
The
Greenbelt
Cooperative:
Success and
Decline

By
Donald H. Cooper
Paul O. Mohn

PUBLISHED BY THE CENTER FOR COOPERATIVES

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ABOUT DONALD H. COOPER

Resident of Greenbelt, Maryland, the "cooperative town", from October 1, 1938 to October 15, 1946.

Participation in the Greenbelt Cooperatives:

One of the first 50 members (stockholders), Greenbelt Consumer Services, Inc., February 1940.

Elected to Board of Directors, Greenbelt Consumer Services, Inc., and served from November 24, 1943 to September 26, 1945. While on the Board, served as vice president and as chairman of the Education Committee.

Committee on Functions and Procedures for the GCS Co-op Congress, 1954.

Elected Chairman, Supervisory Committee, from July 10, 1956 to June 3, 1958.

Elected to Board of Directors, from June 3, 1958 to May 17, 1968. While on the Board, served as vice president from June 1958 to July 1959, as secretary from July 1959 to June 1967, on Executive Committee from 1962 to 1967.

Appointed to Ad Hoc Committee to Review Congress Structure, 1970.

Employed as Membership and Education Coordinator (and as a corporation vice president), from October 1977 to December 1979.

Elected delegate at large, GCI Delegate Assembly, various years.

Appointed to Bylaws Revision Committee, 1987.

Chairman, Delegate Assembly Ad Hoc Futures Committee, 1988.

Employed as secretary to the Board of Directors, from April to December 1989.

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Board of Directors and secretary, Greenbelt Health Association, 1940-1941.

President, Greenbelt Cooperative Publishing Association, 1943.

Editor, *Greenbelt Cooperator*, 1938-1940, 1942; and business manager, 1945.

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Other cooperative participation:

Elected to Board of Directors and as secretary, Cooperative Institute Association, 1967. Served on teaching staff at five annual Institutes.

Information specialist and management specialist for rural electric and rural telephone cooperatives, Rural Electrification Administration, U.S. Department of Agriculture, 1950-1967.

Board of Directors, International Cooperative Development Association, 1964-1965.

Short-term advisor on cooperative organization and structure, Commonwealth of Puerto Rico, San Juan, Puerto Rico, 1966.

Cooperative specialist, National Rural Electric Cooperative Association, Washington, D.C., 1967-1977.

Organization and management specialist (for electric cooperatives) on assignment from NRECA to the National Electrification Administration, Quezon City, Philippines, 1973-1977.

President, Cooper Consultants, Inc., preparing proposals and reports for rural electric cooperatives in Indonesia, Costa Rica, Philippines, etc. 1980-1983.



ABOUT PAUL O. MOHN

From 1968 through 1991 Mohn was active in Greenbelt Cooperative Services and its successor organizations, four as Speaker of the GCS Congress and eleven as Chairman of the Board.

During that period he also served on the boards of other cooperatives including: the National Consumer Cooperative Bank, now the National Cooperative Bank; Mid-Eastern Cooperative, a consumer goods wholesaler; the Cooperative League of USA, now the National Cooperative Business Association; and the Cooperative Savings Credit Union. He also served on the Central Committee of the International Cooperative Alliance.

He continues to serve on the board of the American Bowling Congress, a national bowling organization of over 3 million members and served as its President in 1985-86. He also continues to serve as President of Cooperative Travel Services.

He established, for Puerto Rican cooperatives, a Management and Board Development Program and served as its Director for three years. He is co-author of *Boards of Directors of Cooperatives* and for many years conducted seminars for directors of cooperatives in Canada in conjunction with his colleague of long standing, Dr. Leon Garoyan of the University of California. He has conducted numerous board audits and provided other consultative services for cooperatives in the USA and other countries throughout the world.

He conducted an annual international conference for board chairmen of cooperatives for several years, in conjunction with the University Center for Cooperatives, University of Wisconsin. From 1983 to 1989, he was a Visiting Fellow in the Centre for Cooperative Studies, University College Cork, Ireland. Here he co-authored a number of publications on boards of directors and financial management of cooperatives with Dr. Garoyan. They also conducted several seminars each year aimed at improving the proficiency of boards of cooperatives.

He is a Past President of the International Association of Cooperative Educators. In 1984, he was one of the two U.S. delegates invited by Centrosoyus, USSR, to attend their Quadrennial Congress.

He is a graduate of Kansas State University, earned an M.S. degree at Mississippi State University, and pursued further graduate work at Oregon State University and the University of Maryland. He is a graduate of the American Management Association's Management Course. Until recently he was a member of the National Association of Corporate Directors.

AUTHORS' PREFACE

Taping interviews and assembling records for this book began in 1986, anticipating publication for Greenbelt Cooperative's 50th anniversary in January 1990. Shortly thereafter, it became apparent that the Cooperative was heading into serious trouble and there might not be any 50th anniversary to celebrate. The writing project was put on hold.

Not until after the decision of the bankruptcy court and the transfer of SCAN, the Cooperative's remaining business enterprise, to control by the Danish Export Credit Council did publication of the Greenbelt Co-op story again appear practical.

The temporary Co-op Food Store in Greenbelt, Maryland opened October 5, 1937 with 24 shoppers and first-day sales of \$11.45. By February 1968, Greenbelt Consumer Services, Inc., was operating 23 co-op supermarkets and as the nation's largest consumer-owned cooperative, had annual sales of \$42.5 million. Sales reached \$56 million in 1976. Co-op membership reached 138,000 in 1987.

As of December 1, 1989, under a Chapter 11 bankruptcy order, Greenbelt Cooperative became a paper organization with no operating outlets, an estimated 12,000 members, and no cash assets.

What happened to this "wunderkind" of the cooperative movement in its half-century of growth and collapse? Are there lessons to be learned? What were Greenbelt Co-op's strengths and weaknesses? Did it have a significant impact on the marketplace? What did it contribute to the consumer cooperative movement? How did it affect the communities where it offered goods and services? What did it do to the lives of its members, its employees, and especially its leaders?

If a cooperative is people working together to provide themselves goods and services, who were the men and women who built this Greenbelt model? What did they do right? What did they do wrong? What factors were beyond their control?

The story of the Greenbelt Co-op is not so much a record of business statistics as of personalities and human emotions. In a cooperative, members supposedly work together, why then was there so much divisiveness in this one? Yet, at the same time, there were those who did cooperate, who did carry on in the face of frustration, who gave of themselves far more than a "fair share".

We hope you will enjoy reading about this human drama, as much as we enjoyed writing about it and as much as many of us enjoyed living it.

INTRODUCTION

During the Franklin Delano Roosevelt administration, largely with the efforts of Eleanor Roosevelt, a model town called Greenbelt was established in Maryland. Operated by a government agency, it evolved into cooperatives for housing, food, and goods and services.

Out of this beginning, Greenbelt Cooperative Services, Inc., was founded.¹ At the beginning it included a food store, service station, a barber shop, a pharmacy, a movie theater and a few other stores. There was no private enterprise competition within Greenbelt.

Over the years GCS expanded into other geographical areas of the Washington, D.C. metropolitan area and Baltimore. With mergers it also moved into the Norfolk/Hampton, Virginia area; Westminster, Maryland; and Chicago, Illinois.

From its beginning as a tiny conglomerate, it evolved first into a predominantly food cooperative with pharmacies, service stations and furniture (SCAN) stores. By this time the barber shop, movie theater and others had been sold or closed. In the mid-1970s it became predominantly a retail furniture cooperative. In 1983 its only business was SCAN.

GCS survived many crises in its fifty-year history. Sadly, it also failed to capitalize on a number of key opportunities. Finally, a circumstance largely beyond its control (lowered value of the dollar to the Danish kroner) and a questionable decision to 'take' a prolonged strike combined to bring the member-owned business to an ignominious end.

The impetus for consumer cooperation in the U.S. developed during the great recession of the 1930s. As early as the 1970s consumer cooperatives worldwide were beginning to experience difficulties. By the mid-1980s, consumer cooperatives with few exceptions, were facing serious problems. Some, like the strong Scandinavian cooperatives, underwent major reorganizational changes, closed smaller and older stores, and jettisoned previous flagship manufacturing operations. Others, such as the large New Castle Consumer Cooperative in Australia shut down altogether.

Smaller one or two store cooperatives, on the other hand, continued to flourish. Evidence of this can be seen in the Westminster and Greenbelt cooperatives which once again resumed their independence after GCS closed its food and service station operations in 1983. This book is written to provide a chronicled history of GCS, in order to learn something from its experience that

¹ GCS became Greenbelt Cooperative, Inc. in 1979. Reference to the cooperative throughout is GCS.

might aid others in avoiding some of the mistakes and pitfalls experienced by GCS.

