Figure 1: Net Earnings, Greenbelt Cooperative, 1940-88

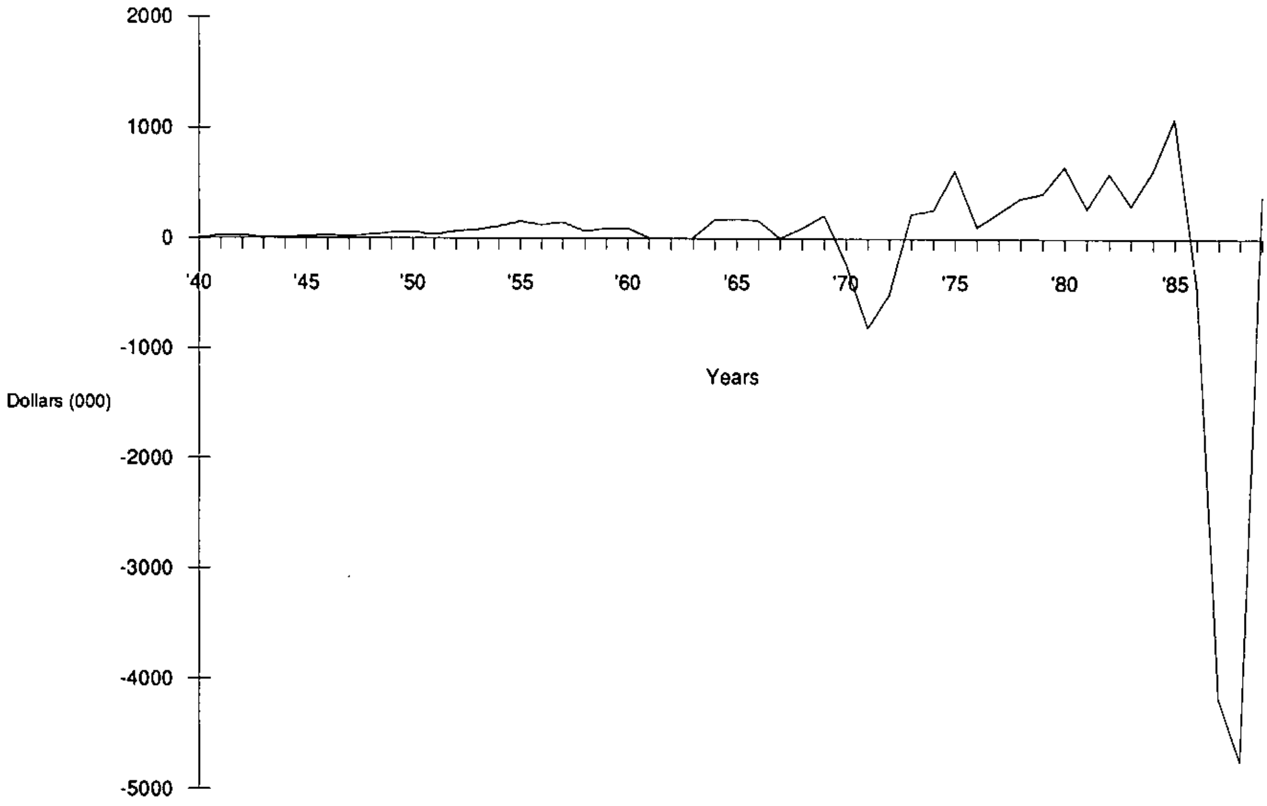


Figure 2: Comparison of Net Income as Percent of Sales, Greenbelt and Giant Foods

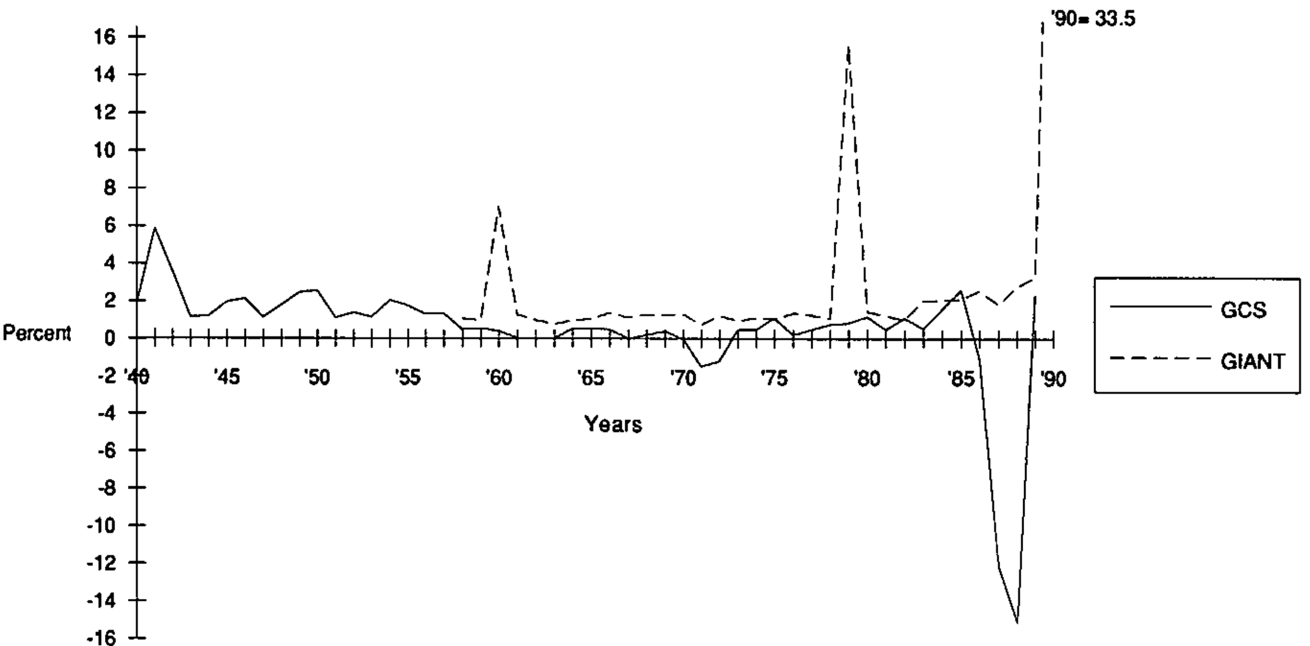


Figure 3: Total Sales in Millions of Dollars, Greenbelt

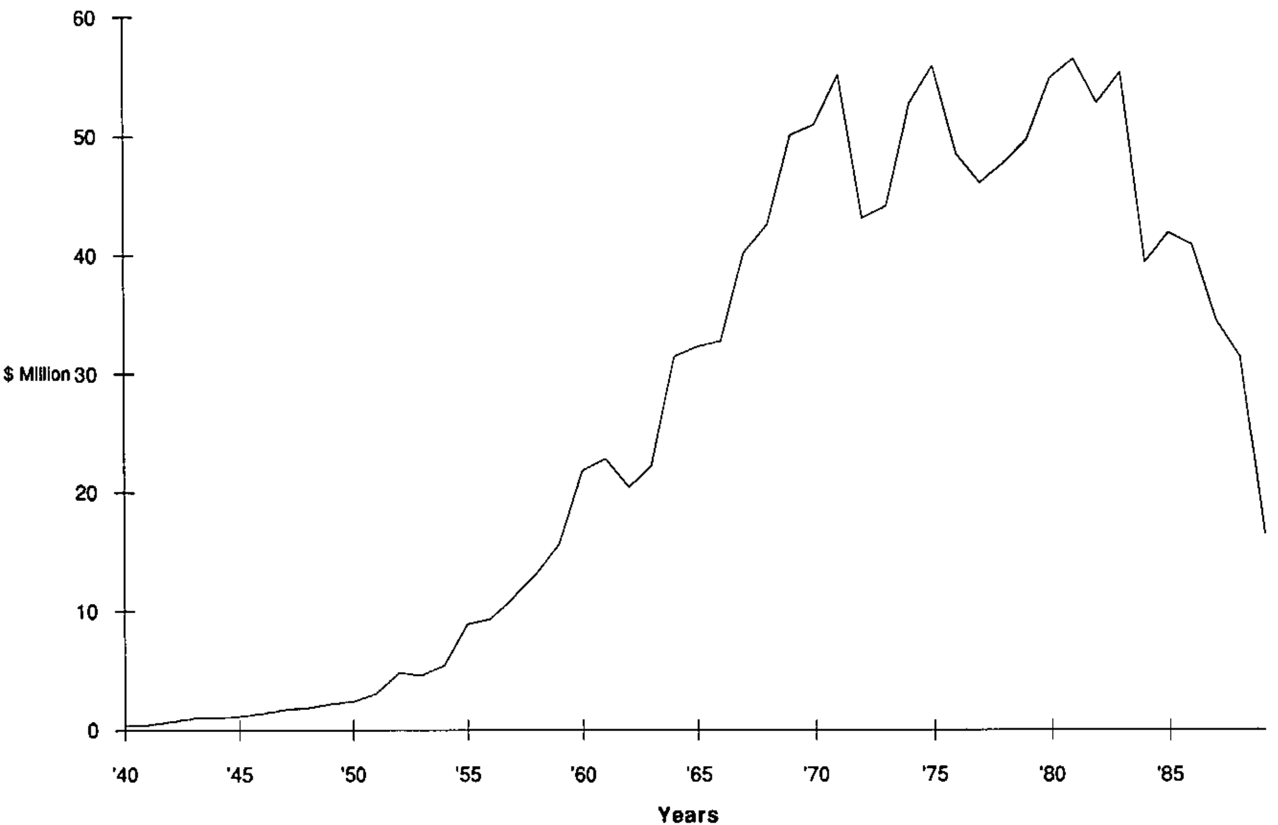


Table 1

Selected Operating Results of Greenbelt, Giant Foods, and Food Chains (under $100 million annual sales), 1970-75

	1970	1971	1972	1973	1974	1975
Gross Margin						
Greenbelt	23.46	23.98	25.93	26.16	25.63	26.28
Giant	22.98	22.87	24.37	24.99	24.63	25.10
Food Chains	20.67	21.30	20.77	20.60	19.35	19.71
Net Income						
Greenbelt	-0.03	-1.47	-1.18	0.51	0.49	1.11
Giant	1.32	0.76	1.24	0.96	1.09	1.06
Food Chains	0.89	1.29	1.01	0.88	0.85	1.11
Net Income to Total Assets						
Greenbelt	-2.55	-10.12	-6.12	2.82	2.76	6.24
Giant	7.60	4.44	7.00	4.40	5.50	4.60
Food Chains	4.97	6.37	5.31	4.42	5.25	6.43

In addition, there was a bank line of credit which was short-term, but because of its renewability each year it in fact became long-term borrowing.

For the following analysis, three types of financial ratios were examined; profitability, liquidity and solvency.

The analysis of the financial information, including the comparison with Giant Food, is derived from historical data. Some of the early annual reports of Greenbelt Cooperative are missing. Some of the data has been retrieved from later annual reports and some from other sources. Another problem encountered was that the annual reports varied in the type of financial data provided and the way in which financial data was presented.

Giant Food, Inc., did not go public until 1959 and data prior to that time was not made available for this comparison. Additionally, only 10 year summary annual reports were made available as well as the latest annual report. This created gaps in some financial information where comparisons are made between GCS and Giant Food.

Another caveat, in the latter years the product mix of GCS was quite different from Giant because of the dominance of the furniture division in GCS. Nonetheless, the comparisons are useful in noting the difference in the development of two organizations which began their history at about the same time—Giant in 1936 and GCS in 1938.

Also, to give still another perspective, comparisons are made with data from a study by Wendell Earle and Willard Hunt of Cornell University of

the operating results of food chains from 1970 to 1975 with sales under $100 million. Both the Giant data and the study data appear in some of the figures.

PROFITABILITY

Net Income/Total Assets

Six to eight percent return on total assets is considered minimal even for food operations. Figure 4, page 38, clearly shows GCS's lack of performance by this measure. After divestiture of the two losing divisions there was a temporary surge in 1984 and 1985. In 1986, the Cooperative was hit with two disasters. One was the forty percent decline of the dollar against the kroner and the other was a devastating snowstorm in the Washington area that prevented delivery of well over a million dollars of furniture which SCAN customers had ordered during the closing weeks of FY 1986.

Net income to total assets mirrors the dramatic swings of net earnings of GCS. There was no consistency in maintaining a minimal six percent return on the assets of GCS. Most food retailing firms believe that at least a six percent return is mandatory in order to sustain satisfactory growth. In only ten years was this goal achieved by GCS. Eight of those years were prior to 1958 and the other two were in 1975 and in 1985.

Net Income/Equity

Return to equity for retail firms, even cooperatives, is often in excess of 20 percent. Since debt capital is usually at least half of the invested capital this goal for return on equity is certainly attainable if the business is successful. In a number of years GCS met or exceeded that standard. In fact, even during years of modest net earnings the return on equity was respectable. Details can be found in Table 2, page 39. Some of this success can be attributed to the relatively low equity which was a constant problem for GCS. This issue is discussed separately.

Overhead/Sales

A chronic problem which plagued GCS was overhead costs. It was an item that generated major debates between the Board and management each year at "budget-time". GCS materially exceeded industry standards for overhead as a percentage of sales. During the 21 years (1966-87) where we have data for Giant, the overhead of GCS is higher by 2 percentage points or more in 16 of those years. From 1978 onward it was greater by 5 percentage points and more (Figure 5, page 41).

Figure 4: Net Income to Total Assets, Greenbelt, Giant Foods, and Food Chains with Under $100 in Sales

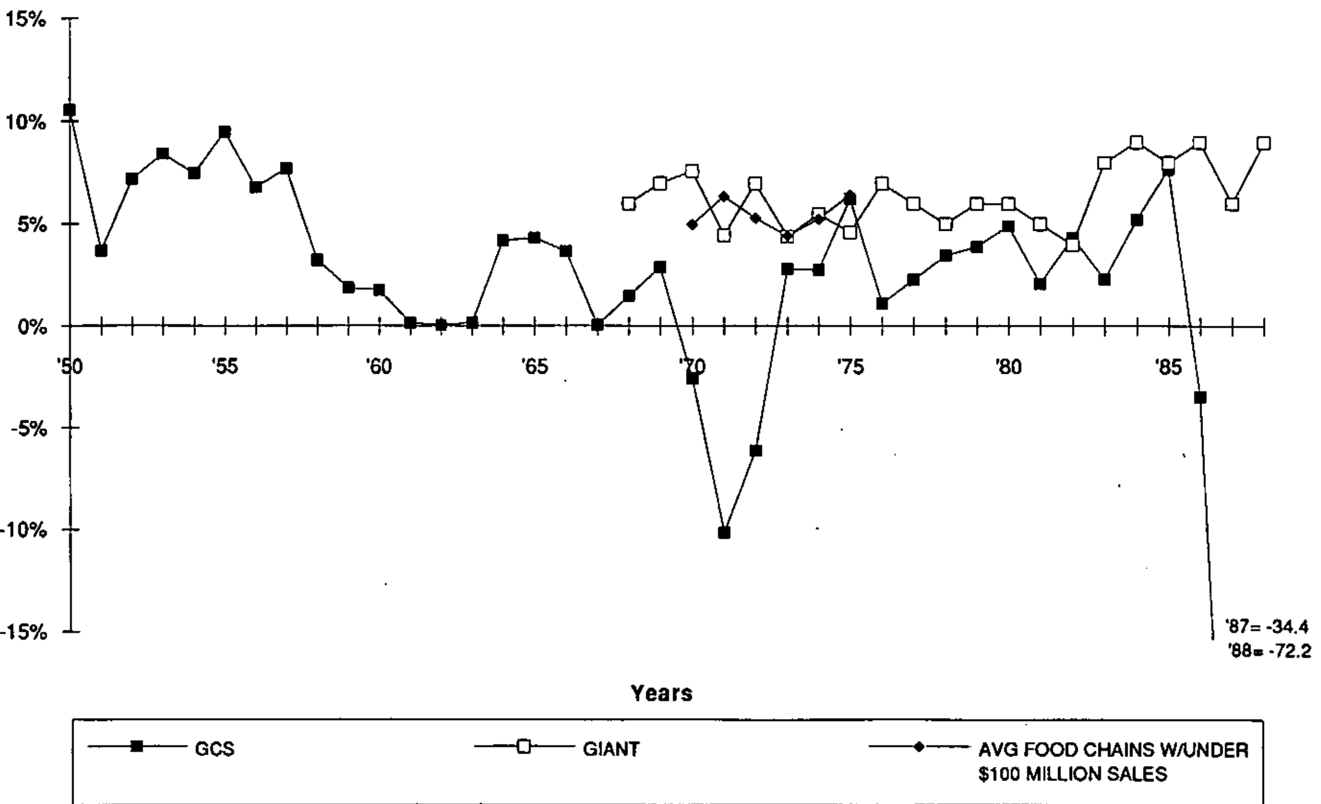


Table 2

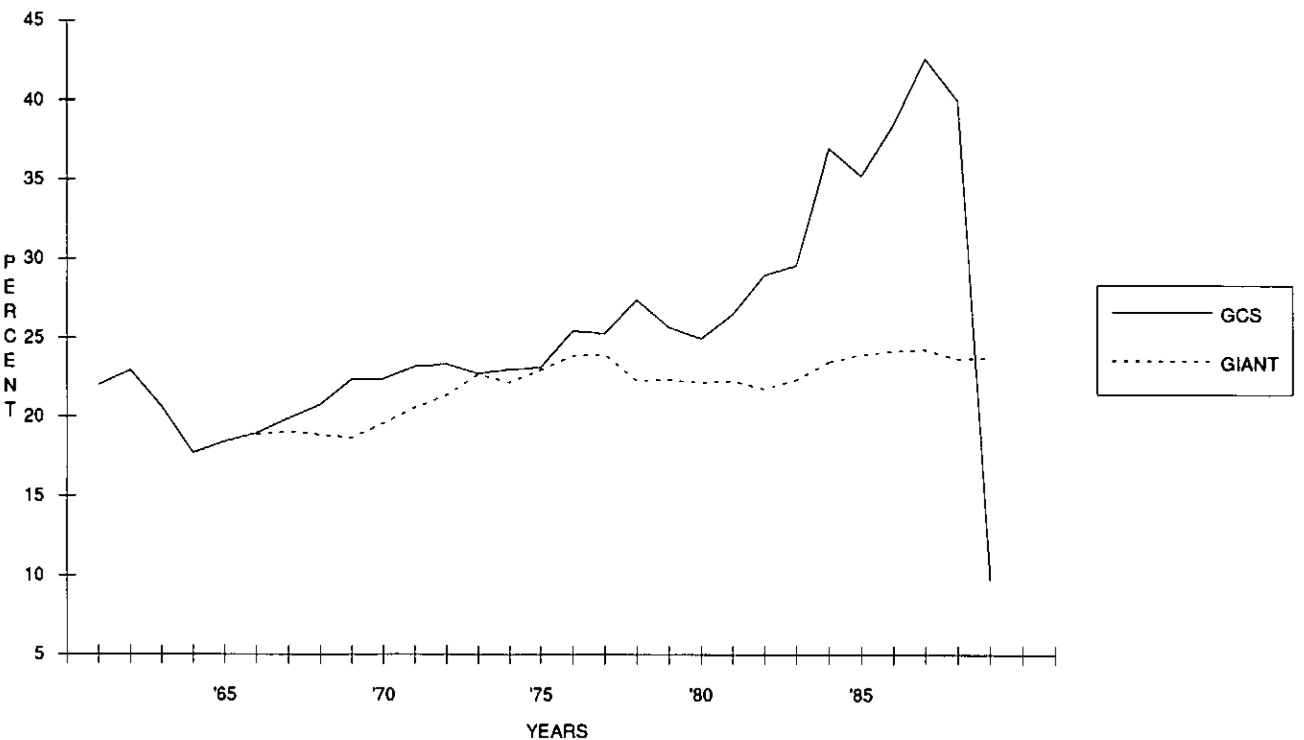
Financial Ratios, Greenbelt Cooperative, 1937-89

