed, apparently because the developer of this feature could not obtain financing.

In October, CCB Board members received a memo from the acting chief executive officer and general manager of Associated Cooperatives, protesting that CCB was in arrears amounting to \$460,000 on its payments to AC. By December, the total amount in arrears amounted to about \$1 million, and two days before Christmas, the general manager of AC (who had been on the job only a few months) announced that henceforth CCB's

purchases from AC would have to be on a C.O.D. basis. I had flown to New York to be with members of my family for Christmas and was called that evening by the administrative assistant to the CCB general manager to inform me of AC's decision. I urged that the two boards (of AC and CCB) get together and work out a schedule of delayed payments for CCB. But this was not what happened. The CCB Board voted to shift its purchases away from AC and to buy chiefly from Certified Grocers (known as Cergro).

The results of this decision were many—mostly very unfortunate. CCB found itself without the CO-OP label products that had been very popular with members—quality-controlled products available at prices below those of national brands. It was at about this time that sales began to drop in the Berkeley stores, and it seemed clear that significant numbers of members reacted to the absence of CO-OP label products by ceasing to shop at CCB. About six months later, arrangements were made by AC with Sierra Natural Foods to supply some CO-OP label products, but the number available was greatly reduced and prices of the products were relatively higher than they had been previously.

The repercussions at AC were even more disastrous. CCB had accounted for more than 60 percent of AC's purchases, and AC, with a financial position that had already been weakened largely as a result of accounting problems and shifts in management, found it necessary to sell its large warehouse and essentially to get out of the wholesale business. Meanwhile it continued to insist that CCB pay the \$1 million owed AC. CCB resisted, maintaining that its working funds (deposits with AC to cover overhead costs and costs of equipment) could be used to meet its debt to AC. The result of this controversy was a prolonged battle between the two organizations and eventually a suit brought by AC against CCB.

In April 1986, the suit was heard by a judge, who ruled that a lien be placed on CCB's Hardware-Variety store (located across the street from the Shattuck Avenue store) to insure payment to AC. CCB was forced to sell the Hardware-Variety store as a result.

Meanwhile, CCB continued to experience losses, as sales, even at Shattuck, continued to decline somewhat. One of the acute problems stemmed from the fact that the numerous store closures had not been accompanied by adequate cuts in overhead expenses, which were running well over the net earnings of the stores. A task force that I was asked to chair in June 1986 recommended, among other things, a sharp cut in overhead costs. That same month, Lynn MacDonald announced that she was resigning her position as general manager, effective in September. Allan Gallant, who had operated a group of stores in Alaska, was appointed chief executive officer, and Jeff Voltz, who had been associated with Gallant, became general manager.

The continued drain of losses at Savories (the name that had been given to the Marin store) eventually led to the closing of that store. Meanwhile, early in 1987, Gallant was able to negotiate a loan of \$1 million from Cergro, secured by a mortgage on CCB property. I voted to approve the loan, but with a sinking feeling that CCB would not succeed in restoring its cash position to a point that would permit repayment of the loan.

Meanwhile, a great deal of time and energy on the part of the board, management, and interested members went into a series of meetings which at first considered converting CCB into an Employee Stock Option Plan (ESOP) and later to a member-employee owned enterprise—meetings which eventually proved fruitless because the union with the largest number of CCB employees, the Retail Clerks union, vetoed the plans.

My second term on the board expired in January 1988, and I did not run for re-election, although I could have done so under the bylaws, since I had not had two consecutive three-year terms. Thus I was not involved in the painful developments of 1988—the decision of Cergro not to renew its loan, the fact that by June CCB was on a C.O.D. basis with all its suppliers, the disappearance of many items from the shelves as a result, the breakdown of the proposed sale of CCB to Living Foods.

In conclusion let me reiterate my agreement with Neptune's analysis of the reasons for failure, but I would add one other factor—the growth of competition which made it difficult for many of the once-thriving cooperatives throughout the country to survive. There was a time when CCB had the finest produce department in Berkeley, but the chains responded by improving their produce departments, as did Park and Shop, while the growth of specialty shops, particularly the Monterey Market and the Berkeley Bowl, attracted the patronage of many CCB members, as our 1982 survey showed. Moreover, enlarging its stores to accommodate a much greater variety of products, as competitors were doing, was out of the question for CCB, with its weakened cash position.



## CCB Governance Overview

Before looking at three examples of governance problems, we need to take a brief overview of the structure of CCB. The nine-member, volunteer (unpaid) board of directors which governed CCB was elected directly and at large from the membership to serve three-year terms. The board selected the general manager and reviewed that person's work. It reviewed business operations, set policy and planned the cooperative's future. The general manager selected the staff. Ad hoc committees of the board, membership, or staff worked on various assignments. Standing committees of the membership met monthly to conduct ongoing business and advise the board.

For the first two decades after its founding in the 1930s, CCB operated one food store in Berkeley, California. In the next two decades it expanded to operating 12 supermarkets within a 35 kilometer radius of Berkeley, along with related retail businesses.

In order to allow a greater voice for members at each store (or "center") a system of center councils was introduced. These center councils were volunteer (unpaid) advisory bodies elected from and by the members at a local center. The councils met monthly with the center manager to review operations and make suggestions. The councils also raised and disbursed small amounts of money for local center and community activities.

When the center council system worked well it offered members an opportunity to be involved in their co-op at a local level. It provided a pool of volunteers for organizing local community events which in turn raised the profile of the individual center and helped to define the co-op at the local level. The system helped to identify and train potential board members. The councils gave the center managers direct consumer feedback on center operations.

When a center council was not working well, it failed to accurately represent a true cross section of member/shoppers, failed to reach agreement on recommendations, and wasted the time of, and discouraged, both staff and volunteers. Much of what was true of center councils was also true of board and membership committees, through which member volunteers advised the board on system-wide concerns. These committees were appointed by the board and usually included representatives of the various center councils.

### Governance Problem Example: Controversial Products

As an institution selling thousands of varied consumer products to tens of thousands of informed and opinionated owner/shoppers, it was quite natural that CCB would experience controversy over the selling of some products. Controversial aspects of a product might include such concerns as personal health (talc coated rice), international health (the Nestle Company's sale of infant formula in the Third World), environment (tuna from dolphin killing



nets), production by a military supplier (Dow Chemical), production by a nuclear supplier (General Electric), labor disputes (table grapes and farmworkers), and country of origin (Chile under totalitarian rule), among others.

The proliferation of concerns was complicated by the fact that even those concerns with broad support often had vocal and tenacious opponents. This opposition was of two types: either a specific alternative to the concern in question or, more generally, opposition to the principle that some factor other than consumer demand should determine which products CCB would sell.

CCB's response to these concerns was generally of two types—either educational (shelf tags, newsletter articles, etc.) or prescriptive (banning the product). How the decisions were made varied over time and geography. Sometimes the board would debate and decide a specific issue. This seldom resolved the issue but often led to further debate and reconsideration. Sometimes a center council would take a position on a particular product and see that it was either removed or reinstated at the local center, irrespective of the official CCB position and despite the fact that the center council had no official power to decide such an issue.

In the last years of CCB, a board committee process was established to decide which product removal questions should go before the entire membership for a vote. But in every incarnation the policies, official or otherwise, that governed controversial products were themselves controversial and led to the alienation of some segment of the owner/shoppers.

Three structural problems persisted:

- 1) The large membership remained diverse in its concerns.
- 2) New potential controversies continued to surface.
- 3) The function of identifying and championing the various concerns was divorced from the responsibility for the success of the business as a whole.

The result was that actions that might have strengthened member loyalty and identified the cooperative as a socially responsible alternative in the marketplace were often just as likely to divide the membership and create the image of an erratic and cantankerous organization.

What might have been more successful would have been to decentralize much of the operations and the governance. This would have allowed a member to identify with a local center which shared views more closely with that member. Short of decentralizing operations, another option would have been to give center councils the right to veto a set and limited number of products, subject to periodic review. This would have moved some real power and responsibility closer to the local member. It would have created a variety of locally tailored responses to member concerns, and forced local decision makers to prioritize among a wide variety of concerns. It would have diminished the distance between advocacy and accountability.

## Governance Problem Example: Developing Member Leadership and Insuring Member Control

What was done to attract and develop member leaders? What was the board of directors asking the manager to manage?

During the half century of CCB's existence as a grocery retailer the industry became increasingly competitive and sophisticated. In large measure CCB's business operations followed these trends, in addition to growing in size. Unfortunately, the same magnitude of resource allocation devoted to improving plant, equipment, inventory, and staff was not devoted to the critical element of member leadership.

Maintaining a high quality labor force is a product of recruiting the right people and providing appropriate tools and training, as well as a supportive environment. A cooperative's board of directors is part of its work force and has exactly the same needs.

In theory, candidates for election to the CCB Board of Directors were recruited by an official nominating committee. In practice, a system of two political parties developed within CCB during the last two decades. Recruitment became a function of these parties. Ostensibly, a party's recruitment efforts would focus on individuals competent to direct the organization towards success within the philosophical goals of the party. These were roughly differentiated as business concerns (right wing) versus social concerns (left wing). In practice, as in politics everywhere, these concerns were often subordinated to electability, availability, loyalty, or appearance. Obviously what was needed on the board was a combination of right and left capable of balancing the conflicting needs of the institution and its varied membership.

While this political system may have been no better or worse than that of a governmental entity of the same size, say a city of 100,000, there are two major distinctions that make running a co-op more difficult than running a city—voluntary membership and no tax base. Consequently, CCB needed a leadership recruitment mechanism better than that of a small city.

Recruitment aside, once individuals found themselves on the board, a committee, or a center council, there was no routine and ongoing training program. With few exceptions, training opportunities which did occur, usually attendance at conferences, would go as a reward to individuals with high seniority who consequently were closer to the end of their volunteer service. Training opportunities were not as likely to go as an investment to individuals with low seniority and consequently a longer potential payback period. As for training in meeting process for the whole board, despite much evidence to the contrary in my personal observations over a period of 15 years, boards generally felt this was unnecessary.

