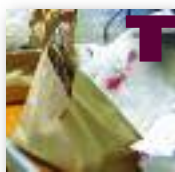




## World Wide Web goes local

**By Adam Diamond,**  
**Agricultural Marketing Specialist**  
USDA Agricultural Marketing Service



**T**he Oklahoma Food Cooperative was established in 2003 to help consumers buy locally produced food and enable local producers to earn a greater share of consumer food expenditures through direct sales. While building on an earlier wave of buying club and retail food cooperative proliferation in the early 1970s, the Oklahoma Food Cooperative's online ordering format was the lynchpin that enabled its success. The co-op could not have functioned properly without

*How the  
Oklahoma Food  
Cooperative uses  
the Internet  
to bring farmers,  
consumers  
together*

the Internet and its ability to connect large numbers of geographically separated people in real time at low cost.

Three core values inspired the creation of the cooperative, helped define its initial structure and continue to shape its development and growth. The co-op's articles of incorporation explain that: "the activities of the Oklahoma Food Cooperative are governed by its core values of social justice, environmental stewardship and economic sustainability."

Together, these values constitute a "triple bottom line" that is becoming an increasingly common baseline for performance measures in the world of socially responsible business enterprises.

In the case of the Oklahoma Food Cooperative, the following three principles govern its business operations:

- Participation in the cooperative must be financially viable for producers.
- Goods sold through the cooperative must be produced with methods that do not pollute ecosystems or otherwise waste natural resources.
- The economic benefits of the business should be distributed equitably and not flow disproportionately to a small segment of those involved in its operation.

These core values have guided the cooperative in working towards its goal of building a local food system — a network of producers and consumers that is limited in geographic scope and rich in diversity of product.

### **Search for local food launches co-op**

The initial impetus for the co-op's formation grew out of the challenges its founder, Bob Waldrop, faced as he tried to buy his household's food from local growers. In 2002, the year prior to launching an organizing campaign for the Oklahoma Food Cooperative, Waldrop tried to buy as much of his food as possible from local growers. While he eventually managed to supply 80 percent of his household's food from local sources, he had to drive far and wide throughout Oklahoma to do so. He felt there must be a better way.

Waldrop and other like-minded local food enthusiasts organized a series of organizing and outreach meetings around the state to gather support for the creation of a statewide cooperative focused on Oklahoma foods, which led to the creation of the Oklahoma Food Cooperative Organizing Committee.

After exploring the possibility of opening a retail store as a way to increase the availability of locally grown food, the committee soon realized that establishing a buying club would be more feasible. It would not need as much start-up capital and would be less

risky than a bricks-and-mortar store.

The question then became how to create a buying club that focused specifically on Oklahoma foods. With no model to follow, a database of Oklahoma producers was built up through mailings to direct marketing farmers and ranchers, from a "Made in Oklahoma" website, newspaper classified ads and from people who contacted the co-op on their own initiative.

The cooperative paid a software developer, who worked at a discounted rate due to his commitment to the co-op's goals and mission, to develop a customized online ordering program for co-op members. Products were assigned unique codes in the database and were then listed online. Consumer members used the online portal to place orders on the co-op's website. Orders were gathered on delivery day at a church. From these humble beginnings emerged a dynamic, sophisticated and successful model for marketing locally grown food.

### **Social networks as organizing catalyst**

Key to Waldrop's ability to garner support for, and participation in, this incipient local food system was his position as the music director at Oklahoma City's Grace Epiphany Catholic Church. Through his job, he had developed an extensive network of church contacts from which he recruited the initial core group of co-op organizers.

People in this core group reached out to their social networks and grew the consumer member base of the co-op faster than would have been possible through formal advertising efforts, especially considering the limited resources the group started with. Grace Epiphany church members supported Waldrop's efforts and provided critical support for the co-op in its early months. They made a space available for deliveries, administrative work and photocopying, and also made many in-

kind donations because they believed in the co-op's mission.

