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Cooperatives, A California Analysis: An Old Structure for a New Economy

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I. Introduction

California's agricultural cooperatives have been rooted and active across the state's landscape since just before the turn of the twentieth century. Many of that first crop continue unabated, including the well-known co-ops behind the brands Sunkist, Blue Diamond, and Sun-Maid, started individually between 1893 and 1912.[1] Currently, over 40,000 of California's farmers belong to agricultural cooperatives, also known as marketing cooperatives,[2] which annually contribute $8 billion in business volume to California's economy.[3]

Despite their long histories, over the last five years several prominent California cooperatives including the Rice Growers Association of California, Tri-Valley Growers, Blue Anchor, Calavo Growers, and Diamond Walnut Growers have dissolved, filed for bankruptcy, or privatized.[4] From 1995 – 2001, agricultural cooperatives' business volume fell $1.5 billion.[5]

In an effort to understand the closures, the UC Davis Department of Agricultural and Resource Economics (ARE) and the USDA conducted a survey with former Rice Growers Association (RGA) management and members.[6] From the early 1980s to 2000, when it ceased operations, RGA plummeted from handling 70% of California's total rice crop to 5%. Fully half of those responding, ARE and the USDA learned from the surveys, were "extremely disappointed" by their experiences with cooperatives. Over 70% believe that agricultural cooperatives are not managed as well as other agribusinesses.

With the increasing consolidation of the retail market, many companies have to undergo extreme cost-cutting measures. Although in the past several cooperatives had monopolies in their sectors of the agricultural market,[7] at the present time a small number of buyers have a globalized world from which to select the products they slot on their chains' retail shelves. In "Consolidation in Food Retailing and Dairy," Mary Hendrickson and others of the University of Missouri, Department of Rural Sociology documented the recent trends of the dairy industry and its co-ops as they maneuver what Hendrickson calls the "dominant firms in the food chain clusters," which include Kroger, Albertson's, Wal-Mart, Safeway and Ahold USA.[8] As Hendrickson articulates in the study, "Food retailers and food processors wanting to increase their profits are going to have to squeeze costs out of the system somewhere… Those with the least power—the farmers and the smaller processors producing the goods retailers sell—are the most likely to get the hardest and longest squeeze."[9] Because cooperatives are farmer-owned and controlled, they are less likely to choose to pay themselves an inequitable wage than those organizations with investor interests foremost in mind, including foreign-sourced firms. This leaves many people asking whether there is a future for cooperatives in the United States, let alone in California. Are agricultural cooperatives a relic from another era?

No, more than 70% of Rice Growers Association management and members responded: they deem agricultural cooperatives to be a necessary part of the agricultural sector, with nearly 80% of respondents envisioning a future for them in the state.[10] A California Education Code affirmed agreement: "in the fast changing world economic environment it is important to California that its cooperatives remain a dynamic sector within the state's economy."[11]

It is hard to know whether there is a place for cooperatives in the commodity retail sphere, but there are cooperatives in today's economic environment that recognize the distinctive advantages of their business format and mine the benefits. These model cooperatives have discovered alternative business options that overcome the constraints hindering their larger commodity cooperative counterparts. Some have situated themselves in the organic and other niche industries, for example, because they recognize that as cooperatives they have a story to tell that will increase the value of their products and help them rise above the pit of underpriced goods.

This paper is an exploration of cooperatives in today's cutthroat economic arena. It begins with a description of the basic principles of cooperatives, moves through a brief synopsis of the obstacles impeding cooperatives such as RGA and Diamond Walnut Growers, proposes business practices that may help cooperatives overcome their hurdles, and concludes with four case studies of businesses in both the mainstream commodity and niche industries that are taking their cooperatives to new heights.

Cooperatives' singular format—with its many upshots and complications—make them vibrant players in any economy. Californians may miss a unique opportunity to animate rural communities and promote the welfare of their populations and environments if in the economic march forward they leave agricultural cooperatives behind. Learning what it takes to create and sustain a successful cooperative, new or old, and what has sunk several in recent years, become increasingly important for Californians looking to create a brighter future for their state.

What is a Cooperative? The Three Cooperative Principles

Donald Frederick of the USDA's Rural Business-Cooperative Service identifies three principles as common to all cooperatives: user-benefits, user-owner, and user-control.[12] They embody the reasons agricultural cooperatives can be a significant factor in promoting and supporting a local food system and making rural communities in California economically healthy and vibrant.

The user-benefits principle explains that members of a cooperative have increased access to markets, services, supplies, and bargaining power because of their consolidated group size. While maintaining independence, owners can receive volume discounts and customized supplies and services, or manufacture supplies and technologies of their own. This principle often brings members together initially and can enable a cooperative to flourish. Because of their larger product and resource pools, producers united in agricultural cooperatives can vertically integrate activities for themselves by creating partnerships or purchasing their own operations.[13] Often these relationships keep operations local, which makes every step in which value is added to their products a contributor to the regional economy.[14]

As a large group, members can enable the production and marketing of value-added items, diversify product selection, and decrease the risks of new products for each producer.[15] Pooling also lowers their distribution costs and allows members to "deliver their products in the amounts and types that will attract better offers from purchasers."[16] The user-owner principle means that the members own their democratically-controlled business. Successful agricultural cooperatives that root their operations in members' communities generate jobs for local residents and help pay taxes that finance local "schools, hospitals, and other community services."[17] This principle also requires that members provide the bulk of the business's financing. Accumulating sufficient equity is difficult for many cooperatives and often makes capital investment thorny. In order to help cooperatives overcome the trouble of accumulating capital, the IRS only taxes income once, either at the business level or when it is distributed to the members. General business corporations are taxed at both of those junctures. Furthermore, cooperatives may deduct from their taxable income both cash payouts to members and retained patronage refunds. Though cooperatives' financial constraints can make them more stable, because it forces risk adverse business decisions, it simultaneously makes competition in national and international arenas problematical.