If the conventional wisdom was to not spend CCB funds on training leadership, the idea of paying elected leaders for their service was even more unpopular. And nowhere was this idea rejected more strongly than among the elected leaders themselves. Undoubtedly, much of the motivation behind this sentiment was an idealistic interest in community service. But one has to wonder whether if by remaining a volunteer a decision maker somehow escaped a degree of responsibility for the final outcome of decisions, leaving that burden to paid staff. A strange and often observed behavior of CCB elected leaders in times of economic hardship was to spend a disproportionate amount of time discussing how to reduce the already insignificant amount of money spent on themselves. This was a terrible waste of time and only made decision making more difficult.

With this emphasis on volunteerism in the elected leadership, what was the role of the paid professional manager? What was the board asking the manager to manage? I would argue that in addition to running a successful grocery operation the manager was being asked to run the democratic aspects of CCB as well. In effect, the manager was being asked to run the board. While this is true to some extent in any manager/board relationship, it was especially true for CCB. It is not surprising that this situation was not acknowledged by any of the parties.

In short, if resources are not allocated to the recruitment, training, and compensation of key elected decision makers in a complex and changing enterprise, and if the paid staff is not recruited specifically to compensate for this shortcoming, then the quality of decisions is a matter of chance chemistry between random individuals. In the long run, one could not expect to be successful with such a system.

### **Governance Problem Example: Fear of Being Leaders**

This last example is by far the most personal for me. After CCB had closed its doors and before it had disposed of its assets, I was loaned by Associated Cooperatives to CCB to serve as general manager on a part-time basis. It was my job to liquidate assets, pay creditors, and help determine what direction, if any, CCB should take. We found a buyer for the assets and filed with the courts for bankruptcy protection to facilitate an orderly payment of creditors. These tasks were difficult but possible. The third task, finding a new direction, I found to be impossible. This was not because the organization had exhausted all of its options. There was one excellent option remaining.

For many years CCB had published a weekly, tabloid sized newspaper which was distributed largely by mail. In addition to being the chief advertising vehicle for the cooperative, the newspaper was a popular source of information on nutrition, cooperative activities, consumer and environmental

issues, and related community events. A substantial portion of the cost of the paper was covered by accepting general advertising, that is, not only advertising for products sold by CCB. With a loyal readership and a substantial revenue base, it would have been a low risk venture to attempt to make the paper a free standing entity. This would have retained the major means of interacting with CCB members. (In one survey it was found that the newspaper was more popular with members than the food stores.) It would have facilitated building new, non-capital intensive services for the membership as an adjunct to the paper. It could have provided a running start for any new retail venture that the organization might try.

Why wasn't this done? The board of directors was war weary after years of struggling to keep failing operations afloat amid the understandable mistrust and anger of an increasingly abandoned membership. This contributed to an attitude on the board that doomed what may have been the last chance to rebuild the organization. This attitude was expressed as two preconditions to new activity. First, it was felt that a complete settling up of accounts was required before anything else could be done. It appeared to me the board did not fully comprehend that due to numerous legal problems this process could take years. Nor did the board appear to understand that there would no longer be a viable membership after that amount of time, nor would there likely be any resources. Second, it was felt that in accordance with CCB's democratic tradition there should be some sort of membership plebiscite or general meeting to work through what kind of future CCB should attempt to achieve. Presumably this would follow the settling of accounts.

My belief was that the board needed to create a functioning model of what the organization was likely to be in years to come. If members found value in that model they would support it. That, to me, was the role of leadership in this circumstance. The other route was like trying to learn to ride a bicycle without being willing to move forward. One would keep falling down until one gave up altogether. To my mind this lack of action was not the one major mistake of CCB, merely the last. In a few months I returned to my regular full-time employment and the board selected a caretaker to watch over the remains of CCB.

### Conclusion

Obviously, none of these examples examined alone contains the single reason for the failure of CCB. Examined together I hope they show that far more in the way of resources and ongoing attention needs to be placed in the governance structure of our cooperatives if we seek both survival and democracy in a changing world.

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## The Final Years

By Bruce Black

*An Oakland resident, Bruce Black has been a member of CCB since 1943. He is the husband of former CCB home economist Helen Black, whose contribution appears elsewhere in the volume.*

**M**y direct involvement in Consumers Cooperative of Berkeley (CCB) began in early 1986 when I was asked to serve on the strategic options task force organized by the board of directors to identify the problems facing CCB and to make recommendations to correct them. Employee morale was one of the identified problems. I agreed to work on the morale problem by forming a study committee involving members and employees to develop a program designed to stimulate employee interest and input. Our findings and recommendations were submitted to the board in the form of a written report.

I was elected to the board in early 1988 and elected board president in 1989, which was immediately after CCB filed for bankruptcy under Chapter 11.

At the time I became active in 1986 it was clear to me that CCB was unable to generate enough income to meet expenses. Patronage was declining and stores were being closed in order to preserve assets and pay expenses. The Savories venture in Marin County had consumed a substantial portion of CCB's remaining assets. The relationship with the wholesale supplier, Associated Cooperatives (AC), was bitter and CCB was on the losing end of a law suit that necessitated the sale of CCB's only hardware store.

Employee morale was at a low ebb, productivity was declining, and the unions were unwilling to ease the burden through further labor concessions. One of the business agents, from the retail clerks union, told me it was an incompetent co-op board and management that was causing the crisis and because of that the union was reluctant to make concessions. The recent store closures had concentrated senior employees in the remaining stores causing our labor costs to be substantially more than the chain operations.

There had been a constant turnover of general managers (in most cases brought in from the outside) which had the effect of increasing tensions among

both middle management and rank and file employees. There was little effort made to hold employee meetings and address their concerns or apprise them of what was happening. Employees were increasingly uneasy over job security and tended to feel alienated. This was exacerbated by the lack of an ongoing training program and a fair system of employee accountability. Upper management spent very little time visiting stores and demonstrating a personal interest in store operations. Rumors were often taken as facts, resentment increased, and productivity began to drop off. Customers complained about employee attitudes and interest in serving the members.

Membership interest in serving on standing committees had declined to a point where the committees for the most part were not functioning, and the president and the board seemed to have lost interest in getting the committees to function. Ad hoc committees were formed for specific tasks, but for the most part the board acted without the benefit of committee input. The situation was rapidly turning into crisis management where all effort was devoted to saving CCB.

The president appointed an ad hoc committee to determine where CCB should go and it was concluded that a hybrid co-op, one owned equally by members and employees, was the most desirable course.

I believe that the hybrid co-op might have worked if we had been able to get it on line while we still had adequate resources. Unfortunately, it took too long to get the hybrid co-op operating and it became obvious that in order to protect the interests of our creditors and members it was necessary to sell while we still had enough assets to meet our obligations.

The three areas I have identified as basic to the failure of CCB are: the committee structure; the relationship with labor unions and employees; and the education program. I do not mean to imply these were the only factors in the demise, but I feel they are of fundamental importance.

### **Committee Structure**

It is through the committee structure that member concerns and input are furnished to the board. Without constant interchange with the membership, the whole idea of a cooperative as people working together begins to erode. This happened at CCB and patronage started to drop as members began to feel alienated and looked for excuses not to shop. These excuses included CCB's political actions (for removal of certain products like Chilean produce) or expecting CCB to attain and maintain unreasonable standards in operations or have lower prices.

Much of the foregoing could have been diffused through an active committee structure. For example, many members objected to the removal of some products from the shelves for political or social reasons. They favored a policy

of posting pro and con arguments on the shelves. I believe a co-op's role is to provide all the information needed to let the members make their own choices on controversial issues. The free market will then, in the end, determine what the members desire by their choices.

I think everyone recognized the value of having committees balanced with people representing different points of view. Unfortunately, in practice the committees tended to represent the point of view of the board majority. For many years the board was elected after extremely bitter contests between so-called conservatives and progressives. After the elections the winning slates were unable to make peace with or work cooperatively with the opposition. Here are two good examples. When I was working on the committee addressing employee morale and input, I was appalled when a board member serving on the committee told me her interest was with the employees and it was "them or us" in working with the board majority. Later, when I first became president of the board, I made an effort to pass a resolution commending the immediate past president for his contributions to CCB. A majority of board members objected, expressed their resentment, and offered a substitute resolution with no commendation but only "wishing him well."

In 1982 a report from Touche Ross & Co discussed the role of CCB center councils. The report bemoaned the lack of recognition by the board for council ideas and efforts. The report stated in part, "Center council members have ideas for a wide variety of events and volunteer activities that could increase Co-op member involvement and customer traffic. . . . We believe that the center councils represent a valuable resource and should not be neglected." I found the same situation prevailed with the committees and this may have been one of the factors contributing to the decay in committee activity.

### **Labor Unions and Employees**

The committee concerned with employee morale concluded that employee input in store operations was nearly nonexistent and was in fact discouraged by middle management. Employees did not feel they were receiving the recognition they were entitled to. For example, there was no established training program for employees, no system for regular work evaluations, and no "on the job" system for accountability of individual employees.

No regular meetings with employees were scheduled and because of this employees were not always aware of operational changes or the reasons for such changes. Many of these changes needed employee input and understanding. Staff meetings would have provided a good forum for this. Management felt employee supervisors could inform employees, but in practice the information was often misunderstood or not transmitted at all. Sometimes the

new instructions were flawed and employees were not given the opportunity to point out possible problems. For example, check cashing procedures were changed at each store and sometimes individual employees interpreted them differently. Member customers, who expected treatment to be consistent, were antagonized when suddenly faced with new and unexpected changes in a policy that varied in explanation from one employee to another.