The book is divided into two parts. The first part focuses primarily on business decisions and the financial results during Greenbelt's history. The second part is more about people and the part each played in shaping the growth and decline of the cooperative.

Part I is written to give the reader a broad picture of Greenbelt's growth, performance, philosophies, planning and decision making. It also provides the reader with graphs depicting comparisons within the cooperative and with a competitor. A few names are included because of their very significant contribution, but generally the two chapters in Part I are about the cooperative as a business.

Some of the interpretations and conclusions in Part I are the opinions of the junior author. These opinions are based upon 18 consecutive years in a leadership position in GCS, May 1968 to May 1972 as Speaker of the Congress and May 1972 to May 1986 as a Board member. Of those 14 years on the Board, 11 consecutive years were served as Chairman. Most of the opinions expressed were discussed with a number of long time leaders and others familiar with GCS and cooperatives to elicit their views before putting the ideas and opinions on paper.

Interestingly, one or the other of the two authors served in a leadership position in GCS continually from June of 1958 through May of 1986. The senior author also served on the Board from November 1943 until October 1945. However, neither served on the Board at the same time.

To achieve the exciting detail found in Part II, Don Cooper, the senior and major author, spent months pouring over board minutes, annual reports, the house organ for members, taped interviews, and many other documents. In fact, he went through well over 100 storage file boxes in his quest to develop the smooth flowing chronological history.

Part II details the people, the emotions of decision making, as well as the ecstasies and agonies of the many who were directly involved in the success and failures of their cooperative. Because of its length much of this human and political story had to be omitted in this published version; however, essential parts are retained. The senior author fills in many of the details left out of Part I because, in fact, Part I is meant to be generic and impersonal while Part II is meant to be humanistic.

The appendices provide more detailed data and information to support commentary and figures of the text.

- Appendix A. Lists the directors who served on the GCS Board and their years of service.
- Appendix B. Identifies a number of accomplishments during the Cooperative's 50 year history.
- Appendix C. Over the years GCS was involved with a large number of organizations. Appendix C lists those which were jointly owned with others and those of which were significant to GCS as a member.
- Appendix D. Chronologically lists the historical highlights of the Cooperative.
- Appendix E. As noted in Chapter 1, much planning took place in GCS. Excerpts from one such exercise is herein included because it clearly identifies serious problems and suggested solutions, solutions the Board chronically postponed.

The genesis of GCS was 1937, although it did not become an incorporated cooperative until 1939 with the Board elected in January of 1940. The cooperative grew and expanded over the years, changing from a mini-conglomerate to primarily a food operation and finally, in 1983, exclusively a retail furniture cooperative until under a Chapter 11 court approved "plan" it became a shell organization with no facilities, virtually no assets and no paid staff.²

² See Appendix D for a chronological listing of historical highlights.

PART I

What Went Wrong and Right

What Went Wrong and Right

The growth and financial success of GCS was exceptionally spotty over the years. Numerous opportunities were by-passed and the timing of expansion moves seemed at times to be unfortunate at best. Nonetheless, there was steady growth over the years until the late 1970s when retrenchment of all divisions except furniture became a necessity.

GCS did come perilously close to bankruptcy during the years 1971-1974. There was limping recovery with dramatic losses continuing in the food, service station and pharmacy divisions even with many closures of facilities including a shutdown of the entire pharmacy division. Finally, after divestment of the food and service station divisions in 1983, the future of the Cooperative was perceived as being solid with excellent opportunities for growth, profitability and services to members.

Having survived the financial crises of the early '70s, what went wrong in the late '80s? Except for the fact that the Cooperative suffered from not being able to acquire a strong financial position because of severe losses in all but the SCAN division over a period of 16 years, there appears to be no relationship between GCS's collapse in 1988 and the problems of the earlier years. They were two distinctly separate periods.

To better grasp the evolution of the Cooperative, the following analysis is presented. It is based on a combination of discussions with a number of leaders in GCS and in other cooperatives, the junior author's own observations, and an analysis made for the Cooperative's 1981 Growth and Development Plan.

A young man by the name of Dave Dunbar, a recent MBA graduate, was hired to coordinate the planning process. It was refreshing to have new perspectives in addressing the same treadworn problems and issues. Much of the analysis of GCS prior to 1981 is based upon his excellent work in putting the past of GCS in perspective. After much review by management, the Board, and elder-statesmen leaders of GCS, his analysis was accepted as fairly representing the facts of GCS' evolution.

Hindsight, obviously, is quite different from foresight. What often appears in retrospect to have been an obvious misjudgment by the Board and/or management was probably at the time, and with the known information, the best or only decision to make. Therefore, this analysis does not intend to condemn the motives, abilities, or judgement of individuals or groups of individuals. Inconsistencies, however, between stated goals or policies and actions are noted.

GCS's development can be categorized into six periods:

1. 1938-1950 Steady, profitable growth in one location
2. 1951-1959 Dramatic growth through multi-store operations
3. 1960-1969 Overextension and a crisis of identity
4. 1970-1980 Retrenchment and SCAN dominance
5. 1981-1985 Divestiture and SCAN growth
6. 1986-1989 Overconfidence and disaster

1938-1950: Steady, Profitable Growth in One Location

In its early years GCS was an innovative, well diversified organization with a capability of excellent earnings. The overall growth rate for the period was 20 percent. Member patronage was high and employee morale outstanding.

By 1949, however, the sale of food and associated household items had become dominant, with 68 percent of all sales and 59 percent of contribution. Several small operations, such as the movie theater, were sold. Overall growth in sales volume averages 20 percent during this period. The Cooperative was highly profitable, even by non-cooperative industry standards.

Quick growth with high profitability during this period can be attributed to:

- a. The isolation of the town of Greenbelt gave the Co-op a captive market.
- b. GCS was an operations innovator. It operated the first self-service food store in the country. Its self-service meat department was the first in the Washington area.
- c. Member patronage was high and sales dollar per transaction was also high.
- d. Staff morale was high.
- e. Levels of member investment and reinvestment of patronage dividends and dividends on stock were high. This meant that adequate capital was available for upgrading and expansion, even though the after-tax cost of this capital was high.

1951-1959: Dramatic Growth through Multi-store Operations

GCS entered into an era of large step increases in sales volume, caused by the periodic addition of retail facilities at new business locations. GCS, in fact, developed four new multi-service operations during this period and reduced its wide range of goods and services. Performance, however, was not up to industry standards.

Was this a danger signal that the Board should have pursued vigorously at that time to avoid future problems? They didn't.

In analyzing the financial data available, the Board would have found that:

- a. Labor costs in the food departments were too high.
- b. Overhead was too high in relation to sales volume.
- c. Special purchase items—of which there was a high volume—were not priced to cover their full cost. For example, the cost of the managers' time was not included.
- d. Special purchasing and similar non-core business activities diverted management's attention from normal business operations, leading to sloppy cost control and lack of incremental productivity gains.

Additionally, the Board and management were caught in a "Catch 22". To retain creditability and maintain cooperative practices, they continued to pay a regular 5 percent dividend on stock and a patronage refund. This meant that the rate of reinvestment of operating income in facilities was very low compared to competitors. In an era when medium- and long-term interest rates were in the 4 to 5 percent range, a 5 percent dividend after tax made member stock purchases twice as expensive a form of capital as borrowing. Yet, an adequate equity base was needed for borrowing.

1960-1969: Overextension and a Crisis in Identity

GCS was fighting for sales during this period of fierce competition when all the competitors were also working their hardest to retain their market share. Moreover, operating costs were out of control while management was looking at expansion. In 1960 and 1961, GCS's operating costs were 20 percent higher than the national average. This amounted to a difference of 3.6 percent of sales. In other words, GCS expenses were out of line by more than double the percentage that the average supermarket operator netted as operating income.

Another problem arose with the rapid expansion drive. GCS entered the real estate business as an amateur in a highly professional field. Two

shopping center deals—Penn Daw and Takoma Park—proved disastrous and financially crippled the Cooperative for many years. The centers continued to lose money, tied up precious cash for long periods, and drained management's time and energy just when the competitive situation in food operations demanded full attention.

Management and Board attention seemed to be everywhere else except upon the rugged competitive market. The 1959 and 1960 annual reports note such activities as importing lamb from Iceland, adding a watch repair service, initiating a travel service, developing a co-op mattress, and buying an independent supermarket in an ethnic neighborhood of Baltimore—a market area where the Co-op had no other dealings or interest, and, most importantly, no experience.

Problems were also created by continuing to adhere to an overly simplified management structure and a serious lack of depth of well trained managers and potential managers.

