Learning from co-op closure

Dissolution of Producers & Buyers Co-op holds lessons for others pursuing institutional market

Producer-members of Producers & Buyers Cooperative hold a caucus in 2010 to elect a farmer-director to the board of their multi-stakeholder cooperative. Despite initial successes selling to institutional food buyer-members, the co-op has ceased operations. Producer-members hope their experiences will help others avoid the pitfalls they encountered. Photos courtesy Producers & Buyers Cooperative

By Margaret M. Bau, Co-op Development Specialist,
USDA Rural Development, Wisconsin
e-mail: margaret.bau@wi.usda.gov

Interest in local foods is continuing to build with every passing month. Households in many regions now enjoy multiple options for direct access to locally grown food via farmers markets, roadside stands, pick- or fish-your-own businesses and through community supported agriculture (CSA) subscriptions. Independently owned restaurants and specialty grocers have long forged direct relationships with local growers, but even more of them are now looking to source local foods.

For decades, consumer co-ops have been at the forefront of offering natural and regionally grown food options in retail stores. But fewer inroads for local foods have been made with schools, universities, hospitals and nursing homes (also known as the "institutional food" market).

The Producers & Buyers Co-op in northwestern Wisconsin was a highly visible attempt to bridge that gap. It was a multi-stakeholder cooperative in which members represented all aspects of the local food system: producers, local processors, transport providers and regional institutions. For three years, the co-op coordinated the processing and delivery of locally grown chicken, beef, cheese, pork, produce, fish, eggs, bison and lamb to area hospitals.

On July 20, 2011, members of the Producers & Buyers Co-op voted to dissolve their cooperative. As with any business failure, a number of factors contributed to the downfall of the co-op. For the benefit of future groups engaged in rebuilding a system that connects local food to area institutions, this article attempts to identify lessons learned.

Lesson 1:
Multiple members are needed in each membership class; don't become identified as one member's project

Rebuilding a local food system needs to encompass the perspective of each piece of the puzzle — be it producer, processor, transport provider or buyer. To fully understand the needs of each perspective, multiple members are needed in each membership class. If multiple members are not brought into the co-op, the co-op can be unduly subject to the internal dynamics of a single member (which may not be representative of what is happening among all buyers or all processors).

The Producers & Buyers Co-op started at the initiative of a single, medium-sized hospital. A much smaller rural hospital (a sister hospital to the founding buyer) joined the co-op soon after the co-op's incorporation. Learning initially occurred between the multiple producers (representing a wide array of products) and the two hospitals.

The producers and processors had hoped that the clout of the founding hospital would help convince other regional hospitals, nursing homes, universities and school districts to join the co-op. After all, who better than an institutional buyer could convince its peers that local foods are worth the additional cost and effort?

As the hospital stepped into the state and national media spotlight for its role in supporting local foods, the co-op became identified as that institution's project. Initial interest expressed in joining the co-op by regional universities and other hospitals then waned, possibly because the co-op was so closely identified with another institution.

When personnel and policy changes occurred at its largest

Alan and Alaine Sonnenberg (far right) were dairy-farmer members of the co-op. Herby Radmann (below), who operates Bullfrog Fish Farm, is another ex-member of the co-op. He has long been involved in seeking ways to make small-scale farming sustainable and in helping to prepare future farmers to take over existing farms.

buyer-member, the co-op lacked sufficient additional buyers to offset the loss. It never recovered.

Lesson 2:
Raise sufficient capital before launching; hire an experienced manager

This is as true for cooperatives as it is for any other type of business. The Producers & Buyers Co-op incorporated in Wisconsin with the ability to offer preferred stock as a means to raise equity from both members and the local community. The co-op board and supporters should have taken the time to write a thoughtful stock prospectus as well as educational materials.

With a prospectus in hand, ordinary citizens and community-minded investors could have been approached for their financial support. A solid base of equity would have allowed the co-op to hire experienced staff, including a "problem solver" knowledgeable about coordinating food logistics, but who was still willing to think outside the status quo.