Year	$000 Sales	$000 Net Income	%Net Income to Sales	$000 Total Assets	%Return On Total Assets	$000 Equity	%Net Income to Equity	Current Ratio	$000 Working Capital	Ratio Inv. to Working Capital	%Interest Expense to Sales	%O.H. to Sales	$000 Shares Out-standing
1937	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1938	235	-6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.80	n.a.
1939	346	7	2.03	54	n.a.	3	n.a.	n.a.	n.a.	n.a.	n.a.	3.90	0.30
1940	377	7	1.83	59	n.a.	16	n.a.	n.a.	n.a.	n.a.	n.a.	3.90	0.70
1941	450	26	5.87	68	n.a.	20	n.a.	n.a.	n.a.	n.a.	n.a.	3.60	1.30
1942	690	25	3.58	105	n.a.	45	n.a.	n.a.	n.a.	n.a.	n.a.	2.30	1.80
1943	1,002	12	1.16	136	n.a.	74	n.a.	n.a.	n.a.	n.a.	n.a.	3.60	3.90
1944	1,036	12	1.20	135	9.20	67	18.55	1.83	49	1.37	n.a.	3.70	5.00
1945	1,163	23	1.94	179	n.a.	120	18.79	n.a.	45	n.a.	n.a.	2.90	7.50
1946	1,429	30	2.12	268	11.26	206	14.66	3.34	n.a.	n.a.	n.a.	2.70	13.90
1947	1,727	19	1.13	562	n.a.	275	n.a.	1.52	71	2.15	n.a.	n.a.	21.20
1948	1,882	33	1.78	n.a.	n.a.	308	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	22.50
1949	2,200	54	2.46	537	n.a.	361	n.a.	2.25	106	1.24	n.a.	n.a.	25.40
1950	2,399	61	2.55	577	10.59	401	22.50	2.37	130	1.11	n.a.	3.00	27.20
1951	3,064	34	1.11	921	3.70	446	7.63	1.47	127	2.29	n.a.	2.60	33.00
1952	4,834	68	1.40	942	3.61	527	19.00	1.64	172	1.68	n.a.	2.30	34.70
1953	4,629	79	1.17	935	8.46	578	13.67	1.95	195	1.50	n.a.	2.50	39.50
1954	5,450	112	2.05	1,500	7.46	692	16.17	1.55	285	1.44	n.a.	n.a.	48.30
1955	8,909	157	1.76	1,653	9.47	849	18.44	1.94	458	0.96	n.a.	n.a.	64.40
1956	9,325	123	1.32	1,808	6.82	999	12.33	2.21	752	0.66	n.a.	n.a.	87.90
1957	11,082	149	1.35	1,933	7.71	1,220	12.23	2.13	550	1.39	n.a.	n.a.	98.80
1958	13,159	67	0.51	2,063	3.27	1,402	4.80	2.40	654	0.97	n.a.	n.a.	115.50
1959	15,635	87	0.56	4,578	1.91	1,975	4.42	1.49	746	1.77	n.a.	n.a.	166.10
1960	21,860	94.8	0.43	5,390	1.76	2,271	4.17	1.56	861	1.92	n.a.	n.a.	194.20
1961	22,842	8.2	0.04	4,886	0.17	2,306	0.35	1.59	872	2.03	0.47	22.02	204.30
1962	20,463	2.1	0.01	4,467	0.05	2,136	0.10	1.60	781	1.54	0.46	22.97	n.a.
1963	22,249	6.6	0.03	3,870	0.17	2,059	0.32	1.51	626	2.15	0.31	20.66	196.30
1964	31,468	171.7	0.55	4,112	4.18	2,039	8.42	1.39	590	2.52	0.10	17.72	184.40
1965	32,295	175.8	0.54	4,048	3.99	2,127	8.27	1.51	798	2.07	0.09	18.44	n.a.

Table 2 (continued)

Year	$000 Sales	$000 Net Income	%Net Income to Sales	$000 Total Assets	%Return On Total Assets	$000 Equity	%Net Income to Equity	Current Ratio	$000 Working Capital	Ratio Inv. to Working Capital	%Interest Expense to Sales	%O.H. to Sales	$000 Shares Outstanding
1966	32,758	159.4	0.49	4,347	3.67	2,214	7.20	1.56	822	2.21	0.13	18.96	184.40
1967	40,185	3.1	0.01	5,959	0.05	2,113	0.14	1.40	933	2.98	0.16	19.90	n.a.
1968	42,587	92.7	0.22	6,319	1.47	2,143	4.33	1.34	994	2.78	0.22	20.79	180.10
1969	50,122	211.9	0.42	7,310	2.90	2,622	8.08	1.35	1198	3.01	0.18	22.39	214.60
1970	50,974	-224.5	-0.03	8,799	-2.55	2,293	-9.79	1.15	914	4.40	0.23	22.43	210.80
1971	55,139	-813.3	-1.47	8,036	-10.12	1,170	-69.52	1.10	454	8.28	0.32	23.19	216.50
1972	43,122	-507.4	-1.18	8,286	-6.12	681	-74.57	1.15	692	5.63	0.35	23.35	218.30
1973	44,143	225.1	0.51	7,989	2.82	906	24.89	1.15	698	6.37	0.61	22.76	218.30
1974	52,790	259	0.49	9,387	2.76	1,133	22.86	0.99	-30		0.49	23.01	218.30
1975	55,918	618	1.11	9,908	6.24	1,709	36.16	1.14	643	7.04	0.47	23.15	218.70
1976	48,523	106	0.22	9,627	1.10	1,533	6.91	1.10	820	5.98	0.52	25.46	219.50
1977	46,124	235	0.51	10,273	2.29	1,778	13.22	1.05	838	6.99	0.55	25.30	220.60
1978	47,738	367	0.77	10,570	3.47	2,158	17.01	1.10	677	9.14	0.55	27.42	221.90
1979	49,720	410	0.83	10,530	3.89	2,586	15.85	1.31	1897	3.52	0.58	25.72	223.70
1980	54,872	654	1.19	13,323	4.95	3,041	21.51	1.45	2836	2.59	0.56	24.99	208.10
1981	56,471	274	0.49	13,152	2.08	3,127	8.76	1.60	3279	2.35	0.82	26.52	207.10
1982	52,831	589	1.11	13,568	4.34	3,575	16.48	1.59	3903	1.87	0.98	29.00	203.20
1983	55,361	297.5	0.54	12,948	2.31	3,752	7.93	1.61	4119	1.68	0.58	29.63	203.10
1984	39,442	618	1.57	11,846	5.22	3,874	15.95	1.65	3766	2.14	1.00	37.06	197.50
1985	41,948	1091	2.60	14,202	7.68	4,988	21.87	1.61	4435	2.30	0.85	35.28	173.60
1986	40,890	-441	-1.08	12,766	-3.45	4,225	-10.44	1.46	3282	2.58	0.92	38.51	164.80
1987	34,510	-4172	-12.09	12,135	-34.38	7	N/M	1.07	640	12.52	1.25	42.68	159.10
1988	31,442	-4744	-15.10	6,568	-72.22	(4,782)"	N/M	0.47	-5833		1.82	40.04	159.00
1989	16,529	382.2	2.31	—	N/M	—	n.a.	n.a.	—	n.a.	1.53	9.78	—

Figure 5: Overhead to Total Sales, Greenbelt and Giant Foods



Several times between 1971 and 1986, there were drastic overhead cuts. Decreased sales or unexpected overhead costs always seemed to push the overhead percentage back up. One theory for GCS's high percentage of overhead to sales, which has credibility, is that GCS was a mini-conglomerate without the sales volume to carry the overhead load that this kind of business requires. Besides the three divisions there were a number of undertakings of the Cooperative such as the travel program, the legal services program, the cooperative apartments, and other so-called member benefits which required more than the resources of the member services division could maintain. In addition, there was a continual stream of new pilot efforts being tried or explored both related to the three divisions and in looking at other new businesses. Together these "extra" demands on staff and equipment required more resources than what was essentially needed to operate a lean business.

There was a popular belief that a significant part of the overhead was due to the democratic structure. This was NOT the case. Even though the member relations and education programs required servicing by many segments of the staff, the cost was not high. While there are no data available for identifying this area as a percentage of sales over a substantial period, records are available for the years 1977-1984. They show that the member relations and education budget for this period averaged .487 percent of sales. The Board and Congress budgets combined, averaged .168 percent of sales. Therefore, the costs of member programs plus those of the Board and Congress were, obviously, an insignificant part of the overhead. Unlike the consumer programs of for-profit corporations geared to sales, the cost of maintaining the democratic structure of GCS only tangentially contributed to generating business. From time to time, this led to a minority of management and the Board to advocate drastic cuts for this small budgetary item.

Net Income/Sales

This measure was discussed at the beginning of the chapter. The yearly variance was extremely troublesome to the Board. Even in the years where strikes took place in some of the other chains GCS was not able to capitalize on the event beyond the period in which the strike was active. In years where there were price wars in the food or petroleum arena, GCS was severely injured.

In 1976, the number of food stores was reduced to eight from the high of 23 in 1967-70. In 1970 the subsidy load for the furniture division became lighter and a trend of profitability began to take shape. Two years had downturns. In 1981, there was a downturn because of large losses in the food operations caused largely by a 4-month price war and gross margins dropping from 14.7 to 8.6 percent in the petroleum division due to the oil glut. In 1983, there was

also a downturn. This was due largely to the turmoil in the food and petroleum divisions as they were being divested.

Otherwise, the ten-year period was trending upwards, and with no more load to carry, the furniture operation appeared to have a bright future until the dollar dramatically weakened against the kroner in 1986 and the disastrous strike occurred in 1987. Total losses of 9.4 million dollars for 1986, 1987, and 1988 made it imperative for the Board to request Chapter 11 protection. It should be noted here that a competitor, Scandinavian Gallery, which had entered the GCS SCAN market area in 1984, also had severe losses and liquidated its entire chain of 65 stores in 1988.

LIQUIDITY

Current Assets/Current Liabilities (Current Ratio)

The current ratio varied widely during any given year. Using the year-end data, which is the only data available, the current ratio is not too shabby. After 1958, it never reached the desired, but rarely achieved, 2 to 1 level. However, as noted in Figure 6, page 44, it rarely was below 1.3 to 1. From 1970 thru 1978, the ratio hovered just above 1 to 1 and did fall to .99 to 1 in 1974. This was a grim period when attempts were made to pump new life into the food and petroleum divisions.

Inventory/Net Working Capital

The usual standard of not having inventory exceeding net working capital does not effectively apply in either the food retailing nor the imported furniture retailing businesses. However, the inventory/working capital ratio for GCS consistently exceeded even the most liberal ratio parameters. Against the safe standard of 1 to 1, the GCS ratio only fell below 2 to 1 prior to 1963 and in 1982 and and 1983. Ironically, the best years (except for the very early ones) were 1979 through 1986. During the 1970s the problem of excessive SCAN inventory was legendary. Part of this was SCAN management's attempt to prevent use of funds for further forays into food operations. Table 3, page 45, has the year-by-year information.

SOLVENCY

Total Debt/Total Assets

As one measure of determining the proportion of funds contributed by creditors, GCS exhibited excellent solvency during its history except for the period 1970-74 and, of course, the last two years 1987-88 (Figure 7, page 47).

Figure 6: Current Ratios, Greenbelt and Giant Foods

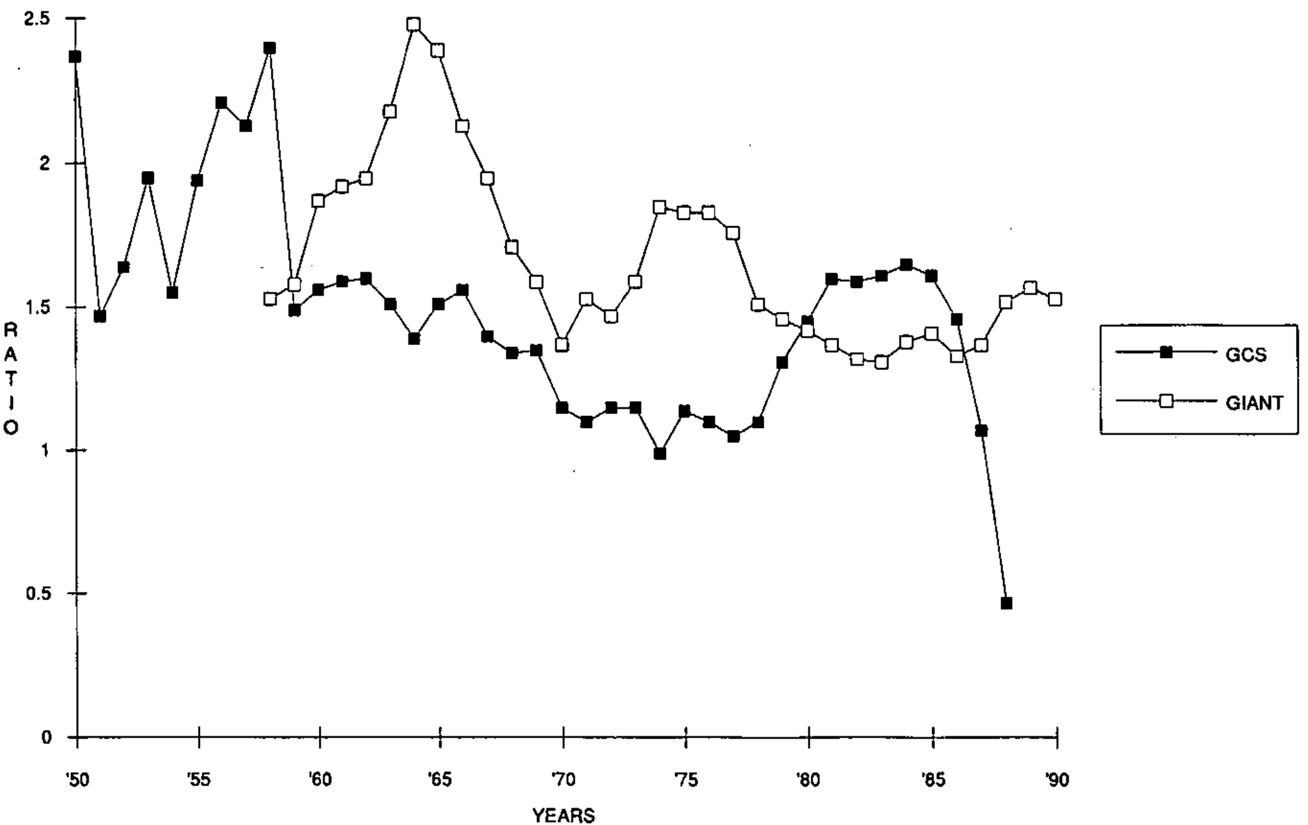


Table 3

Financial Ratios, Greenbelt Cooperative, 1937-89

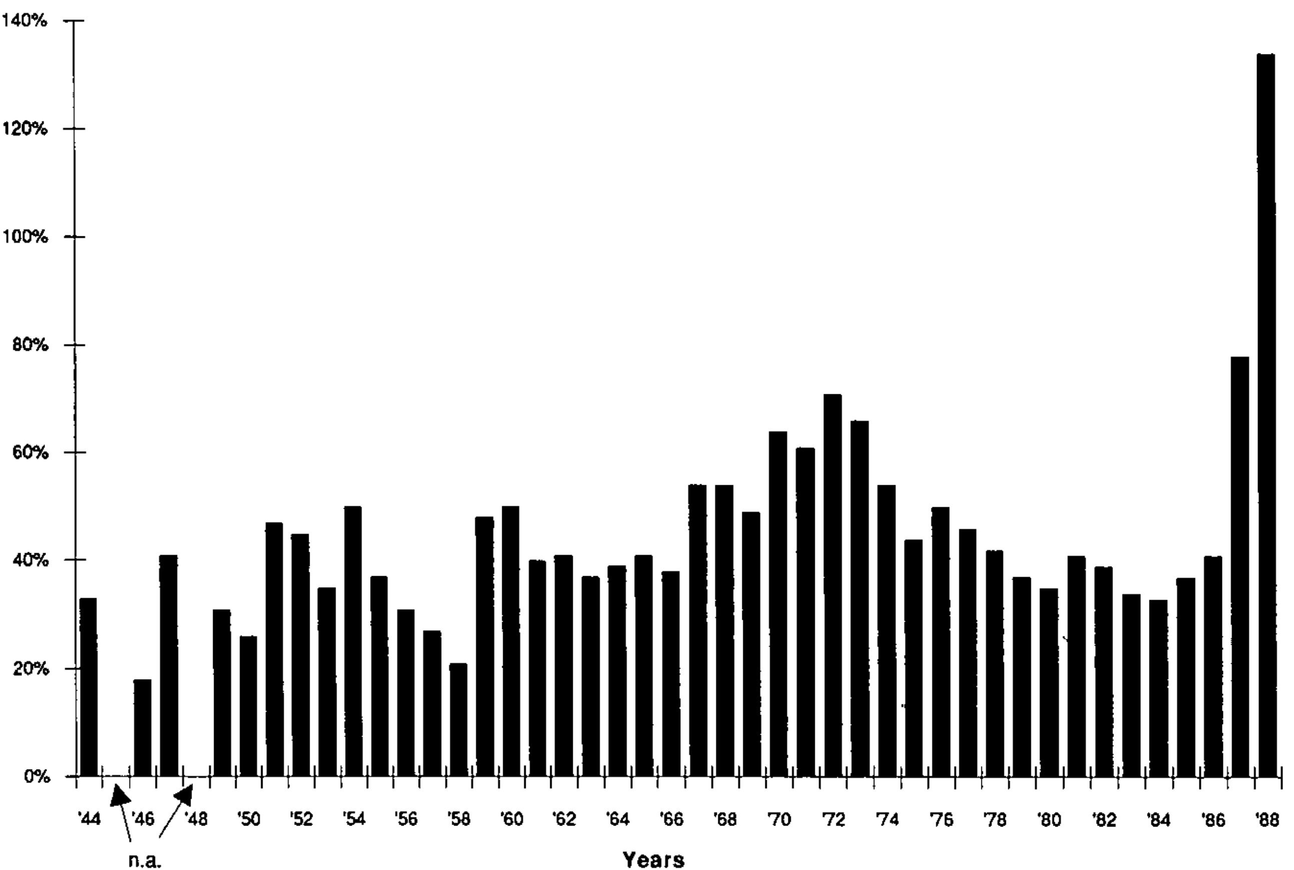
Year	$ Mil Total Debt	Ratio Total Debt to Total Assets	Ratio Total Debt to Equity	% Accts Payable to Total Debt	$ Mil LongTerm Debt	Ratio Long Term Debt To Equity	% LongTerm Debt To Capitalization	Members	Employees	Number of Facilities: Food	Scan	Petroleum	Pharmacy
'37	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1	—	0	0
'38	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1	—	1	1
'39	0.05	n.a.	n.a.	n.a.	0.04	9.99	92	303	n.a.	1	—	1	1
'40	0.04	n.a.	n.a.	n.a.	0.03	1.62	62	424	n.a.	1	—	1	1
'41	0.05	n.a.	n.a.	n.a.	0.02	n.a.	52	713	n.a.	1	—	1	1
'42	0.05	n.a.	n.a.	n.a.	0.02	n.a.	29	793	n.a.	1	—	1	1
'43	0.06	n.a.	n.a.	n.a.	0.01	n.a.	12	1,283	n.a.	2	—	1	1
'44	0.04	0.33	0.67	87.8	0.01	n.a.	8	1,403	n.a.	2	—	1	1
'45	0.05	n.a.	n.a.	n.a.	0.00	0.00	0	1,820	n.a.	2	—	1	1
'46	0.05	0.18	0.23	100.0	0.00	0.00	0	2,201	n.a.	2	—	1	1
'47	0.23	0.41	0.84	39.4	0.12	0.42	30	2,511	n.a.	2	—	1	1
'48	n.a.	n.a.	0.76	n.a.	0.12	0.38	28	2,506	n.a.	2	—	1	1
'49	0.17	0.31	0.46	36.9	0.09	0.25	20	2,605	n.a.	2	—	1	1
'50	0.15	0.26	0.38	38.5	0.07	0.18	16	2,678	n.a.	2	—	1	1
'51	0.43	0.47	0.97	46.7	0.21	0.48	32	3,378	n.a.	3	—	1	2
'52	0.42	0.45	0.80	48.7	0.18	0.34	25	3,547	n.a.	3	—	2	2
'53	0.32	0.35	0.56	41.9	0.15	0.26	21	4,004	n.a.	3	—	2	2
'54	0.75	0.50	1.08	48.4	0.35	0.50	33	5,503	n.a.	4	—	3	3
'55	0.61	0.37	0.72	41.6	0.32	0.37	27	6,896	n.a.	4	—	3	3
'56	0.56	0.31	0.56	48.3	0.25	0.25	20	11,027	n.a.	5	—	4	3
'57	0.52	0.27	0.42	48.1	0.23	0.19	16	12,584	n.a.	6	—	4	4
'58	0.43	0.21	0.31	76.2	0.19	0.14	12	14,026	n.a.	8	—	5	4
'59	2.04	0.48	1.04	25.8	1.00	0.49	33	19,013	n.a.	10	—	7	5
'60	2.70	0.50	1.20	20.0	1.50	0.67	40	22,496	n.a.	11	0	7	5
'61	1.90	0.40	0.84	38.9	1.00	0.45	31	23,393	n.a.	11	1	7	5
'62	1.80	0.41	0.86	37.8	0.90	0.43	30	n.a.	n.a.	11	2	7	5
'63	1.40	0.37	0.69	61.8	0.40	0.21	18	n.a.	n.a.	11	2	7	5
'64	1.60	0.39	0.79	69.6	0.40	0.18	15	n.a.	n.a.	12	3	7	5
'65	1.80	0.41	0.85	62.3	0.60	0.27	21	n.a.	n.a.	12	4	8	8
'66	1.70	0.38	0.75	57.8	0.60	0.26	20	n.a.	n.a.	13	5	8	8
'67	3.20	0.54	1.54	53.4	1.30	0.60	37	n.a.	n.a.	23	5	8	9
'68	3.40	0.54	1.58	55.6	1.10	0.52	34	27,907	923	22	5	8	6
'69	3.60	0.49	1.37	57.8	1.20	0.45	31	33,357	1010	21	5	9	5
'70	5.60	0.64	2.45	61.2	1.40	0.61	38	35,643	1061	22	6	11	5
'71	4.90	0.61	4.21	72.1	2.00	1.75	64	37,459	1023	21	8	10	5