The 1982 executive summary of the Touche Ross & Co operational improvement study recognized the employee morale problem. Under store operations Touche Ross said: "Loose enforcement of systems and procedures has led employees to conclude that management does not care. Minimum performance levels and standards have not been adequately identified or communicated to employees and quantitative measures are not used to gauge performance or productivity....We are concerned that top management and merchandising staff do not regularly visit the stores."

CCB, for years, had agreed to accept the labor contract the large chains (Safeway and Lucky) negotiated. I believe this was an error and contributed to the demise of CCB. It was important for CCB to negotiate its own agreement because of the major differences between a cooperative and the chains. Members of CCB, particularly the education committee and center councils, needed to know store employees and work with them on co-op programs. Employees needed to have a stake in CCB as members; they should have been able to participate in committees without compensation and needed to be recognized for their efforts. Members should, as owners, have been able to do volunteer work without violating the union contract—for example: posting consumer information and shelf cards, helping with inventory, landscaping, publication of the *Co-op News*, etc. We needed to deal with and eliminate the hostility that can develop between employees, members and management.

Most board members would say a union contract addressing these suggested concerns and separate from the Lucky-Safeway contracts was impossible. I discussed this in detail with long time CCB member Tom Nicolopoulos, who had many years experience in labor negotiations as chief of the State of California Conciliation Service. He declared that such a separate contract could have been negotiated and definitely should have been attempted.

Union agreements and cooperation were crucial to the success of the proposed hybrid co-op. The hybrid co-op was recommended by an ad hoc committee established by the board and then confirmed by a membership ballot. The unions had agreed to cooperate and the city of Berkeley also provided support for the formation of the hybrid. City support included funding for a facilitator and a representative from the office of economic development to work on a transition committee which was set up to coordinate the creation of the new worker-consumer co-op. There were twelve



members on the committee: three from CCB, six from the unions, one facilitator, one from the City of Berkeley, and a financial analyst. The committee was able to put the general structure together but was then unable to implement. It was at this point that union-CCB cooperation began to break down. It became apparent to me that one qualified person who would be acceptable to both the unions and CCB should have been employed to set up the operational structure. In my opinion, the kind of detail required for the successful implementation of such a hybrid co-op could not be successfully coordinated by a diverse committee of twelve. The principal union representative and the City of Berkeley representative agreed that such a qualified person was necessary but it was too late when that option was proposed. CCB had run out of time.

### Education Program

CCB bylaws state: "This Cooperative shall be of the Rochdale type." And later, under article 4.1.6: "Education. This cooperative society shall make provision and allocate funds for the education of its members, officers, employees, and the general public, in the principles and techniques of cooperation." The bylaws also recognize the divisiveness inherent in political controversy under article 4.1.7: "Neutrality. The cooperative shall be neutral in religion and partisan politics."

I would argue that without a good ongoing education program the coordination of member effort is difficult because there is no nucleus, no model, nothing to rally around. In its absence the organization becomes a vehicle for promoting the ideas of individual members and their agendas. The Rochdale Principles provide guidance for an education department and committees provide for an understanding of co-op values and a means by which the membership communicates with the board. It is essential that a co-op—members and employees—operate from a common set of values. This would relate only to the co-op's operations and should not interfere with the individual values members might have outside the co-op. Every co-op employee should know and understand the Rochdale Principles and accept them as a condition of employment. Unfortunately, we lacked an agreed upon "Rules of Conduct" such as the "Marquis of Queensberry Rules" for carrying out the Rochdale Principles in making policy decisions. Without such rules the tendency is to judge a co-op more by chain store standards than co-op standards because of a lack of understanding.

*CCB's very successful Shattuck Avenue Center in about 1987.*



Photo by Jane Scherr

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## Other Views

Adolph Kamil, Pharmacist

*Adolph Kamil was the first CCB pharmacist and remained as a store department manager until the last pharmacy closed in 1988. Kamil was elected to the CCB Board of Directors in 1988, after a 1987 vote by members changed the bylaws so that employees as well as consumers were eligible for election to the board. As of July 1990, he was still serving on the board, which is trying to resolve remaining legal and financial issues.*

**U**ndoubtedly, numerous interacting factors led to the decline of CCB. From my viewpoint, however, as manager of a small, peripheral department, one reason stands out above all: a reduction of effective managerial controls.

When I started to work for CCB in 1959, we had only three stores. Top managers showed interest by visiting regularly, asking questions, investigating, making suggestions, and offering help or encouragement. My work was clearly connected with those in authority. They were aware of both my mistakes and my successes.

As we grew larger, my contact diminished with those who held practical control of our operations. Layers of middle managers arose. These managers varied widely in skills and interest and often did not stay long in their positions. The chain of command developed gaps and weaknesses. Supervision became less direct, responsibility less clear. I worked for long periods without receiving any performance evaluation.

It became apparent that in order to get along well within our structure, we were expected to "live and let live." Rewards went to those who steered clear of controversy and avoided raising difficult problems. Superficial appearance became more important than substance.

Of course, over the years CCB did have many talented, hard-working, dedicated employees. At times we had individual managers who tried to exercise internal controls. They probed into our daily activities and worked with us directly to improve operating procedures. However, these people were almost always soon gone. Our corporate culture didn't seem to provide fertile ground for managers who were truly searching, innovative, and concerned with the fundamentals of our work.

To anyone following current events, this pattern may seem familiar. Similar entrenched bureaucracies, lacking effective managerial controls and without checks and balances, have been observed in failing institutions all over the world, whether governmental, private, or cooperative.

## Marcia Edelen, Clerk

*Ms. Edelen worked as a retail clerk at CCB from 1973 until the stores closed in 1988. Edelen was elected to the CCB Board of Directors in 1988, after a 1987 vote by members changed the bylaws so that employees as well as consumers were eligible for election to the board. As of July 1990, she was still serving on the board, which is trying to resolve remaining legal and financial issues.*

I believe that a new cooperative, incorporating both worker and consumer control, would be thriving in Berkeley today at former CCB locations except for one major factor, which directly relates to the demise of CCB. This factor became most apparent to me during the final two years of CCB's retail existence.

By the fall of 1986, the board was desperate in its search for financial solutions. The "hybrid" co-op proposal and the hiring of a chief executive officer who had led an employee stock ownership plan conversion elsewhere were board actions which responded to a key issue: Management had been advising for years that CCB labor costs must be reduced. With the new chief executive officer at the helm and the hybrid proposal overwhelmingly approved by the membership, it looked as if CCB was really moving in an innovative direction. Entering the spring of 1987, however, it became evident that the leadership of CCB was resisting appropriate investment in the hybrid, as the timetable for conversion stretched out. For almost an entire year, the powers-that-were, including union officials, fell back on to the over-worn path of relying on doses of plain old management technique to save the patient. As time and losses wore on, it seemed as if CCB was nursing hopes of labor concessions and last-minute loans from the City of Berkeley or suppliers much like a pampered, undisciplined child. When these unrealistic hopes did not materialize, the hybrid proposal was retrieved from the back burner.

Sadly for the renewed effort, it was early March of 1988 when management took the next major step by submitting their proposed hybrid business plan for city and union review, a crucial part of the conversion process. Shortly after, the hybrid plan was abandoned by the CCB Board—with press of time the official reason given. I shall always see the failure of both CCB and the hybrid plan as due to CCB leadership's lack of sincerity in creating and implementing a plan to include true employee involvement.

## Serena Bardell, Member

*Serena Bardell joined CCB when the San Francisco store opened in 1975. She has been a food and wine writer for 25 years.*

I can't pretend to know why CCB failed. I can, however, tell you that I wrote several letters during general manager Lynn MacDonald's era pleading with the powers-that-were to realize that people might tolerate mediocre quality for a good price or pay more for exceptional quality, but damn few would pay more for less. I tried to awaken CCB to the growing interest in culinary excellence; I remember specifically describing the options available to San Franciscans—from the Mission's Latino delicacies to Chinatown's produce and poultry—where fresh really means fresh and prices are competitive.

I'm certainly not alone in suggesting that, in the *Dark Ages* before Berkeley became a food mecca, when CCB was close to the only game in town, there were enough folks who ate and breathed politics to enable CCB to survive if not to flourish.

I haven't a clue why so many socialist types don't seem to care what they put in their mouths; for all I know, Berkeley just attracts ideologues, and the culinary passions of the 1980s equaled—in some metaphysical way—the political passions of earlier decades.

I do know that this old-fashioned liberal joined CCB for idealistic reasons but refused to put second-rate food on her table to support a nice idea. Furthermore, time and again I would write the board or the *Co-op News* saying that I could never do all my food shopping at CCB's Northpoint Center in San Francisco: both the meat and poultry there were inferior, and the store was regularly out of stock on various items and didn't carry some of the others on my shopping list. So, after a while I knew if I went to CCB, I'd have to make at least one more stop on my way home to complete my grocery shopping. It took a fair amount of dedication to continue to shop at CCB. If I'd been working all day or had small kids with me, I'd have spent my money where I could find the selection and quality I wanted at one location.

Countless times the *Co-op News* mocked "Lucksafe," but, at least in my neighborhood, Safeway figured out that, to keep its customers, it had to improve its produce quality and selection, which it has continually done over the past decade.

It always seemed ironic to me that Savories in Marin County, probably the best food store of its day, was started by CCB, an entity more interested in political than culinary experiments. Alas, this beautiful swan made its ugly duckling parent immensely uncomfortable, and the parent neither supported nor promoted its changeling of an offspring.