Equity would have provided a cushion to ride through inevitable problems that arise in any new venture. If sufficient capital could not be raised within a reasonable time window

(say six to nine months), this would have been a powerful signal to leaders that wider community support did not exist for the local food system concept.

But, as is so often the case, several buyer representatives and producers were in a rush to "just do something." With limited funds, the co-op launched prematurely and tried to get by "on the cheap." A young and relatively inexperienced operations coordinator was hired part-time.

With limited staff and so much to do, board members stepped forward to fill operational and managerial functions. Over time, the board found itself in a reactive mode, rather than playing a proactive role in setting policy. The co-op went through three part-time staff members within a year (and dealing with all the ensuing personnel issues that go with rapid staffing changes).

As months turned into years, board members started to "burn-out." Valiant individuals tried to balance the demands of their business and personal obligations with the needs of the co-op. If the Producers & Buyers Co-op had sufficient start-up funds, it could have hired an experienced, full-time manager to establish and grow operations. This would have freed the board to concentrate its limited time on governance and policy setting.

An experienced manager could also have helped bridge the business-culture differences between the hierarchal way institutions operate and the realities of the way small-scale farming and processing work.

Lesson 3:
Require contracts between parties

Small-scale farmers and processors are often willing to work based on verbal agreements; sometimes just their word and the word of a buyer over the phone or a handshake is all that is required to seal a deal. This is not always the case with institutions, where turnover is frequent in both staffing and policies.

For example, a producer may have a verbal commitment with a buyer at a hospital or university. Depending on the item, it can take anywhere from three months to two years to raise the product to maturity. As the date for processing nears, the food buyer for the institution with whom the farmer made that verbal commitment may be long gone. To avoid this scenario, contracts should be signed.

In the current food system, institutions are accustomed to placing and cancelling orders with large food service providers. Large national distributors can absorb order changes by re-directing a product to someone else. This is not the case with small-scale producers and farmers. Farmers take on risk to raise a product to institutional standards (which can often differ from general consumer preferences). Even one cancelation of a large order can severely hurt a farmer's business.

To protect producers and processors from "institutional churn" and the risk of order cancellation, co-ops should use

Order cancellations by kitchen staff — often just days before animals were scheduled for slaughter — was another big problem, farmers say. Several producers — along with their small-scale supplier relationships — were severely affected by sudden cancellations.

To remedy the situation, the co-op's product committee suggested that buyer-members sign contracts with producer-members. But the buyer-member representative on the board would not agree. Trust began breaking down.

Producers and processors grew reluctant to do business through the co-op, and its cash-flow situation deteriorated. Shortly thereafter, the founding buyer-members announced that their health system owner had entered into a contract with a multinational corporation to manage dining services for all hospitals within the system.

While the co-op theoretically could have continued selling to the institutions through the new dining management contractor, it would have had to substantially increase its business liability insurance coverage and incur extra administrative costs. These costs made continuing business with the institutions economically infeasible, based on the rate at which the institutions were participating in the co-op.

contracts when accepting orders. As with a CSA subscription, the contract could require the institution to place 100 percent money down when the order is placed (effectively shifting the risk from the producer to the institution).

A more equitable way of sharing risk would be a system that is widely used in the small business community. These contracts require a 50-percent downpayment when an order is placed, with the other 50 percent paid upon delivery. Such contracts would be in everyone's best interests and protection. Farmers could invest with confidence for inputs and equipment. Cooks at institutions could have pre-season input to order items such as heirloom vegetables or other special varieties, locking in hard-to-source product at an agreed-upon price.

The Producers & Buyers Co-op did not require contracts between buyers and producers or processors. In organizing the co-op, more than a year was spent in discussions among all parties, resulting in strong mutual feelings of trust. With much fanfare, founding buyer-members publically pledged to buy 10 percent of their food locally. After one year, that pledge was increased to 15 percent. The co-op calculates that the institutions purchased about 7 percent of their food from Producers and Buyers.