TABLE 3 (continued)

Year	$ Mil Total Debt	RatioTotal Debt toTotal Assets	Ratio Total Debt to Equity	% Accts Payable to Total Debt	$ Mil LongTerm Debt	Ratio Long Term Debt To Equity	% LongTerm Debt To Capitalization	Members	Employees	Food	Scan	Petroleum	Pharmacy
'72	5.90	0.71	8.65	52.7	2.30	3.00	77	38,411	875	16	8	10	4
'73	5.30	0.66	5.83	54.0	1.90	2.11	68	38,398	759	12	8	7	4
'74	5.00	0.54	4.45	61.9	1.10	0.97	49	38,347	771	13	8	7	3
'75	4.40	0.44	2.54	61.2	1.30	0.75	43	38,557	734	13	9	7	0
'76	4.80	0.50	3.13	70.8	1.20	0.81	45	38,592	588	8	10	7	0
'77	4.70	0.46	2.66	64.8	1.30	0.71	42	39,183	592	5	10	7	0
'78	4.40	0.42	2.04	61.2	0.50	0.23	19	40,014	524	6	10	7	0
'79	3.90	0.37	1.50	75.3	0.80	0.30	23	n.a.	n.a.	6	13	6	0
'80	4.70	0.35	1.53	73.3	1.10	0.35	26	n.a.	n.a.	6	13	6	0
'81	5.40	0.41	1.74	55.7	2.10	0.67	40	34,289	n.a.	6	13	6	0
'82	5.20	0.39	1.47	59.3	1.80	0.51	34	55,130	n.a.	6	13	5	0
'83	4.40	0.34	1.18	57.9	1.40	0.37	27	n.a.	n.a.	6	15	5	0
'84	3.90	0.33	1.01	43.0	1.00	0.26	20	n.a.	n.a.	0	16	0	0
'85	5.20	0.37	1.04	45.4	1.00	0.21	17	n.a.	n.a.	0	16	0	0
'86	5.30	0.41	1.25	40.8	0.70	0.16	14	116,018	n.a.	0	17	0	0
'87	9.50	0.78	N/M	43.4	2.00	N/M	100	116,018	n.a.	0	17	0	0
'88	8.90	1.34	N/M	61.8	0*	N/M		116,018	n.a.	0	8	0	0
'89	n.a.	n.a.	n.a.	n.a.	0.00	n.a.		n.a.	n.a.	0	8	0	0

* All became current

Figure 7: Total Debt as Percent of Total Assets, Greenbelt



Total Debt/Equity

The 9-year period 1970-79 were the only years where the debt/equity ratio was outside of acceptable norms, other than the final two years. Figure 8, page 49, depicts a rather conservative approach to leveraging during the early years and from 1979 up to 1987.

Short-term borrowings, current portion of long-term debt and accounts payable plus the long-term debt , constituted GCS's total debt. The bulk of current debt was accounts payable and the line-of-credit, both of which were used for inventory purchases. These were always on the high side for furniture because GCS paid for, not only what was in the warehouse but also what was on the water being shipped. The furniture inventory was almost invariably used as the collateral for the line-of-credit.

From 1963 onwards accounts payable consistently were over 50 percent of total debt. Much of this was owed to the Danish furniture manufacturers. They in turn used these "IOUs" as collateral for their own borrowings in Denmark. Therefore, slow payment on the part of GCS materially impacted upon the manufacturers. After divestiture of the food and petroleum divisions accounts, payable dropped to the mid-forties as a percent of total debt as contrasted to high fifties and low sixties earlier (Table 3, page 45).

Long-Term Debt/Equity

Long-term debt was used mostly for expansion purposes and, except for the "crisis" times, it was not used for operating capital. Figure 8, page 49, shows the same pattern for long-term debt as for total debt. One of GCS's problems was the difficulty of raising equity capital.

Long-Term Debt/Capitalization (Capitalization = Long-Term Debt plus Equity)

This is probably the strongest financial indicator for GCS. Using the industry standard of 40 percent (GCS used 45 percent in its 1981 Growth Plan) GCS only exceeded 40 percent from 1939-41, 1971-77, and at the end, 1987-88 (Figure 9, page 50).

OTHER FINANCIAL INDICATORS

Interest Expense/Sales

There were many members attending area council meetings over the years who who felt that interest expense was a major problem for GCS. In examining the data, it does not appear that interest expense, per se, was ever a

Figure 8: Percentage of Debt to Equity, Greenbelt

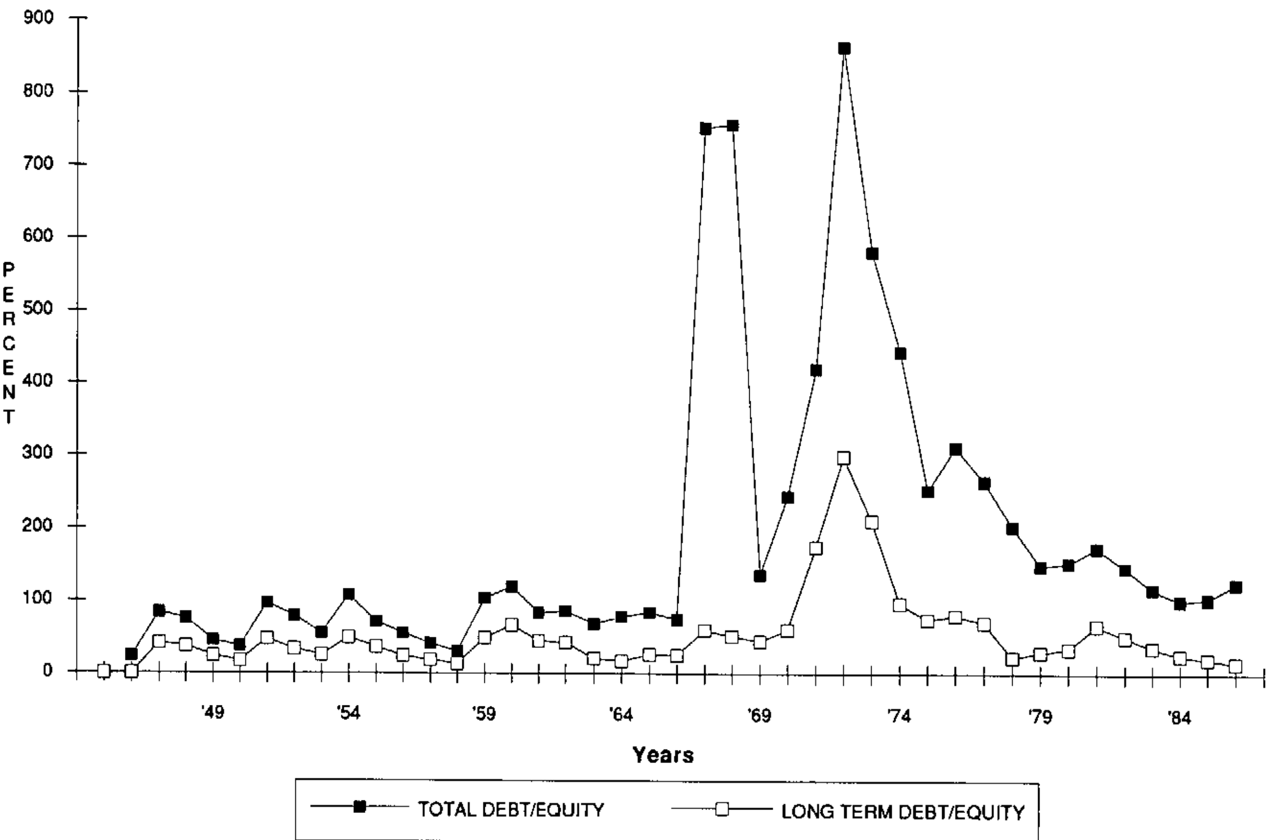
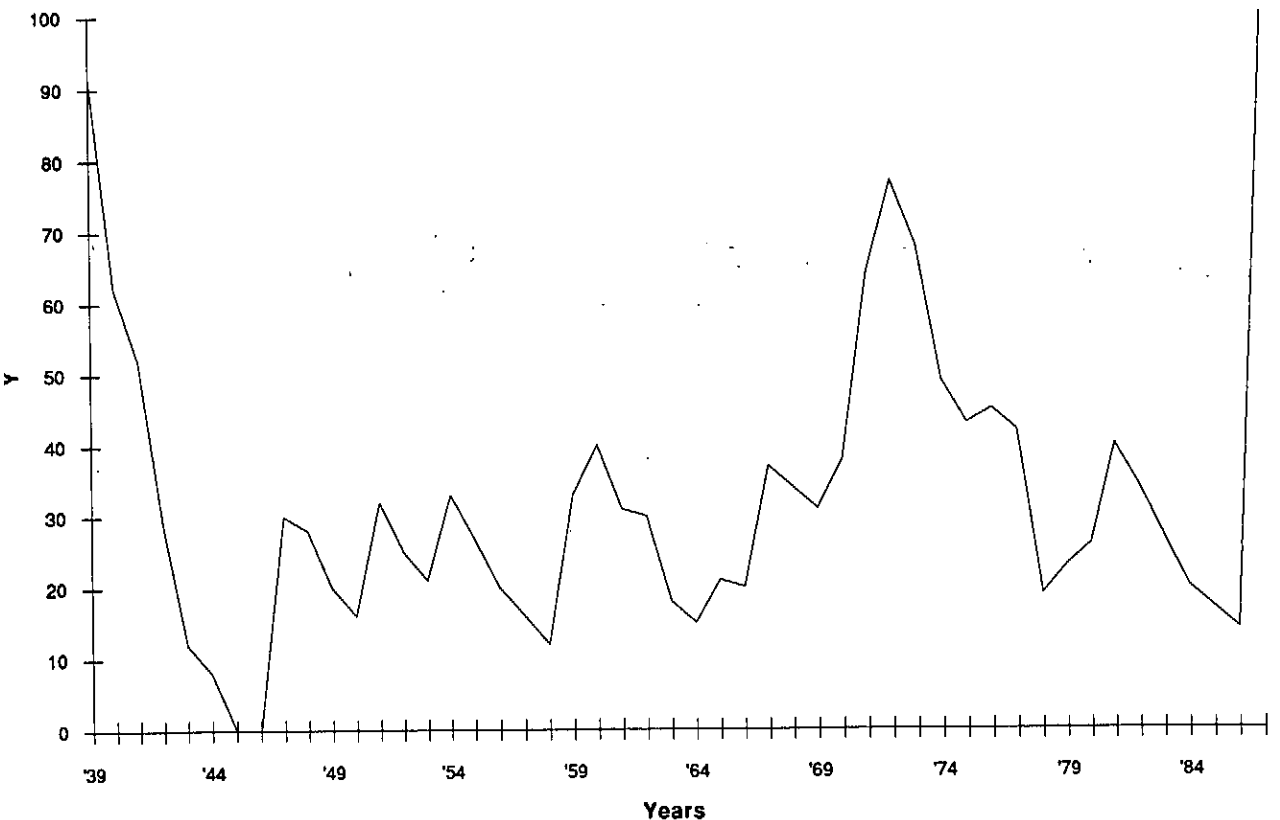


Figure 9: Long Term Debt/Capitalization, Greenbelt



problem. From 1981 it was on the high side, reaching one percent in 1984 and in 1987 and 1988 it exceeded one percent. Prior to that it rarely reached an acceptable one-half percent of sales. In fact, a far greater problem in many years was the inability, because of cash shortage, of GCS to take advantage of cash discounts. Those losses exceeded interest costs as a percent of sales. Table 3, page 45, has the yearly interest expense to sales.

Member Investment

Each share of member stock had a par value of $10. Since it could not be traded on the market its value remained at $10 or below, thereby not providing real incentive to invest except as needed to vote, participate in any patronage refunds, and the possibility of a modest dividend on the stock.

Because GCS was incorporated under the Maryland regular business corporate code, to become a member/owner required an individual to buy shares of stock. This required GCS to file with the Securities Exchange Commission to register and seek approval to sell membership shares vis-a-vis a cooperative incorporated under a cooperative code that would not have shares but would only have membership fees. This was a costly process. In 1980, it was estimated that the average cost per year of the prospectus and related expenses was $82,833. To recover this cost would require selling 8,284 shares annually, a feat almost never accomplished. Table 2, page 39, lists the annual shares outstanding and number of members.

The closest GCS ever came to adequate member investment after the early years was the sale of subordinated debentures. This program was quite successful during the 1970s. Of course, debentures are debt, not equity.

Dividends and Patronage Refunds

Cash dividends were paid on shares from 1939 until 1972. In 1940 and 1941 it was 3 percent and all other years it was 5 percent. In 1980, dividends of 8 percent were paid followed by 4 percent the next 3 years. No dividends were paid from 1984 onward.

Patronage refunds were paid in cash or in shares from 1939 through 1959. They were resumed in 1972 for 3 years, 1975 was skipped, paid in 1976, and then not again until 1981 and continued through 1985. The percentage varied each year. In the latter years the Board was faced with one of its most vexing problems, how to balance the equitability of paying dividends to the long-time shareholders, paying patronage refunds to the current users of the Cooperative, and repurchasing shares from the many who had requested that their shares be repurchased by the Cooperative, effectively the only market for shares.

The issue was addressed by allocating funds each year for the repurchase of stock, setting a dividend rate of 4 percent and paying a patronage refund at a rate to be decided after the audited financials were available. This satisfied no one but did represent a compromise among all parties.

Working Capital

Working capital was a critical problem during the 1970s, making expansion decisions difficult because of the increase needed in working capital whenever a new retail facility was opened. Unfortunately this problem ran concurrently with the need for GCS to overhaul its food operations. Table 2, page 39, has the annual year-end position of net working capital.

Cash Flow

Each year the Board received the monthly projected cash flow for the coming fiscal year. It was this projection that prompted approval of so many and varied sources of debt financing. It was also the source of the debates mentioned earlier regarding the SCAN inventory which many of the directors felt was excessive.

Conversely it was the cash flow generated by the retail outlets that kept GCS afloat during the crisis period of 1970 through 1979. While GCS did lose its cash discounts, the cooperative was able to keep sufficiently current with most suppliers and pay COD to the others. Without the weekly cash flow generated by the supermarkets, GCS would have most likely had to file for Chapter 11 protection at that time.

Employees and Retail Facilities

While information on the number of employees and retail facilities hardly qualifies as a financial indicator, it does provide an indication of the changes resulting from financial performance. Unfortunately, complete records of numbers of employees were not found. However, the numbers for the peak years are available and are listed in Table 2, page 39.

At the peak, 1970, there were 1,061 employees. 1970 was also the peak in the number of retail facilities (45) operated by GCS (Table 3, page 45). Peak facilities in each of the divisions was reached in:

1967 - 23 food stores
1967 - 9 pharmacies
1970 - 11 service stations
1985 - 17 furniture stores

BOTTOM LINE PERFORMANCE

There are many lattitudes permitted (or tolerated) in a cooperative that are totally unacceptable in a proprietary business. One of those is sustained losses in one part of a business that requires major subsidizing over a long period by a successful part of the business.

Genuine differences of philosophy existed among the leadership of Greenbelt. Some, a majority during the 1970s, believed that the Cooperative must provide goods or services that kept the members in frequent contact with their Cooperative and that resulted in shopping much more frequently than would be the normal case with furniture purchases. For the most part, they saw nothing wrong with the business practice of subsidizing the food division heavily. Others believed that every effort should be made to make the food division profitable at the bottom line and if that was not possible it should be divested.

This difference in philosophy created major cleavages among the Area councils, Congress, and Board leadership. In a lesser way it also created conflict in top management.

Starting in 1964, SCAN became a highly significant factor in net earnings of the Cooperative. By 1966, SCAN was covering all of its allocated overhead and contributing over $200,00 to net income. Except for 1975, the food division never covered its allocated overhead after 1960, much less contributed to net income.

The pharmacy division also struggled, but the petroleum seemed to be a winner until the early 70s when it, too, came to hard times.

Figure 10, page 54, and Table 4, page 56, show the contribution each division made for the years 1977-84 toward overhead and net income. The petroleum division contributed significantly to overhead in four of the years while the food division made virtually no contribution.