The user-owner principle, which grounds cooperatives in maximizing net proceeds to members instead of accumulating profit,[18] has led many economists to theorize that "agricultural cooperatives will have lower profitability, liquidity and asset efficiency and higher leverage then their [investor-owned firm] counterparts."[19] However, a UC Davis ARE study comparing the financial performances of agricultural cooperatives and investor-owned firms (IOFs) in California, Oregon, and Washington from 1999-2002 largely disproved that hypothesis. Researchers looked at "traditional financial ratios measuring profitability, liquidity, leverage, and asset efficiency" in four sectors—fruit and vegetable, dairy, farm supply, and grain—and found that "with the exception of the fruit and vegetable sector, the overall financial performance of agricultural cooperatives on the West Coast has been comparable to that of IOFs over the past twelve years... cooperatives continue to promote the economic welfare of agricultural producers on the West Coast."[20]

The user-control principle points to the democratic operations of a cooperative. Almost universally cooperatives run on a one-member one-vote system that disregards the amount of equity each member invests or the quantity of his or her patronage. At the head of a cooperative is its board of directors, by and large elected from within the membership. At its best, when communication between members, the board and management is thorough and clear, the user-control principle focuses a cooperative on serving its members. Many cooperatives fail to recognize that smart economic decisions, however, benefit its membership. They make unwise decisions that seem to be in members' or cooperative employees' short term best interests but are bad for business in the long run.[21]

Cooperatives versus Investor-owned Firms

When cooperative members conceive that the benefits of their participation go beyond net proceeds, the business is in a stronger position to steer clear of the traps into which their counterparts have fallen. Recently, privatization has appeared as a popular exit route for cooperatives. On July 1, 2005, the members of California cooperative Diamond Walnut Growers voted to become a publicly-traded corporation, Diamond Foods.[22] More than 80% of the ballots cast by its 1,735 members supported the transition, which will terminate its 93-year history as a Central Valley cooperative. This move is not the first recent occurrence; Santa Paula-based avocado firm Calavo Growers Inc. and Atlanta-based chicken producer Gold Kist abandoned their cooperative structures in 2001 and 2004 respectively. In each case, the cooperative insisted that the business required outside investment to improve access to capital to enable it to compete on a larger scale.[23] With the money it gains in stock sales, Diamond Foods seeks to "invest in marketing programs to capitalize on consumers' interest in healthy snacks, as well as to install efficiency-improving equipment."[24]

Diamond Growers will distribute $18.6 million and 6.7 million shares, valued at $100.9 million to its members.[25] However, with privatization comes the loss of the fundamental benefits of a cooperative. In a missive sent to its members, Diamond Foods articulated that as a corporation its shareholders' economic interest is its bottom line. [26] Shermain Hardesty, director of the Center for Cooperatives of the UC Davis ARE, expressed that in the future "growers could receive below-market prices through multi-year marketing contracts that provide no price protection."[27] Without local ownership and vested interest on the board to keep regional farmers in business, "Diamond Foods could purchase walnuts from foreign sources to lower its costs." [28]

The concern that cooperatives require capital to compete on a grand scale that they cannot gain through internal patronage led Wyoming and Minnesota to pass statutes in 2001 and 2003 that allow nonmembers to invest in cooperatives and receive returns and voting rights proportional to their levels of investment.[29] Many see these statutes, as well as similar ones proposed in Wisconsin and North Dakota, as fantastic fix-its to enable the cooperative form to survive. Unfortunately, transforming cooperatives into a synthesis between a cooperative and an investor-owned firm may compromise many of the facets of cooperatives that make them worthwhile, including their establishment in the member-owners' communities. As with privatization, members may see short-term economic benefits with the input of capital. However, in the hands of the consolidated retail market they will lose the securities that democratic-ownership can offer, including equitable pay price, investment in local businesses, and non-outsourced production.

Cooperative Business Practices

What can inspire owner-members to bypass immediate cash infusions in favor of continued participation in a cooperative? And should it matter if the cooperative format vanishes in the United States?

Because cooperatives can act as proponents of rural communities, their continuation, improvement, and propagation become measures Californians should strongly consider advancing. Many cooperatives, however, have focused more on their corporate practices than on their producers' economic health and related benefits to the environment and community. While all businesses must achieve a successful bottom-line, cooperatives have the potential of marrying their unique benefits with profitability.

There are antidotes to the problems many cooperatives face beyond privatization and the establishment of state statutes. Like any business, a cooperative, even one nestled in a niche industry, has to follow standard business practices in order to compete and survive. Agricultural cooperatives of all stripes require several additional features and strategies to exist, each an offshoot of understanding the three principles, overcoming their pitfalls, and taking advantage of the opportunities they provide.

A cooperative needs a fully trained board of directors whose members maintain smooth communication with the cooperative's management. All directors must be knowledgeable about cooperative operations, prepared to ask difficult questions and make or approve specialized business decisions. In their diagnosis of what caused the downfall of the Rice Growers Association, former managers reported that their board "was passive and ill-equipped to scrutinize the business decisions it was charged with overseeing."[30] The ARE and USDA recommend that all cooperatives' board of directors "regularly receive instruction in strategic management and business finance."[31]

Another crucial recommendation is that the cooperative's board and management keep membership needs foremost in mind, which strategically means soliciting regular feedback from member-owners.[32] This requires providing numerous outlets for members to voice their opinions and communicating frequently about co-op operations. All this allows members' feedback to be informed, not simply reactive. The more they are engaged in the nitty-gritty of its business, the more likely member-owners will invest themselves in the co-op's success and remain loyal patrons, which can ease equity constraints.