Lesson 4:
Educate and train members at all levels

Co-op principle No. 5 — which urges co-ops to provide education, training and information to members — is critical to rebuilding a local food system. Quality local foods may initially cost more than conventional food products. But there are numerous rewards for buying locally; these rewards must be continually identified and communicated to members.

Within institutions, "buy-in" is necessary at every level, including kitchen staff, purchasing directors, employees, patients and senior administrators. Understanding and valuing local food requires a cultural shift if institutions are to make long-term buying commitments to a co-op, despite shifts in personnel, policies and the economy.

Co-op members Vic and Mary Price on their Wisconsin farm. One of the functions Producers & Buyers Co-op did best was work as a coordinator among producers, processors, transporters and buyers.

Producer and processor members also need continual education to understand the differences in wholesale and retail pricing. The Producers & Buyers Co-op stressed to producer-members and potential applicants that this co-op should not serve as the only outlet for a farmer's product.

Savvy producers need multiple marketing strategies, of which selling to institutions is but one channel. For example, while institutions tend to use large amounts of ground beef, they use relatively few cuts of prime beef. Beef, pork, lamb and bison producers were all encouraged to develop or maintain their existing retail and restaurant relationships for selling prime meat cuts.

The Producers & Buyers Co-op was structured as a multi-stakeholder co-op so that all players in the local food system would have access to each other for cross-learning purposes. There were numerous instances in which processor members made suggestions regarding product use and marketing, which helped build bridges of understanding between small-scale farm production and institutional needs.

But producers felt hampered by their inability to gain access to, and information from, key players at some institutions. For example, producers say they needed greater access to kitchen staff to work more closely with menu planners and cooks on new ways to prepare fish and lamb. Farmers and processors also wanted more feedback from the cooks about how to package product for the institutional environment. The lack of connection between producers and kitchen staff severely hampered relations.

What worked? Co-op as coordinator

The role of the co-op as coordinator among producers, processors, transport providers and buyers worked well. Institutional buyers have limited resources and interest in identifying individual producers of local food. They are usually not aware of what constitutes safe and sustainable growing practices at the farm level. Nor are institutions interested in setting up individual orders and following through on each product all the way through production, processing and delivery.

When done well, co-ops can ensure an agreed-upon level of quality, aggregate product and assure follow through in delivery and invoicing.

The Producers & Buyers Co-op operations were financed through a 5-percent fee assessed upon every transaction. The producer, processor and transportation company each paid 5 percent to the co-op on each item handled by the co-op. The buyers also paid 5 percent to the co-op for each item purchased.

This system worked, thanks to the efforts of a talented board treasurer (an accountant by training) who set up the co-op's spreadsheets. Future groups may wish to simplify the billing process and charge a single price to cover overhead.

The Producers & Buyers Co-op's financial design of managing purchases directly from institution to producer worked well on paper and in practice. This foresight helped ensure that all producers and processors were paid in full in a timely manner, despite the co-op's financial troubles and dissolution.

Avoiding pitfalls

Several of the lessons learned from the Producers & Buyers Co-op experience could apply to any cooperative: raise sufficient capital before launching operations, hire an experienced manager, provide ongoing training and don't let the co-op become identified as one member's project.

One lesson that is more specifically applicable to local food system co-ops is the cautionary tale about the differing ways that hierarchal institutions operate and the way that local producers and processors tend to do business. Be aware of how each stakeholder is accustomed to operating — everyone involved should be protected by the co-op insisting upon signed contracts and money down when orders are placed.

Sometimes the most important lessons are learned through failure. It would have been easy for the multi-stakeholder co-op pioneers of the Producers & Buyers Co-op to have quietly let their efforts fade from memory. But this group truly was committed to rebuilding a sustainable, local food system. The hard lessons they learned are offered here in the hopes that other groups may apply these insights to develop mutually satisfying, genuinely sustainable systems for connecting local food to hospitals and schools. ■