In 1962, the Board changed management. The new management—a consulting firm—appointed a resident manager who ran the day-to-day operations under the direction of the Chief Executive of the consulting firm. Immediately upon assuming management of the Cooperative, the new management presented a status report with proposals to the Board. Among the conclusions in the report:

- a. The Cooperative had grown too much, too fast, and with too few human and financial resources.
- b. The proposal for recovery was to reduce expenses, focus on merchandising, build a strong staff, and attract younger members.
- c. It was recommended that losing facilities be closed including the Penn Daw and Piney Branch stores which were losing money at a great rate. (As explained later this was not done.)
- d. It was also recommended that overhead be dramatically reduced (it was, by \$200,000 annually), that the grocery warehouse be closed (it was), and that a new marketing strategy be implemented by moving to a discount operation (this too was done and all of the "Co-op" food stores became "Consumers Discount").

The cost reductions were helpful, but the marketing success of the new strategy was short-lived. The Cooperative became bland and without distinctions from its competitors. The discarding of the Co-op name along with the discontinuance of patronage refunds made many wonder whether GCS was still a cooperative.

Competitors had a cost competitive advantage in the discount game. Most were integrated backward into manufacturing and processing of a far

greater array of products than were the available CO-OP label products.

The result was that the recovery of the food division was arrested in 1964, even before it had reached a level of average profitability for the industry.

By 1967, the GCS had neither the market image, the financial resources, nor the degree of operating efficiency needed to compete with the other chains.

Besides making a questionable choice of strategy, the new management and the Board failed to follow the advice in the consultant's report. Probably the most important of these related to closing losing operations. Neither Penn Daw nor Piney Branch were closed during this period. Throughout the '60s, the service station division consistently lost money, often at the level of division contribution, yet was not closed. Even with the purchase and operation of the Kroger stores (where there were basically no members to lobby to retain a store that was losing money), stores with minimal or negative store contributions were kept in the operations year after year. This non-action may very well have set the precedent for hanging on to losing operations well beyond sound business reason.

A second failure to live up to advice earlier agreed to by the Board, upon recommendation of management, had to do with new investments. Although return on investment was supposedly the main criterion for investment decisions, deals like the merger with the Peninsula Cooperative Association, the Skinker Tire acquisition, and the Kroger acquisition were made in the face of strong evidence that there was little prospect for long-term profitability. For example, only one of the 9 former Kroger stores met the store contribution standard of 4 percent.

The Kroger acquisition was a contradiction of the expansion plans that management had been espousing. The new management had recommended that any new expansion be in smaller, expandable stores in areas of market growth. Emphasis, too, was on new stores, not old ones. In acquiring the Kroger stores, GCS acquired old stores in declining areas and destroyed GCS's flexibility by tying up all available cash. As a later management report stated, "aging supermarkets are not highly regarded by shoppers."

One must recognize, however, that both Board and management in the '60s viewed GCS as a major competitor in the Baltimore-Washington food industry. They apparently did not recognize the diminished status in an ever more concentrated market place. Their strategy was the same as the other chains. Even with the Kroger acquisition, GCS had only 3 percent of the Washington market and less than 1 percent of the Baltimore market. In the world of competitive edge, or even influence, these percentages were insignificant.

The Kroger acquisition and the limited SCAN expansion used the available cash, poor operating results of the food and service stations drove down net income, and the continued payment of dividend on stock depleted reserves by nearly \$300,000 from 1967 to 1971. The Cooperative was unable to maintain the food stores even in their often rundown 1967 condition, much less remodel or replace those that were most rundown. The food division was trapped in a downward spiral—it needed cash to make improvements to attract customers, but first it needed to attract customers in order to generate cash. Meanwhile, the competition was building new stores with up-to-date, efficient, and labor-saving equipment. GCS was becoming less competitive with each passing year.

1970-1980: Retrenchment and SCAN Dominance

The Cooperative entered the '70s with great optimism. Operating results in 1969 had been phenomenal compared to the past. The 5-year plan presented to the Board by management in April 1970 envisioned 7 new supermarkets and 11 new SCAN stores during the next 5 years. Entirely new types of outlets, including retail tire stores and health and beauty aid stores, were foreseen for the other two divisions.

These plans crashed quickly. Competition in the food industry in the Baltimore/Washington markets once again heated up and in 1970, the Cooperative's food operations suffered their worst loss in history. The next 3 years were even worse. For the years 1970-73, the food division lost over \$1.5 million at the division contribution level. The cost of closing supermarkets amounted to an additional half million dollars. The service station and pharmacy divisions were also doing poorly. Only SCAN was doing well; in fact, if it had not been doing well, the Cooperative would have been gone.

Once again, in 1971, the Board made a management change. The new management and the Board faced a fundamental choice:

1. GCS could move aggressively to cut losses in the food and pharmacy divisions (at this time the service station division was holding its own) and plow SCAN's profits back into SCAN expansion, or
2. GCS could gamble on turning around the losing divisions by milking the SCAN division for the cash needed to improve facilities and cover short-term losses of those losing divisions.

As often happens, management and the Board agreed upon a course of action which embodied a little of each option rather than making a clear choice.

A survival strategy was devised for the food division. Eleven of the twenty-two food stores were closed. Both the pharmacy and wholesale tire operations were shut down. Six of the food stores received at least cosmetic remodeling and a new marketing strategy of emphasizing natural foods and consumer concerns was undertaken. In retrospect, it appears that this was a sound strategy, but it moved too slowly and too indecisively to be a success, i.e., the closings were dragged out over a 6 year period.

In attempting to re-position the food operations within the retail food market, the Cooperative probably failed because it did not go far enough or move fast enough, either in terms of substance or image. Where GCS (and other food retailers) failed, was in not tailoring operations to fit the market segment. Natural foods, the hot trend, were squeezed into the traditional supermarket format. Natural foods were sold next to soft drinks or wherever floor space was available. Rather than penetrating a small but growing segment of the market, GCS followed other food operators in skimming the extra profit margin off the natural food line.

Operationally, GCS made only minor changes to accommodate the new marketing strategy. As a result, the new approach was disappointing. Even though cooperatives were again in vogue, GCS did not change the name from Consumers Discount. By deciding not to feature the "Co-op" philosophy and name, GCS lost a key opportunity to identify with the younger people which it desperately needed to attract as customers.

As a result of the compromise approach, SCAN expansion proceeded at a slow pace, at least when supermarket losses were small enough to allow any growth. Additionally, the Board and management focused the vast majority of their time and energy on the losers rather than on the winners.

In 1975, management recommended closing the food division. Faced with the political realities within GCS—namely the area councils—that closing down the "lifeline" of the Cooperative was unacceptable, the Board did not accept the recommendation. This was one of the several reasons why the Board changed top management in early 1976.

From 1976 to 1979 seven more food stores were closed and the division's management drastically cut. During this period GCS did not embark on any major new ventures. Rather, a cautious approach was adopted by improving (where possible) existing operations, tightening controls, paring away unprofitable operations, and disentangling itself from earlier real estate ventures.

Results were encouraging if not dramatic. SCAN sales growth had dropped to a 13 percent annual growth rate from its high of 55 percent annual rate from 1961-70. Was there still a great opportunity for SCAN growth? Yes, but there were no funds and, sadly, little attention was given those opportunities by top management and the Board.

Food store sales dropped at a rate of 8 percent per year after 1975, but losses were cut. Food stores began to contribute part of their share to overhead. The service station division was unprofitable almost every year.

The 1970s had been a traumatic decade for GCS. There had been four CEO changes in 9 years, compared with two in the previous 26 years of history. Two of its three operating divisions had become chronically unprofitable, kept alive only by subsidy from the one profitable division—SCAN. Of its 44 retail outlets in 1970, 26 were closed, including an entire division.

Nonetheless, there were reasons for optimism. GCS had survived a difficult period. The Cooperative was leaner and its chronic top-heavy administration was much smaller. Its major business was now Scandinavian furniture in which it was the leader. Finances were in reasonably good shape and with the National Consumer Cooperative Bank coming on strong, long-term, reasonably-priced debt capital was available. Most of the real estate problems which had drained management's energy for decades were ended. It was a good time to plan for the future.

1981-1985: Divestiture and SCAN Growth

Happy days did not arrive. The food division kept on losing. As stores were closed, the division costs were shared by fewer stores and across less volume. Many different approaches were tried with no success. It can be reasonably concluded that this final effort was really the culmination of earlier decisions and non-decisions.

GCS never achieved its potential in the food business for several major reasons. Included among these are:

1. Absence of a coherent and consistent financial plan for growth.
2. Failure to consistently upgrade facilities and to open new stores, such as competitors were doing.
3. Reluctance to adjust to changing neighborhoods or to "close and move."
4. Changing identity of what GCS food stores were.