To further combat equity limitations, cooperatives must research their many cost-saving and financing options. Smart transportation and well-aligned warehousing and production facilities are necessities, for instance. Cooperatives may choose to keep most operations internal or make pivotal partnerships that bring about efficient operations and fuel-savings while cutting out the middlemen, thus bringing more money back to producers. Mary Hendrickson suggests that "Farmers, small processors and independent retailers—all of whom are faced with increasing concentration throughout the system—can join forces and create new relationships that build the infrastructure for alternative food systems."[33]

In addition, depending on their specific circumstances, cooperatives can forge direct relationships with their customers to keep the middlemen out. There are many outlet choices for products beyond the standard wholesale-retail grocery market, among them community supported agricultural programs, restaurants, farmer's markets, and farm-to-school and -institution buying programs.[34]

Cooperatives can take advantage of the loans and grants numerous federal and state agencies offer. In 2004 the USDA Rural Development Program made 463 loans worth $972 million to support new and expanded rural businesses.[35] Cooperative banks also offer low cost loans to cooperatives.[36] The adequacy of this source of investment capital to meet the needs of the dynamic cooperative sector requires further exploration. Nonetheless, any successful co-op will have to understand its financing options fully and, at base, be a well-run, well-managed, and well-financed operation.

In today's economic environment the most important recommendation a cooperatives can seriously consider may be marketing its identity. Rich Hines, a marketing specialist at Washington State University's small-farms program, told Zach Dundas of *Willamette Week*, "farming is becoming a storytellers' business."[37] Cooperatives, whether selling raw ingredients to processors or value-added products in retail grocery stores, have a raised platform from which to sell higher-profit products for greater revenues. In "Positioning California's Agricultural Cooperatives for the Future," Shermain Hardesty reports that a 2003 nationwide survey found that "69% of the consumers were more likely to purchase food produced by a farmer-owned cooperative, and 64% agreed that food produced by a farmer-owned cooperative was of better quality than food produced by other types of companies."[38]

Yielding greater profits per item than competitors is the best means of survival in the consolidated retail arena. A “story” adds value to the product and can enable cooperatives to afford paying equitable pay prices to members and to maintain a viable equity base. Competing in local, national and international venues requires a cooperative to have both a streamlined business model and the ability to position itself well in the current marketplace.

Four Model Cooperatives

What follows are examples of three agricultural cooperatives and one retail cooperative that showcase companies that employ the imagination, courage, and business intelligence to prosper within and despite the economic realities of the 21st century. All of these organizations do business partially or exclusively in California. Each takes advantage of opportunities embedded within the three cooperative principles and maneuvers around their inevitable glitches in its own way. The case studies attempt to illuminate how each cooperative excels at following a traditional business path while discovering and exploiting those practices that move beyond the expectable to the groundbreaking. In an economic environment where traditional cooperatives are faltering, it becomes worthwhile to learn the lessons from those steaming ahead.

The three agricultural cooperatives—Pacific Coast Producers, CROPP/Organic Valley, and Country Natural Beef—have taken advantage of value-added production, which relieves some of the stress of raw ingredient surpluses and yields more revenue for higher-profit products. They have all overcome equity constraints and surged in the marketplace by innovating cutting-edge industrial equipment and efficient waste management and freight transportation systems. Two of the three have done more than manage top flight operations. CROPP and Country Natural Beef employ low-cost grassroots marketing, direct communication and active relationships with their members and customers, and strategic partnerships. Both have situated themselves in the organic and sustainable niche markets, which have offset higher input costs with greater profits for an extended period. They market bioregionalism alongside their cooperative status, missions, and sound environmentally practices, which appeals an to urban consumer base willing to pay more to buy with their consciences.

The Sacramento Natural Foods Retail Cooperative, the fourth co-op examined in this essay, fits in the mix as an example of a grocery model in a prime position to support local agriculture and communicate its benefits to its membership and customer base. Its direct relationships with the farmers of its region set a duplicable standard for retail operations in a future sustainable food system. What’s more, it is an extreme example of a cooperative utilizing successful, mutually beneficial communication with member-owners.

Notwithstanding the complications of financing large co-ops in the commodity market, the following vibrant prototypes prove that cooperatives have a future in the economic landscape. These positive role models could prove to be exemplary for those caught in the quandary of the need for investment capital to compete against non-cooperative businesses, both in the U.S. and abroad. They have mined the cooperative model for all its benefits and are building on a base where communication to membership and customers is as important as short-term profitability.

II. Pacific Coast Producers

In the early 1970s many commercial canners fled California, leaving vegetable and fruit growers high and dry.[39] Paul Rea, a former executive for U.S. Produce (USP), one of the many firms closing plants throughout the state, and Bob Collins and James Moser, one-time USP pear growers, joined forces. They decided to pursue the idea of starting a cooperative where produce growers own canning factories themselves and supply the product, while hired management runs business operations.[40] The three took a survey of growers and uncovered enough interest to purchase, after considerable financial haggling, canneries from Stokely-Van Camp in Oroville, Lodi, and Santa Cruz.

Pacific Coast Producers (PCP) incorporated in April 1971, and over the following thirty-four years grew into California's second largest fruit processor with annual revenue more than $320 million.[41] Over 165 growers in Central and Northern California own the Cooperative which employs 4,000 workers during the summer harvest months and 750 year round.[42] PCP continues to maintain three food-processing facilities, now in Lodi, Oroville, and Woodland, and has field stations throughout its growers' regions. Its farmers grow tomatoes, peaches, apricots, pears, and grapes, which the Co-op processes into over 270 private label items for grocery store chains and distributors including Albertson's, Kroger, Safeway, Wal-Mart, Whole Foods, Wild Oats, and SYSCO. The Co-op's chief sales come from peach and tomato products, fruit cocktails, and snack bowls.

PCP's founders and first management were comprised of leaders in the agricultural community and a leader in the canning industry.[43] They set the Cooperative's focuses, which have remained fiercely articulated over the business's lifespan. Specifically, PCP rigorously pursues fiscal responsibility and innovation. The Co-op stays on the cutting edge in all of its operations, pioneering efficient industrial equipment and smartly managing waste, freight, and warehouse location. Because it is a co-op, many small-time growers who would otherwise be unable, pool their resources to provide capital investment for first-rate innovations. As a result, PCP remains competitive in an increasingly consolidated and outsourced industry. California produce growers remain fixtures in the landscape and its facilities operate in local communities, run by local, unionized workers. PCP survives because it runs the tightest, smartest ship of all fruit processors.