## Doug Buckwald, Member

*Berkeley resident Doug Buckwald became a member of CCB in 1982. He shopped mainly at the Shattuck Avenue Center and the Co-op Hardware Store.*

The overriding principle of any cooperative enterprise must be that it remain democratically controlled by the members. One very striking—but by no means the only—example of our board taking action without a democratic mandate was the opening of “Savories” in Marin County. This financially disastrous operation came about as a result of a series of closed-door meetings and behind-the-scenes negotiations. The members were purposely excluded from this entire process—since involving them supposedly would have harmed CCB’s competitive advantage. Ultimately, the failure of this experiment cost the members a lot of money—but more important, it contributed to a growing feeling among the members that they no longer had control of their organization.

Other decisions of the board over the years—the plans to expand to other cities, the costly refurbishing and then closure of the hardware store, the decisions to engage in litigation on a variety of matters, even the decision in the end to support the offer by Living Foods to purchase CCB’s remaining assets—were made without adequate member involvement. The “Living Foods” agreement is a case in point: until they were threatened with legal action, the board was not even going to allow the membership to vote on this crucial issue. That kind of attitude is simply not present in the leadership of successful cooperatives.

Over time, it seemed that the representatives on the board became convinced that they could do whatever they wanted—as long as they kept the big “CO-OP” sign hanging over the door, they assumed that the members would keep flocking in. By the time they realized the magnitude of their error, it was too late: they had already alienated too many people. A successful cooperative is united by a shared attitude more than anything else, but those in positions of control at our co-op severely violated this attitude. The board began to feel that they were the co-op—not merely individuals acting to carry out the wishes of the membership. We were supposed to trust that they knew what was best for us. It turns out they didn’t.

## Merry Blodgett Selk, Board and Center Council Member

I became involved in CCB, first as a center council member and then as a board member, because I was angry that the lines at the Telegraph Avenue store were so long, the store so dirty and such a “poor sister” to Shattuck. The

things that had set CCB apart from other stores began to disappear, year by year—home economist hours shortened, kiddie korralis gone, and worst of all, shopping lines longer, floors dirtier, shelves badly stocked. Even so, I loved CCB, shopped there religiously, and was proud that “our co-op” had, at Shattuck Avenue, the highest sales per square foot of any store west of the Mississippi River.

I ran for the board and got 16,000 votes as part of a “reformist” slate. But once on the board, even though we held a majority, the real power was maintained by the management, starting with general manager Roy Bryant. Every board meeting was a fractious and upsetting exercise in frustration. On one particularly memorable occasion, an audience member publicly asked counsel if I should be thrown off the board because I had missed three meetings that had been held to discuss the general manager’s threat to resign (the meetings in question were all called during a crisis in late December when I had been on vacation in New York). Meetings lasted from 6 p.m. to 1 a.m., and other members stood on their toes and screamed at each other accusingly.

The year I was on the board (1975), the pine trees logo was replaced by hockey pucks, because “national Co-op demanded it,” despite our objections. We bought three stores in Oakland, because the general manager saw a bargain in Mayfair’s going-out-of-business sale, and those who objected were called “racist” for not wanting to serve Oakland. We voted to open a store at a former Mayfair in San Francisco because “so many people wanted it.” The general manager also dreamed of opening a furniture store in the funeral parlor opposite the Shattuck Avenue Center.

In the end, we lost the things that made CCB special, opened several stores in areas where people didn’t really support CCB anyhow, were strongly criticized for being “too Berkeley,” and the lines never got shorter at Telegraph.

Richard Pearlman, Public  
Relations Consultant

*Richard Pearlman, a Berkeley resident, has been a member of CCB since 1970. He provided public relations services to CCB on a consulting basis from 1981 to 1985.*

Philosophy cannot be separated from action in the business world. CCB allowed itself to believe that its philosophy alone was enough to maintain members’ loyalty. That was its undoing.

The final years of CCB were marked by declining sales and unprofitability. Both the board of directors and management attributed most of the problems involved to exterior forces (the economy, competition, and so

forth). In reality, financial problems arose because CCB was serving its members and other customers poorly on several levels.

For instance, most CCB workers were very good employees. Unfortunately, the CCB workforce also included a number of employees who were allowed to be rude or inattentive to customers without action being taken. These workers drove away members and customers and gave the organization a bad image in the community. CCB had neither a serious personnel policy nor any personnel training worthy of the name. One general manager was undiplomatic enough to comment that the workers must be angels as negative comments never appeared in anyone's file.

During four years of consulting with CCB on public relations, I suggested several times that employee problems be addressed. However, despite verbal agreement from management on more than one occasion, no action was taken.

How this neglectful personnel policy affected business is easily illustrated. My wife, who had been an extremely loyal member, refused to shop at CCB during its last two years of operation primarily because of employee rudeness.

In addition to a nonexistent personnel policy, CCB simply did not maintain the high standards of appearance and cleanliness needed in business. Stores tended to look run down, floors went uncleaned and unwaxed for long periods of time, parking areas were poorly maintained. A co-op is more than a place of business—it is a “club” whose members want to take pride in their organization. It is difficult to be proud of a place with dirty floors and indifferent service.

The combination of substandard service and store maintenance drove away members and other customers. No amount of advertising, philosophizing, or articles in the *Co-op News* could undo the damage done by years of neglect.

CCB's problems were never ones of philosophy. The organization simply forgot to serve its members properly. Well-trained, friendly employees, clean, well-kept stores, and a real working interest in members' needs would have been enough to keep CCB in business. The organization simply forgot to attach action to its philosophy.



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## The Palo Alto Co-op

By Morris Lippman

*Mr. Lippman entered the Cooperative Movement in 1934 when he and his wife moved from New York to the Sunrise Cooperative Farm Community in Saginaw Valley, Michigan. Sunrise was an experiment in cooperative living for 100 families. Lippman managed five consumer cooperatives over a span of twenty-six years, and was on the board of Associated Cooperatives for thirteen years, three as president. For a brief period, he was also on the board of the Cooperative League of USA, a national organization now called the National Cooperative Business Association. In 1990, he completed his seventh year on the board of directors of Consumers Cooperative Society of Palo Alto.*

**T**he Consumers Cooperative Society of Palo Alto (CCSPA) was founded by Stanford University professor J. Murray Luck in 1935. It started in very modest fashion, growing to a peak of operating six food stores and at various times serving its communities with a gas station, a frozen food locker (during World War II), three pharmacies, an auto repair shop, a dry cleaners (including its own cleaning plant), and a drug and variety store. Annual sales reached approximately \$27 million. Currently, CCSPA is reduced to a single store with annual sales of \$5 to \$6 million. While there have been a number of general managers in CCSPA's fifty-five year history, one manager, Gilbert Spencer, served for twenty-four years.

There were several reasons for changes in management, including simple inadequacy and even, sadly, dishonesty. As the fortunes of the society changed, its distinctive characteristics also changed. At one point, CCSPA used consumer advisors to help members choose the most healthful foods, to provide a host of recipes, to create a very friendly atmosphere, to educate the community in Consumer Cooperation, and to explain the requirements of membership. For most of its life CCSPA offered a newsletter for the general membership, under the helm of a trained journalist. A delightful and unique service was the kiddie korral, where children were entertained and otherwise cared for under adult supervision while parents shopped in comfort.

As CCSPA fell upon hard times, all of these services, except the newsletter, were discontinued. (Even the newsletter, though issued currently, is on a curtailed basis.)

## The Effect of Berkeley

The deterioration and ultimate collapse of Consumers Cooperative of Berkeley (CCB) had a strong effect on CCSPA. As CCB declined in fiscal health, it became a matter for media reports. As the decline continued, the public associated CCB's sad state with CCSPA. Even creditors became concerned and CCSPA's credit rating began to decline.

A factor of grave dimension—almost costing CCSPA its very existence—was the decision in 1988 to expand and remodel the largest of the then three remaining centers at a cost of over \$1.5 million. The plan was very attractive: we were to increase the facility by 6,000 square feet, expand the produce department significantly, and install a new deli department. And indeed the completed improvement was extremely attractive. So much so that our sales volume increased from about \$135,000 to \$205,000 weekly. (Our manager's projections included a break-even in operations at \$170,000.) Whether management was merely slovenly in its controls—or worse—we may never know. What is certain is that in a brief few months during which we had management assurance that there was shortly to be a turn-around in cash dissipation, the correction never occurred and we were in imminent danger of bankruptcy. What spared us from utter disaster was our ability to sell our property—principally the lead store into which we had poured the \$1.5 million—to yield significant cash to pay off our creditors, and to provide time to regroup into our one remaining facility.

In my view, a matter of great importance in the decline of the large, established cooperatives was the change in priorities by the Cooperative League of the USA, from a fundamental concern for education in cooperative development to focusing on cooperative business. This change in course was made distressingly emphatic by the change of name from Cooperative League of USA (CLUSA) to National Cooperative Business Association (NCBA).

When I entered the Cooperative Movement, I was stirred by its flavor. "Cooperative Business" was not its rallying call; "Cooperative Democracy," the title of a book by James Peter Warbasse, was. (Dr. Warbasse was founder of CLUSA and its president for the first twenty-five years. The book went through five editions and was the most widely accepted and respected publication in American cooperative literature.) It was in that frame of mind that I encountered and felt a deep reverence for Japan's extraordinary co-op activist, Dr. Toyohiko Kagawa. Along with Warbasse's *Cooperative Democracy* were other works by inspiring leaders: *Masters of Their Own Destiny* by M.M. Coady; *Decline and Rise of the Consumer* by Horace M. Kallen; *Peace Through Cooperation* by J. Henry Carpenter; *Cooperative Peace* by Warbasse; and *Paddy the Cope* by Patrick Gallagher.