Figure 11, page 55, shows that only SCAN covered its allocated overhead (and its interest) and contributed the only net income to the Cooperative. In an analysis computed by management for the years 1978-80, and by using three different methods of calculating ROI, SCAN ROI ranged from 22.6 to 64.6 percent

THE FOOD DIVISION

During 1960-62, there was an explosion of new supermarkets built in the GCS market area, many of which were within steps of GCS existing stores. 1961 saw the beginning of major price wars as the chains jockeyed for market share. The new supermarkets were more modern than those of GCS and GCS did not have the capital to do major remodeling in every key location. The

Figure 10: Contribution to Overhead and Net Income by Division, Greenbelt

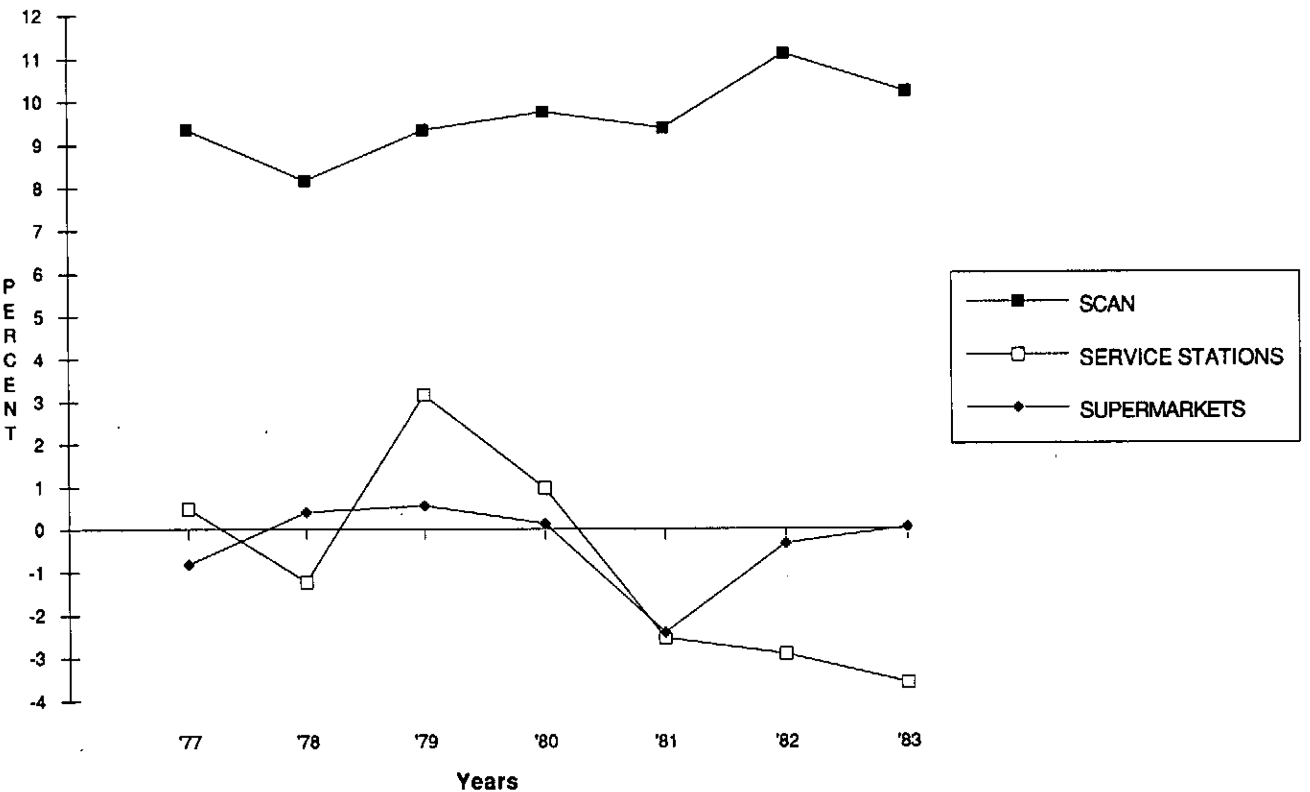


Figure 11: Net Earnings by Divisions, Greenbelt

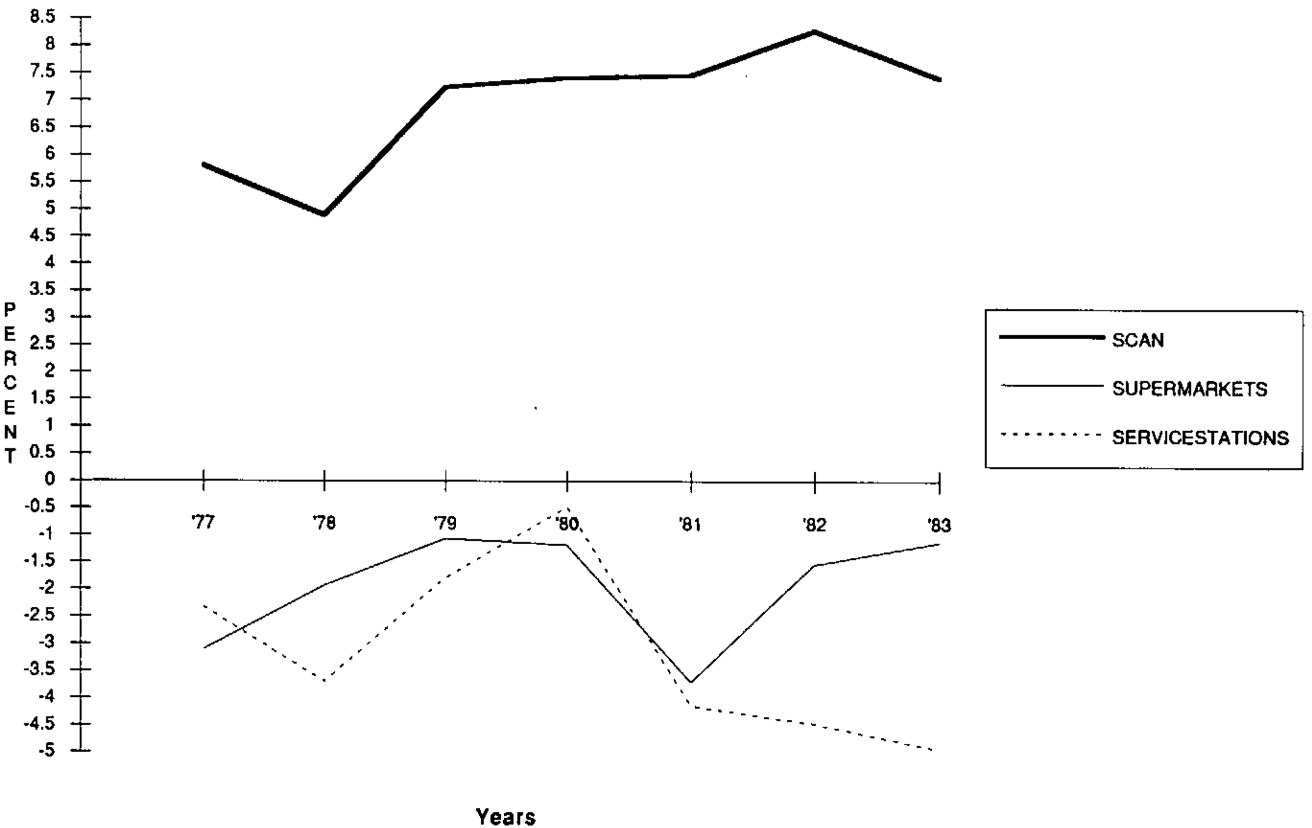


Table 4

Greenbelt Division Share of Sales, Contributions, and Operating Profit, 1977-84

	1977	1978	1979	1980	1981	1982	1983	1984
Percent of Sales								
SCAN	39	45	48	50	50	57	59	93
Supermarkets	49	45	41	38	40	37	35	0
Gas Stations	10	9	11	12	10	6	6	0
Scan-Chicago	7							
Division Contribution								
SCAN	9.36	8.17	9.34	9.77	9.39	11.11	10.24	9.03
Supermarkets	-0.81	0.41	0.56	0.13	-2.40	-0.33	0.05	0
Gas Stations	0.49	-1.23	3.16	0.97	-2.53	-2.91	-3.59	0
Perishables	-5.14	-3.48	—					
Scan-Chicago	-26.86							
Operating Profit								
SCAN	5.81	4.90	7.25	7.42	7.47	8.28	7.42	5.35
Supermarkets	-3.10	-1.93	-1.06	-1.18	-3.70	-1.53	-1.12	—
Gas Stations	-2.32	-3.69	-1.78	-0.48	-4.13	-4.46	-4.93	—
Perishables	-7.04	-5.05						

competition took significant amounts of business from many of GCS's stores. Management countered by developing a discount program; and although the three years of 1961-63 were rocky in terms of net savings (earnings), GCS rebounded with record earnings in 1964.

Warning indicators of serious problems in the food operations, however, were already flashing. Although improved, net income as a percent of sales was considerably below the industry average in GCS's market area. For example, even during the price-war years (1961-63) Giant Food earned an average of 1.03 percent on sales. GCS earned .027 percent. For the following three years, Giant earned an average of 1.14 which was only slightly above the industry average of 1.07. GCS earned an average of .53 percent even with four SCAN stores which carried a much higher gross margin than the other products sold by GCS.

In 1967, the opportunity to reach a 5-year growth objective in the food operation in one fell swoop was too much of a temptation for Board and management to resist and GCS purchased the Kroger stores when Kroger abandoned the Greater Washington market. This move increased long-term debt by 123 percent and total debt by 95 percent. While both net earnings in dollars and as a percentage of sales increased during 1968 and 1969, the amounts were far short of industry averages. The Kroger acquisition improved GCS presence in the market place, but the stores were not performing as well as expected.

The Boards from 1970-1983 were faced with an array of financial decisions, most of which focused on the food operation's survival rather than growth and expansion of the cooperative.

The Board minutes from those years show that the decisions about financing did not seem to have a consistent plan. Part of this, of course, was born of the necessity of finding sufficient working capital to meet the daily expenses to operate. Working capital during many of those years was below bare minimum and in 1974 it even was a negative figure. Cash flow emanating from the food stores and accounts payable (what was owed currently to vendors) kept the cooperative afloat.

During the years 1971 to 1983, many innovations (for GCS) were tried. Box stores, discount operations, natural foods, cost-plus (a variation of the direct charge food operations so successful in Canada), free standing perishable foods stores, pre-order programs, major and cosmetic remodeling, changed management including a supervisory service from a wholesaler, changed suppliers, and closure of the heaviest losers were all tried in an effort to "save" the food stores. Three new ones, including two perishable foods stores, were opened. All of these new efforts failed and none of the new openings ever covered even their allocated division costs.

Following is a more detailed analysis of the food division which sets forth, graphically, why some of the directors increasingly felt that the food stores should be divested.

Figure 12, page 59, gives the graphic story of the food store losses. From 1971 to 1983, $7,174,656 was lost. Perhaps even more important, the time and energy of central management and the Board was devoted to addressing the woes of the supermarket division. This left little time to address either the shaky service station division or to develop direction for a highly successful SCAN.

One director, after viewing the millions being lost, said in 1980, "Hobbies are interesting. This hobby has cost our members over five million dollars."

During the period 1977-1983, seven food stores operated at least part of that time (Table 5). Figure 13, page 60, and Table 6, page 63, show the contribution at the store line each year and the net income after division and overhead allocations had been made. The store at Fairlington saw a net income in 1979 and 1980. The store at Kensington did the same in 1978 and 1979. Otherwise all had losses. The new cost-plus store that opened in Severna Park proved to be a disaster. Finally, as was noted earlier, the division was divested along with the petroleum division.

THE FURNITURE DIVISION (SCAN)

In sharp contract to the losses of the food division, SCAN was performing well. How much better it could have done if it would have received as much attention as did the food division is, of course, speculative. Figure 14, page 65, shows that for the 8 years 1977-84 SCAN contributed $14.8 million while GCS had net earnings of only $3.4 million.

Table 5

Number of Retail Outlets by Type Operated by Greenbelt, 1977-84

	SCAN	Supermarkets	Gas Stations	POPS
1977	11	7	7	2*
1978	13	7	7	2*
1979	12	6	7	0
1980	12	6	6	0
1981	12	6	5	0
1982	12	6	5	0
1983	17	5	4	2
1984	16	0	0	2

* Perishables outlets

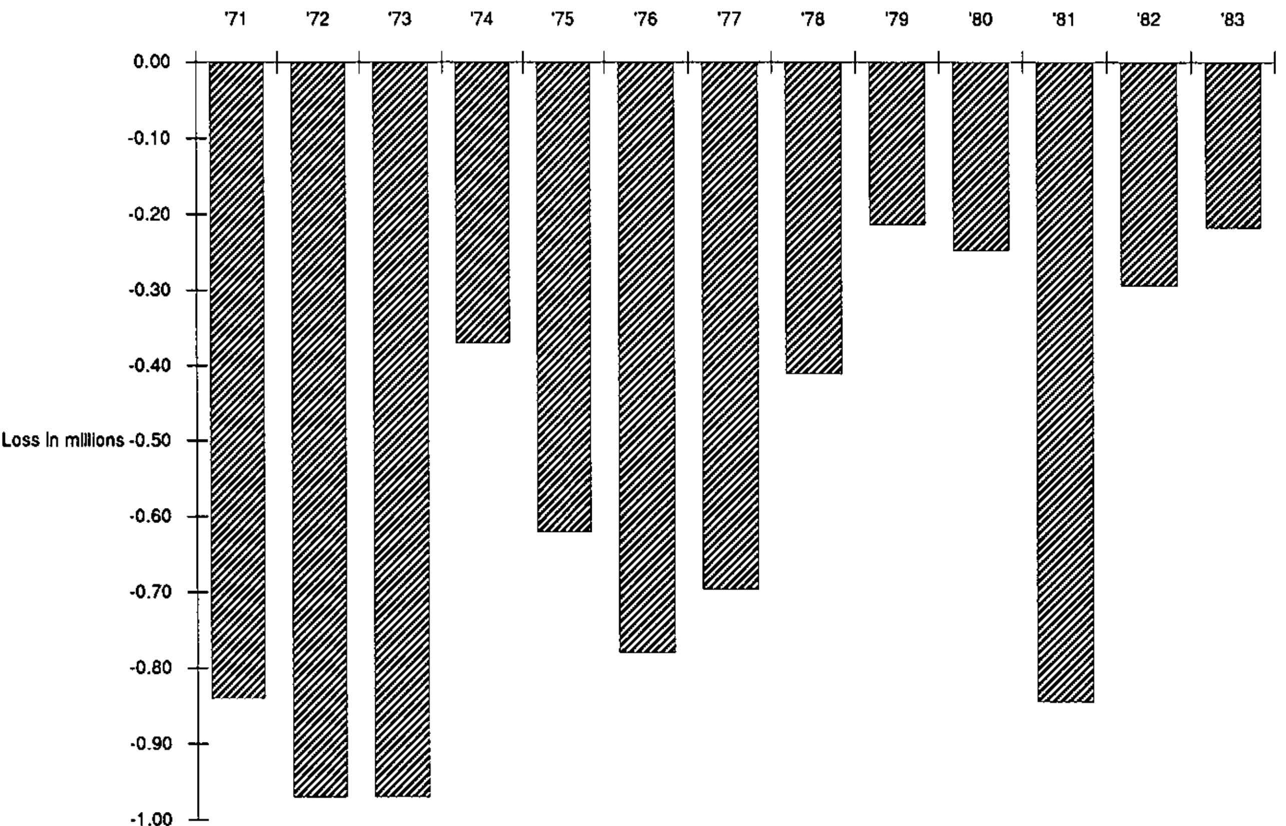


Figure 12: Supermarket Losses, Greenbelt
'71
'72
'73
'74
'75
'76
'77
'78
'79
'80
'81
'82
'83
0.00
-0.10
-0.20
-0.30
-0.40
-0.50
-0.60
-0.70
-0.80
-0.90
-1.00
Loss In millions
$7,174,656 loss in supermarkets in the 13 years before divestiture

Figure 13: Performance by Store

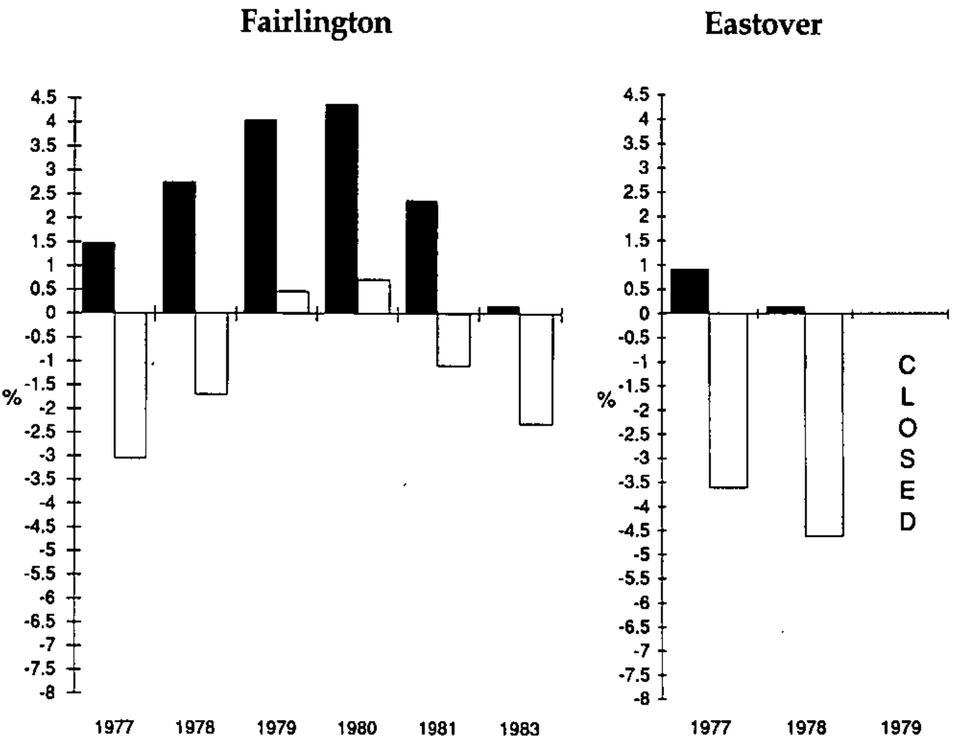
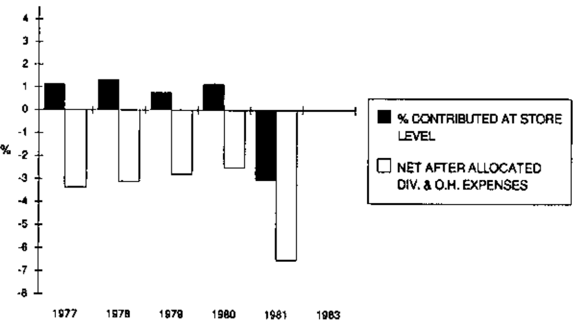


Figure 13 (continued)

Rockville



Kensington

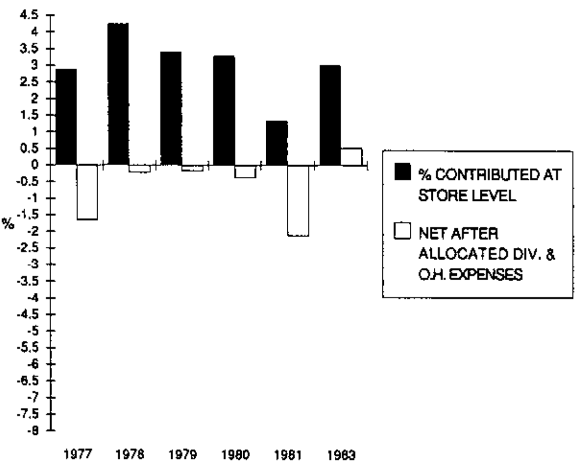
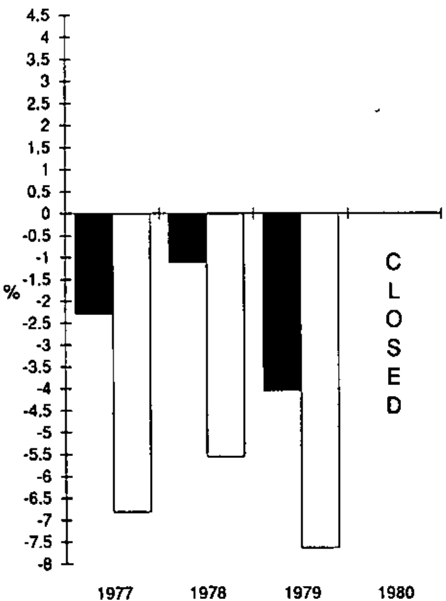
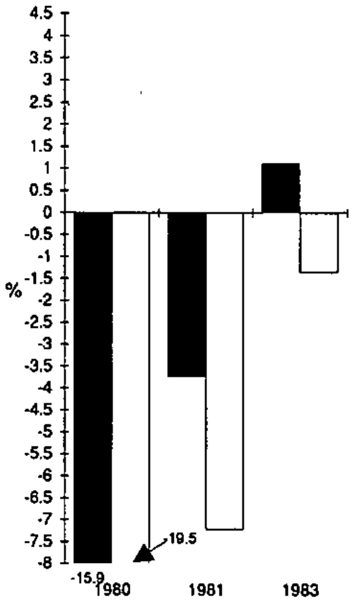


Figure 13 (continued)