### **Financing and Sales Growth**

The value of products sold through the cooperative grew from \$100,000 in 2004 to \$864,000 in 2010. In the same time period, the number of consumer members grew almost 50-fold, and the number of producer members grew 10-fold. Product offerings have also grown dramatically, from 1,100 in 2006 to more than 4,000 items now offered for sale each month, ranging from sirloin steak, to artisanal cheese, vegetables, frozen pizza, flour, botanical soap and plants.

Most of the cooperative's financing has come through the sale of lifetime memberships for \$50 (for both producers and consumers) and from commissions charged to buyers and sellers on each transaction. For a \$10 item, the consumer pays \$11 and the producer gets \$9. With the onset of the economic recession in 2008, the rate of sales growth slowed, but sales still increased 7.5 percent in 2009 from the previous year, as demand for local food continued to grow and outpaced growth in overall food sales.

### **Business structure and operations**

During the first five years of operation, the cooperative had no formal employees. All work was done by an all-volunteer board of directors, an unpaid general manager (who did double duty as president) and by 50 to 70 "volunteer" co-op members, who were compensated at the rate of \$7 an hour in work credits (redeemable for items sold through the cooperative). Route drivers used their own vehicles and were paid 36 cents a mile.

The operational structure was, and largely remains, informal. Any co-op member can be a route driver on a contract basis. The volunteers are responsible for setting up on delivery day, sorting incoming items by customer and route, and loading orders

# *Local community participation was key to development of the co-op.*

on trucks that transport them to pick-up sites near where customers live.

It is quite a sight to see dozens of volunteers quickly assembling thousands of items to fill orders — everything from lamb chops and kale to eggs. Orders are labeled with the customer's name and route number. There are separate tables for frozen, fresh and nonperishable items. While there is a somewhat chaotic appearance to it, this assembly process has proven to be surprisingly efficient in fulfilling orders. The co-op reports that its loss rate is only about 1.5 percent for the 600–700 orders shipped out on 48 delivery routes each month, containing a combined total of about 10,000 items.

## **New-generation buying club for Internet Age**

In contrast to retail store-front cooperatives or traditional buying clubs that rely on printed catalogs or price sheets, the Oklahoma Food Cooperative relies on the Internet to reach consumers, facilitate the marketing of thousands of highly differentiated products, take orders and process payments. Computer technology reduces much of the labor, postage and paper previously associated with sending catalogs, writing down orders, mailing and processing checks and notifying consumers of inventory changes.

Each month, the co-op provides an 8-14 day ordering window (from the 1st of the month through the 2nd Thursday of the month). During the ordering window, producers list products for sale on their section of the co-op's website, complete with detailed narratives about their farm and information about the methods and practices they use to raise animals or grow crops.

At the beginning of each month,

members can open their orders by perusing the offerings of more than 200 producer-members and placing a given quantity of a particular good in their electronic shopping basket. The order portal on the co-op's Website is flexible. Customers can change the quantity of an existing item, add new items or add comments to their order until the close of the order window. When they close their order, customers have the option of paying online with PayPal or paying by check when they pick up the order.

Prior to delivery day, each producer gets a list of orders. On delivery day — the third Thursday of the month — volunteers sort incoming orders from producers by route and load them onto trucks bound for any of the 48 pick-up sites around the state, where members have a four-hour window to pick up their orders. Co-op volunteers are on hand during this period to collect payment and handle problems, such as missing items.

This Internet-based system, in concert with the network of distribution routes, reduces producers' distribution and marketing costs to a bare minimum. In addition, farmers are not required to meet any volume thresholds to sell through the co-op. Consequently, the barriers to entry for smaller producers are very low.

Producers can start by selling a very small amount and increase sales over time as growing conditions, supply and consumer demand allow. Producers have complete autonomy in setting their prices and pay only a 10-percent commission to the co-op. Consumers also pay 10 percent to the co-op for shipping and handling.