At the behest of many of the area council members not to close the food division, the Board made one more attempt to find a solution by engaging still another consulting firm to conduct an in-depth analysis of the Cooperative. The report was far from encouraging. The report, coupled with the fact that neither the food nor petroleum division had come close to meeting the criteria established in 1981 for retaining them, compelled the Board to vote (unanimously) to divest the two divisions.

There were some caveats. First, that the facilities would be sold to a group which would retain the facility as a cooperative so long as their bid came within at least 10 percent of any other bidder. Second, \$50,000 would be set aside for exploring other businesses (which would be more frequently patronized by members than was SCAN) for GCS to enter.

Finally, with the divestiture decision, it appeared that SCAN could be expanded. Earnings were high and GCS could have moved ahead. Reluctance on the part of some members of the Board to go outside of the current market area kept GCS myopically focused. Additionally, the composition of the Board changed dramatically after the divestiture decision.

The new Board members did not have SCAN expansion as one of their high priorities. Even so, new SCAN stores were opened in 1984 and 1985. In 1984 GCS's earnings matched the previous high of \$618,000 and in 1985 it appeared that SCAN was on its way with record high earnings of \$1.1 million.

1986-89: Overconfidence and Disaster

The Cooperative entered 1986 financially positioned for growth and stability. Working capital (\$4.4 million) and equity (\$5 million) were the highest in its history. Among other excellent financials were total debt to equity (1.04), long-term debt to equity (.21), and total debt to total assets (.37). Still, GCS had not recovered sufficiently to have developed an adequate reserve to withstand major traumas.

In 1986, the dollar dropped precipitously in relation to other currencies, among which was the Danish kroner. From long experience, SCAN management knew that it was not feasible to increase prices rapidly to counteract the drop in exchange rates. The decision was to try to weather the storm and to gradually raise prices so as to minimize loss of sales volume. In 1986, SCAN had its first loss since the very beginning—a loss of \$441,000. Compounding the exchange rate problem was a heavy snow storm in late January 1987 (GCS fiscal year ended the last Saturday in January), which severely curtailed deliveries during a period which historically was SCAN's best.

Unfortunately, the existing labor contract expired May 1, 1987. Because of the severe drop (about 40 percent) in exchange rate, management and the Board felt that changes should be made in the labor contract to increase productivity and reduce labor costs. The union did not agree and a strike was initiated on May 2, 1987. With uncharacteristic rigidity on the part of both parties the strike continued for 9 months with disastrous results. Sales dropped from a projected \$43 million to \$34.5 million (about 20 percent).

Legal and security costs as well as the overhead to total sales jumped materially. The bottom line became a \$4.2 million loss.

National and local labor unions rallied behind the striking union. The Board and management clung stubbornly to their position as well. At the Co-op's annual meeting in June 1987, things turned ugly and precipitated a rapid decline of SCAN's image, which prior to the strike was one of the most favorable images of any business in the Washington/Baltimore market area. As a result, sales plummeted.

Sales continued their downward spiral (\$31.4 million) in 1988 and the Cooperative experienced a \$4.7 million loss. However, before year end (June 15, 1988), the Board had decided to seek protection under Chapter 11 of the Bankruptcy code.

Whether the strike should have been taken is a matter of opinion. However, there are many who believe that settlement of the strike should have been swift with a great deal more compromise on both sides. In previous strike-potential situations, the Board always advised management to seek prompt resolution of conflicts for exactly the reasons that occurred—loss of image over the long term and loss of sales in the short term.

GCS succeeded, however, in overcoming two decades of varying crises in three divisions and then finally closing all three. In less than three years it lost it all to an uncontrollable situation involving currency exchange and the strike, which in part could have been controlled.

After reviewing 50 years of documents, stepping back from the closeness as a Board member, and visiting with a number of older and newer GCS leaders, the conclusion of the junior author is that there were eight critical decisions and some "non-decisions" that shaped the Cooperative and eventually led to its demise.

CRITICAL DECISIONS

Eight critical decisions made by the Board of Directors of Greenbelt Cooperative materially affected the history of the Cooperative. Other decisions had an impact but, in this author's opinion, these eight, plus three "non-decisions" most affected the course of GCS:

1. June 1950, the Board approved a lease in Takoma Park. This was the first step outside of the Greenbelt geographic area. It set the cooperative into a growth mode. More importantly, it established the direction of growth as centralized vis-a-vis federated. This approach required effective strategic planning and Board decisions enhancing capital accumulation for growth. This first step was studied but does not appear to have been

taken as part of a longer term written plan for growth and for financing that growth.

In an open letter to the members carried in a newsletter, the Chairman requested that the members support the Board's plan for expansion. Also in the newsletter was an open letter to the members from the chief executive outlining the reasons why expansion was recommended. It addressed the three issues of: "Why expand", "Why expand outside of Greenbelt", and "Why have financial and political control over new areas."

In summary, expansion would reduce per unit costs and would attract new equity. Expansion outside of the area would put the Cooperative in a better competitive position. It is essential that control be maintained in order to utilize the leadership that understands cooperatives. It is also a given that, in order to obtain financing, control would be in the hands of GCS. Thus, this decision had a positive long-run impact on the Cooperative.

2. January 1955, the Board created a Congress. This body served as a link between the members and the Board. Over time, it acquired some decision making powers and became an influence on most of the critical decisions of the Board. It served as a powerful deterrent to timely decision making by the Board. During the later years there was constant conflict between the Congress and the Board (or some of the Board) and between Area councils and Directors relating to closing of facilities. These conflicts usually resulted in trying still another approach (none of which were successful for a sustained period) to increase sales. The area councils/Congress also had a deterrent impact upon capitalizing on the early success of SCAN (late '70s, early '80s) by opposing expanding outside of the Baltimore/ Washington market area. Generally, the Congress opted for using the scarce capital for shoring up and revitalizing the food and service station divisions. The majority of the Board supported the viewpoint of the majority of the Congress. Too often these majority viewpoints were in direct conflict with the long-term, positive economic health of the Cooperative.

There was, and continued throughout, a belief on the part of the vast majority that a "furniture operation" could not sustain itself as a Cooperative, nor did they believe that a furniture operation was consistent with the very foundations of a cooperative, where there was a "frequent" contact between the "store" and the member.

Without a doubt the Congress was the key factor in the Board staying with the food and service stations as long as it did. To underline the strong feeling of the Congress, not a single director voting for closure of

the food and service station divisions who stood for re-election was re-elected by the Congress after the decision to close the food and service station divisions was made by the Board.

3. December 1961, the Board approved the opening of a free standing SCAN store (no longer occupying space in a supermarket). It opened in April of 1962. This was the impetus which started the "real" growth of the SCAN division.
4. May 1967, the Board gave final approval for the purchase of the Washington Division of Kroger food stores. In the face of a 5-year plan adopted just months previously, the Board made a critical decision upon recommendation which was not consistent with the plan. This appeared to be an excellent opportunity to expand rapidly, but in a direction exactly opposite of what management had advocated—they bought worn out stores instead of new ones. Several problems immediately arose:
 - a. Most of the stores were aging facilities or were in neighborhoods that were rapidly changing. This required costly remodeling in the stores and major adjustments in merchandise and merchandizing practices. GCS did not take the necessary steps quickly and within 5 years most were closed.
 - b. The euphoria of expansion had not been matched with the effective recruitment of members around new facilities. The Kroger acquisition overwhelmed the staff and volunteers in developing a member base of customers except by the passive approach of automatic membership through patronage refunds. This approach has never developed a true membership base.
 - c. Financially, long-term debt doubled, almost a million dollars was added to inventory, working capital needs increased significantly, net earnings to sales nose-dived and the total debt to equity ratio deteriorated from .75 to 1.54. (a) and (b) above worked against any improvement in the financial situation.
5. March 1976, the Board made a decision to change the Chief Executive Officer. This decision established the tone of the working relationship between the Board and the Chief Executive which prevailed at least until June 1986. For those ten years there was a "balance of power" between the Board and management, each carrying out their authorities and responsibilities without abdicating them to, or usurping them from, the other.

Slightly earlier the Board had made the decision to engage Jerome Weiss of Hamel, Park, McCabe and Saunders, as their legal counsel. This

move was significant in that Weiss guided the Board through a number of legal problems including law suits, the real estate deals previously made, and filings with the SEC. The relationship between the Board and Weiss was one of trust.

6. November 1976, the Board approved in concept a report prepared by a Blue Ribbon Committee relating to the food division. This report's key sentence was, "The present seven food stores represent a viable base from which to establish a successful retail food division with the goal of being a leader and influential factor for the consumer in the Eastern marketplace."