Takoma Park



Severna Park



Westminister

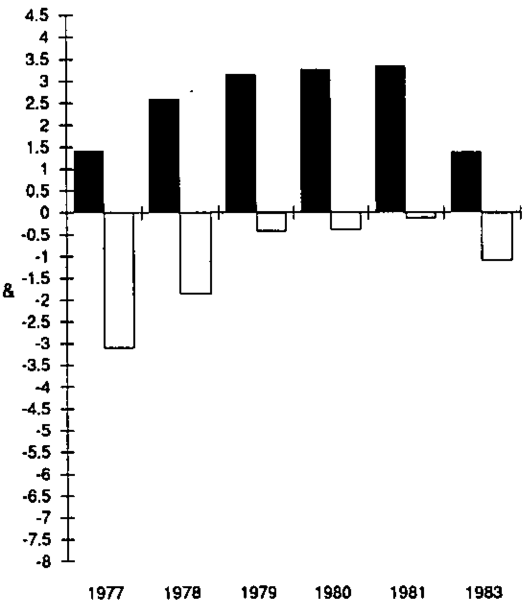
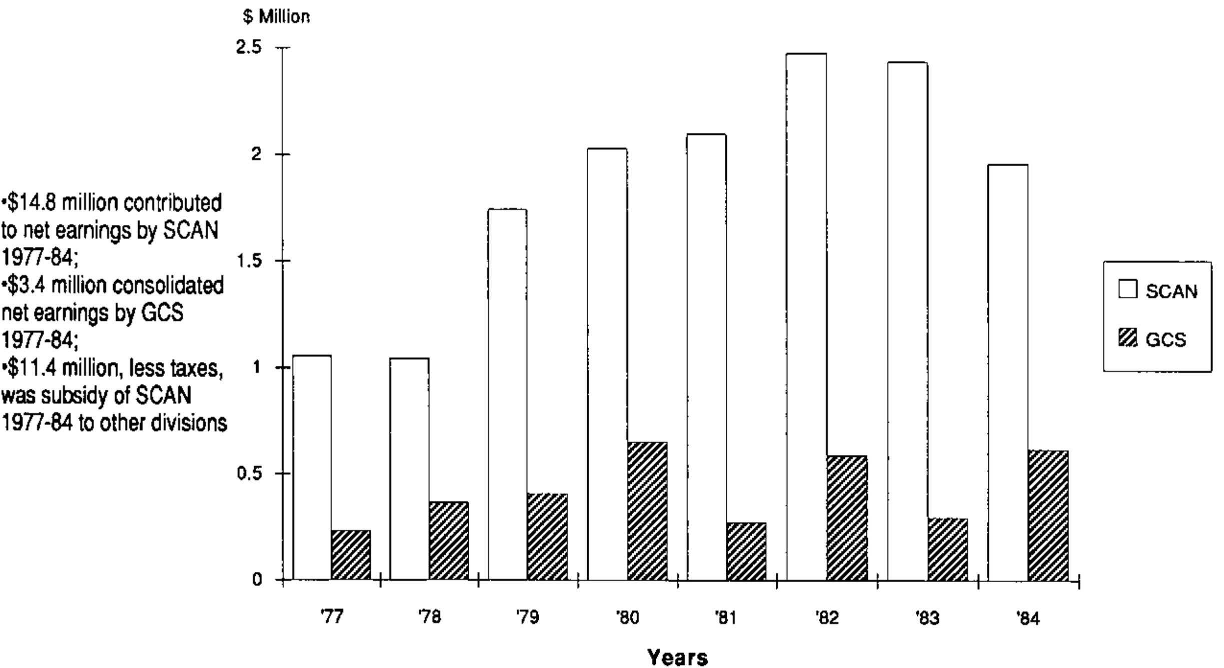


Table 6
"Store Contributions, Allocated Division and Overhead," and Net Earnings for GCS Supermarkets

	Store Contributions %	Allocated Division and Overhead %	Net Earnings %
Greenbelt			
1977	3.172	4.527	-1.355
1978	4.907	4.460	0.447
1979	4.718	3.584	1.134
1980	3.224	3.668	-0.444
1981	-3.181	3.471	-6.652
1982	—	—	—
1983	0.193	2.482	-2.289
1984			
Takoma Park			
1977	-2.290	4.527	-6.817
1978	-1.107	4.460	-5.567
1979	-4.058	3.584	-7.642
Westminster			
1977	1.420	4.527	-3.107
1978	2.602	4.460	-1.858
1979	3.159	3.584	-0.425
1980	3.280	3.668	-0.388
1981	3.355	3:471	-0.116
1982	—	—	—
1983	1.392	2.482	-1.090
Rockville			
1977	1.148	4.527	-3.379
1978	1.338	4.460	-3.122
1979	0.780	3.584	-2.804
1980	1.162	3.668	-2.506
1981	3.044	3.471	-6.515

	Store Contributions %	Allocated Division and Overhead %	Net Earnings %
Fairlington			
1977	1.480	4.527	-3.047
1978	2.757	4.460	-1.703
1979	4.056	3.584	0.472
1980	4.386	3.668	0.718
1981	2.375	3.471	-1.096
1982	—	—	—
1983	0.166	2.482	-2.316
Kensington			
1977	2.882	4.507	-1.645
1978	4.239	4.460	-0.221
1979	3.414	3.584	-0.107
1980	3.282	3.668	-0.386
1981	1.345	3.471	-2.126
1982	—	—	—
1983	3.007	2.482	0.525
Eastover			
1977	0.918	4.527	-3.609
1978	-0.156	4.460	-4.616
Severna Park			
1980	-15.893	3.668	-19.531
1981	-3.746	3.471	-7.217
1982	—	—	—
1983	1.121	2.482	-1.361

Figure 14: Net Income of GCS After Interest and Taxes Compared to Net Contribution of SCAN after Interest and Allocated Overhead



The rise of SCAN merits its own historical perspective, not only because of its unique nature and unprecedented success, but also because it was in many ways a separate occurrence from the rest of GCS. Certainly, its fall was largely separate and apart from what went before 1984.

As related in Chapter X, SCAN began as one of the one-time-only special purchases for which the chief executive of GCS was so well known and practiced so ardently in the late 50s. After visiting several of the Scandinavian consumer wholesale cooperatives, including their furniture manufacturing operations, he arranged to buy a large quantity of a limited number of items for sale to GCS members. He believed that the quality, design, and low cost of their furniture would appeal to Washingtonians. He was right. The initial response was wildly enthusiastic. What started out to be a special purchase program soon became a separate division (1960). By 1962, the first free standing cooperative furniture store was opened next to the co-op supermarket in the Takoma Park Shopping Center.

The SCAN name and logo were first used in 1963, the same year that a second SCAN store was opened in Falls Church, Virginia. Until 1964, SCAN's development followed the same course as the other two small divisions—pharmacy and service stations. All followed the supermarkets to new locations and were assumed to be dependent upon food-shopping members and patrons for traffic.

In 1964, SCAN broke out of the cluster pattern of expansion when a small store was opened in downtown Washington. The store was immediately successful. With but one exception, all later SCAN stores were located independent of other facilities of the Cooperative.

SCAN's separate and different development route offered GCS a means of greatly increasing the size, geographic dispersion, and diversity of its membership. It provided needed diversification at a time when GCS's other businesses were experiencing grave difficulties. From 1961 to 1970, SCAN sales grew at an impressive rate of 55 percent per year.

Although SCAN grew at a rapid rate from 1962 through 1986, the pattern of growth was very uneven as noted in table on next page.

Two imperative questions surface. First, why was SCAN not expanded during two key periods, 1965-1968 and 1971-75, when the economy was strong and the Washington market growing rapidly? From 1965 to 1981 there were only four stores added, the same number opened in only 4 years in the early 1960s. A policy of continuously opening new stores at "hot" locations could have been one important way of pre-empting competition. Many other successful retailers, from Sears in the 1920s to Seven-Eleven in the 1970s have used the approach of saturating a market area with retail outlets in order to achieve market dominance before the competition has a chance to respond.

Change in number of SCAN stores, 1962-1989

YEAR	STORES OPENED	STORES CLOSED	YEAR	STORES OPENED	STORES CLOSED
1962	1		1977	2	
1963	1		1978	1	1
1964	1		1979	1	
1965	1		1980	0	
1967	0		1981	2	1
1968	2		1982	0	
1969	0		1983	2	
1970	1	1	1984	1	
1971	1		1985	1	
1972	0		1986	0	
1973	0		1987	0	
1974	0		1988	0	
1975	1		1989	0	9
1976	1				

The principal reason for SCAN's suboptimal growth rate was the lack of cash for investment in inventory and leasehold improvement. From a purely financial standpoint, the expansion of SCAN after 1966 and particularly during the 1970s was slowed markedly by the use of furniture division profits elsewhere in GCS operations. Had SCAN earnings been reinvested and the additional debt capacity used, SCAN might have more than doubled its sales and contribution.

The irony of GCS's failure to expand SCAN to its full potential was that every management plan of the late 60s and early 70s made SCAN growth the number one priority. In the 1967 plan, released only weeks before the Kroger acquisition, management stated that "the furniture division has preference for expansion." This language was echoed in subsequent documents through 1975. Yet management pushed through the Kroger deal with virtually no thought (apparently) for its effect on SCAN's growth. Again in 1969, a wholesale tire operation was purchased, a business that had only marginal relationship to the Cooperative's objectives and needs. Throughout the early 1970s, supermarkets which were chronic money losers were remodeled with funds from SCAN operating profits. By failing to exercise enough discipline to follow its own advice, management stunted SCAN's growth. Where was the Board? Both management and the Board by their decisions left GCS in a weak financial condition.

The second question is, "Why didn't GCS expand SCAN into market areas outside of Maryland and Virginia?" Bob Gowell, the long time head

of SCAN, believed that SCAN should saturate the Maryland / Virginia market before expanding outside. To a degree this was probably a good strategy. On the other hand, it constrained SCAN from entering into three joint ventures with other cooperatives. Additionally, the majority of GCS Congress members felt that moving outside of the area would not be serving current GCS members. The Board was usually evenly split on the issue.

Throughout its history until 1986, SCAN had been highly successful. It met the challenge of two competitors, one a long established chain in the Washington area that began selling Scandinavian furniture and the second a chain similar to SCAN. Headquartered in Massachusetts, this chain had more stores than SCAN, and at the time was the most rapidly growing of the SCAN-type furniture stores in the country.

SCAN had been the cash cow of the Cooperative. Drained of its cash to sustain the other divisions for so many years, it did not have the reserves to withstand a catastrophic drop in the dollar's value to the kroner in 1986. That uncontrollable event plus the drawn out strike brought SCAN to the brink of extinction.

The Chapter 11 negotiations resulted in a court approved "Plan" that permits SCAN to continue to operate, albeit with a different ownership structure (see Epilogue in Chapter 1).

SCAN's success, and indeed its existence today, is in no small measure due to the close and symbiotic relationship between SCAN and its Scandnavian suppliers. For the most part, the suppliers (the furniture makers) are small, almost like a cottage industry. Certainly at the beginning all but a couple were small, family operated factories.

Five of the factories supplying SCAN today were original suppliers. These were the furniture factories of:

1. Hundevad, founded by Aage Hundevad and later owned by his son, Bent.
2. Moller, founded by Niels Otto Moller and now owned by sons, Ole and Jonne.
3. O. D. Furniture, founded by Aage Christensen and now owned by his son Niels.
4. Tarm, owned formerly by FBD (The Danish Consumer Wholesale Cooperative) and at that time managed by Folke Palsson and now the Managing Director is Arne Kvist.
5. Vejle, owned by brothers Arne and Peder Petersen.

Two others have also been supplying SCAN for most of its history and along with those above are currently part owners of Scan International:

1. Jesper, founded by Hugo Jespersen and now owned by his son Niels.
2. Skovby, owned by Villy Rasmussen.

Jesper was SCAN's largest supplier and SCAN was Jesper's largest account. The only non-Danish supplier of note was Ekornes which began supplying the popular stressless chair to SCAN in 1975. Over $20 million of these chairs were sold by SCAN. It was founded by the Ekornes brothers.

The underpinning of SCAN's Danish connection was, and is, Nordisk Andels Export (NAE). Holger Overgaard, the CEO, began managing SCAN's affairs in Scandinavia in 1966 and continues today. This relationship alone gave SCAN a great competitive advantage. It also provided vistas of opportunities which were never exercised. Steen Hansen and Hanna Rud-Petersen are long-serving staff members who have aided materially in cementing a strong relationship between NAE and SCAN.

In 1970, a joint venture was incorporated, NORDISCAN, owned by NAE and SCAN. The purpose of NORDISCAN was to serve as the agent for SCAN in all of its transactions with suppliers from Scandanavia. This included order placement, shipping arrangements, negotiation with suppliers, management of SCAN's funds banked in Denmark, and payment to suppliers. NORDISCAN was dissolved in 1989. However, NAE continued the broad functions thereafter.

The relationship between the Danish furniture manufacturers and GCS/SCAN has always been close. Several events demonstrate that relationship:

1. In 1973, 20 manufacturers were represented at SCAN stores where their staffs explained furniture making to customers.

2. In 1973, Robert Gowell, GCS Vice President heading SCAN, was awarded the prestigious Danish Export Oscar.

3. In 1976, Queen Margrethe of Denmark visited a SCAN store for her only commercial visit while in the United States. GCS Board and SCAN management were guests of the Danish embassy and the Queen at the Royal Danish Ballet performing at the Kennedy Center with a reception afterwards.

4. In 1982, 40 Danish furniture manufacturers attended a dinner hosted by GCS in Copenhagen during the furniture fair where the President of the Danish Furniture Manufacturers and the Chairman of GCS presented SCAN expansion opportunities.

5. In 1984, all but one of the GCS Board visited the Furniture Fair in Copenhagen and selected manufacturers.

6. In 1985, over 20 Danish manufacturers attended SCAN's 25th Anniversary celebration.

7. Since 1976, the Board Chairman of GCS/SCAN has attended the Furniture Fair in Copenhagen with but three exceptions.

8. For over 25 years SCAN staff went to Denmark to learn about quality control, manufacturing processes, and the people behind the furniture which SCAN imported. SCAN's sales force were more knowledgeable

than any other sales force selling Scandinavian furniture in the United States.

9. From 1984 until 1988, SCAN awarded prizes in an annual furniture design contest. The awards were announced during the Danish Furniture Fair.

10. A special effort to generate synergism between SCAN and its suppliers was made under the tenure of Carsten Sorth's Presidency of the Danish Furniture Manufacturer Association. An untimely stroke shortened his tenure and, along with other factors, aborted some joint efforts for SCAN expansion.

IN CLOSING

The analysis in this chapter clearly shows that the decisions by the Board maintained and subsidized many "losing" operations far beyond when prudent business decisions would dictate otherwise.

Even though many of the business ratios met acceptable standards in many years of GCS's history, it appears obvious that GCS lacked a coherent financial plan. Particularly from 1976 onward, the leadership struggled to devise an effective plan to generate equity while at the same time repurchase shares from those who had requested repurchase. An acceptable plan was never found. Opportunities to expand SCAN, which would have generated equity through net earnings, were continually rejected by a majority of the Board. Consequently, in years when available equity could have been more greatly leveraged, new SCAN openings did not occur.

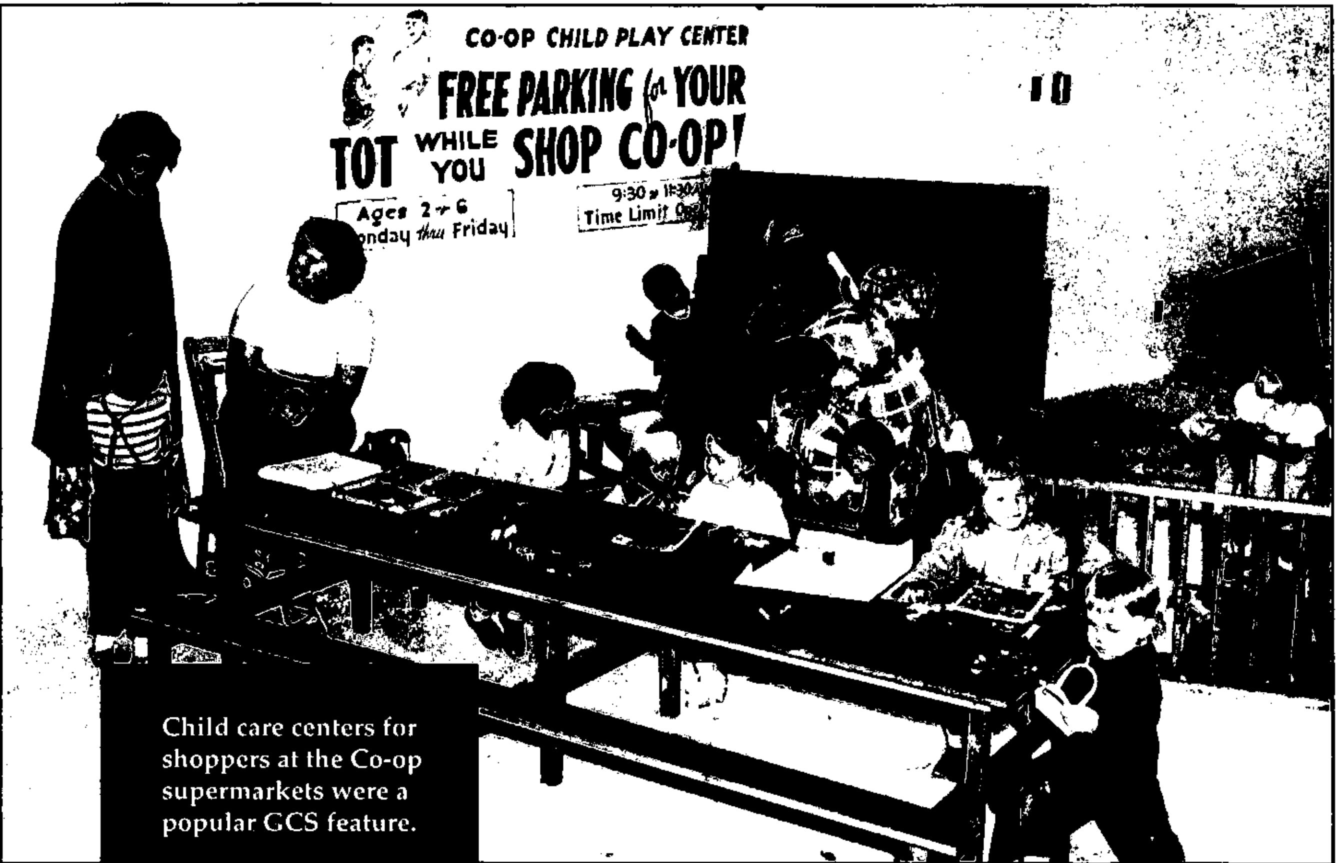
While the financial health of GCS was not outstanding, the analysis in this chapter indicates that during much of its history, the financial health was not that bad either. GCS had every chance for success after 1983 when the food and service station divisions were divested. How decisions on marketing, pricing, labor and management might have been different following divestment can only be a matter of speculation. Those that were made resulted in requesting Chapter 11 protection.

Part II, "Historic Growth and Decline", chronologically traces the events, and the people involved in the events, that Part I has covered broadly and generically.

GCS Board, 1946. Seated (l to r): Secretary George M. Eshbaugh, Treasurer Bertha Maryn, President Dayton W. Hull, Carnie Harper. Standing (l to r): William Nicholas, Fordyce H. Merian, Phillips M. Taylor, Vice President Walter R. Volckhausen, Herman Ramrus.