A Standard of Efficiency and Innovation

One of the early leaders' first moves was to institute acceptance standards for its growers that dismissed those with histories of untimely delivery and low quality end products.[44] To this day the Co-op strictly observes grower standards and sets product volume restrictions on each grower-member. The Co-op meticulously projects its annual sales volumes and coordinates product volume accordingly in order to minimize excess capacity.[45] Backlogged inventories are a major problem that has hurt many cooperatives and businesses in general including one-time prime PCP competitor, Tri Valley Growers (TVG), who filed for bankruptcy in July 2000.[46]

PCP faces tough out-of-state and international competition from producers with lower-costs and non-union processors so it has maintained a constant effort to utilize the most cutting-edge, efficient industrial processing products. Among them are "state of the art tomato evaporation systems, boilers fitted with economizers to maximize fuel efficiency, high speed filling lines… optical color sorters" and computerized organizational systems.[47] One of Tri Valley Growers' primary crippling factors was a high debt-to-equity ratio that made the Co-op unable to modernize its plants, which in turn increased its debt.[48] Because PCP made innovations a priority from the outset its ceaselessly improving cost-saving operations help leverage its equity.

Another of Tri Valley Growers' failings was its purchase in the 1980s of two failed cooperatives whose facilities were poorly aligned geographically with its growers, increasing its shipping costs compared to PCP and other competitors. PCP has been very exacting about facility location, moving its entire tomato processing operation to Woodland so that all its tomato growers are within a 20-mile radius of the facility.[49] In addition, PCP owns numerous warehouses that it locates near its customers, in what is called the "forward warehousing trend," which means cost savings for both PCP and its customers.[50]

The most radical of its innovations involves a series of wastewater management programs including one it coordinates with help from California State University at Chico. At the height of processing in its three canning facilities, PCP uses more than five million gallons of water a day for its sundry operational and cleaning activities.[51] The Oroville cannery produces more than a million gallons of wastewater and 70 tons of fruit waste daily. PCP pipes its wastewater underground seven miles away to the Palermo Ranch where ten fields of various plants including highly water-absorbent Eucalyptus are irrigated with cannery wastewater. In addition, PCP and Chico State experiment together to use both the wastewater and fruit waste to create compost and "improve marginal soils, grow crops, and develop marshland to attract wildlife."[52] Barbara Alderson of Chico State reports that "the results of the efforts since 1986 have turned star-thistle-riddled land into productive farmland and a wildlife habitat. The site is a model of industrial waste management."[53]

Five percent of PCP revenue comes from the sale of organic products. Nonetheless, the Co-op does not market its own value-added brand or focus on specialty markets. Its success has been less dramatic than the other agricultural cooperatives examined in this essay and can be attributed to its exceptionally cost-effective conduct and ability to sell its identity as a smart business to retail markets. Some businesses take advantage of negative externalities, the often short-term cost-cutting outputs of business, such as pollution and soil degradation, with long- and short-term environmental and social costs the business foists on the public. PCP's operations have California growers' interests foremost in mind which means long-term vision for the health of the land they inhabit—Co-op owners cannot turn the other cheek because their factories operate in their communities and backyards. Furthermore, the Co-op has found that environmentally-sound makes it desirable to its customers and can mean economically-efficient. PCP remains competitive and forward-moving.

III. CROPP Cooperative/Organic Valley

CROPP Cooperative, based in the 750-person village of La Farge, Wisconsin, is the largest organic farmer-owned cooperative in North America and the largest organic dairy cooperative in the United States.[54] Better known by its value-added brand Organic Valley, the largest organic brand exclusively owned and operated by organic farmers,[55] CROPP has become a $250 million business. It was started in 1988 by seven small family dairymen who were feeling the crippling effects of the unstable dairy industry and watching many family farms around them shut down. Their rural communities were withering economically, and the negative impacts of chemical agriculture on the natural environment were becoming noticeable, as were increasing problems of animal and human health. All seven had been members of cooperatives in the past and the experience had left them with bad tastes in their mouths. They decided to start their own marketing cooperative with guiding rules and principles that reflected their hopes and realities. Since day one they have been mission-driven: their principal objective is to keep family farmers farming by employing clear-cut, socially-equitable economics and promoting environmental stewardship.

A Stable Pay Price

The CROPP founders agreed from the start to pay member-farmers a "stable, equitable and sustainable pay price."[56] Agricultural price fluctuations make small-scale farm planning nearly impossible, farmers are often forced to subsist on pay prices below living wage. A stable pay price "was unheard of at the time," marketing director Theresa Marquez asserts, but the founders saw it as the most effective way to keep farming a viable form of employment.[57] Originally CROPP offered $2-$3 per hundred weight of milk (cwt) more than the conventional market. That gap continues to expand. Since 1996, while the conventional pay price has remained below costs of production,[58] oscillating around $12-$13/cwt, CROPP farmer-owners have paid themselves steadily more every year, reaching a height in 2005 of $20.69/cwt with premiums for quality beyond that price.

Over the last seventeen years the Co-op has grown from seven members to seven hundred, five hundred of them dairy producers with an average herd size of sixty cows. It began by selling exclusively fluid milk, but its product range sold under Organic Valley now includes cheese, butter, other dairy products, eggs, soy beverage, orange juice, and produce. The Co-op sells meat products under a companion label, Organic Prairie. While the organic industry has risen 20% annually for more than a decade, CROPP sales leapt 36% last year and have typically exceeded the pace of the fast-growing organic industry.[59] This staggering success continues because not only does the cooperative take advantage of the benefits stemming from the principles, it goes above and beyond in its creative conceptualization of how members are paid, who management serves, and how to market its products and farmers.