## Berkeley Itself

Consumers Cooperative of Berkeley was for most of its life the most admired consumer co-op in America. It was a giant in strength and size, at one point achieving annual sales volume in excess of \$80 million and operating twelve supermarkets as well as a wide variety of other enterprises—most notably a number of gas stations, pharmacies and alcoholic beverage departments. CCB had an interesting start resulting from the melding of two societies: a modest food store initiated by professors from the Berkeley branch of the University of California and a gas station cooperative founded by members of Berkeley's Finnish community. This joint effort was managed by Eugene Mannila, who had been the manager of the gas station enterprise. Mannila remained at the head of CCB for a quarter of a century. Very prominent in the CCB structure was its Education Department, and the person who headed it for the longest period, eighteen years, was Emil Sekerak. Those were strong and lovely times for CCB. So vigorous and sound was CCB then, that it seemed inconceivable for this staunch and tremendously popular enterprise to do other than grow ever greater and stronger.

But an unforeseen and devastating force—divisiveness among the members—came into play. Whereas in the beginning and for many years thereafter, conventional cooperative goals were assiduously adhered to—integrity in operation, inviting environment, sound business practice—there now appeared, and grew to large numbers, a group of people who felt that political and social issues were paramount. Typical of this new element was a former board member (and chairperson of the education committee) who picketed the main store—where the administrative offices were located—with signs asking for a boycott because CCB was selling Coors beer! (Official practice had been for CCB to inform shoppers that a product or a company was looked at with disfavor by unions or environmental groups. Notices were posted prominently and the shopper was left with the decision to purchase or ignore. The consumer was to be the judge.) This new concept fought for dominance. And the struggle continued for years, with board majorities changing. Once there had been a single, vigorous rallying cry: Consumer Cooperation was to be our salvation. Now came this new, militant force that sought to right every evil in society—at whatever cost, even the dissolution of the powerful cooperative which had been forty and more years in the making.

Before this period of political and social turmoil, a remarkable unanimity prevailed in the three most important units of consumer cooperative effort in California: the general management of Gene Mannila at CCB for approximately a quarter century; of Gib Spencer at CCSPA for about the same length of time; and of Robert Neptune at Associated Cooperatives (the wholesale

society) for over forty years. These three leaders had roughly the same philosophy, and in their heyday, Cooperation was outstandingly successful.

(A significant example of their similar views on important issues occurred over thirty years ago when they recommended that the three societies become one—with one general manager—even though the consequences had to be that two of the three leaders would lose their positions of eminence! Such unselfishness—such focusing on the common good—is an illustration of their dedication, not sufficiently recognized in cooperative circles. Unfortunately, the recommendation was rejected by the societies involved.)

### A Shattering Thought

At this point, it is altogether understandable that we entertain a shattering thought: if CCB, that impregnable tower of strength, and CCSPA, which was once the sixth largest consumer cooperative society in the United States, could falter (and fail, in the Berkeley instance), then could such a fate also strike the Japanese cooperatives? Would the disaster include Nada Kobe, the largest consumer cooperative society in the world? For two powerful reasons I say that such a disaster will never occur in Japan:

1) Japanese cooperatives are grounded in Kagawa's idealism and focus on Cooperation, Peace, and Love. As long as Kagawa is held in the reverence the Japanese have for this giant among men, as long as the Japanese remember with passion Kagawa's dictum that peace can *only* be achieved and maintained through the Cooperative Movement, then consumer cooperatives will continue to grow in Japan.

2) Japanese cooperatives have learned well the lesson taught by the president of the Nada Kobe Co-op: "We must not lose money from our operations! Whatever it takes, we simply must not lose!" If only our American cooperatives could have that principle drummed into their heads! It seems so simple an order! But in one slovenly way or another (not taking inventories or worse, ignoring their warning; not abiding by budget; being careless with cash flow; etc.) we too often find ourselves on the brink of disaster.

Finally, the overriding question: can American cooperatives recover their earlier, more impressive achievements? The answer is obvious—but difficult: Yes! Of course! Provided we can duplicate Japanese idealism in abiding by Kagawa's trilogy of Cooperation, Peace, and Love.

We once had a host of idealistic talent beginning with the Co-op League: Warbasse, Coady, Carpenter, Bogardus, Bowen, Voorhis, Fowler, Kallen, Alanne, and, of course, Kagawa. We must preach our message and attract more of the idealists who, indeed, still roam the land. If we can achieve that, we'll be able to return to the world of CLUSA!



The unfortunate result of the near demise of cooperatives in the San Francisco Bay Area is that America lost its largest and most well known concentration of consumer cooperatives. For fifty years Bay Area co-op leaders had built an active and effective model of consumer cooperation which was the pride of America and the world. People came from all across the globe to see the operations and study the education and member relations programs of the Bay Area co-ops. Through Associated Cooperatives there was an integrated wholesale and distribution network which brought together over twenty different cooperatives throughout California. Tied together by both practice and philosophy, the cooperatives were community leaders and the vanguard of responsiveness to the changing needs of consumers. Almost every month the media carried glowing reports about the unique retailing practices of these consumer co-ops.

During the mid-1960s, many both old and new wave co-op leaders were confident that the whole world was going to turn cooperative. Events seemed to be with us, people responded, and the membership grew by tens of thousands until the California consumer co-ops had over 130,000 members. Retail volume had risen to over \$100 million and wholesale volume at AC had risen to nearly \$50 million. AC conducted education programs, ran a summer program at Co-op Camp Sierra for over 400 co-op members, and distributed books and educational materials to other U.S. consumer cooperatives.

As the other authors in this volume have written in detail about the downfall of CCB, I will not repeat their analyses except where it directly affects the future. My purpose is to reflect upon the meaning of the downfall as it relates to the remaining consumer cooperatives in California.

During the last few years of CCB there came a point where I could no longer tolerate another scheme which might save that co-op. All the efforts to save CCB only seemed to prolong the agony. After fifty years people just could not let go of their cooperative. It had meant so much to them; for some it had been their whole life, for others an important part of their daily community activity. On the other hand, reports of every problem of the Bay Area co-ops were in the local and national press. Some reporters seemed to enjoy describing consumer cooperation as an ideal whose time had passed. One of the biggest problems was showing the public that the death of CCB was not proof that consumers couldn't run their own businesses. It had become as fashionable to report on the dying co-ops of the 1980s as it had been to report on their growth during the 1960s.

The dying of CCB had a major effect on those of us whose affiliation was with the new wave co-ops. We all wondered whether CCB's death was a single case of illness or a disease that would spread to the other cooperatives both old and new. We held our breath as the disease first struck AC and then CCSPA. The closing of the AC warehouse and the brush with bankruptcy

almost spread to the new wave cooperatives which bought from AC every day and had sizeable investments in the wholesale. The entire new wave cooperative movement in Northern California came very close to shutting down completely. That disaster was only prevented by the responsible and delicate managing of the reduction of Associated Cooperatives in conjunction with the creditors.

It was also clear that the California consumer cooperative sector was spending most of its time talking about the situation at CCB, CCSPA, and AC. At all the co-op gatherings over those dying years the entire discussion focussed on what was happening there, and what it meant to other cooperatives. For almost five years, this topic dominated the California consumer cooperative movement. In the meantime, the new wave cooperatives worried about their own situations, set up new wholesaling relations, and drifted apart from the movement. Isolation became part of the cure. To the new wave co-ops the death of CCB was not unexpected. We had all spotted the developing new markets and the changing demographics but were fortunate enough to have credible roles to play in taking advantage of those opportunities.

For the new wave cooperatives, the difficult years began in the late 1970s. Caught between the idealism of the 1960s counterculture and the strictly business culture of the 1980s, the new wave co-ops were struggling with an identity crisis. The maturing of single radicals into married professionals meant new lifestyles and new consumer patterns. While that example may be a little exaggerated, it's close to the truth. In the '60s people were willing to volunteer many hours at a co-op, serve on boards and committees, and organize marvelous community events. Thousands of people worked directly in co-ops to obtain discounts and to gain a sense of participation in store operations. These were truly egalitarian years where the co-op as a model workplace and community business was avidly discussed. There really was the feeling of building an alternative society within the existing structure. Cooperatives were viewed as a Trojan Horse of the counterculture. No one who was a part of those days will ever forget the crisp critiques of the status quo and the clear values of the alternatives.

However, volunteerism waned as people moved into their professional lives. The staff at cooperatives began to want rewards which reflected their different skills, length of service and levels of responsibility. What once had been all unpaid work, became paid; where once there were no bosses, there were now managers and assistant managers; where once there were all-staff meetings to discuss almost every issue, there were now differing levels of decision making. Boards, which used to meet weekly for six hours at a time because they wanted to make sure the members were being represented, gradually relinquished control to management. Structurally, the cooperatives were beginning to reflect the need for organizations to be competitive in the

marketplace. For a cooperative to keep its staff and customers, things had to change. But why?

The new wave cooperatives had begun in the late 1960s and early 1970s to meet the needs of a growing number of disaffected Americans. Anti-war and civil rights activists, ecologists stirred by Earth Day, and community control advocates all saw co-ops as a symbol of the counterculture. Co-ops were to be the lead economic institution which would revolutionize the marketplace. Within the business, cooperatives tried to practice every method which would lead to a better society. The co-ops were truly models of microcosmic social and economic change. The co-ops led the way in environmental considerations, bulk products, reduced packaging, organic products, health foods, recycling, nutrition and consumer education, newsletters and forums, health fairs and community events in the parking lot. Education, ecology, and ethics in retailing were the foundations of the cooperative philosophy.

The dark clouds which appeared upon the horizon were not easily seen right away. The fact was that interest in natural foods and ethical shopping was a growing feature of American life. The cooperatives were in on the beginning of this trend but seemed oblivious to the fact they had no monopoly on the market. In American retailing no one can keep a good idea a secret for too long. Often the new natural food stores which opened were started by staff members of local cooperatives who saw a market opportunity and knew that the co-ops would not seize it. Knowing clearly there was no professional future in cooperatives and having a skill that was in great demand, they set off into competition with their former employers.