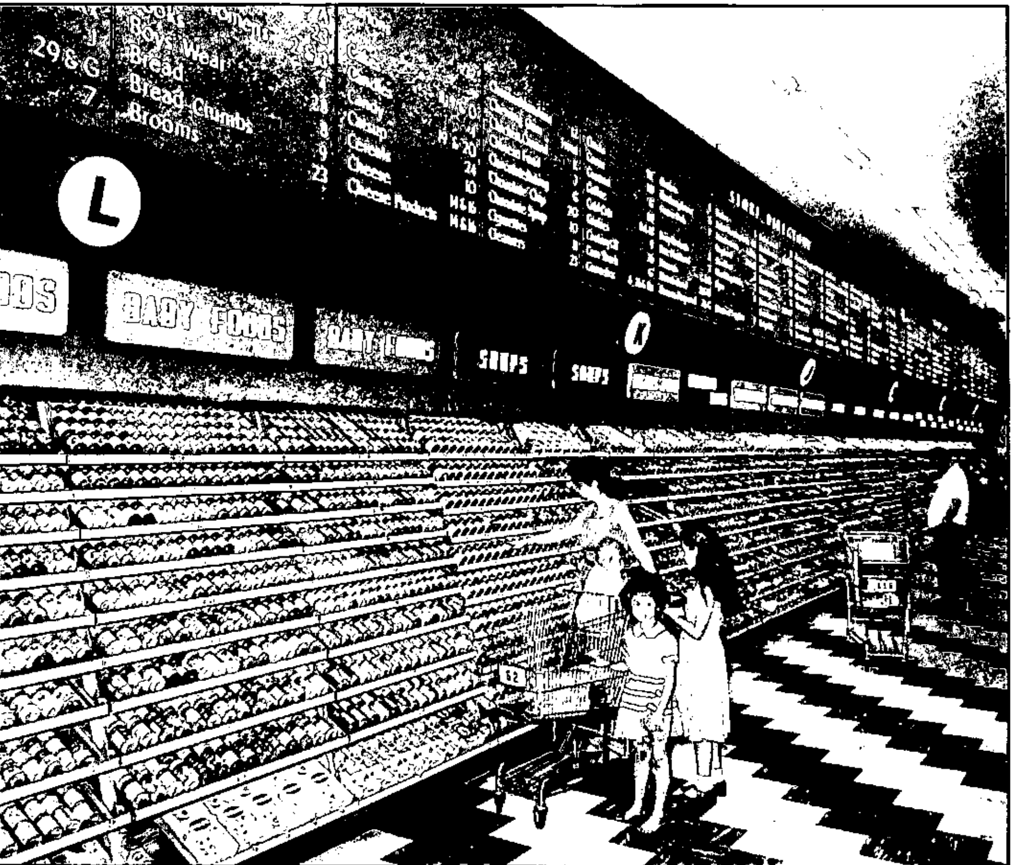
First food store operated in Greenbelt, Maryland by GCS—1938.

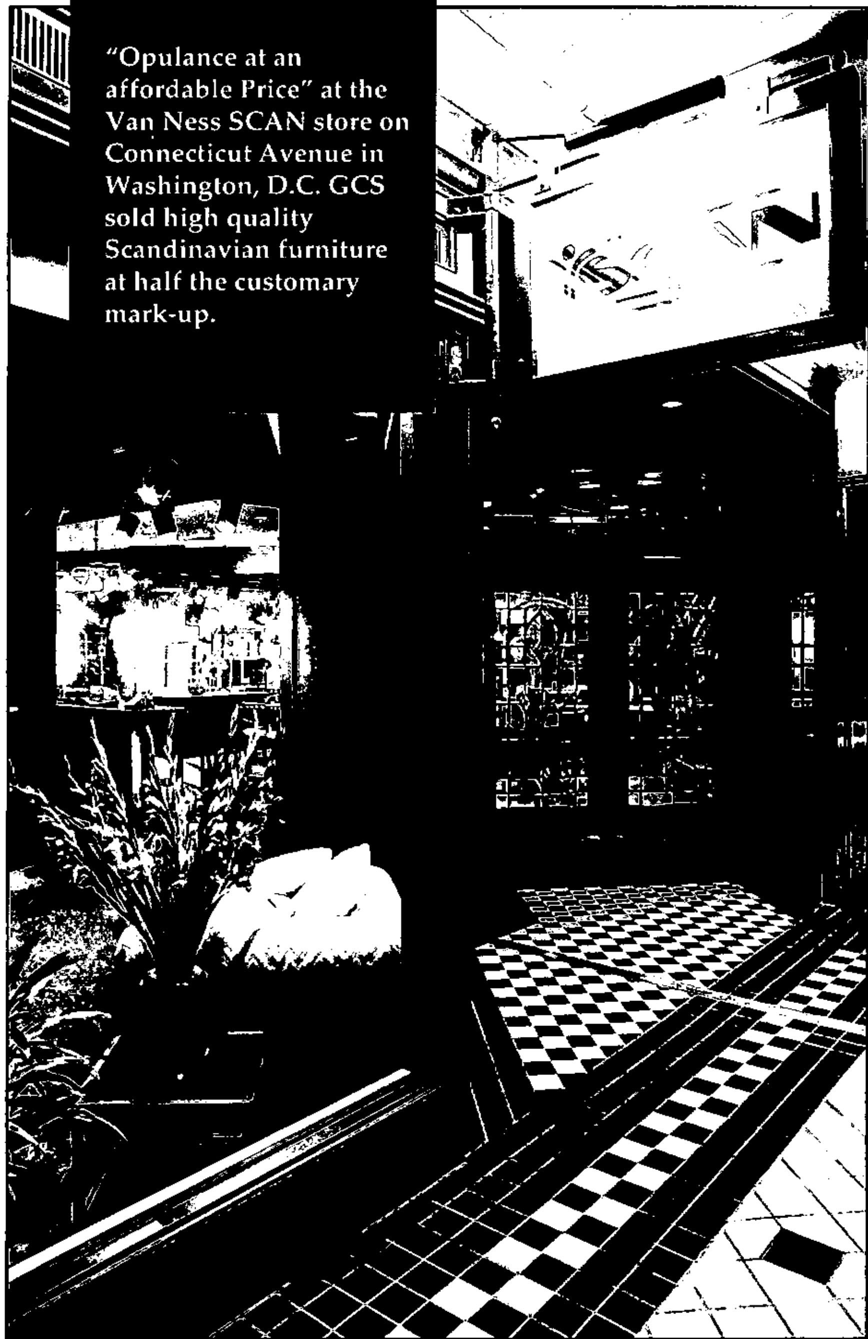
One of the early Co-op charter flights which took thousands of GCS members to Europe at bargain fares.



Child care centers for shoppers at the Co-op supermarkets were a popular GCS feature.

"Food-o-mat" in new Penn Daw Co-op





"Opulance at an affordable Price" at the Van Ness SCAN store on Connecticut Avenue in Washington, D.C. GCS sold high quality Scandinavian furniture at half the customary mark-up.

PART II

Historical Growth and Decline

CHAPTER 3

How it all Started (1937-1939)

Most dedicated cooperators hold that the way to a consumer-owned co-op is generally through a buying club. A few economy-minded people in a neighborhood, church, union, or college campus, pool their purchases of groceries or other big-margin items to get wholesale or discounted quantity-sale prices. They take turns sharing the work of buying and dividing the purchases into the individual orders, and return to each member his share of change from the estimated amount paid in advance. If the venture is satisfactory and more consumers join, a store may be planned and opened when enough capital can be secured.

Greenbelt was different. Key people in the federal government's Resettlement Administration, which planned and built Greenbelt as a low-income community, believed in the usefulness of cooperatives. The Filene Foundation, a philanthropic fund created by the Boston department store entrepreneur Edward A. Filene, offered to provide services for families moving into the New Deal town.

Because Greenbelt was several miles from the nearest shopping area and a dozen miles from Washington, D.C., with no public transportation assured at first, a food store and other shops would be required. Anticipating this need, the Resettlement Administration had explored options for the town's commercial center. Government operation of the community's stores was ruled out and planning officials found a lack of interest among retail firms in opening stores in an experimental, government housing project for low-income renters.

In this climate, the Filene Fund agreed with the Resettlement Administration to provide stores for the difficult start-up period with the prospect that the resident families themselves could take over the enterprise after meeting certain conditions. To that end the Fund administrators, through a subsidiary known as the Consumer Distribution Corporation (CDC), created a Maryland entity incorporated as Greenbelt Consumer Services, Inc. (GCS)

on September 1, 1937. The directors of CDC served as the board of GCS until the member-owned cooperative was organized and took over on January 1, 1940.

The first families moved into their new Greenbelt homes September 30, 1937. Two days later a temporary, makeshift store began selling necessities to the newcomers. As construction progressed and more families moved in, services expanded and increased. By the end of 1937, Greenbelt had a regular food store, auto filling station, and a pick-up laundry and dry cleaning service.

Strictly speaking, these were not yet cooperative enterprises owned by members. The contract which the Filene affiliate signed with the Resettlement Administration assured that as soon as the town's housing was filled and at least half of the families became members of the cooperative, ownership and control would be transferred from CDC to the consumers.

All through the transition period, the stores and services in the shopping center operated as if they were customer-controlled. Percy C. Brown, president of CDC, and Herbert E. Evans, vice president, spent a great deal of time in Greenbelt during that first year. They made sure the stores and services met local needs; they encouraged the organization of groups for learning economical buying techniques and consumer protection; and they facilitated the formation of the cooperative which would take over GCS.

As the town's population increased, more shops were opened. 1938 saw the addition of a full-service drug store with a lunch counter, a barber shop, a community theater building which was used for plays and movies, a variety goods annex to the drug store, a news and tobacco shop at the bus depot, a shoe repair shop, a beauty parlor, and an auto repair facility at the filling station.

Prices, especially food prices, were a matter of concern to Greenbelt families, none of whom earned more than $1,800 a year. This was the income limit which defined the government project as housing for low-income families. Periodic price checking with other stores in the area marked the formation period of the Cooperative, and throughout the later years this became a routine protection for shoppers at GCS supermarkets.

A checklist made in March of 1939 and published in the Greenbelt weekly newspaper compared the prices of 50 national brand items selected at random by the food store committee of the Cooperative Organizing Committee (C.O.C.). Shopping their list in two nearby chain supermarkets and then in Greenbelt's food store, they found a total of $7.73 in store A and $7.75 in store B, compared with $7.83 at their local store. Since the 8-cent or 10-cent difference was important to families on a limited budget, prices on CO-OP label items were then listed alongside comparable standard brands to show how selective shopping could save money. Even at this early date

it became obvious that Greenbelt's one independent food store would have to compete on prices with the large-volume chain stores in Berwyn, College Park, and Washington, D.C.

Comparative pricing was just one of the many consumer education activities which kept Greenbelters busy during the Cooperative's formative months. Looking ahead to the formation of a consumer-owned cooperative, the CDC/GCS Board advised community members to begin compiling constructive suggestions on running the enterprise, to investigate different types of merchandising practices, and to collect information on stock quality, quantity, brands and prices by visiting leading Washington stores.

Five women volunteered to follow up on this suggestion and soon brought back a list for the manager of the Greenbelt store to use in adjusting stock carried and prices. At their next meeting, the women opened, tasted, tested, and compared various brands of peas, peaches, canned milk, and string beans. A speaker was brought in to provide information on the canning and food merchandising businesses.

From this beginning, the shopping group expanded and soon announced the following findings in the town newspaper:

1. Labels do not give much information.
2. Price is not an indication of quality or value.
3. Brands are not an indication of quality or value.
4. Size of can does not determine actual food content.
5. Some sizes in cans vary so imperceptibly as to be mistaken one for the other but actually contain one or two ounces less in content.
6. Some merchandise not highly publicized may be very good in quality.
7. Merchandise bought in bulk runs cheaper than packaged merchandise.

The shoppers concluded that "the consumer should know the quality he buys for the price he pays".

These Greenbelt women and their neighborhood discussion groups were among the leading advocates for U.S. standards in labeling and for stronger government control, both nationally and locally, of safety and quality in foods and other consumer products. By July 20, 1938, there were 15 of these groups and they formed a Greenbelt Chapter of the National Federation of Consumers. From here on, the groups identified themselves as the Better Buyers' Club, and became an essential and highly regarded part of Greenbelt Consumer Services.

On December 5, 1937, just 2 months after the first families began moving into the new town, a public meeting in the school auditorium launched the campaign to form a cooperative to own and operate the stores that would be serving the community. Wallace Campbell, at that time the editor of

CONSUMER COOPERATION published by the Cooperative League of the U.S.A., "told the fascinating story of European cooperatives in a brief and concise manner, bringing the cooperative movement up to date, from the time of the Rochdale, England, pioneers in 1844 to Greenbelt in 1937." This was how the fledgling town newspaper (a producer cooperative already in operation by volunteers) reported the meeting. Herbert Evans described the role of the Filene Foundation in helping the proposed cooperative get on its feet. Community Manager Roy S. Braden welcomed the townspeople and speakers, and "suggested that in the near future Greenbelt might serve as a model to the world-famous European cooperatives."

The Greenbelt Citizens' Association had appointed a Citizens Advisory Committee on Cooperatives to learn how cooperatives worked, talk with GCS board members and personnel, and prepare a report on how appropriate the CDC proposal would be for the residents of Greenbelt. This report recommended the formation of a Cooperative Organizing Committee. This new Committee would be representative of the whole town, with four members to serve for a year and five until October 1938 when their places would be up for election again — at a time when the town's housing would be filled. Each member would assume a specific responsibility in the overall function of planning and supervising the conversion of the stores from Filene Fund sponsorship to a member-owned, nonprofit cooperative. Furthermore, the Committee was to hold open meetings at least once a month, and report its progress to each meeting of the association.

At an April 4 meeting, Greenbelt residents in attendance adopted the report and nominated 20 candidates. At a second meeting on April 11, an even larger crowd elected: Peter J. Carroll, Henry Little, Dr. Linden S. Dodson, Bertha Maryn, Thomas R. Freeman, Charles E. Fitch, William R. Poole, Reed P. Maughn, and Fred Wilde. When the Committee (immediately designated as the C.O.C.) met 2 days later it named Carroll chairman.

An example of the work undertaken by the C.O.C. was an April meeting in connection with the opening of the drug store. Two hundred and fifty residents showed up (out of a total population of 450 families) to discuss with GCS spokesmen preferred kinds of merchandise and operating policies. Printed forms invited requests for specific items and brands. At the meeting and in the 7 months that followed, buying tips including brand comparisons helped consumers do their shopping.

During the summer and fall of 1938, volunteers on C.O.C. subcommittees built a team totaling 40 or 50 men and women. To explain what a cooperative could do for the community and to promote its formation, the C.O.C. volunteers worked closely with the Better Buyers' women and with GCS personnel. The weekly newspaper boosted these efforts with reports and editorial comments.

Not everybody in Greenbelt, however, supported the Co-op cause. There were some residents who were critical of the rush to form cooperatives. Some frowned on the monopoly position of GCS stores, some mistrusted the idea that the local people could manage their own businesses, and others viewed cooperatives as socialist.

Nevertheless, support for GCS and for cooperatives in general proliferated and strengthened. Greenbelt soon boasted a cooperative nursery school and kindergarten, credit union, and health care association.

By the summer of 1938, GCS was doing well enough to advise shoppers to save their receipts for a possible patronage refund at the end of the operating year. The C.O.C. began planning for the issuance of stock in the proposed cooperative.

As the Citizens' Association had determined in the spring, a second election for C.O.C. members came up after 6 months, when all the housing projects units were filled. Several hundred residents attended the October 10, 1938, meeting and elected Howard C. Custer, Paul Dunbar, Walter Volckhousen, George Fair, Reed P. Maughn, and Joseph F. Loftus to fill the vacancies. The new group of nine then named Volckhausen to be chairman.

Earlier, the CDC had added two members of the C.O.C. — Carroll and Dodson — to the GCS Board of Directors, in preparation for the prospective conversion to local ownership.

A month after the C.O.C. reorganization, the newspaper printed an extra edition to announce November 16 as the start of the subscription acceptance for membership, with a minimum requirement of one $10 share.[1]

By the end of 1938, 373 Greenbelters representing 323 housing units had signed up for membership shares of stock. The target was 443 homes and at least $5,000 for the down payment to CDC.

GCS sales increased as the town's housing units filled. On the first anniversary of the food store, the GREENBELT COOPERATOR noted that the day's sales amounted to $2,089 and compared that to the $11.45 total for 24 customers on the opening day in 1937.

Operations for the first full year (1938) showed a net loss of $6,627, not at all surprising for a start-up period and only 2 months of operation with all homes occupied. The food store, accounting for about 60 percent of the total sales figure, had smaller dollar and percentage losses for each successive quarter. By the end of 1939, GCS turned out a net margin of $5,858.

By the end of March, the C.O.C. had signed up 485 members for the Cooperative, but only 99 had paid the full $10. The others had pledged to

[1] The Greenbelt Cooperative became and remained for many years a stock corporation. The Maryland corporation law recognized only farmer producer cooperatives — no other kind until 1978 when GCS was able to persuade the State legislature to change the law to accommodate the needs of consumers who wanted to incorporate themselves in cooperatives.

pay at least $1 a month. Planning began for the anticipated conversion of GCS in the fall.

An important part of that planning was the distribution of information to Greenbelters who knew little or nothing about cooperatives and those who held negative attitudes about them. To this end, the town's weekly newspaper carried news of what the women's shopping groups were doing as well as extensive information on consumers' interests and about cooperatives. In addition, brochures were distributed to each new family on arrival, defining a cooperative and describing the plan for turning the community's stores into a member-owned cooperative.

Enthusiasm for the cooperative grew. In February 1939, the C.O.C. and GCS, together with the Greenbelt Health Association, held a most successful 2-day Cooperative Institute. Widely known speakers, panel discussions, entertainment, and a dinner prepared by store employees and women from the Better Buyers, attracted a large attendance. In September, the C.O.C. had attracted a large attendance to a public meeting to hear Anders Hedberg, director of Kooperativa Forbundet and of Luma, in Stockholm. He described the consumer cooperative movement in Sweden, where one-third of the population were members at that time and cooperatives handled 60 percent of the retail trade.

In preparation for a June 19 organizational meeting of residents who intended to join the Cooperative, the C.O.C. turned its full attention to drafts of tentative bylaws, the financial agreement with CDC, management contract, and other required paper work. Copies of the proposed plan went to every household prior to the meeting, and two public hearings before the organizational meeting gave the widest possible input. The proposed bylaws and financial agreement with CDC won approval with very little change. Herbert E. Evans for CDC found the documents acceptable except for some legal wording. After a year and a half of hard work and contagious enthusiasm, GCS appeared headed for quick conversion to real cooperative ownership and operation by its customers.

The next 6 months, however, turned out to be disappointing in some respects. Disagreements at meetings were sometimes bitter and, perhaps even more alarming, attendance began to dwindle. Most threatening of all, however, was the fact that subscribers were not completing payment on their $10 shares of stock. By the end of October there were 536 subscribers to membership, representing more than half of the homes in town, but only 310 shares were fully paid. Cash deposits on hand to meet the required payment to CDC was only $3,918.

With a January 1, 1940, deadline established in the contract between the Resettlement Administration and CDC for the town residents to decide

whether they wanted locally owned cooperative stores, a crisis loomed. The C.O.C. debated the interpretation of the word "members" in the contract, and decided that anyone who had signed up to purchase a share of stock could be considered a member. Further, the enterprise now had enough net margin so that possibly some of that could be used to fill out the required payment of $5,000.

The C.O.C. voted 6-2 to proceed with the transfer of GCS to a member-owned cooperative.

Much remained to be done within a 2-month time frame. A score of volunteers went from door to door seeking completion of payment on $10 shares. The C.O.C. sat down with the CDC board and Resettlement Administration officials to work out financial and legal details of the transfer.

C.O.C. Chairman Volckhausen called a meeting for December 12 to take final action on the proposed bylaws of the new Cooperative and on the financial agreement with CDC for acquisition of the stores. Drafts of these documents had been delivered to all subscribers to membership prior to the meeting. This was a public meeting, but only subscribers to shares could vote.

These first bylaws, besides insuring the cooperative character of the association, governed such major matters as the qualifications and privileges of membership, the issuance of patronage returns, the election of directors, the conduct and frequency of membership meetings, responsibilities of the board of directors, how patrons could become members, interest on share capital, disposition of savings, and the setting up of protective reserves.

The financial agreement provided for repayment of the CDC investment of about $40,000 in the local stores over the remaining 8-year period of the lease, with clauses protecting the Cooperative from obligation to make excessive payments during periods of poor net margins and clauses protecting CDC in case of poor management or failure on the part of the Cooperative to fulfill its obligations under the agreement.