## **Co-op infrastructure**

To accompany the dramatic growth in the co-op's sales and its increased dependence on paid professional staff, the organization has substantially increased its infrastructure in the last four years. It has leased a new, 12,000-square-foot warehouse as its operations center and, with support from the USDA Agricultural Marketing Service's Farmers Market Promotion Program, has purchased three trailers — two of them refrigerated — to transport goods to customers.

Prior to leasing the warehouse, the co-op's delivery day was held in a large warehouse-like structure on the campus of Oklahoma State University in Oklahoma City. The same facility was also used for a weekly farmers market. While the space was large enough, the co-op's limited access to it created logistical problems. Everything needed for delivery day had to be brought in and taken out the same day.

With the leasing of the new operations center in May 2009, the co-op gained permanent storage space for tables, coolers, trailers, refrigerators and freezers. Producers can now drop off items before delivery day. Items left behind can be put in storage for later pickup, while set-up and take down of equipment for delivery day does not all have to happen in one day.

Having the warehouse allowed the co-op to streamline delivery day sorting with separate, permanent shelving areas



for perishable and nonperishable items. With a more efficient sorting process, the number of volunteers has held steady, at around 65, even as total sales have increased more than eight fold from its first full year of operation in 2004, through 2010.

In conjunction with leasing warehouse space, in 2008 the co-op purchased five trailers for use on delivery day to pick up orders from farmers and drop off customer orders from the central operations center to the various pick-up sites. Before the trailers were purchased, most producer members of the co-op were obliged to rent trailers from a U-Haul dealer, picking them up and dropping them off each delivery day to bring their product to market.

### **Obligations of producers: Product quality and integrity**

The Oklahoma Food Cooperative places restrictions on what can be sold, in line with the organization's core values of environmental sustainability, social justice and economic viability, as well as its goal of creating a local food system. These marketing restrictions include the following:

- All products offered for sale through the co-op must be grown or produced in Oklahoma.
- Producers must conform to production standards set by the co-

op's standards committee.

- No hormones can be administered to livestock.
- The routine use of antibiotics in livestock is banned.
- Grains and crops containing genetically modified organisms are prohibited.
- Reselling of farm products is not allowed; producers are only allowed to sell farm products they have produced themselves.
- Processed and prepared foods may be sold through the co-op, but such items must incorporate significant alteration of the original ingredients, not just repackaging for resale. For example, a baker may sell frozen pizzas using cheese, tomatoes and flour purchased from Oklahoma producers, but a butcher would not be able to cut someone else's cuts of beef into smaller packages and resell them as his/her own.

To enforce these restrictions, Oklahoma Food Cooperative arranges for intermittent inspections of the co-op's producer-members by fellow farmers to verify that they are, in fact, producing the crops or animals they are selling through the co-op in accordance with the guidelines. In Waldrop's words: "We go to everybody's farm, not necessarily on any schedule, because it's volunteers who are doing it, [but] we make sure that if they sell tomatoes,

that they have tomato vines...in proportion to their sales."

### **Quality, price setting, and competition**

The intense commitment of co-op members to obtaining locally grown foods produced with sustainable production methods has led them to value quality and process attributes of the products they buy more than price, allowing producer members of the co-op to become "price makers" rather than "price takers."

The strong bargaining position of producers within the co-op is evidenced by the fact that when the co-op has raised the commission levied on producers to fund increased overhead costs, the vast majority of producers have raised their prices to compensate for the higher commissions, without suffering a decline in sales.

With no restrictions on price setting or volume requirements, the Oklahoma Food Cooperative provides an accessible and responsive environment within which producers and consumers can interact. The Internet-based ordering system allows consumers and producers to interact across wide distances in real time, adjusting their purchases and product offerings in response to changes in product availability and consumer demand.

In general, the combination of the software interface, the freedom of producers to set prices, the month-long open order window and the large number of producers (200) and consumers (3,800) allow for a fluid, functional marketplace in which buyers and sellers are able to meet their needs in a highly transparent trading system. To learn more, visit the Oklahoma Food Cooperative website at: <http://www.oklahomafood.coop/>. ■