Co-op employees, however, were certainly not the only ones who saw the market moving in the direction of natural foods. Within a very short time hundreds of other natural food shops opened, usually in direct competition with existing cooperatives. No longer did co-ops have the idea to themselves. The natural food industry had arrived as a new segment of the retail food industry. Millions of consumers across America were in search of the perfect natural food store. In this new marketplace the cooperatives were soon at a disadvantage. Generally undercapitalized, unprofessionally managed, and unwilling to make changes, they paled in comparison with their competition. As a result the 1980s saw the death of many of the storefront natural food cooperatives that had begun with such promise. Unfortunately, many of the cooperatives were both unwilling and incapable of revitalizing themselves. In particular, the buying clubs which had sprung up died as fast as they had come to life. The families (now two-income) that had once been their mainstay no longer seemed willing to exchange their limited time to save money on food.

Today, the market place is breaking down into the following segments: superstores of 60,000-200,000 square feet which sell both food and nonfood;



chain and independent supermarkets with an average size of 20,000-40,000 square feet; neighborhood grocery stores from 1,000 to 3,000 square feet. In addition, there are now gourmet speciality stores, usually independents or small chains, with store sizes of 10,000 to 20,000 square feet; natural food stores of 5,000 to 20,000 square feet; and finally small gas station convenience stores.

In the midst of this segmenting, the California new wave cooperatives have maintained their strong focus on natural foods. However, almost all the storefront cooperatives which wanted to remain small have gone out of business. The new wave cooperatives which still exist have all grown considerably with the optimum size now thought to be 10,000 to 20,000 square feet. There are now fourteen consumer cooperative natural food stores in California and one co-op (CCSPA) operating as a conventional supermarket. The total volume of all the remaining consumer cooperatives in California is over \$40 million. There are very few buying clubs in existence now, and with the closing of AC's warehouse operation there are no wholesalers set up to serve the needs of buying clubs.

The superstores and supermarket chains are taking a higher and higher percentage of the food dollar. The convenience stores and franchise food outlets are also taking more of the food dollar. In between, natural foods stores and gourmet specialty stores compete with independent markets for the customer who wants to shop at stores which retain a unique character and sell a different range of merchandise.

In most of their locations the natural foods co-ops currently occupy a unique niche. However, a number of small but growing chains of private natural foods stores have emerged in the urban centers of California. They are becoming dominant in their market areas and are forcing out the smaller, independent natural foods stores. Fortunately, many of the existing California consumer co-ops are not in central urban areas and therefore don't feel the impact of this competition. However, over the next decade these new chains will need wider market areas and will compete directly with the existing cooperatives.

These new natural foods chains copy many of the policies, practices and philosophies of the cooperatives. They are therefore extremely well placed to take a part of the cooperatives' market. Fortunately, the cooperatives have learned a great deal over the past twenty years. They are now players in the market, often setting the standards by which others are measured. However, the cooperatives are not for the most part interested in becoming chains and may therefore miss out on the economies of scale that come with higher volume. North Coast Cooperatives, at \$10 million per year, has the highest retail volume among California consumer co-ops. The largest annual volume of a natural foods chain is over \$50 million. The success of the chains is built around high income locations, new or refurbished facilities, expensive improvements and fixtures, commitment to service personnel, attractive signage, and high

quality foods. To operate in this way, they are prepared to invest the necessary capital, and to pay for it, they operate on a high margin.

The cooperatives are generally not yet as attractive as the private stores. Over the past decade the private stores have set the standards for image and appearance and have attracted a strong customer following. Over the past few years the cooperatives have begun to catch up in this area. As a result the co-ops are seeing continued and strong growth in customer count, membership and retail volume. The cooperatives are definitely committed to building a better consumer image and are doing so successfully.

One of the main differences between the private natural foods stores and the cooperatives is the commitment to education. This is one of the areas where the cooperatives have a substantial lead. The consumer, nutritional and ecological information made available to the customers and members of cooperatives is of very high quality and obtained from credible sources. Newsletters and in-store information displays are two of the excellent ways in which people learn from their cooperatives. With the growing interest and concern over the environment and its effect upon the food supply, the cooperatives were able to move quickly to show consumers that co-ops are to be trusted on these issues. A long term environmental commitment and a record of community service had already placed cooperatives at a high level of consumer trust. Recently, cooperatives were prominently mentioned for their integrity during the "alar" apple scare and the "Chilean grape" poisoning incident. Most cooperatives have been showing annual sales increases of over 10% for the past three years and they are expected to continue that kind of increase just as long as the focus is on food safety.

The central issue for the new wave cooperatives today is how to protect their market share tomorrow. It is doubtful that the cooperatives will be able to survive without some form of unification. The costs of running independent stores are high when you have separate management, advertising, education, and other programs. To reduce costs, cooperatives will have to move toward joint purchasing of supplies, services, advertising, and education and management programs. Recently, the Davis Food Co-op and the Sacramento Natural Foods Co-op agreed to share the cost of a chief executive officer rather than to have two separate managers. This unity between the two stores is expected to reach down into many other areas of store operations. Because they are only eighteen miles apart and share the same media market, these two independent cooperatives see a future where it will become necessary to unite operationally in order to preserve their market share.

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## A Brief History of the Berkeley Co-op

- 1937 The Consumers Cooperative of Berkeley, composed mostly of church and University people, opens a food store in Berkeley.
- 1938 The Berkeley Cooperative Union, with members coming largely from the Finnish community, opens a service station and hardware store in Berkeley.
- 1940 Starts publication of *Co-op News*.
- 1942 Co-op makes sure it only sells lean ground chuck as hamburger, while other stores were selling “hamburger”—that could mean anything that would go through the meat grinder.
- 1946 Helps staff Consumer Information Center for the Civilian Defense Council in Berkeley.
- 1947 The Consumers Cooperative of Berkeley and the Berkeley Cooperative Union merge into the Consumers Cooperative of Berkeley, Inc.
- 1948 An enlarged food store is built at University and Sacramento in Berkeley.
- 1953 The University Avenue Food Store is again enlarged.
- 1955 Hires first Home Economist.  
A Co-op auto repair garage is opened in Berkeley.  
A hardware/variety store is opened at 1432 University Avenue.
- 1957 Co-op members open their first facility outside of Berkeley—a food center and service station at 1510 Geary Road in Walnut Creek.

- 1959 A third Berkeley Center opens at 1550 Shattuck Avenue.
- 1961 Co-op issues its first statements to regulatory agencies and legislatures: on standards of identity for orange juice and orange juice products; on fish protein, and on frozen raw breaded shrimp. These statements will be issued regularly throughout the ensuing years, often with significant impact on the success of consumer efforts to enhance food safety and labelling standards.
- 1962 We acquire five stores from Sid's chain—in Berkeley, Walnut Creek, and Castro Valley, and converted them to co-ops. One was the Natural Food Store. The addresses were 3000 Telegraph Ave. in Berkeley, 1295 South Main in Walnut Creek, 3667 Castro Valley Rd. in Castro Valley, and 1581 University Ave. in Berkeley (now combined with the 1414 University Ave. Co-op Food Store).
- 1963 A food center and service station were opened at Eastshore Blvd. and Potrero in El Cerrito, after extensive planning by members in the area.
- 1964 Co-op home economists issue first of many advocacy statements urging all ingredients be listed on ice cream labels.
- 1965 Co-op wraps packaged meat with the fatter or worst looking side on the top so the customer can see. The better side was placed on the tray and could not be seen by the customer. The Co-op was trying to show the consumer who was the most honest market. However, the program did not work well and was discontinued.  
*Co-op Low Cost Cookbook* first published. It goes through 8 printings. It is first put together by Co-op members and consisted of inexpensive main dishes.
- 1966 Co-op lobbies extensively on the Fair Packaging and Labelling Law, which passes on Nov. 2, 1966.
- 1967 After ten years of planning, a Co-op shopping complex opens on Tamal Vista Blvd. in Corte Madera, Marin County.
- 1968 First began support for farmworker struggles, United Farm Workers' Union (UFW).
- 1970 Begins carrying organic produce.  
Bans sale of hazardous pesticides in our stores.  
Establishes a community recycling center in Berkeley—a first!  
Co-op organizes a petition drive to support first bottle bill deposit legislation. A weakened version finally passes in 1986.

- 1971-1973** The Food and Drug Administration chose the Co-op as one of five groups nationally to test nutrition information on food labels. The Co-op was the only group which obtained direction from consumers. In 1973, the FDS adopted new and better standards for nutrition labelling and adopted many of the suggestions for better informing the consumer that came from the Co-op.
- 1972** Launches a campaign to educate consumers about the benefits of plain aspirin vs. expensive pain killers to help members save money on drugs.  
First store in the U.S. to sell nitrite-free hot dogs.  
Publishes *Co-op 35th Anniversary Menu Book*, complete gourmet menus donated by Co-op members including accompanying wines and liqueurs.
- 1974** Co-op acquires three stores in Oakland from Mayfair and converts them to co-ops; 5730 Telegraph Ave., East 18th & Park Blvd., and one in the MacArthur-Broadway Shopping Center.
- 1975** Following intensive member initiative, Co-op opens its first San Francisco store, in the Northpoint Shopping Center at Bay and Mason. Ceases purchase of fluorocarbon-containing aerosols.
- 1976** Lowers milk prices illegally to force the issue of price fixing on milk. Recognizing that it has long outgrown its physical limitations, the Co-op begins a complete redevelopment of the University Avenue Center in Berkeley. The changes completely upgraded the mother store of the Co-op.
- 1977** First sponsors energy and water conservation clinics.
- 1978** Because of the energy crisis and reduced traveling, losing operations at the garage and service stations are discontinued.
- 1979** Starts giving refunds for re-used paper bags and begins to sell Save-A-Tree reusable bags.  
Begins marketing "Natural Pack" Co-op label canned foods—without added sugar, salt, and without preservatives or artificial colors.
- 1980** Publication of "Berkeley Co-op Food Book", brings together in one publication the food preparation, health and safety information from prior years' home economists handouts, columns, etc.  
Natural Foods products, initially promoted in a separate store in 1971, are emphasized in special departments in all stores, including four specially remodeled for this purpose.