The $40,000 represented $10,000 in stock at par value, issued to CDC at the time that it incorporated GCS under Maryland law, plus a $30,000 loan at 4 percent interest. The agreement specified payment as follows:

1. Upon formation of the Cooperative: repay all sums received by the Cooperative Operating Committee as payments on subscriptions for shares of stock in the Cooperative.

2. Quarterly: repay all sums received during the preceding quarter in payment or partial payment for capital stock of the Cooperative.

3. Annually: payments totalling at least $5,000, except that in no case should the payment be more than 50 percent of the Cooperative's net savings for the year. Under the agreement, the Cooperative reserves the right to make payments in excess of those stipulated therein.

To protect CDC, there were the following provisions:

1. Until the obligation is paid, the Cooperative agrees not to undertake any new enterprise or invest more than $500 in capital assets without the prior approval of the CDC, except where greater expense is necessitated for repair or replacement of capital assets.

2. In the event that the Cooperative fails to show a net saving for any 6-month period or fails to make payments as agreed, CDC is granted the right to take over the management of the Cooperative to the extent of placing its own employees in control to direct the business and to make changes which CDC regards as necessary. Such rights of control are granted only under the following conditions:

a. That CDC will be responsible for all debts arising and actions taken during the period of its control.

b. That operations during the period of management by CDC will be in keeping with the cooperative character of the debtor as expressed in its charter and bylaws.

c. That no rights of the membership of the Cooperative shall be suspended except the right of actually directing the management.

d. That while under the control of CDC, the Cooperative will not be required to pay CDC more than the sum of:

(1) One-half the net saving of the period

(2) All payments received on capital stock subscriptions

(3) The amount of defaulted payment, if any

e. That in the event control is assumed because of impairment of its capital investment in the Cooperative, CDC will return control within a month after the end of the second consecutive quarter during which the Cooperative shows a net saving.

f. That in the event control is assumed because the cooperative fails to make payments as agreed, control will be returned within 3 months after payments in arrears are made.

To protect both parties, the agreement stipulated that the books would be audited at least semi-annually by a certified public accountant acceptable to both, and would be kept open to inspection at all reasonable times.

As a prerequisite for transfer of the lease on the store buildings, the solicitor's office in the U.S. Department of Agriculture had reviewed the documents and given tentative approval.

At the December 12 meeting, stockholders and subscribers for shares gave their approval after careful review and discussion.

The retiring Board of GCS met December 29 to wind up the details of the transfer. It found the transition at this time to be "feasible and desirable". It made the necessary changes in the Maryland charter and replaced its

original bylaws with those approved at the December 12 meeting. It retired shares of stock owned by CDC, and then approved issuance of 303 shares of voting stock and 40 shares of nonvoting stock to paid-up members of the new Cooperative. Finally, the retiring Board scheduled an organizational meeting of paid-up subscribers on January 2.

CHAPTER 4

Learning to be a Cooperative (1940-1944)

Putting together a locally owned consumer cooperative had taken 2 years of hard work, and on January 2 about one-third of the 600 subscribers to membership shares turned out for what some called the "most important meeting in Greenbelt's history".

The members at this first meeting elected nine directors from 18 nominees to serve as the Cooperative's first Board; Walter R. Volckhausen was elected President.[1] On January 9, the president and vice president of CDC, which until then held all the stock in GCS, accepted the resignations of the CDD appointed Board, and declared the newly elected nine directors the Board of GCS. The new Board then ratified all actions which the CDC-elected Board had taken to effect the transfer. On January 18, the reorganization was legally completed when the necessary amendments to the articles of incorporation were filed with the Maryland Tax Commission.

Priority decisions crowded the Board's agenda. In a Saturday evening meeting which lasted well into the early morning hours of Sunday, the Board took the following steps:

- Voted to retain Sulo Laakso as general manager (Laakso had been hired in March of 1939, bringing with him 16 years of experience in both chain stores and cooperatives).
- Discussed a patronage refund on receipts which shoppers had saved during l939, and voted to present this for decision at a first annual membership meeting to be held February 7. The auditor's report would be ready by then.
- Agreed on wording for a membership application form. This included agreement to forego proxy voting which Maryland law provided, but which seemed out of place for a cooperative in a small compact community.
- Approved the design for a stock certificate.
- Determined a schedule of semi-monthly meetings of the Board.

[1] The names of all Board members are listed in Appendix A.

• Made arrangements for development of operating policies for the Cooperative with clear definition of obligations and authority of the Board and the general manager.

• Determined to put together rules of procedure for the Board.

All the decisions at this meeting were unanimous, after thorough discussion. The Board was off to a strong start.

Operating and financial figures for GCS also appeared strong. An audit report by the Cooperative League Accounting Bureau certified the following balance sheet as of December 31, 1939:

Assets	
Current assets	$31,791
Investments in cooperatives	807
Leasehold	8,400
Fixed assets (net after depreciation)	8,328
Deferred charges	5,073
Total assets	$54,399

Liabilities and Capital	
Current liabilities	$15,896
Long-term debt (owed to CDC)	35,000
Capital:	
Stock outstanding	$3,430
Reserves	73
Total liabilities and capital	$54,399

Sales for 1939 totaled $346,142. The net margin was $5,858. Of this amount, $1,570 went to CDC to make up the shortfall in cash from subscriptions for stock in meeting the $5,000 initial obligation in taking over the enterprise. Allowing for reserves, the Board was able to recommend a patronage return amounting to $2,000.

Stockholders at the February 7 membership meeting approved after lengthy debate, the patronage refund, which amounted to a 1.5 percent return on purchases. Some members contended that patrons who had not already bought shares should not benefit from the refund. Others countered that in a cooperative, a patronage return represented an overcharge above the cost of doing business and should go back to the purchasers in proportion to the total amount of purchases. It was also urged that customers who were not yet members could apply their refund to the purchase of a share of stock, thus building membership. As it turned out, very few of the paid-up stockholders asked for a cash return, so most of the earmarked $2,000 helped pay

for shares of stock and provided an additional margin of operating funds for the Cooperative.

Some agenda items at the meeting were more technical. While GCS produced a net margin for 1939, there remained a net loss from the start-up period. The creation of a "leasehold" of $8,400 as an asset on the balance sheet, to be paid off within the 8 years remaining on the lease, would wipe out that deficit. This had the approval of CDC and the Department of Agriculture, as well as the auditor. It won membership approval.

The meeting included two other important decisions. There was a vote to have GCS join the Eastern Cooperative League and the Eastern Cooperative Wholesale which clearly aligned GCS with the organized cooperative movement. The other action was membership ratification of the final wording of the Cooperative's bylaws.

These first bylaws set a pattern. Despite the many changes and rewrites in the 50 years that followed, essential protections endured until the last several years, guaranteeing the GCS cooperative identity and democratic control by its members.

Here are notes on a few provisions that indicate what the Greenbelt cooperative pioneers had in mind:

• The purpose shall be to promote the economic welfare of its members and patrons by utilizing their united funds and efforts for the purchase, distribution, and production of goods and services of good quality; to associate itself with other cooperatives for mutual aid; and to advance the consumers' cooperative movement.

• Membership would be open to any Greenbelt resident and to any nonresident, except persons whose aims and purposes are contrary to GCS or other cooperatives.

• The authorized share capital was set at $60,000, divided into $20,000 Series A voting stock and $40,000 Series B nonvoting stock, each with a par value of $10 per share.

• Membership required purchase of one $10 share of Series A voting stock, but additional share holdings were limited to Series B nonvoting stock. This fulfilled the "one member — one vote" principle.

• No one could own more than 20 shares, a maximum investment of $200, in order to prevent undue influence on policy or operations by one or a very few persons with large investment in GCS. This limit had to be raised later when GCS began to expand.

• The initial dividend rate was set at not more than 3 percent (later raised to 6 percent to attract needed capital).

• Members who wanted to sell their shares would have to offer them first for repurchase by GCS at a price not to exceed the lesser of par value or book value. This provision would eliminate incentives to buy shares for

speculation and also avoid stock falling into possession of persons unfriendly to the Cooperative.

• Dividends on shares would take precedence over patronage refunds, in recognition that return on capital was an accepted requirement of doing business.

• Provision was made for reserves out of net savings, as a protection and to make special projects possible.

• Patronage refunds would require a membership vote, on recommendation from the Board. Refunds would go to nonmembers for application toward a membership share of stock.

• The initial quorum called for 25 percent of the membership but this was reduced as GCS grew in size and expanded outside of the town.

• Election of the nine directors was to be by secret ballot. Instead of majority vote, the first bylaws called for election by the Hare system of proportional representation. This was quite a fad in Greenbelt at the time and provoked much controversy. Supporters pointed out that giving each voter the opportunity to cast a ballot showing a rating from first to last choice for each candidate permitted minority viewpoints to be represented in the final selection. They saw this as more democratic than giving all power and control to the candidates representing a majority position. Opponents called the system confusing and time-consuming, and stated that its results fragmented boards with resulting dissension and inability to reach decisions. After some years and many public arguments, proportional representation was discarded in favor of majority voting.

• Conflict of interest and relationship between the Board and the general manager were defined so as to discourage any director from taking advantage of his elected position for personal gain and from "playing store".

The ensuing months saw the Board grappling with issues that all new businesses have to face. Attention was given to satisfying the widening range of demand for goods and services, increasing sales in the stores, boosting membership and purchase of shares for more adequate capitalization, and providing education and training in cooperative principles and practices.

In seeking to establish policies and practices that would be widely accepted, the Board often turned to the membership. This could be done easily in 1940 because the membership was still around the 500 level, the service area was small enough for walking from one end to the other, and quarterly meetings enabled everyone to contribute opinions. In later years, as membership grew and spread geographically, Board and management had to make decisions without membership input — but the imprint of early experience lingered. There were always a few advocates of membership participation in the decision making process.

Some of the first issues to confront the Board and the members were labor relations and wages (specifically, authorizing raises), disbursement of net margins (patronage returns or expanded services), and effective advertising plans.

As with most businesses, personnel issues were always important. Turnover seemed high. Incomes were seen by some as low. For the Cooperative in the early Greenbelt years, transportation from other communities posed hiring difficulties. The labor shortages and rising wages and prices of the war years exacerbated the problem.

GCS sought to ease personnel problems with training programs. Selected employees from the food store were sent to short-term trade association programs for retail sales and marketing. Some supervisors, as well as directors and other membership leaders, attended the annual Summer Institute offered by the Eastern Cooperative League, and training courses offered by the Rochdale Institute. This kind of educational experience kept GCS leaders and top-level personnel in touch with other organizations in the cooperative movement for many years.

Ironically, one result of these special training programs was additional turnover as some moved to manager level jobs in co-op stores in other parts of the country. Sulo Laakso, for instance, left Greenbelt in September 1940 to accept a district managership for a chain of 40 supermarkets in New England. The GCS Board replaced him with George Hodsdon, who had been assistant general manager.

Sales increased and net margins improved. Total sales for 1940 came to $376,872, and net margins amounted to $9,667. That made possible a Christmas bonus for employees, repayments ahead of schedule on the loan to CDC, and a patronage return of 3.85 percent. This was after paying the dividend on shares of stock. Not bad for the Cooperative's first year of business!

Membership interest and involvement also remained high during this period, and services continued to expand. Toward the end of the year, GCS had opened a full valet shop which included shoe repairing and had started a garage service next to the service station. On January 16, 1941, the variety store opened in the last vacant space in Greenbelt's shopping center.

The balance sheet as of December 31, 1940 looked like this:

Assets	
Cash on hand and in banks	$18,206
Merchandise inventories	17,443
Investment in cooperatives	3,191
Leasehold	7,350
Fixed assets (net after depreciation)	10,339
Deferred charges	2,570
Total assets	**$59,099**

Liabilities and Capital	
Current liabilities	$17,042
Long-term debt (owed to CDC)	25,996
Capital:	
Stock outstanding	$6,694
Net margin for dividends, refund, taxes, reserves	9,366
Total liabilities and capital	**$59,099**

1941 was another year of learning for GCS, with some bright spots, some discouraging incidents, and further growth.

Ripples from the war in Europe soon reached into Greenbelt. In February 1941, it was announced that 1,000 additional houses would be built in the town to accommodate defense workers who were taking new jobs in the Washington area.

President Volckhausen alerted members that the increased population would require expansion of the Cooperative's facilities and therefore, "we must strengthen its capital structure. This can be accomplished through the sale of additional shares, increased patronage, and more sale of CO-OP label products on which the margin is higher than on nationally advertised goods."

Another result of the influx of new families, most of whom had no experience or knowledge of cooperatives, was the strengthening of Co-op information and education programs. Once again newspaper support, advertising, neighborhood get-acquainted parties, and brochures distributed to all newcomers helped inform the public about the co-op.

By April, the Cooperative had 771 paid-in-full members.

On the down side, Co-op members for too long a time looked upon investment in GCS shares of stock as something like a credit union or savings account, where money could be withdrawn whenever needed. The Board's practice of accepting all shares offered for repurchase encouraged this atti-

tude, and the result endangered the Cooperative's cash position. On the other hand, directors feared residents would not risk the purchase of shares without the buy-back assurance.

The Board did take action on this when General Manager Hodsden pointed out to the Board in December 1941 that studies in the food marketing field showed a required investment of about $30 for each family. The Board proposed a bylaws' amendment setting a minimum investment of $30 for members requesting repurchase of shares unless moving out of town. This was approved at the following membership meeting.

Another lesson was learned when the spring quarterly meeting in 1941 opened with a quorum, but had to adjourn when too many members left after the door prizes were given out. While the first Board had perhaps been unrealistic in defining a quorum as 25 percent of the membership, this spring meeting signalled something else as well: early enthusiasm was waning. Attendance at both membership and board meetings dropped. The frequency and length of meetings produced fatigue and frustration. Important decisions were being postponed more often. and too much time was being spent on administrative and bureaucratic matters like approving individual memberships and repurchase of shares.

Also noticeable was the large number of trips for meetings, conferences, and training courses. These were important for maintaining contact with other cooperatives and for learning how to improve performance. The cost of each trip was low, running in the $10 to $50 range. Even so, this came at a time when store margins were being squeezed and scheduling pressures caused absences and failures to prepare reports.

Pressures on the directors then and at later intervals caused frequent turnovers on the Board. This was recognized as a weakness, and from time to time remedial measures were taken. At a membership meeting in May, there was a proposal to pay directors $2 per meeting, but absence of a quorum held up any action until a later date. Another try at easing pressure on directors and active volunteers was a proposal to hire a staff member for cooperative education and promotion. This came before the membership meeting in June but was defeated amid declarations that investing the amount of the salary in lower prices and better service would be more useful.

Changes took place in the stores, too. Thomas Ricker was appointed assistant general manager by the Board in May. Sales and net margins were satisfactory for the first part of the year, but rising wholesale prices and shortages brought on by the threatening war situation began squeezing margins. People complained of rising prices. The GREENBELT COOPERATOR conducted price surveys with other stores, and concluded that, on average, Co-op prices were about equal to others. While Co-op supporters would always point out the added value of the patronage refund and of

shoppers controlling their own stores, price comparisons would remain a controversial issue.

Three events near the end of 1941 forced great changes upon GCS. The first was the completion of the 1,000 new houses for defense workers. Newcomers would outnumber the original residents. The GCS Board, together with the general manager, saw that the existing facilities were already at capacity. They began plans for a second food store and another service station in the north end of town, where much of the new housing was clustered.

Almost at the same time, the Farm Security Administration announced that it would begin enforcing its income limitations for renters. This threatened to evict about 300 families who had met the income ceilings when they moved into Greenbelt but had acquired better jobs or salary increases since then. In jeopardy was the leadership corps, not only of the cooperatives but of nearly all organizations in the community.

Then Pearl Harbor was bombed by the Japanese on December 7. Priorities shifted immediately in Greenbelt along with the rest of the country.

During the war years, building materials were not available for new shopping facilities. Wholesale prices climbed, narrowing margins and making consumers unhappy. Gasoline, sugar, butter, and other commodities were in short supply, and GCS resorted to rationing even before that was ordered by the Government. The draft had already taken away some of the community's men, and now the depletion increased, with war-related jobs drawing away many spared from the draft.

Despite difficulties during the year, the Cooperative's sales totaled $450,034, with a net margin of $6,859. That made possible a 1.5 percent patronage refund on 1941 purchases.

1942 saw an even better operating performance. Total sales climbed to $690,157. Net margin came to $34,982, allowing the Board to declare a patronage return of 5 percent with the approval of members at the annual meeting. This proved to be the highest profit ratio (net margin to sales) in the Cooperative's long history.

1942 as a whole was not without its problems, but they drew less criticism than the previous year's difficulties.

The Washington newspapers, which had criticized and poked fun at Greenbelt from the time construction got underway, took space to praise the Cooperative for initiating the rationing of scarce goods. In particular, they expressed amazement that members responded to a plea from the food store manager by selling back about 500 pounds of sugar so it could be shared with other shoppers.

While the Board and general manager searched for ways to provide facilities for serving the new war housing residents at the north end of town, the Federal Works Agency, which controlled these houses, advertised for

commercial enterprises to locate there. When GCS complained that it had not been notified or invited to bid, the FWA withdrew its bid request, acknowledging it had not been in touch with the Farm Security Administration and was not aware of the GCS lease.

In early spring, word came from the Farm Security Administration that it would postpone enforcement of its income ceiling. This was good news for community organizations, including GCS, which feared losing leaders. The community was already experiencing dislocations resulting from the war. General Manager Hodsdon was called to active duty at the end of March. The Board replaced him with Tom Ricker.

As the stores became more crowded, the Board met with Farm Security Administration officials to secure a lease for space to accommodate a second, smaller shopping center. Along with this effort, the Board began a drive to raise additional capital. The planning ground to a halt in September when the War Production Board said "no" to a request for scarce building materials.

A makeshift remedy emerged when GCS secured rental of four row houses on Laurel Hill Road and opened them as the North End Store on January 20, 1943. The community newspaper described it in detail:

"At first you may not be sure you've come to the right place... just a row of houses like so many others. But once inside you'll be glad you've come....Shoppers expressed appreciation for the intimate atmosphere which is possible only in a small store.... bright and cheerful in its four connecting living rooms....in some ways it won't be as convenient as the big store in the center of town. You'll have to carry your basket because there's no room for the carriers...."

All facilities at this time were crowded. At one point the valet shop stopped accepting dry cleaning for lack of space. The barber shop's three chairs could not handle the demand, but there was no room for expansion.

Eastern Cooperative Wholesale in New York City supplied the food store. By 1943, GCS was the biggest user of CO-OP label canned and packaged goods as handled by ECW. On Greenbelt's initiative, the wholesale operation and the Eastern Cooperative League, as well, reorganized into three districts. This made possible a warehouse in Philadelphia to serve cooperatives in Pennsylvania, southern New Jersey, Maryland, Delaware, District of Columbia, and northern Virginia. It also gave to the GCS Board a stronger voice in operations of both the Wholesale and the Cooperative League.

GCS joined with Rochdale Cooperative of the District of Columbia in exploring the advantages of buying fruits and vegetables direct from farmers in nearby Maryland and Virginia. The two organizations also shared some educational projects and exchanged visits.

Wartime shortages in supplies encouraged ECW to move into some processing. CO-OP label coffee, ground and roasted in the wholesale plant, became a favorite on GCS supermarket shelves for many years.

Rationing, with its limits on scarce goods and the complications of coupon books, was a burden on Co-op employees as it was to the whole retail trade. GCS personnel and member-owners, however, probably survived the war period's merchandising irritations with better spirit than could be found on average. Membership and management made it clear from the beginning that they would not put up with black markets, hoarding, and under-the-counter shenanigans. Placards on the shelves advised shoppers about supply scheduling, substitutions, the reasons for price changes, etc. Greenbelt's greatest frustration may have been at the service station. The town was a long way from Washington, where most residents worked, public transportation was minimal, and the tight rationing of gasoline, oil, and tires was an extreme hardship.