This study had been undertaken after 8 years of frustrating performances of the food division. Not since 1960 had the food division covered its share of overhead costs. In fact, in only 1964, 1965 and 1974 did the food division cover any part of its allocated overhead. In light of the continual optimism, many Board members felt that "if we close stores x and y" we'll be back in the black. That never happened. Now, after closing 15 of the 22 stores owned in 1967 and 1968, the Board was at a point of wanting to know if it was possible for GCS to operate food stores successfully. The Committee said "yes". The Committee was chaired by the Assistant CEO of the Berkeley Consumer Cooperative, at that time viewed as being an exceptionally successful food cooperative. Others on the Committee included executives from the food industry—co-op and proprietary. It was a group which the GCS Board respected for their food business savvy. With one dissenting vote the Board reaffirmed its commitment to remain in the food business.¹

Seven more years of losses in the food division followed. During this period of losses in the food division, profits in the petroleum division deteriorated even more rapidly. Since petroleum division sales were such a small part of the total, the division never received concentrated attention.

An analysis of those 7 years appears later in this chapter. It is a study in commitment according to the advocates and a study in gross mismanagement according to the critics. It is certainly one or the other.

7. December 1983, the Board voted unanimously to divest the food and service station divisions. In August 1983, the Board had commissioned

¹ This dissenting vote was by Leonard Lineberry. During his years on the Board, he consistently urged "economic common sense" by closing the divisions which were chronic "losers". He courageously defied the politics of the issues. In retrospect the question arises, "what if the rest, or at least a majority, of the directors would have had the same courage?"

still another study. This time it was conducted by the consulting division of Peat, Marwick, Mitchell and Co. Their charge was to examine the alternatives to staying in the food business as well as the alternative of divesting the food and service station divisions. After the report was received, the Board conducted 3 months of discussion and debate with Area councils, the Congress and among the directors and management relating to the consequences of each of the alternatives. The divestiture had a positive economic impact on returns.

8. May 1987, the Board approved management's proposal that a hard line be taken in negotiations with the union representing SCAN employees relating to specific cost saving measures. If the union did not accept those terms, then the Board would support management in any measures necessary to deal with a strike. As it turned out the union did not accept the terms and a prolonged strike ensued, which had a devastatingly negative effect on the Cooperative.

NON-DECISIONS

The three decisions that cried out to be made, but never were, probably had as much to do with the financial roller coaster history of GCS as did any of the decisions.

1. No Decision on a Comprehensive Financial Plan

From the beginning the Board could never seem to come to grips with approving comprehensive capital structure and long-term financial plans. There were numerous efforts at addressing the issue, but until comprehensive analysis and recommendations of the 1979-80 Capital Structure Committee there was never a package put together dealing with equity and debt with all of their feasible alternatives.

Patchwork financing was the mode of meeting both short- and long-term capital needs. Contributed equity capital was dealt with more in terms of linkage with increased membership than in terms of equity financing. This created an uneven approach to policies regarding dividends on stock, patronage refunds, and redemption of stock. Additionally, significantly greater movement from one banking relationship to another than is usually found in mature businesses added to the Cooperative's financial disarray.

2. Decision Gridlock on SCAN Expansion

During the period 1974-1982, it was evident that SCAN was a

proven success and that the other divisions of GCS were at best marginal and at worst real financial problems. In 1975, the Board at a planning retreat agreed that SCAN should be expanded aggressively. Over the next 10 years various alternatives were discussed, including greater saturation of the Baltimore/Washington market, expansion outside of that market area, franchising, joint ventures with other cooperatives, and joint ownership between store managers and the cooperative. Except for greater saturation in the Baltimore/Washington market, an additional store in the Virginia Peninsula area, and a management contract with Hyde Park's two SCAN stores in Chicago (replaced by GCS purchase in 1983), none of the ideas moved much beyond the discussion stage.

In the junior author's judgment there were three basic reasons why the Board did not press forward more aggressively:

- a. The philosophy of the founder of SCAN, Bob Gowell, was to provide the consumer in the Cooperative's market area with real values. The notion of capital accumulation for growth outside of the Cooperative's market area was of very low priority to him. His arguments were well based given his philosophy. Margins were kept as low as possible. SCAN's gross margins of 38 to 42 percent were unheard of in the furniture industry. Members and customers benefited. Furthermore, he felt that if margins were higher the only result would be to further subsidize the losing divisions. He was probably correct. So, why not benefit SCAN's customers and suppliers instead?

Not only did the SCAN staff during his years as head of SCAN avoid recommending expansion other than within the market area and in traditional ways, but they also argued against it. The Board kept discussing how and where to expand but never pushed beyond that.

- b. Most of the Congress members and part of the Board were in total agreement with the SCAN philosophy. Many viewed SCAN as a "cash cow" to be used to support the food and service station divisions. Certainly, they felt, scarce capital should not be used to expand SCAN outside of areas where GCS members didn't live.
- c. The chronic shortage of capital did not provide breathing room for undertaking a pilot effort. For example, one area that appeared to have merit was Philadelphia. To be competitive it was determined that two stores and a small warehouse would be needed. This would require a minimum of 2 million dollars for inventory, equipment, and leasehold improvements. Most would have to be borrowed. There was great reluctance to do that in light of the chronic financial

weaknesses of GCS. Yet, another entrepreneur did exactly what SCAN could have done and remains successful today.

3. Postponed Action on Business Entity Failures

As noted already, many facilities related to staying in the food business were kept open far beyond what most corporations would tolerate. At one facility, Takoma Park, at least four different types of merchandizing approaches were tried, plus an attempt to generate business by volunteer efforts in soliciting the dwellers of the nearby apartment buildings. None succeeded.

In reviewing the minutes, planning retreat documents, and personal notes, the evidence shows that every facility and each division closed was given a "stay" of closure of not less than 9 months and most well over a year. The three closed divisions (pharmacy, food, and service stations) were kept open many years while continuously losing money. The rationale was that in a Cooperative the objective is to provide goods and services to the members and one division supports another. In the final analysis, however, GCS was not providing competitive quality of goods and services during the waning years of those divisions.

Area councils, too, contributed to non-decisions of the Board. Before any facility was closed it was the policy to discuss the problem with the council in the area. Most times they courageously tried to drum up business. This took time and unfortunately in no instance was the effort successful over a sustained period.

The Board continually postponed tough decisions until one, two and three more approaches to achieve profitability were tried. After these approaches were tried and before any closure was undertaken management prepared a report to the Board and the affected council. This report detailed the market area including the competition, the location (age of shopping center, changing demographics, etc.), and probable market changes, such as a box store coming into the market area. Alternatives were identified with the probable consequence of each alternative.

Certainly no facility was closed without the members (particularly the leadership in the council) having been given every opportunity to assist in increasing sales. Concurrently all reasonable measures were taken to adjust the merchandizing to best compete in the area. In some cases, in-store costs were increased in an effort to boost sales.

These last ditch efforts in the face of virtually certain non-success resulted in the Board postponing closure decisions far beyond what

most businesses would consider reasonable. In a proprietary business it might have brought stockholder suits against the Board for nonfeasance.

SOME LESSONS LEARNED

In retrospect a number of lessons should be learned from the above historical perspective:

1. Failure to be realistic about the Cooperative's strengths and weaknesses led to the brink of disaster several times and then finally to Chapter 11.

At several key junctures, GCS leadership failed to accurately assess the organization's ability or capacity to manage a project, or chose to pursue a strategy which was totally inappropriate to GCS's position within the competitive market. The real estate deals of the 60s, the change to a non co-op discount image in 1964, the Kroger acquisition in 1967, the Skinker Tire acquisition in 1969, and the attempt to operate SCAN successfully in the face of the 1987 strike are examples of this lack of realism.

A more subtle, but equally important manifestation of this tendency, was the leadership's reluctance to recognize that the organization could only do a few things well. Often, GCS tried too many things, too fast, and with too few resources, even though the strategy for each separate project appeared to be sound.

The strength of SCAN was never exploited either in terms of expansion or by using successful SCAN techniques, tactics and strategies in other parts of the Cooperative. SCAN flew in the face of tradition and carved out its own market niche within the furniture industry in the Maryland/Virginia/District of Columbia market. The other divisions of GCS tried to compete in the same traditional ways as the rest of the industry.

2. Failure to "cut bait" on losing operations greatly increased damage to the financial health of the Cooperative. Management made sound recommendations when it became obvious that a facility needed to be closed. The Board, instead of taking action, convinced (or coerced) management into "just one more effort."

In the beginning, the opening of a new replacement store might have kept each of the divisions viable. Later, the image was so bad that even new stores probably would not have brought back the needed volume.

The policy of subsidizing losing facilities had several deleterious effects. It diverted limited cash away from expansion and upgrading profitable units. It also drove away goal-oriented executives when their performance was not rewarded with more resources. It created a "loser" image for the Cooperative among executives, employees, members and the public. It influenced the furniture division to isolate itself from the rest of GCS; as a consequence, the other divisions learned little from SCAN's success.