The Solid, Sacred Structure

At the top of the cooperative sits a seven member Board of Directors elected at large from the farmers, each farm-household allotted one vote. Many board members have been with the Co-op from its beginnings, grown with the business, and have firmly established relationships with the management team, which CROPP CEO George Siemon claims "makes for lots of honest communication which is key."[60] Two experienced financial advisors assist the Board and members attend an annual business training with an outside leader to keep them prime for asking hard questions. Clear, open communication with CROPP/Organic Valley staff enables Board decisions to be well-informed.

Beneath them are eight executive committees, one for each primary commodity—dairy, eggs, beef, pork, poultry, soy, juice, and produce—with representatives on each elected by the farmers from all of the twenty-four regional milk pools. As a representative democracy, farmers who are unsatisfied with Co-op operations can bring their complaints to their local representative. The system is set up to include as many farmer voices as seek to be heard. Each month the executive committees have conference calls and annually committee members meet in person. At these meetings, farmers from seventeen states "discuss everything from farm pay price, to feed cost, to herd health issues, to proposed changes to national organic standards"[61] and make recommendations to the board as they see fit. Leadership on Executive Committees often prepares farmers for positions on the Board of Directors.

The Co-op's founding farmers had felt frustrated by the infrequent and often delayed dividends allotted them by their previous co-ops; they wanted their money up front and thus crafted the stable pay price format. At CROPP, members invest 5.5% of the value of their annual deliveries into a capital base plan on a one-time basis, "with the initial investment earning 8% interest," Marquez explains.[62] CROPP pays the equity to members when they retire or leave the co-op. "With few physical assets to maintain, the co-op business philosophy is based on paying the best upfront… prices it can" while still being able to sell its products in the marketplace affordably. Patronage dividends are paid on Board discretion and are not the primary way CROPP chooses to reward its farmers.

The CROPP/Organic Valley business staff's main job is to get the set price for the farmer; if they don't succeed, the losses are distributed on their side. The farmer's "pay price is sacred," Marquez asserts.

Organic Logistics

CROPP enters into long-term partnerships, contracting directly with milk handlers, distributors, and processing plants. Their partners collect milk from the approximately thirty-farmers in each regional milk pool and process it nearby. Organic Valley products are made in sixty plants across the country thereby minimizing "its capital investment in plant and equipment while also reducing its storage and shipping costs."[63] Nonetheless, the decision to support local infrastructure is not based in self-interest. "Our business is keeping a lot of small cheese plants operating, which in turn is important to the economies of many rural towns," Marquez says. "That too fulfills our mission, which is about far more than organic food—it's about keeping rural communities healthy and keeping more families on their farms."[64]

Organic Valley sales accounts for approximately 70% of CROPP fluid milk poundage and bring back the highest returns. The Co-op sells the remaining 30% as ingredients to companies including Annie's Homegrown, Stonyfield Farm, Gerber, and Horizon Organic Dairy, or through private labels such as Trader Joe's organic milk. These partnerships encourage more companies to support organic milk produced by small family farmers instead of in large factory settings. They enable them to champion thriving rural communities without creating the infrastructure themselves.[65]

The Co-op is about smart business decisions. CROPP's first priority is to fulfill its contracts with these partners, its second to supply Organic Valley. Marquez explains that CROPP's mission is "not to run a brand but to get a good price to farmers so that they can contribute to their communities."[66] Though the Co-op would potentially make greater profits if it channeled its milk exclusively through its value-added brand, Organic Valley, it recognizes that product and outlet diversity offer more stability for its farmers in the long-run. The co-op will begin channeling products into food service in the near future.

Organic Logistics, a complementary business started by CROPP/Organic Valley, is another pioneering, economically- and environmentally-sound project. Organic Logistics coordinates the product transportation of various organic and sustainable brands so that trucks departing Midwestern distribution centers leave full. Organic Logistics hauls a "full truck load of Nancy's Yogurt from the Northwest to our warehouse in Wisconsin," CEO Siemon gives as an example, where the yogurt is divided up and loaded in small batches in with Organic Valley products and those of other natural foods businesses onto trucks that deliver to major natural foods stores and mass customers. This system saves Nancy's money, "makes us some money and lowers our freight rate," he continues. What's more, it promotes thoughtful energy use.

Authentic Marketing

Organic Valley's marketing strategies are based on the realities of the co-op: farmer-owned, mission-driven, and bio-regionally- oriented. Though a national co-op, its milk is produced and branded by region. For example Organic Valley milk bought at a grocery store in California is labeled California Pastures, with most of the cows milked in Humboldt County and the milk bottled at Humboldt or Crystal Creamery. Marquez reports that the marketing staff always makes sure to "communicate authenticity," to get across that the Co-op is farmer-owned and its products high quality and well-crafted. Its identity as a farmer-owned cooperative becomes "a powerful marketing strategy."[67]
The high quality of Organic Valley products bolsters its marketing tactics and has helped the Co-op create its strong brand image. In 2005 its raw sharp cheddar won both "Best of Class" in the U.S. Championship Cheese Contest held in Milwaukee, WI, and bronze in the World Cheese Awards in London.[68]

In the face of its competitors' large marketing budgets—with Horizon Organic Dairy owned by industry leader Dean Foods and Stonyfield Farms in a licensing agreement with HP Hood—Organic Valley utilizes grass-roots marketing tactics. Marquez claims that "TV doesn't resonate with our customers," so the staff has found other means of telling the story. Organic Valley "milk cartons feature profiles of local producers and also provides grocery stores with large storyboards featuring some of its members."[69] Additionally, the Organic Valley staff trains farmers to speak directly to the press. Often these farmers are young parents, which points to the remarkable fact that though the national average age of a farmer is 55 and increasing annually, the average age of a CROPP farmer is under forty. CROPP/Organic Valley seeks to connect its audience and the farmers that produce their food. On their organic soy beverage cartons (Organic Valley calls it soy beverage because the co-op's dairy farmers refuse to consider it milk) there is a code purchasers can type onto a webpage to pull up information about the farmer who grew the beans from which it was made.[70]