The Cooperative also took a lead in selling war bonds. To meet the quotas GCS set for itself, it offered free movie tickets and free haircuts for purchasers of $10 war bonds. One of these drives, shared with the Navy Wives, raised $40,175 in bond purchases.

Total sales for 1943 jumped to $1,001,669, with nearly two-thirds of that total achieved in the food stores. The net margin for the combined operations was $31,350. This remained after the Board had made payments ahead of schedule on the loan from CDC. After paying dividends on stock and setting aside reserves, there was enough remaining for a patronage refund of 3.125 percent on purchases.

The principle reason for the poorer showing than in the previous year was clearly seen in the operating statistics. Although the general manager had reduced expenses from 23 percent of gross sales in 1942 to 21 percent in 1943, the cost of goods increased from 69.4 percent in 1942 to 72.8 percent in 1943. The Office of Price Administration was holding retail prices, but wholesale prices were allowed to edge upward.

By 1941 GCS had 120 employees to look after. The Board had already adopted, with membership approval, a staffing pattern and salary scale. A plan for accident insurance and coverage of hospital costs was soon adopted, and, responding to a controversial firing of a checkout clerk, a grievance committed was created.

In the continuing effort to help members understand the Cooperative, resolve shoppers' complaints, and pick up suggestions for better service, the education committee organized a warden system for the nine "blocks" of the town. Each area was broken up into neighborhoods clustered in the cul-de-sacs that make up the Greenbelt housing pattern, and a knowledgeable GCS member, or "warden," in each neighborhood was chosen to serve as a volunteer

connecting point for the Cooperative.

Although the set-up was informal and flexible, responsibilities of a warden included:

• Calling on new residents in those 10 to 20 homes to help them become acquainted with Greenbelt and its cooperatively owned stores.

• Passing complaints and suggestions about operation of the stores, and following through until results are obtained.

• Passing information from the Board down to the neighbors.

• Encouraging attendance at the quarterly meetings.

• Providing neighborhood social evenings, which might include tasting parties, price checking, and consumer education features.

The system was never fully completed, but served usefully for a time, and was revived some years later during the Cooperative's expansion periods. While small co-ops have no problem in keeping the customer-member-owners in close touch with operations of the store, Greenbelt, with its ever increasing membership roster and expanding population would need to be on the lookout for better ways to establish two-way communication between members, management and the Board.

1944 also saw the development of the Potomac Cooperative Federation. This was an educational and promotional organization with an office and two paid employees in Washington. Greenbelt members included GCS, the Greenbelt Health Association, and the Greenbelt Cooperative Publishing Association. GSC, as one of the Federation's largest member organizations, helped provide financial support.

During the Federation's existence, its contributions were impressive. It offered two training seminars a year; helped find leadership, employees, and support for struggling new co-ops; assisted in public relations and legislative liaison; and provided a forum for the exchange of ideas with weekly open luncheon roundtables and a newsletter that went to about 650 co-op leaders.

Representation on the Federation's board was related to the size of membership and financial support. After a few years, the Board of GCS became dissatisfied with the influence of very small cooperatives in the Federation and with the financial burden. Withdrawal by Greenbelt crippled the Federation and caused bad feelings within Washington area's cooperative leadership.

In mid-1944, infighting on the Board, a lack of majority opinion on how GSC should be run, and administrative problems began to seriously affect the enterprise. The nine directors who made up the Board differed in their basic views about objectives and policies for GCS. The election system of proportional representation encouraged factions that were often divisive. One Board faction was called idealistic and naive; the other was seen as anti-

cooperative. This generalized division could also be seen throughout the town of Greenbelt.

This lack of consensus often hindered the Board's effectiveness in dealing with an increasing number of problems. One such problem sprung from the widespread belief that Jack Fruchtman, the movie theater's manager, was making too much money. The bonus percentage of gross income from the theater in addition to salary came to $10,285 for the year — several thousand dollars more than the general manager's salary. This level of "affluence" was noisily resented by some in this community where the average annual income was closer to $2,500. The problem was exacerbated because an earlier Board had given Frutchman a 2-year contract.

Personnel problems surfaced again when the manager of the variety store left in September. Ricker told the Board the only way he could get a new manager would be to offer a contract, probably for more than one year. There was already a purchasing contract for the variety store which locked in Butler Brothers as the exclusive supplier. This barred stocking and selling of any CO-OP label merchandise in the store.

Then the drug store manager/pharmacist departed, leaving a town of nearly 2,000 with only a part-time pharmacist. Maryland law at that time required a registered pharmacist to be on duty for any hours that a drug store could be open. The community faced an emergency situation. The general manager advised the Board that he could find a pharmacist-manager only by offering a long-term contract with a percentage of sales as a bonus in addition to salary if a profit could be produced. The operation had been showing a loss which became more and more serious.

Directors found themselves divided on the question of contracts, and the Auditing Committee jumped into the fray by declaring that only the membership body could authorize contracts. Lawsuits were threatened.

Personnel problems escalated when the Board learned that their general manager, Tom Ricker, was spending part of his time managing a liquor and variety store of his own at Cedar Point, Maryland. Some directors and the Auditing Committee saw this as conflict of interest, especially as the business was tied in with a contract with Butler Brothers, the supplier also under extended contract for the Cooperative's variety store. Adding fuel to the fire were reports that two directors and the part-time attorney for GCS were involved in Ricker's venture.

Max Salzman, chairman of the Auditing Committee, called for a special meeting of the membership. After a stormy executive session of the Board, Ricker agreed to resign. The arrangement provided that he would stay until a new general manager was found and an inventory was taken.

Fruchtman, the theater manager, offered to take over the general manager position and the Board approved, 5-4, but then backed off when three store

managers handed in their resignation in protest against Fruchtman as general manager.

The Board finally agreed unanimously on Samuel Ashelman as General Manager. Ashelman had begun his career in cooperatives straight out of college as an employee with one of the TVA rural electric cooperatives. He had experience in running cooperative food stores, marketing, and had travelled to Europe to study cooperatives in Scandinavia. He also worked for Eastern Cooperative Wholesale as a trouble shooter, before being advanced to manage the Philadelphia warehouse.

Ashelman started work for GCS on December 11 at a starting salary of $6,000 a year. He knew in advance most of the problems which had to be faced.

CHAPTER 5

Growing Up (1945-1946)

With a new general manager hired and a new year ahead, the Board of Directors gave special attention to the auditor's report for 1944, which pointed to several operational aspects which needed correction:

• Food store expenses increased from 11.1 percent in 1943 to 11.9 percent. The departmental margins were 4.6 percent in 1943 and only 2.8 percent in 1944. The gross margin decreased from 15.7 percent to 14.7 percent. Since the food store represented more than 58 percent of total volume, this one percent drop meant a loss of income of over $6,000.

• The drug store departmental loss was over $4,000 as compared with a gain in 1943 of almost $950.

• The valet shop showed a departmental loss of over $2,500 as compared with a $300 loss for the previous year.

• The ratio of inventories to total current assets was increasing — 56 percent in 1943, 67 percent in 1944.

• Capital needed to be increased to take care of known future needs. The original equipment installed was beginning to be inadequate for present needs, and a program of replacement appeared to be imminently necessary.

Ashelman saw that in his first year as the new general manager he must make hard-nosed changes in procedures and staff. The continuing war shortages made any and all remedial steps difficult. A split Board of Directors added to the difficulties.

However, the membership meeting of February 28, 1945, elected five new directors which tipped the balance of control on the Board to those solidly in support of cooperative enterprise. Dayton Hull was elected unanimously as president and introduced a measure of common sense compromise that provided stability on the Board.

If the Board was enjoying a brief period of consensus, the town council was not. 1945 saw the election of a slate endorsed by a group calling them-

selves the Committee of American Voters (later the Greenbelt Improvement Committee). The group was generally unsympathetic to cooperatives, and in favor of increasing competition in Greenbelt by bringing in private enterprise. While this group never achieved enough representation on the GCS Board to seriously jeopardize the Co-op's founding principles, they had enough influence to stir up dissention and widen the growing rift between the pro and anti co-op factions. This rift would continue to reverberate for a long time.

There were several divisive issues which the Board had to deal with in 1945. Toward the end of the year, leaders of the Potomac Cooperative Federation put together a proposal for an FM radio station which would be a nonprofit cooperative venture to offer quality programs, promote cooperatives, and provide information geared to consumer education and protection. This came about partly because of a refusal by NBC and CBS to sell broadcasting time to cooperative organizations; the broadcasting companies believed that cooperatives were controversial, and that the cooperatives would use the programs to build membership. The question of GCS participation was debated by the Board, with opposition from those who were apprehensive about the amount of the investment and also from vocal Greenbelt residents who looked with disfavor on additional cooperative ventures.

Another divisive issue was the question of whether Tom Ritchie, a director on the GCS Board, should be allowed to resign and be employed on the staff as accountant. The bylaws, as a protection against conflict of interest, required a 1-year interval before a retiring director could be employed on the staff. A vote at a membership meeting, however, could provide an exception. Ritchie did resign, worked for some time on the staff of the Potomac Cooperative Federation, and much later was re-elected to the Board. In the summer of 1945, though, the question of whether a director could resign and be employed on the GCS staff was one of many incidents which caused bad feeling in a personal way that was quite typical of life in Greenbelt.

One more contention at about this time helped the Board move toward maturity. Sam Ashelman, the general manager, fired the manager of the variety store after warnings about improvements which were required. William Siegel, the store manager, asked for an appeal before the employees' grievance committee. Ashelman pointed out that a general manager must have the right to hire and fire top staff, with Board confirmation. This was not, he maintained, an employee grievance case.

Members took sides in this matter, as they had in all Co-op staffing problems. After Siegel's dismissal was confirmed, the Board issued a clear statement to the effect that top staffing was not a decision to be made by committees: the members controlled the Board, and the Board was responsible for management through the general manager.

In spite of all the dissension, 1945 was a very good year for the Cooperative. There were fewer meetings of the Board of Directors, but attendance improved. Solutions were found for many problems.

Shortages in manpower, building materials, and a wide range of consumer goods which had plagued GCS for 4 years eased somewhat as the war came to an end. By December the Board and general manager had agreed on plans for a new building on the north side of the shopping center which would house a much larger supermarket, a separate pharmacy, and a lunch room or small restaurant. This replaced earlier plans for construction of a store in the north end of town to replace the makeshift use of four houses there. Application for land lease and permission to build went to the Federal Public Housing Authority.

A very successful stock share drive had raised $53,000 in additional capital for anticipated expansion of facilities to serve Greenbelt.

In October, GCS paid off the last installment of its $40,000 debt to CDC, well ahead of the 10-year deadline. This improved the balance sheet and helped establish a good credit rating for the Cooperative.

In the last days of 1945, the Cooperative gave the people of Greenbelt a Christmas present: a bus which circled Greenbelt for 5 cents. A second bus was purchased some months later so that continuous service could be assured. After a 3-month period of successful operation, GCS obtained a 1-year renewable franchise from the Town Council. This cooperative bus service won enthusiastic praise from residents, especially those in the north end of town. They could now ride to the shopping center and back home for 10 cents. At the center, commuters could transfer to the bus service into the District of Columbia and other points outside of town. This had special importance in the period just after the war when gasoline and tire shortages still crippled private auto trips.

Gross sales for the year, covering all operations, totaled $1,162,851. Net margin before patronage returns and taxes came to $28,534. Only the tobacco shop and valet shop failed to produce savings.

The auditor's report showed the following significant comparisons with the previous year:

	1945	1944
Working capital	$79,800	$45,100
Working capital ratio	2.35:1	1.8:1
percent of inventories to total current assets	60%	67%
Ratio of fixed assets and investments to capital	34%	50%
Turnover of capital	12.7	17.0

On the downside, the report noted that "Working capital is low, because of the requirements of your check cashing service....Inventory percentages and the actual inventories are considerably higher than they should be.... Grocery turnover is only 9.9, when the average for the larger cooperatives is between 12 and 14."

Results of operations in 1945 permitted payment of a 5 percent dividend on shares of stock and a 2.5 percent patronage refund. Membership at year's end was 1,820. Capital stock totaled $75,078. The GCS staff numbered 113 employees.

Education and information drives expanded during this period. Informal discussions were held weekly, covering topics such as principles of cooperation, Greenbelt's origins, prices and services in GCS enterprises, shopping tips and the CO-OP label.

This kind of information became more and more helpful to shoppers facing the scarcity of goods, rationing, and price controls that followed the war years. Advertisements and stories in the newspaper, the *Co-op Newsletter*, and signs in the stores let shoppers know when shipments of scarce products were expected, which items were overpriced, and possible substitutes.

When President Truman called upon Americans to consume 40 percent less wheat and 20 percent less fats and oils in order to increase shipments to starvation areas abroad, GCS leaders helped organize a local campaign to reduce purchases of these products.

As soon as the Office of Price Administration lifted ceiling limitations in July 1946, there were immediate price increases on products in short supply, especially popular items like beef, butter, sugar, canned milk, orange juice, and soap. Tom Okazaki, food store manager, announced that the Cooperative would limit its price increases to the markup which had been permitted earlier under OPA regulations. Although it would reduce the Cooperative's gross margin, this pricing policy would be followed for as long as possible.

An advertisement in the July 19, 1946, GREENBELT COOPERATOR explained that "A cooperative is in business for service, not to 'make money' out of its customers....The termination of OPA has resulted in general confusion in the business world....Consumers are just beginning to feel the real effect of increases. GCS dislikes seeing price increases and has consistently worked for price controls....Our present policy is to...temporarily refuse to stock items unreasonably high in relations to other items, hoping prices will come down. If the prices do not come down after a temporary period, we will stock the item. However, we will urge you to buy as little as possible."

The use of loss leaders came up for discussion early in 1946, with some members favoring their use to encourage more shoppers to use the Greenbelt store rather than the chain supermarkets offering loss leaders in Washington

and the suburbs. GCS decided against loss leaders as deceptive. Years later, when GCS supermarkets had to compete for customers, loss leaders were used.

Some of the complaints about high prices in Greenbelt resulted from a Maryland law which set a floor under the prices of many products sold in drug stores and variety stores. This was called the "fair trade" law by manufacturers who enjoyed the profits guaranteed by the law. The District of Columbia had no such law, so prices could be slashed on high margin products, much to the satisfaction and benefit of shoppers there. Years later, when GCS operated a number of drug stores, it succeeded after a long and bitter battle in persuading the State legislature to abolish the so-called "fair trade" law.

Another Greenbelt controversy that led to much bitter feeling stemmed from the Government's handling of the town. As envisioned and created by the planners in the Resettlement Administration, Greenbelt was to be a model town, centered around people and community, providing a good life for its inhabitants. The Federal Public Housing Authority (FPHA), which inherited Greenbelt in August 1945, looked upon the town as just another housing project: rents to be collected, minimum maintenance, a piece of real estate that could be juggled about until the Government could get rid of it.

There was much to feed a sense of unease among residents. Rumors abounded that the government was considering selling Greenbelt, and many residents and co-op leaders began talking about mutual or cooperative ownership of homes.

Just about all Greenbelt families wanted to stay in their homes when the time came for the Government to dispose of the project, but some saw the sale of the buildings and land as an attractive opportunity to profit in real estate. Others simply wanted to own their own home free of possible entanglements which they feared in any kind of joint arrangement. The majority of the town council made it clear that they opposed mutual housing.

The cooperative ownership view finally prevailed, however, after months of debate. The Greenbelt Mutual Housing Association was formed to negotiate with the government for the purchase of Greenbelt. The success of this effort had a crucial impact on GCS, as its future was inextricably tied to the future of the town.

Another critical problem was finally solved when FPHA signed a lease with GCS for the long-planned new supermarket building in the shopping center. The signing was on November 15, 1946, exactly 364 days after the Cooperative had sent in its application. The FPHA, after another considerable delay, renewed the GCS lease on the rest of the shopping center. With these leases in hand, the Cooperative launched a drive for sale of stock shares to raise $200,000 in capital. The initial effort brought in $33,355 in new shares

to be added to $26,000 from the previous drive. There were further delays, though, before construction got underway, and the new store didn't open until November 10, 1948.

Around the same time these leases were being signed, the issue of the Cooperative vs. private profit-making businesses became a reality. Prince Georges Bank & Trust Company, a commercial, privately owned bank, was granted permission by the FPHA to open a branch in Greenbelt. The announcement came as a surprise, and spurred a flurry of community activity. GCS pointed out that they had not been formally notified of the plans, a requirement under the terms of their lease with FPHA. A group of Greenbelt residents, headed by Councilman Allen D. Morrison, stated that work had been progressing for nearly a year to organize a bank, but that formal application to the FPHA had been held off in the thought that GCS might want to go into the banking business. GCS, in turn, quickly looked into the viability of opening a cooperative bank. When it was determined that fiscal barriers would make such an endeavor almost impossible at the time, GCS dropped the idea. Thus, on April 7, 1947, Prince Georges Bank & Trust became the first private profit-making enterprise to come to Greenbelt.

Three weeks after the September 13 bank announcement, opposition to the Cooperative burst into the open again with a Town Council resolution asking FPHA to open Greenbelt to "private enterprise". It stated, in part, "that as the official body of the town, we believe that the best interests of the Town and of all the residents, would be better served by the introduction of private enterprise, in the Town, to furnish additional stores and also competition to the present cooperative monopoly, and...that the proper authorities of the FPHA be advised of this action...." This resolution passed.

A surprise problem was dropped in the laps of the general manager and the directors when the Wage Stabilization Board cited GCS for 69 violations in the period prior to Ashelman's acceptance of the general manager position in December 1944. These were unauthorized increases in pay for various employees. Legal penalties could have been as high as $50,000, but Ashelman was able to negotiate the fines down to a total of $1,500, on the basis that the Board at that time was unaware of the violations and the general manager who approved the raises was no longer employed by GCS.

Other happenings at the end of 1946 vied for attention. The GCS Board had joined sponsorship of the experimental cooperative FM radio station in Washington, WCFM. A radio and appliance repair shop, a one-man service which required no capital investment, was opened. The valet shop began selling a limited stock of children's shoes, although more as a convenience for local mothers than as a money maker.

There were the twin concerns of rising prices and shortages of supply.

During 1946-47, prices of meats and especially beef reached such out-of-line proportions that the Greenbelt Cooperative began a boycott. Signs at the meat counter in the food store advised customers which items were not available due to excessive slaughterhouse and wholesale prices, which items were available but not recommended due to high retail price, and suggested substitutes. Shoppers who supported the effort were rewarded with feelings of righteousness, and there was a Congressional investigation of monopoly in the meat supply industry, but prices did not ease off until there was an ample supply moving from farms and ranches to markets.

Some direct control over prices by the Board or the membership was an appealing idea in a cooperative where the consumer is the boss, but management found this increasingly burdensome. At the lunch counter in the drug store, members clamored for the continuation of coffee at 5 cents a cup even when the general manager pointed out that the actual cost was 7 cents a cup and that most other lunch counters were charging 10 cents. It was only when 5 cent coffee was shown to lower the patronage refund that pressure eased.

Giving full control over pricing to management was a slow and painful process.

Management, Board, and membership were showing more maturity as they approached the end of 1946. Increasing numbers of visitors were coming to Greenbelt to observe how this cooperative was serving its members. Food Store Manager Tom Okazaki, returning from the annual Co-op Institute at Amherst, N.Y., reported that, "Greenbelt is considered by others as the utopia of co-ops."

As GCS continued to grow, it was often asked to take stands on political issues. Beginning in this period, and continuing over the years, the Co-op was involved in unions, race relations, community groups, and other cooperatives. While it was often difficult, it not impossible, to get the Board and membership to agree on these issues, it was becoming clear that GCS was more than just a grocery store.

At the end of the 1946, GCS had assets of $268,485 and liabilities of $62,328. Capital and reserves were in good shape, and there was enough left over for a 2.5 percent patronage refund.

Here are the key figures from the operating statement:

Sales	$1,428,586	100.0%
Gross margin	378,700	26.5
Salaries	181,031	12.7
Administration expenses	38,775	2.7
Operating margin	29,461	2.1
Net income	38,259	2.7