3. Management, the Board, and the other leadership spent too much of their time worrying about current losing operations and not enough time on strengthening the successful ones and replacement business.

CEO's and division vice presidents tended to take the existing mix of businesses as a given. Most planning was based on an assumption that the food, pharmacy, and petroleum divisions would simply get bigger.

Innovation did occur, but starting in the early 70s there were almost no resources for experimentation. When GCS did anticipate trends—as it did with a coin-operated self-service car wash, natural foods, and non-food departments in supermarkets—the opportunity to become the leader was not exploited. SCAN is the exception. If GCS had developed the best ideas of managers and members, there might have been more SCAN-like success stories.

A major lesson to be gained is that by not giving attention to successful components of a business it may very well never achieve its potential. In the junior author's view, that is what happened to SCAN. GCS management and the Board left SCAN's management to fend for itself and permitted SCAN to become isolated from the rest of the Cooperative. While SCAN management welcomed this, it was not in the best interests of the Cooperative.

4. The potential for interdependency among the businesses of the Cooperative existed, but were rarely employed. As a result, GCS's diversification remained just a latent advantage.

While good advantage was made of GCS's diversified base up to 1965, the following years were generally characterized by a growing insulation of the component businesses. Many opportunities were passed by. In particular, the furniture division's strengths and profits were not used to further diversify or to restructure divisions with chronic losses.

5. Although planning is useful and necessary, it is counter-productive if there is no follow through. GCS (as noted in later chapters) did a lot of

planning. Virtually every several years there was a new plan. Rarely were plans executed, nor were the concepts or criteria implemented or followed.

If the GCS Board and management would have implemented the plans that were developed—and most appear to have been both sound and feasible—GCS would have been quite a different organization going into the 80s.

During the early years, management generally provided both the impetus for planning and the conduct of planning. The Board then reacted to the proposal rather than considering the alternatives with probable consequences of each alternative.

In 1974, the Board began taking a pro-active role in planning, partly as a result of a memo to the Board from the auditors. They urged that GCS develop an overall plan for the Cooperative's future. They suggested that such a plan would better enable the Board and management to review possible acquisitions and to identify future capital needs.

The first joint Board/Management Planning Committee was formed in 1975. Operating management contributed mutually in the analysis (see Appendix E). After 9 months, the Committee made its report to the Board.

Among the key points made by the Committee were:

- a. Restructure the food division so that it is viable beyond the division level (this, of course, could mean some subsidization).
- b. Regain the confidence of the members.
- c. Continually and systematically expand SCAN both in and outside of the present market area.
- d. Reorganize the capital structure.

From this point forward the Board took equal responsibility with management in initiating and participating in planning. In fact, for most of the remaining years there were continuing task forces representing management, Board, and the Congress of GCS involved in various aspects of planning. These efforts were supplemented by studies of consulting firms who were engaged by GCS.

The 1976 study was triggered by a memo which the Chairman received from an executive in the food industry who had been a GCS staffer in earlier years. This memo jolted the Board. Among the points:

- a. GCS has done poorly by the consumer. Giant² outperforms GCS.
- b. Changing the "Co-op" name to Consumers Discount and now back

²A competitor in food retailing in the Washington/Baltimore area. See Chapter 2.

- to Co-op was costly both in dollars and in confusion among GCS members and customers.
- c. Merchandizing, pricing, and advertising policies appear to be in disarray and the purchasing system is badly fragmented.
 - d. The uniqueness of the Cooperative has not been exploited for years.

The resultant study encouraged the Board to look favorably on the food division. Unfortunately, the criteria for evaluating progress was not followed.

Then, in 1981, another massive planning process got underway. Totally in-house, except for bringing in an MBA graduate to coordinate the effort, this effort culminated in a 3-day retreat by Board and management.

Following the retreat a Business and Growth Plan was adopted by the Board in October 1981. While this plan was much more sophisticated and included detailed strategies and tactics, it did not vary much from what was envisioned in 1976. One major difference was that stringent guidelines were set for facility performance.

For the first time, significant attention was given the petroleum division. The result was a major capital improvement program for 1981 in upgrading the stations with an investment of \$325,000. Other capital budget items approved in the plan were \$693,300 for SCAN expansion, but only \$80,500 for the food division.

Among the goals adopted at the retreat were:

- a. Increase average net earnings 20 percent annually to reach net earnings of \$3 million annually by 1986.
- b. Increase membership by 5,000 annually.
- c. Increase member patronage to 50 percent of total sales by 1986.
- d. Increase member capital investment to \$4 million by 1986.
- e. Develop profitable operations so that no more than 50 percent of corporate level expenses will be met by any one operating division from any one geographic area.
- f. Only projects with an anticipated Return on Investment (ROI) of 12 percent after taxes, over a 5-year period or less, will be considered.
- g. Operations or facilities which show a loss at the store contribution line for six consecutive periods, or for an entire fiscal year, will be divested unless reasonable projections show the operation clearing the ROI hurdle rate within 2 years.
- h. The ratio of long-term debt to the sum of long-term debt and equity shall not exceed 45 percent for more than six consecutive periods.
- i. Restructure the food operations.
- j. Expand SCAN to the Philadelphia and Richmond areas. Pick up the

- pace of expansion in order to head off fiercer competition.
- k. Achieve geographic diversification in the contemporary furniture business by expanding directly or indirectly into other metropolitan areas.
 - l. At least break even in the petroleum division.
 - m. And many more.

Tragically, only Goal 2 was achieved, and the guidelines were generally ignored or waived. That is a lesson that cooperatives should heed. Do not make exceptions to your criteria unless there are compelling reasons. For GCS there weren't, except for the politics of the organization.

Later, there were additional plans. The one by Peat, Marwick and Mitchell cited earlier provided the foundation for divestiture. Two new business plans were adopted, one each in 1986 and 1987. The plan in 1986 again set forth the intent to expand SCAN into other geographic areas and the 1987 plan focused on entering the ready-to-assemble and upholstery business.

A focused financial plan, except for the 1981 Plan which partly addressed the issue, was never set down, as can be surmised when looking at the figures and the tables.

The problems were readily identified and the few recommendations, such as those proposed by Leo Plante of Goldman Sachs in 1978, were never seriously pursued. Most of the viable solutions would have required GCS to veer from the Rochdale principles and this was not acceptable to a majority of the leadership. One recommendation was that GCS incorporate SCAN as a for-profit subsidiary with shares trading on the market. GCS would always own 51 percent or more of the shares. Today a number of cooperatives around the world are adopting the recommendations that Plante made then. Now, for GCS, it is too late.

TO SUMMARIZE: Planning is important. Planning, to be effective must be implemented and in GCS it rarely was. In retrospect, too many issues were addressed and too many ideas were directed to management to explore. That flaw diverted management's attention from critical issues.

- 6. Focus is as important for the Board as it is for management. From 1968 through the early 80s, GCS had far too many committees dealing with far too many diverse projects requiring both Board and management attention. It also diverted attention from the major enterprises. Part of this stemmed from a highly motivated group of volunteer leaders with a wide ranging arena of interests. For example, during one period in the mid 70s there were 24 committees, most of which included someone

from the Board, the management and the Congress. True, many ideas were generated, but lack of ideas was not the problem: attention was not focused, and the ideas were rarely implemented.

Committees in themselves are not a problem, but getting them to perform effectively can be. Some leaders complained that the Greenbelt Cooperative had too many meetings, but this provided participation of members and was an important way to keep the organization alive and innovative. Aside from certain basic and required committees, leaders relied heavily on ad hoc committees in response to a need which developed or to explore someone's proposal. This created committees to meet a need or the ideas of members. Over the years, however, there was much duplication. Some subjects were explored repeatedly at intervals, with little attempt to go back and use good reports that had already been prepared. It may also be noted that many excellent committee studies were never followed up. Leaders of GCS were better at appointing committees and producing reports than putting the findings into action. The most productive committees were tripartite, with representatives from Board, Congress, and management.

What if those energies had been focused on just three of the key issues facing GCS? A planned and consistent capital plan, a means of expanding SCAN, and some innovative ways of restructuring the food division are the three areas that would have made a difference. Such a focus, however, was not forthcoming.

7. Instead of examining other alternatives to add new members, the initial decision to incorporate under the corporate laws of Maryland (since consumer cooperatives did not fall under the cooperative code), cost the cooperative hundreds of thousands of dollars. The requirement to register with the SEC cost \$100,000 to \$600,000 annually and took huge amounts of staff time. Membership could only be obtained by buying a share of stock rather than the usual way of just buying a membership. It was not until 1979 that GCS was able to get the Maryland law changed, which permitted a consumer cooperative to be a membership organization rather than a stock corporation.
8. A review of GCS's bylaws and other documents shows clearly the changes in the democratic process of GCS. In the early years decisions were promulgated after much input from members, resembling a town hall meeting approach. Membership meetings were held monthly where members were concentrated around a few facilities in a tight geographic area. With wider geographic expansion and more facilities, meetings were held quarterly. With the formation of area councils and the Con-

gress in 1954, membership meetings were held annually, the norm for cooperatives and other types of corporations.