- 1981 MacArthur-Broadway (Oakland) and South Main (Walnut Creek) Co-op Centers were closed.
- 1982 Castro Valley Co-op closes.
- 1983 Begins Boycott of Nestle's products because of infant formula scandals in Third World countries.
- 1984 North Oakland, Marin, Geary Road and El Cerrito Co-ops close.  
The Co-op ran an ad in its *Co-op News* created by a public interest advertising company which was critical of sugar in cereals and false advertising. Other newspapers had refused to display the ad because they feared they would lose advertising from the cereal industry.  
Decides to boycott Chilean produce.
- 1985 Members vote to support boycott of Coors beer, which is subsequently removed from Co-op shelves.  
Goes on record opposing irradiation of food, calls for labelling any irradiated foods, and launches petition drive to FDA on these issues.  
Co-op's first specialty ranch style market (Savories) where a number of different companies share the same roof.
- 1986 Closes Northpoint and Hardware Variety Centers.  
Receives Nutrition Pace-Setter award from Center for Science in the Public Interest for innovations in nutrition information and consumer protection.
- 1987 Co-op closes Savories. Unfortunately, this market closed soon after opening due to many problems at the location, delays, other stores not opening on time, opening of a nearby superstore, etc.  
Efforts to create a Co-op owned by the employees and consumers were the last attempt to save the Co-op. However, the efforts came too late and the differences too great to be overcome between the two groups. After the failure to create a new form of organization, there remained little confidence that the Co-op could survive. It was now only a matter of time.
- 1988 The Co-op petitions for bankruptcy and finally closes the three remaining stores in Berkeley.

- 1989–** The last elected Board has the difficult and thankless task of presid-  
**1991** ing over the dissolution of the cooperative. In conjunction with the  
bankruptcy court, they sell off the assets of what once was America's  
most important consumer cooperative.
- 1992** The Co-op no longer exists.





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## California's Cooperative Community

By David J. Thompson

*David J. Thompson is a consultant for the National Cooperative Business Association. He is president of the Twin Pines Cooperative Foundation and is also on the boards of the Davis Food Co-op and Associated Cooperatives. He has visited consumer cooperatives in Japan on four separate occasions and hosted hundreds of Japanese cooperators on their visits to America.*

**T**o many of those from other states or other parts of the world, Consumers Cooperative of Berkeley (CCB) was the most well known consumer co-op in California. In fact, California is home to an extremely wide variety of co-ops, some of them far more important economically than CCB. The purpose of this section is to provide a brief outline of California's extensive cooperative community.

### Agricultural and Rural Cooperatives

California is the largest state in the U.S. in terms of agricultural cooperative business volume. Over 40% of California's agricultural business is done by cooperatives. Today, over 400 agricultural cooperatives, with 69,000 members, operate in California. The two largest groups are the over 100 cooperatives engaged in marketing activities, and the over 100 cooperatives that purchase supplies and provide other services to members.

The California agricultural cooperative sector began at the end of the nineteenth century. Prior to that, many farmers were unable to withstand the financial losses arising from not being organized to represent themselves in the marketplace. So farmers united economically to harvest, distribute, and market their products.

In 1893, citrus growers in Southern California formed a pool to sell their products. This system grew and became the first marketing cooperative, known today as Sunkist Growers, Inc. The creation of Sunkist as a model initiated the creation of other single commodity marketing cooperatives in

California. Many of these California co-ops are now among the most well known brand names in America today. Blue Anchor, Inc.; Blue Diamond Growers; Diamond Walnut Growers; Sun Maid Growers of California; Sunsweet Growers, Inc.; Rice Growers Association; Calavo; and Tri/Valley are some of the names that now appear every day in supermarkets in the United States and throughout the world.

The agricultural cooperatives in California play a leading role in the farm sector. The ag co-ops work closely with federal and state government departments, universities, research organizations, and the Cooperative Extension Service of the U.S. Department of Agriculture. With these organizations and many others, the agricultural cooperatives work to create an industry more effective in meeting the needs of farmers, retailers, wholesalers, processors, and consumers.

The national system of agricultural cooperative banking is very active in California. The Farm Credit System which finances land and production credit for individual farmers and CoBank which finances agricultural cooperatives have regional offices located in California. With \$12.5 billion in assets CoBank is the largest U.S. cooperative financial institution. This bank is owned by the approximately 2,000 U.S. agricultural cooperatives and rural utility systems which are also its customers. There are also four telephone cooperatives serving over 20,000 consumers in four different rural areas of California.

The Agricultural Council of California is the association of farmer owned and operated marketing, bargaining, and service cooperatives. Organized in 1919, it was the first state council representing agricultural cooperatives in the nation. The council works on behalf of its members in four separate categories: governmental relations, education, public relations, and member services.

In 1987, the total volume of business activity done by agricultural marketing, supply, and service cooperatives in California was over \$6.4 billion. This was more than 40% of the state's agricultural sales and 11% of the total business volume done by agricultural cooperatives in the United States.

### **Consumer Cooperatives**

Today, there are over 40,000 active members of thirteen food cooperatives scattered throughout California. These co-ops are: North Coast Cooperatives (with stores in Arcata, Eureka, and Fortuna); Consumers Cooperative Society of Palo Alto; Sacramento Natural Foods Co-op; Co-opportunity (Santa Monica); Davis Food Co-op; Cotati Food Co-op; Venice Ocean Park Cooperative (Los Angeles); Briar Patch Co-op (Nevada City); Chico Natural Foods; Ukiah Co-op; Ocean Beach Co-op (San Diego); and the Isla Vista Food Co-op (Santa Barbara). It is difficult to know the number of buying clubs in California because they independently purchase

their foods from many different sources. At this time, probably no more than 5,000 people participate in buying clubs.

With the exception of Palo Alto (founded in the 1930s), all of today's food co-ops began during the late 1960s or after. These "new wave" co-ops arose during the era of Earth Day 1970, the anti-Vietnam War protests, and the Civil Rights Movement. During that time, many young activists organized cooperatives as a way of gaining community control over economic activity. The food cooperatives of that era were able to be at once a community owned and controlled business, an environmentally aware business, and an organizing center for a wide range of social and political activities. The emphasis of food co-ops at this point is promoting natural foods, organic produce, and foods with no (or fewer) added chemicals. Consumer cooperatives continue to have a high dedication to environmental principles and community responsiveness.

Today's California food co-ops obtain their supplies from numerous sources. One major source for some of the co-ops is Certified Grocers, based in Los Angeles and Stockton. Certified is a retailer-owned wholesale cooperative with annual volume of nearly \$2 billion. Certified supplies a large portion of the needs of its member markets including many family owned markets and small chains as well as some of the larger chains. As the food co-ops have grown and changed their merchandising to meet the needs of a wider range of the population, some have become members of Certified Grocers. There are other wholesalers serving retailers, but Certified is the only full range wholesaler that is cooperatively owned by retailers.

Sierra Natural Foods is a natural foods wholesaler that is partially owned by Associated Cooperatives (AC), which was once a wholesaler owned by the retail consumer co-ops in California, went out of the wholesale business in 1986 and became a holding company for two natural foods wholesalers, Sierra Natural Foods of San Francisco and NutraSource of Seattle, Washington. Since then, AC has developed a line of natural foods products sold under the Pacific Gardens label. AC has been restructured during this process and is becoming a different type of cooperative corporation designed to meet the needs of its members. In 1991 Sierra Natural Foods closed its operations forcing AC to rethink its future.

As AC closed its previous operations, it spun off its education and development department into an existing nonprofit called BAND (Bay Area Neighborhood Development). Since 1964, BAND had operated as a nonprofit, tax-exempt organization controlled by the AC Board of Directors. Today, BAND has been renamed the Twin Pines Cooperative Foundation. TPCF operates Co-op Camp Sierra, a recreational and educational camp for cooperators held annually since 1938. Located in the beautiful Sierra Nevada foothills just south of Yosemite National Park, Camp Sierra is a place where

cooperators from California and elsewhere gather annually to discuss different aspects of cooperation. The newest component of Camp Sierra is a Twin Pines Cooperative Housing Institute which takes place each year during the second week of camp. The Housing Institute brings together cooperative housing activists from throughout California and the rest of the United States. TPCF also operates the Co-op Resource Center, which publishes an annual catalogue of books, pamphlets, and other co-op items for sale in all parts of the United States. In addition, TPCF coordinates a variety of educational conferences in support of the cooperative sector.

The largest consumer cooperative operating in California is Recreational Equipment, Inc., based in Seattle, Washington. This national retail chain of outdoor equipment stores is the largest U.S. consumer cooperative with nearly two million active members and an annual volume in 1988–1989 of over \$200 million. REI, which originally began in 1938, is an outstanding example of a cooperative corporation. Annually, REI returns to its members over 10% in rebates on purchases. In California, REI operates eight stores and has over 500,000 members.

REI involves both staff and members in projects that protect wilderness. Each of the stores selects its own wilderness and recreation projects. Through these projects, REI has worked to build and maintain trails and clean up and restore recreation areas throughout the country. On a national level, REI donates at least 1% of its pre-tax profits to defending wilderness and increasing public understanding of its values.

In 1985, REI joined an elite list of the nation's best and brightest corporations by being chosen for inclusion in the newly revised edition of *The 100 Best Companies to Work for in America*. The Seattle-based cooperative was one of eleven retailers and the only sporting goods retailer to be included on the list.

## Credit Unions

Credit unions in the United States are the largest cooperative sector. Begun first in 1909 and then stimulated by the Depression and the passage of the Federal Credit Union Act in 1934, credit unions are also the greatest cooperative success story.