Organic Valley often places its ads on the sides of milk trucks driving through cities. Moreover, it sponsors programs and projects that share its vision. In the summer of 2004 it sponsored Christopher Swain to swim the length of the Hudson River. The effort was designed to raise awareness about the link between poor water health and pesticide use. Organic Valley created an "intensive educational program" to accompany the "Swim for Clean Water," making school visits, creating on-line teaching tools for K – 12 educators, and funding a visit to the New York State Legislature in Albany, community clean-ups and farm visits.[71] These various low-expenditure tactics conserve the co-ops capital, an important lesson for other businesses with equity capital limitations.[72]

In the face of several decades of small family farms disappearing across the nation and resultant environmental, human health, and rural devastation, CROPP Cooperative offers an alternative system. Profit and sustainability are mutual concepts for CROPP. The Co-op thrives because its economic decisions have grown from its ownership base—family farmers—who are very aware that the success of their co-op consistently benefits themselves and their communities. Organic Valley has created a strong value-added brand often touted for its integrity by clearly communicating the Co-op's identity: farmer-owned, mission-driven, organic, and bio-regionally-oriented. CROPP maximizes on the opportunities embedded in the cooperative principles and breaks new ground with its grassroots marketing tactics. Millions of urban patrons are buying into this dramatic effort.

IV. Country Natural Beef

In February, 1986, a group of fourteen long-time Eastern Oregon ranching families met in the living room of ranchers Doc and Connie Hatfield. At the time, with rising hostility nationwide toward red meat and sinking beef prices, they all believed that their days of ranching in the Oregon high desert were numbered. Courageously, they became determined to fight together for their livelihoods, forming the cooperative Oregon Country Beef, also known as Country Natural Beef.

Country Natural Beef now includes roughly seventy ranch families farming across Oregon, Washington, Idaho, Nevada, Wyoming, Northern California, and the Hawaiian Islands.[73] The Co-op is certified for its sustainable practices by Food Alliance, a highly-regarded non-profit organization, and jointly sells $40 million worth of beef annually in natural foods stores, restaurants, fast food outlets and food service distribution outlets throughout Washington, Oregon, California, and Alaska. [74] Most rancher-members have 600-1400 cows that they graze on native range pastures and feed on seeded grange and hay for 12-18 months before finishing at Country Natural rancher John Wilson's feedlot, Beef Northwest. Their cows spend an average of 89 days eating a 30% grain ration as opposed to the industry standard of 80%. As Country Natural explains, the Co-op does "not feed our cattle to grade out at a High Choice or Prime Grade as it is ecologically indefensible to feed excessive amounts of grain to fatten up an animal past the point of health—both for the animal and the consumer."[75]

Start with a Goal and Demand

Most businesses begin by raising capital and proceed to their business plan, veterinarian and rancher Doc Hatfield, the joint head of the cooperative's marketing team with his wife Connie, explains. "In Oregon Country Beef we started with a goal, which we used to build relationships."[76] Together the ranchers agreed that their goal was "to provide a sustainable means through a group to profitably market quality beef products desired by the consumer while retaining every possible bit of independence."[77] Central to this statement is its focus on a desired product. In an interview with Peter Donovan, Doc claimed that "the real challenge with people trying to help rural people develop something is they start out with the product before they have the demand. You've got to start with the demand and build the product to fill the demand."[78] In 1986, Doc and Connie had recently learned of the burgeoning market for beef raised without growth hormones or additive antibiotics. They answered its call, beginning a grassroots campaign to market beef as they and many Eastern Oregon ranchers were raising it, without the use of such harmful inputs and with emphasis on their stewardship—the careful management of water and animal, plant, and grass diversity on their lands—what Country Natural Beef calls its "Grazewell/Raisewell Principles."

In addition, the Co-op has taken its belief that "good management is goal driven" and translated that not only to its overarching mission but to each ranch, where members write a set of goals for the health of their land, their desired products, "the type of lives they wish to lead," and "the actions they are taking to achieve these goals."[79] The ranchers never lose their belief that their success is inseparable from health for themselves, their land, and their customers.

John Bailey and Kim Preston of the Center for Rural Affairs explain that the Co-op "is unusual in that it began almost as a social movement—believing a certain type of farming and ranching and food production was healthier for people and the land." By keeping its focus clear and communicating to its customer base the ranchers' value-driven mission and practices, Country Natural Beef has created a strong, well-known, profitable brand.[80]

Ranchers at Every Step

In the beginning, husbands and wives from every ranching member-family sat on the Country Natural Beef Board of Directors. Connie and Doc believe that the "breakthrough that makes Oregon Country Beef work" is the inclusion from day one of women in their decision-making.[81] Nineteen years later each ranch elects a member from within its ranks to the Board, which holds a weekly conference call, and its membership is as democratic and diverse as it was at the outset. Every spring and fall all seventy member families meet and spend three days hashing out various Co-op business issues. Final decisions are made by consensus, which is slow-going but keeps everyone engaged and on the same page. Accommodating a large membership to its consensus decision-making format may be the biggest challenge facing Country Natural as it continues to expand. Nonetheless, the ranchers believe so firmly in the group process that they have vowed to uphold it, whatever the difficulties it brings.

In addition to working on their ranches, Co-op members on the Board divide into teams—environmental, marketing, production, and financial—that perform all of the day-to-day business functions. Administrative costs are negligible and the ranchers have complete control over their operations. Moreover, they market their products directly to their customers, each ranching family responsible for spending one weekend per year making store visitations or in-store demonstration in Seattle, Portland, or San Francisco.[82] In August, Country Natural Beef holds Customer Appreciation Days, inviting representatives from its many outlets to spend time together on a member ranch, view its operations and experience its real-world application of sustainable principles. Because of the interactions between ranchers and their urban customers, both sides recognize the mutual benefit of Country Natural's practices.