Because of a requirement of Maryland corporation laws, proxy voting was permitted. However, this was really a technicality because GCS continued to adhere to the one member one vote principle.

Originally, directors were elected for 1 year. Over the years this evolved to three-year terms with no limit to re-election. Later, a maximum of three terms was instituted.

Amending the bylaws required two-thirds of the entire membership for most of the life of GCS. In 1986, this was changed to vest the power of bylaw change to the Council of Delegates, the successor to the Congress.

9. In the early years, recruiting members was never a problem. When the Kroger stores were acquired, only a minimal attempt was made to convert customers to members. After the first years in Greenbelt, there were three incentives: the patronage refund, dividend on shares, and member benefits. A survey in the early 1970s revealed that by then almost no one joined out of belief in the cooperative ideals. By then operation of the facilities depended on customers rather than members; and management, therefore, geared operations to competing for the shopping public rather than fulfilling members needs.

In 1981, \$1 memberships were implemented so that GCS could have a sufficient percentage of members as customers to meet lending requirements of the National Consumer Cooperative Bank and to return earnings to customers through patronage refunds.

The Area councils, Congress, and most directors were heavily concerned with the voice of the members, which resulted in some misunderstandings and differences with management's primary goal of keeping the business operating profitably. This split personality aspect of GCS became more, rather than less of a problem over the years.

10. There were far too many meetings of the Board, of the Congress, of the Area councils and of Committees. Because preparation for Board meetings was spotty, too much detail and trivia took up valuable board time. Many of the Congress and Committee meetings did not have sufficient planning and available documentation to be fully effective.

Most Area council meetings were poorly planned, poorly run, dull, and hence poorly attended. New members being brought into the leadership voiced dismay at the pettiness and controversy at some meetings, calling them a waste of time, and did not come back after a sampling.

11. Perhaps the single most frustrating proclivity of the Board was to postpone decisions. This was particularly true when the decision would likely be politically unpopular. Closely linked was the tendency to delay until still another study was made.

WHAT WENT RIGHT

1. The most obvious thing that went right for GCS was SCAN, until the last 3 years that SCAN was part of GCS. Refer to the last part of Chapter 2 for a discussion of this "went right."
2. The stability of a Board has a significant impact upon cooperative performance. While it is the entire Board who makes decisions, most Boards reflect the leadership of the Chairman. However, GCS, as most Boards, also gained strength from others on the Board who had special skills in specific areas, in diplomacy, in asking discerning questions, in developing harmony, etc. GCS was particularly blessed much of the time with individuals who complemented one another. For the most part, the Board also worked as a team. This was particularly true in the area of financial issues, where those who were most conversant with finance and capital structure took the lead. There were only a few years where there was personal acrimony on the Board. Generally the GCS directors trusted and respected one another while at the same time voicing differences of opinion.

Even though there are only nine persons with 10 or more years of service on the Board, the Board from 1962 through 1984 was extraordinarily stable with no changes in 1982. This was also true in 1956. Except for the years of 1964 and 1973 there were only one or two changes on the Board.

Those serving on the Board for 10 or more years included:

Benjamin Rosenzweig	20, six as Chairman plus other offices
Paul O. Mohn	15, eleven as Chairman plus other offices
W. Gifford Hoag	14
Donald H. Cooper	12
Bruce Bowman	12
Solomon Hoke	11
L. Glen Whipple	11
Walter Bierwagen	10, all as Chairman
Robert Dressel	10, four as Chairman

Unlike most consumer cooperatives of which the junior author has knowledge, GCS had a great deal of stability in the tenure of its Chairmen, except in the very early years and in the last couple of years. The same was not true with respect to the Chief Executives. From 1946 until 1986 there were only eight Chairmen and but seven Chief Executives (two for only one year each). In most consumer cooperatives around the world the average tenure of a Chairman is less than 4 years, while the tenure of Chief Executive approaches 20 years—longer than in most proprietary corporations.

3. Another strength of the GCS leadership was that many held leadership positions in other organizations. Again, based upon the junior author's experience, there are very few Boards that have so many of their leadership in so many other organizations. Appendix C contains a listing of most of the organizations in which GCS leaders sat on the Board. In a number of organizations they rose to be an officer, including chairman.

For the Greenbelt Cooperative, leadership development was never a problem, because training courses, workshops, and seminars were set up early and continued with considerable consistency throughout the 50-year history. Management, Board, and Congress worked together on in-house opportunities, and support was given to many organizations for training programs. Staff people were sent to the American Management Association and various trade institutes for general and specialized training. Board retreats and Congress annual orientations introduced new leaders and potential leaders to the history and principles of cooperation, responsibilities of directors, how to be a good secretary or treasurer or committee chairman, public speaking, report writing, understanding financial reports, and many similar subjects. A specific purpose of the Congress system developed with GCS was to develop leaders and especially candidates for the Board of Directors.

4. To facilitate discussion of strategies and tactics which could provide GCS with a competitive edge, the last ten years of Board meetings were held in 3 parts; regular, with any member permitted to attend, comment and ask questions; executive, which any leader who signed a confidentiality agreement could attend; and, in-camera, with only Board members, the Chairman of the Review and Evaluation Committee, and invited guests, which included management, in attendance.

At first, closed sessions at Board meetings occurred only for personnel matters and proposed store leases. Even these brought protests from some members. Later, financial data and operations were discussed in executive sessions in an effort to avoid informing the competition. A

concession was made by scheduling closed sessions toward the latter part of the meeting so that visitors would not have to wait outside the room for the open session. Minutes of closed sessions were sometimes kept in a separate minutes book, but in any event, the secretary periodically presented for declassification those minutes on matters no longer considered confidential.

5. In 1958, the Board began codifying its policies and procedures to achieve consistency in its functioning. The Policies Book contained written statements agreed upon for guiding the Cooperative. The Procedures Book contained written statements guiding the way in which the Board functioned. These were updated from time to time. Use of these guides avoided much arguing, duplication, and contradictory motions.

Obviously, there were more "wrongs" and "rights." The above gives the reader most of the highlights. However, all of the following Chapters discuss other things the Cooperative did wrong or right.

EPILOGUE

NEWCO

On December 1, 1989, NEWCO operating as SCAN International, Inc., began operations as a new corporation. It is operating under a Plan of Reorganization approved by the Bankruptcy Court.

Under the Plan, a new corporation was formed, NEWCO. GCS holds 30 percent of the stock, 12 foreign suppliers (allocated in accordance to their pro rata claims) hold 21 percent of the stock, and the Danish Council (a governmental guarantor) holds 49 percent of the stock.

Over a period of 10 years, \$2.4 million is to be repaid to the foreign suppliers after writing off \$300,000. The Danish Council is also to be repaid \$400,000 over a 10 year-period after writing off \$2.2 million. The National Cooperative Bank wrote off \$687,000 in exchange for GCS's accumulated patronage refund certificates. Trade creditors received 10 cents on the dollar (\$3.1 million owed).

After the 10-year period and after the foreign suppliers and the Danish Council have been paid, GCS has the option of purchasing 31 percent of their stock. During the 10-year period, and after the first year, GCS is to receive not less than one half of one percent of NEWCO's total sales.

Under the Plan all members of GCS who had \$25 or more in their Capital Account retained voting membership in GCS with their account reduced to \$5. All shares of stock were cancelled.

NEWCO or SCAN International is, however, doing better than most furniture retailers and is opening two new stores. One is SCAN Express, a cash and carry high volume store, and the other, SCAN Clearance, an outlet type store for various discontinued and slow moving items.

GCS

Until July 1991, GCS continued to function but with no paid staff. The Board examined some business ventures that required little or no up front investment cash. Two of the board, John Gauci and Paul Mohn, sit on the NEWCO Board. The prospects are not bright unless SCAN International does well, which, as of this writing, is not the case primarily because of the economy.

In October 1991, with overwhelming agreement of the membership, GCS was dissolved and all asset and liabilities were transferred to United Cooperative Services, a new cooperative.

UNITED COOPERATIVE SERVICES

In July 1991, a new cooperative was incorporated by the Board of GCS with approval of the GCS Delegate Assembly. The purpose of the new cooperative was to facilitate the dissolution of GCS and obtain the patronage refunds (over \$100,000) due GCS from a cooperative wholesaler. The refunds, under the wholesale cooperative's policies, could not be refunded to a "living" entity. The new cooperative would be the "heir" and the refunds would be available to it. Additionally, a new cooperative under the Delaware Corporate code will have more flexibility. It additionally will have a new image and the capability of serving as a quasi-holding corporation for semi-autonomous entities.