Credit unions are organized around three different common bonds: the workplace, an association, or a geographic community. In California, there are approximately 1,000 credit unions serving seven million members at locations in almost every corner of the state. They employ nearly 15,000 people and now have loans and investments of over \$20 billion.

Credit unions can be either federally or state chartered and must perform at certain levels of fiscal responsibility to retain their right to do business. Government agencies supervise their operations. California credit unions also

work closely with the Credit Union National Association (CUNA) and the California Credit Union League.

With the dramatic changes in the U.S. financial sector, credit unions have become more aggressive in marketing and technological services. The private banking community has chosen to focus on attacking the credit union sector as a means of reducing competition. As a result, the 1990s may prove to be the most challenging era for credit unions since the 1930s. However, it is clear from a University of California study (1986) that California credit unions saved their members over \$300 million in interest payments when compared with the cost of borrowing from private banks.

### Cooperative Preschools and Babysitting

Three types of groups belong under this heading:

- 1) Private preschool cooperatives which are run and controlled cooperatively by parents.
- 2) Adult education preschool cooperatives which are affiliated with a school district and where there is a staff that teaches the children. Here parents provide support, participate in the teaching, and also help to set policies.
- 3) Babysitting cooperatives which are usually informal groups of parents involved in exchanging time for babysitting.

### Funeral and Memorial Societies

In 1938, the first memorial society was started in Seattle, Washington. Today there are over 150 memorial societies operating in the U.S. and Canada. There are three types of societies. In California, the most common is the *contract society* which has a written agreement with one or more local morticians. A *cooperative society* has an informal agreement with at least one local mortician, and an *advisory society* primarily provides education about funeral choices, rather than contracting with local morticians.

The fourteen regional memorial societies throughout California serve 140,000 members. Annually, their members spend about one million dollars on funerals. Through contract arrangements, memorial societies can save their members up to 40% of total funeral costs.

### Housing Cooperatives

There are 200 housing cooperatives in California with a total of approximately 26,000 units housing approximately 60,000 people. Cooperative housing has been present in California since the early 1900s, although it did not become a sizable sector until the government housing programs of the 1950s.

A majority of the units existing today were built during the 1950s and 1960s. Additional units were created in the 1970s under a new state law which defined limited equity cooperatives. State government programs at that time encouraged the creation of approximately 1,000 units of limited equity cooperatives.

The cooperative housing that exists in California ranges from high-income co-op apartment units in San Francisco to low-income farm worker housing units in the Central Valley. However, the majority of cooperative housing serves low to moderate income families. There are also excellent models that meet the needs of seniors, students, single parents, farm workers, and ethnic groups.

Over 2,500 students live in 13 student housing co-ops located at Stanford University and near University of California campuses at Berkeley, Davis, Santa Cruz, Santa Barbara, Irvine, and Los Angeles. Cooperative Services Inc. (CSI), based in Detroit and the largest senior citizen housing cooperative in the U.S., now operates nearly 700 units of senior housing scattered throughout California.

There are many other innovative forms of cooperative housing in California. Thousands of people, especially singles, now live in shared housing. These co-ops are formed by people who generally rent houses together, have their own rooms, but share in cooking and cleaning. In most cases this kind of housing is rented from private owners, but in some cases the houses are owned by the residents or by nonprofit organizations.

Nearly thirty mobile home park cooperatives with over 1,200 spaces have been formed. In this model, the members own their own mobile homes and lease their space from the mobile home park which is owned cooperatively. There is even a houseboat co-op on the San Francisco Bay which leases its dock space as a co-op.

### **Worker Cooperatives**

There are approximately 100 worker cooperatives in California, with the majority located in the San Francisco Bay Area and Santa Cruz. Most of the worker co-ops began in the 1960s and 1970s as attempts at experimenting with a democratic workplace in an era of challenge to the status quo way of doing business.

Many of these co-ops began with a direct social and political statement about the workplace, community, and products. You can, therefore, find a large number of these worker cooperatives in food, education, health, printing, and other consumer goods and services. It is difficult to know how many there really are since worker cooperatives do not have a separate California law under which they can incorporate. Instead, worker co-ops incorporate

under general corporation law, cooperative corporation law, or nonprofit corporation law. They generally have not had an interest in shareholding or profit on investment, so they have not been especially concerned about their exact corporate form.

Three of the more interesting worker co-ops are Bookpeople, Alvarado Street Bakery, and Uprisings Bakery. Bookpeople, based in Berkeley, is one of the leading distributors of books from small presses. This co-op distributes to book sellers throughout the U.S. and has found a niche in the market of specialty press distribution. Alvarado Street Bakery in Sonoma County is a worker-owned company which has grown tremendously due to the quality of its natural bakery products. Uprisings Bakery in Berkeley has created a similar natural bakery line. Both Uprisings and Alvarado Street distribute their excellent products to many of the cooperatives and natural food stores in Northern California. There are many other examples of worker cooperatives engaged in the food and services area.

Another category is the taxicab cooperative. For example, Capital City Cab Cooperative in Sacramento has a membership of nearly 100 people. Everybody who works in the cooperative is eligible for membership—from the receptionists to the cab drivers. They all own shares in the corporation which owns all the assets. Another model is the Yellow Cab Co-op in San Francisco which is owned by a number of individuals who own the licenses to operate a certain number of cabs. In this case, most of the people who drive cabs for the co-op are not eligible to become members because they have not been able to obtain a license to own a cab. The U.S. cab industry is regulated and often only so many permits are issued for cabs to operate in a particular city. There are other cab cooperatives in San Diego, Los Angeles, and other parts of the state. It's possible that 20 to 30% of the cab activity in California is actually done by cooperatives.

There are two unique groups of worker cooperatives within the state. One is in Santa Cruz, where in the aftermath of the 1960s an organization was created to develop local cooperatives around this university town. The result was nearly 20 worker co-ops that catered mostly to the student and alternative communities. Over the years, these groups have matured considerably and are now community-based rather than student-oriented organizations. They continue to work together and to help each other and have generally been quite successful. Another group started at the University of California at San Diego. Because this was a new campus that had no businesses in place, the students organized cooperatives to meet their everyday needs such as food and general goods, clothing, bicycles, records, and cafes. As the university and student organization have grown, there has been great pressure upon the cooperatives to actually get out of business. However, the student cooperatives have strongly resisted this

pressure and continue to play an important role. All of their businesses operate directly on campus to serve a student constituency.

### **Arts & Crafts Cooperatives**

There are 26 or more arts and crafts co-ops in California. In these cooperatives, the member artists must give a certain number of hours per month to the co-op. By running their own shops, selling directly to the public, and providing free labor, the artists gain a greater income from the sale of their work. About 1,000 artists are members of these co-ops. There are two unique live/work space co-ops in Emeryville near Berkeley. Over 100 artists live in these two limited equity cooperatives which also provide space for the artists to do their work.

### **Business Cooperatives**

In California, many individual companies have recognized the benefits of using cooperatives to further their economic interests. In fact, there is a growing trend by small independent businesses and franchises to use cooperative purchasing and cooperative economic action to make sure they remain competitive in the marketplace.

A number of national business cooperatives operate in California. Associated Press is a service for individual newspaper members. FTD (Floral Transworld Delivery), with members nationally and internationally, is a cooperative owned by participating flower shops. True Value and ACE are the two largest hardware cooperatives in the U.S. They both have distributing centers in California to supply their thousands of members who are the independently-owned hardware businesses located in almost every town in California. Best Western, the world's largest chain of independently-owned hotels, is a cooperative and has a large number of members in California. Certified Grocers is, by volume, the largest business co-op in California. There are still more business co-ops serving gas station owners, furniture retailers, realtors, physicians, and other groups.

Recently, franchise trade associations have formed purchasing cooperatives. For example, at a national level, franchisees of Kentucky Fried Chicken, Dunkin' Donuts, Arby's, Legend Pharmacy, and others have created cooperatives to pool their purchasing power and return the savings to their members.

In one situation, which may be the beginning of a trend, a California franchising business was purchased by its members as a cooperative. The resulting Straw Hat Pizza Cooperative Corporation is the first of its kind. Recently, Rico's Pizza in Sacramento was also purchased by its franchisees. Lately, the franchise world has undergone a number of takeovers and leveraged buyouts.



As a result, the new franchising companies have demanded higher income from the franchisees. Franchisees are now looking even more to cooperative purchasing as a way to increase net income to themselves.

The continued impact of chains on small businesses has forced this new look at the role of cooperatives. Many professional groups like pharmacists, doctors, dentists, and opticians have already created or are now in the process of creating their own cooperative purchasing groups.

Finally, many of the goods that move throughout California are transported by shipping cooperatives.

### **Nonprofit Cooperatives**

In this era of greater competition and higher costs, the nonprofit sector has also created effective cooperatives. One of the most innovative is the California Association of Nonprofits. This organization provides to its member nonprofits a wide range of services including group health insurance and purchasing.

In Oakland, a group of nonprofit hospitals formed a shared service cooperative to jointly operate a hospital security service, shared patient billing service, joint purchasing, and even joint ownership of an emergency medical helicopter.

There are also many nonprofit organizations that operate as cooperatives, but are incorporated under California nonprofit law. Because of the way nonprofit law works in California, there are many economic benefits to incorporating as a nonprofit organization.

### **National Cooperative Bank**

The nonagricultural cooperatives are served by the National Cooperative Bank (NCB) based in Washington, D.C. With over \$300 million in assets, the NCB is the newest cooperative financial institution in the U.S. Started only ten years ago in 1980, the NCB has become a key element in the cooperative family. A nonprofit subsidiary, the NCB Development Corporation (NCBDC), provides specialized financing to start-ups, low-income, and other innovative co-ops. The NCB and NCBDC both play a major role in financing the co-op sector in California.