With increasing national concern about mad cow disease, Country Natural has positioned itself well. The Co-op tracks its beef products from ranch to market case for each rancher's cows because it wants each rancher to be responsible "to the meat manager and end customer for both eating quality and claims on growing practices."[83] As a result, ranchers pay closer attention to the quality of their products. In addition, Country Natural's partnerships with custom feedlot Beef Northwest and processing plant Washington Beef benefit it economically because such direct relationships allows the Co-op and ranchers to track products at every stage. Customers are assured that Country Natural Beef ranchers raise their beef and it is processed with a watchful eye and the highest health quality standards.

Country Natural Beef's first major customer was the Japanese restaurant chain Kyotaru, which hunted down the Co-op in the late eighties, seeking an additive-free product whose origins it knew and processing steps it could trace. The restaurant folded when the Japanese economy stagnated in the early '90s, but Country Natural was able to replace its business with the domestic natural foods market.[84] The Co-op sets it pricing on ranch costs of production and marketing, and, as Doc explains, "what a fair return is."[85] It disregards the market price, which often means that customers pay more for the specialty product. Country Natural estimates that it has received almost $120 over the market price per animal for the last ten years.[86] Even though it can make that premium, in 2003 when market prices rose above Country Natural's, it did not shift its pricing to loyal customers because the ranchers "felt it had no bearing on whether they help ranchers on the land."[87]

It has taken time for Country Natural to build its prosperous brand. One of the first key steps was changing its practices so it could offer outlets a year-round supply. Many cooperatives have found that crucial in maintaining a loyal customer base and it has allowed the Co-op to take major strides forward. [88] In 2004 Country Natural Beef became the "keystone product of Burgerville USA," an untraditional fast-food chain based in Vancouver, WA that focuses its menu on "items made with seasonally available, Northwest-sourced ingredients." [89] Burgerville purchases upwards of 1.75 million pounds of the Co-op's beef each year for its 39 outlets. "With the public's heightened interest in food origins and concern about genetically modified foods," Burgerville president Tom Mears asserts, "we're proud that our beef is traceable from the ranch to the table and has been certified by Food Alliance."[90] Burgerville and Country Natural Beef benefit from one others' excellent reputations. What's more, the partnership enables the Co-op to market all cuts of meat, something previously near impossible and a nail in its side.

Country Natural has gone beyond standard cooperative business practices to position itself in the market as a rural cooperative with a real connection to its customers. Doc believes that "our shared interest in the land and in the quality of our food doesn't fit into this divide [between red and blue] that we're supposed to be in."[91] Every year Country Natural Beef continues to expand operations, which means it preserves more grange land and keeps more independent ranchers stewarding the land. In 2000 Connie Hatfield bragged that "there are about five young ranch families that have come back to the ranches probably solely because Oregon Country Beef exists."[92]

V. Sacramento Natural Foods Co-op

Sacramento has never been a logical market for a natural foods retail cooperative. As current Sacramento Co-op general manager Paul Cultrera explains, it has been “a cow town, a conservative town”[93] without a university. Nonetheless in 1972 the Sacramento Co-op began as a buying club with a storefront of bulk foods and a year later it was incorporated, seven community members elected to its Board of Directors. Over the following thirty-two years the Co-op expanded into a thumping business with over $26 million in annual sales. Over nine thousand individuals own the Sacramento Co-op, seven thousand of who actively patronize its local, organic produce- and grocery-filled aisles. Each member invests $200 toward the Co-op’s equity and in return receives end-of-the-year patronage refunds and frequent special discounts. Membership also supports the local, sustainable farmers that dot California’s landscape and the community development projects the Co-op pioneers. This summer the Sacramento Co-op opened its second store in Elk Grove. Between its two outlets it employs 280 individuals, 220 of who are members of teamsters Local 228.[94]

During the natural foods movement of the 1960s and ’70s the Sacramento Co-op joined the numerous retail cooperatives across the country that were forging a new model for the consumer cooperative. The members of these outlets, in several cases continuous operations from the 1930s, decided that their businesses would be value-driven, employing and heralding democratic community ownership.[95] Several of the most prominent of these consumer cooperatives, including the Consumers’ Cooperative of Berkeley, the most successful retail food co-op in the country from the 1960s through the ’80s, boomed for a time and then busted in the 1980s.[96] There are various, diverse reasons for their closures, most prominently that some were run by individuals more idealistic than business oriented. However, others have flourished, such as the Arcata Co-op and Davis Co-op, partners with Sacramento in long-term co-op development in California.

Membership Involvement on a Grand Scale

The Sacramento Co-op thrives with the wiggle room to pursue continual improvement despite some of its sister stores’ closures.[97] Its success is not due to staggering innovations but because the Co-op employs “responsible economic decision-making based in community ownership,” general manager Cultrera asserts.[98] Membership involvement and education are central to its success. Though including all interested members in its decision-making takes tremendous energy and more time that many businesses would imagine investing, the Co-op recognizes that extensive member input and stalwart endorsement drive the business.

In 2000 and 2001 the Sacramento Co-op underwent the difficult, lengthy process of adopting a new strategic plan for the organization. Its first step was to gather input from over 2,000 member-owners “through focus groups, special owner meetings and an extensive survey.”[99] A planning team made up of owners, managers and directors then drafted a purpose, a vision, values, and goals[100] that were brought back to the deep pool of members and reworked until consensus was reached on intent and language, “creating a vision for the future of the business that they own together.”[101] This process may seem over-the-top, an all-too-literal interpretation of cooperation, but because of the effort the Co-op gained affirmation and support for its visionary practices and reminded thousands of customers that dollars spent at the cooperative go to more than patronage refunds. Involving its membership has the beneficial outcomes of educating and exciting individuals about value-driven businesses and marketing the Co-op as a real-world example. A monthly newsletter, the *Co-op Reporter*, reaches over 10,000 readers each month and informs them about seasonal products, local producers, community activities and other subjects that reflect its values.