In October 1991, after the dissolution of GCS, the new cooperative received, by transfer, all of the assets and liabilities of GCS. The new cooperative has a Board of 13, the 9 members of the GCS Board plus the 4 delegate assembly officers. All previous GCS members could become members of the new cooperative by so requesting in writing; 2,212 did so.

Planning for services to be provided will begin in 1992.

The Financial Peaks and Valleys

Greenbelt Cooperative started with a lot of enthusiasm, self confidence and limited, but adequate, capital. As with consumer cooperatives generally, the amount of equity capital was largely limited to that generated by net earnings. Willingness of members to provide contributed capital was inadequate when there was real need for infusion of equity capital for growth opportunities. None-the-less, except for 1970-1979 and the last two years, the debt/equity ratio was manageable. The lack of equity capital manifested itself more in lost opportunities and inability to keep pace with competition.

As contrasted to agricultural cooperation when the incentive to "invest" equity was both in ownership of **their** cooperative and in having a market for their products, a consumer cooperative's members were not dependent upon the cooperative for their economic well being. Also, members who "invested" through contributed equity do not benefit through appreciation of shares as do shareholders of for-profit competitors. The parallel growth of GCS and its competitor, Giant Food, Inc., is herein chronicled and allows the reader sympathetic to the cooperative way of doing business to ponder "what if?"

Giant Food and GCS

Giant Food, Inc. (Giant) and GCS started their history at about the same time. In 1990, Giant was one of the most profitable and dominant regional food operations in the country with sales of \$3.2 billion and net earnings of \$108.4 million from 149 supermarkets. Today GCS is a paper organization with nary a store and no income.¹

¹ In October 1991, GCS was dissolved and all assets and liabilities were transferred to United Cooperative Services, Inc., the successor cooperative which was incorporated in Delaware in July 1991.

Washington's first supermarket was opened by Giant Food in 1936. The predecessor to GCS was founded and opened its first food store one year later operated by the Consumer Distribution Corporation. Giant began with food and related household products exclusively. It continued that focus well into the 50s. GCS started out as a tiny conglomerate and it was not until 1949 that food and related household products became dominant. In that year, for the first time, the food operation contributed more than 50 percent of the contribution (59 percent). In 1949 food operations accounted for 68 percent of the sales. During this period both organizations were highly profitable.

By 1949, Giant already had 19 stores and had vertically integrated with a bakery and slaughterhouse. Only three of those stores were in Maryland when GCS made its move with the areas first shopping center in 1951 anchored by a state-of-the-art supermarket. Three years later another shopping center was opened by GCS. Its supermarket had an in-store bakery. GCS truly pioneered the concept and implementation of regional shopping centers. Giant opened its first shopping center in 1956. Giant's first in-store bakery didn't come along until eight years later.

In 1952, GCS had three stores (two were state-of-the-art supermarkets). Giant had 21. Giant over the years successfully developed an image of "consumerism". It further enhanced its image by giving five scholarships in 1954 to students who would pursue management in the food industry at American University. It did the things that proprietary businesses weren't "supposed" to do. That was the turf of cooperatives.

From the early years through the early 70s, GCS initiated consumer-friendly innovations such as "see through" meat trays, unit pricing, open data (freshness) codes, biodegradable detergents, medical listing file for prescriptions and grade labeling.

A GCS chief executive was one of the members of the food industry group operated by Super Market Institute to develop the bar codes for scanning prices at the food markets which is almost universal today. GCS was in the forefront of testimony before Congress on supporting consumer issues such as information labeling of food products and food standards.

However, which food organization was the first one to fully implement these innovations into its operations and successfully promote the ideas to the public? Not GCS. It was Giant Food, to its credit. Slowly, but steadily, it was Giant Food which was seen by the public as being the standard bearer for the consumer. With the coup of adding Esther Peterson, long a public figure in the consumer image to its staff, Giant indeed became the consumer's advocate in the eyes of the public.

In 1957, Queen Elizabeth of Great Britain visited one of Giant's food stores. It was not until 1976 that a queen visited GCS. That was the visit to a SCAN store by Queen Margrethe of Denmark.

In 1959, Giant became a publicly held company after a public offering of non-voting shares. Today Giant trades on the American Stock Exchange. A thousand dollars of shares bought then, and held, is worth well over \$100,000 today due primarily to stock splits.

On the few occasions that momentum began to be generated by GCS, it was not sustained. In contrast, Giant Food sustained its momentum.

From 1955-59, GCS had growth of 80 percent, the fastest retail growth in the area. Store numbers had increased to 10 compared to Giant's 47. During the early 60s Giant surged in growth while GCS seemed to stagnate, except in its move in introducing Scandinavian furniture to Washington. It was in the early 1960s that the striking similarities of the two organizations ended.

Even though GCS was not the size of Giant at that time, it nonetheless might have generated steam and kept pace. It didn't. Why? Many theories have been discussed over the years. The ones that seem to have the most merit relate to store performance, conservative, vis-a-vis, aggressive philosophy and capital. Take your pick or take all three. The question that remains is, "WHY THE CONTRAST?"

Although N.M. Cohen (founder of Giant) had a greater capital base, GCS had a dominant market position in Greenbelt, assistance from sympathetic government agencies, and an ideology (consumer/member ownership) that appealed to many people.

Several differences between the two organizations are immediately evident:

1. Equity capital was generated quite differently.
2. Decisions were made more easily and more expeditiously by Giant. A cooperative which makes decisions in a democratic manner will encounter a lengthy and complex decision making process.
3. The operational performance in terms of net earnings to sales was more than twice as high for Giant as it was for GCS.
4. Unsuccessful ventures were shut down quickly by Giant, but ever so slowly by GCS. Over the years Giant stubbed its toe from time to time. They once had a number of super stores that carried clothing, appliances, and a full complement of electronic entertainment equipment. They also had gas stations and garden stores. When these proved unsuccessful they expeditiously closed them long before they became a major drain on the Corporation. In contrast, GCS closed individual facilities of a division one by one, placing an ever increasing burden on the remainder to carry the overhead.

For GCS, the pharmacy division was closed down over a 6-year period of losses. The service station division contributed minimally over a 10-year period (most years sustained losses) before being closed. The food division did not cover its share of overhead from 1967 until it was closed in 1983. In only 1971 and 1975 did it contribute to overhead.

5. GCS was a much more diverse organization which required management and the Board to direct attention to three distinct types of businesses as well as many minor businesses such as travel, legal services, and perishable food operations. Additionally, management and the Board of GCS used significant energy in serving the volunteer leadership structure.

COMPARATIVE FINANCIAL HEALTH AND PERFORMANCE

Volatile financial performance began in 1964 and continued for the rest of GCS's history. This period was preceded by 25 years of lackluster performance. Figure 1, page 33, clearly shows these two periods of net earnings of GCS. Interestingly, each spanned one-half of the Cooperative's life.

During the junior author's nearly half a century of consultative experience with, and serving on boards of cooperatives, no other cooperative ever approached the wild swings of net earnings in such short time frames as did GCS.

Net earnings as a percent of sales also reflects a high degree of inconsistency of financial performance. In Figure 2, page 34, GCS's net return on sales is compared with that of Giant Food, Inc., which shows the relative consistency of Giant in contrast to GCS. Also compared is the average for food chains, 1970-75, with less than \$100 million in sales (Table 1, page 36).

Growth of sales was steady from 1939 through 1971 (Figure 3, page 35) reaching \$55.1 million. It was in 1971 that a major turning point in food store growth occurred. The first major trimming of losing food facilities was made in 1971 with the closure of five stores. This was to become the pattern for GCS's food operations. Sales recovered with the advent of a couple of new SCAN stores and increased sales in the remaining food stores. Sales in the petroleum and pharmacy divisions were never a major factor although the petroleum division did maintain sales of over \$4 million (high of \$6.5 million) from 1974 through 1981. The pharmacy division never reached a million dollars in sales. During the 70s total sales ranged in the high \$40 and low \$50 millions with the highest sales reached in 1981 at \$56.5 million.

In 1978, the percentage of total sales was even (45 percent each) between SCAN and the food division. From then until the food division was closed, SCAN sales as a percentage steadily rose.

The financial health of GCS, while precarious during the 1961-64 and the 1970-72 periods, was never really "life threatening" (of course, the 1986-88 crisis sounded the death knell for the Cooperative as an operating organization), nonetheless the Board and management were constantly seeking capital. For example, in 1969, there were 12 different sources of long-term debt ranging from subordinated debentures to mortgages to unsecured notes.