The Sacramento Co-op's dedication to locally-produced, organic foods is another facet of its identity that springs from its member-ownership. Cultrera explains that when the Co-op staff envisioned shifting the produce department to sell certified organic exclusively, their first move was to survey customer-owners about their allegiance to this ideal.[102] Would the Co-op's customer base, 25% made up of owners, be willing to pay more for an organic tomato or apricot? Often individuals surmise that consumer cooperatives falter when management makes clandestine decisions and lets ideals drive business practices instead of sound economics. The Sacramento Co-op does not walk that line. Though its prices are higher than many grocery stores, its customers have declared time and again that "they were willing to pay a little more."[103] The process also ensured that the Co-op provides its customers with the products they want at the prices they will pay. Last year it introduced a red-meat department that, as with produce, includes a selection that is exclusively certified organic and as locally-produced as possible.

We are Local Farmers, We are the Local Community

California has a longer harvest season than most U.S. states, which enables the Sacramento Co-op to purchase 60% of its produce from local farms during the summer and 40% during the winter. The Co-op is committed to supporting seasonality, sustainability, and bio-regionalism. The produce department has partnerships with sixty local area growers, ten of them all-year round. Recently it created a job position specifically for partnership building with farmers. Though the position requires more overhead than most companies would spend, the Sacramento Co-op believes in building concrete, dependable relationships with its producers and manifesting support of its sustainable ideals. Local producers know which products it expects to buy from them, and the Co-op negotiates with organic farmers to diversify their crops and avoid "going into price wars with each other."[104] Most of the Co-op's farmers have been selling to it for years and can depend on its consistent business, explains store manager Steve Brancamp, which allows smaller farms to stay open who lack the capital to cover shortfalls.[105]

In addition, the Co-op is an advocate for the highest quality and freshest products it can obtain, receiving produce deliveries four times a week. Cultrera reports, "we work overtime to seek and support local farmers, ranchers, cheese makers, wine makers, and other producers of the best tasting and most nourishing foods that you can buy."[106] He imagines a future food system where retail is understood as "simply an extension of the farm or the ranch."[107] Sacramento Co-op employees are told that they are the last farmer in the chain, marketing the farms to the customers, thereby linking both more directly.

Among its service-oriented projects, the Co-op fundraises to help local farmers receive organic certification who could not otherwise afford the process,[108] has loaned funds to a local farm seeking to grow heirloom varieties, and is in the process of piloting a community-run farmer's market in Del Paso Heights, a struggling urban community "where access to affordable, nutritious and organically grown food is non-existent."[109] Shoppers in many "limited income programs" including the Food Stamp Program, Cal Works, PG&E's CARE, and others receive a 10% discount.[110]

Firmly rooted in its community, the Sacramento Co-op is successful not only because of its high quality products and customer service. It creatively exploits frequent, dynamic interaction with its owners and deep involvement in its neighborhood and farming communities. The Co-op has moved beyond rhetoric to systematic, day-in, day-out implementation of its principles. Its local district and regional partners in the sustainable food and farming communities reap benefits from its success.

VI. Conclusion

In the world of the consolidated retail giants, privatization and state statutes may seem necessary for survival. However, there are alternative business options to both. The cooperative form of business is not dead. On the contrary, it is being experimented with and taken to new heights throughout California, providing proof that cooperatives are one of the best ways to ensure local investment in local communities.

Leland Swenson, former President of the Community Alliance of Family Farmers (CAFF), notes that most contemporary marketing cooperatives "got away from looking at the benefits for the farmers."[111] The four cooperatives described in this paper stand out from the pack, especially CROPP and Country Natural Beef, because they have discovered and vocalized a larger conception of a cooperatives' purpose. Instead of seeing coops as a singularly economic venture—a means of providing greater net proceeds to farmers and members than they might get on their own—they conceptualize cooperatives as multi-dimensional mechanisms for sustainability. Both recognize that putting farmers in greater control of their economic welfare can in turn promote what John Elkington dubbed the triple-bottom line—financial, environmental, and socially equitable.[112] The co-ops have shared and declared visionary mission statements that guide their every practice, bring the business's goals into focus, and get members, staff and management on the same page.

All these practices can become pivotal tools in communications and marketing with their broader audiences. Swenson imagines a future for cooperatives where their marketing "demonstrates to the consuming public, you are *supporting the community*," and a deep understanding of urban-rural economic partnerships is built into the food system itself.[113]

Endnotes

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[11] California Legislature, *California Education Code*, Section 92690 (e), (see n. 2).

[12] Frederick, Donald. "Co-ops 101: An Introduction to Cooperatives." Rural Business-Cooperative Service, U.S. Department of Agriculture, 1997, 13. Much of the basic information about cooperatives comes from Frederick's article.

[13] Ibid, 7.

[14] For examples of cooperative operations that benefit regional economies because their processing steps between producers and customers remain in local facilities, see the case studies of all three agricultural cooperatives examined in the latter half of this essay.

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[17] Ibid, 14.

[18] Hardesty, "Proposed Conversion of Diamond Walnut," 1, (see n. 4).

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[33] Hendrickson, “Consolidation in Food Retailing and Dairy,” 13, (see n. 8).

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[35] Campbell, Dan. “Cream of the CROPP.” *Rural Cooperatives*, Vol. 72, No. 3, May/June 2005, 43. For more information on the B&I program and other USDA financial programs for rural cooperatives, visit www.rurdev.usda.gov, then click the “Business-Cooperative” program button. Or call (202) 720-4323 to be connected to your USDA Rural Development state office.

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[59] Campbell, "Cream of the CROPP," 15, (see n. 57).

[60] George Siemon, personal email to author, July 27, 2005.

[61] Campbell, "Cream of the CROPP," 18, (see n. 57).

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[63] Hardesty, "Positioning," 9, (see n. 45).

[64] Marquez, quoted in Campbell, "Cream of the CROPP," 17, (see n. 57).

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[103] Ibid.

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