Exploring Cooperatives:
Economic Democracy and Community Development in Pennsylvania and Wisconsin
Chapter 1

Case Study: Willy Street Co-op

Courtney Berner

Introduction

The Willy Street Co-op is a consumer-owned co-op located in Madison, Wisconsin, and has been one of the city's major purveyors of natural and organic foods since it opened its first storefront in 1974. The co-op developed in the context of the anti-corporate movement of the 1960s and 70s and in response to an increasing demand for locally controlled, natural foods. The early organizers were a "small group of dedicated and political people who were determined to build an alternative food source for themselves and their community." The departure of a local buying club from the Williamson Street area spurred the co-op's creation. At the time, the area surrounding the co-op was a somewhat rundown neighborhood with a diverse socio-economic make-up. The core group of co-op organizers, however, was quite homogeneous and most of the early staff and board members were friends or family. Since this humble beginning, both the co-op and its neighborhood have changed significantly. The Williamson Street neighborhood has gentrified considerably while the co-op has developed into one of the nation's largest and most successful grocery cooperatives.

The co-op quickly outgrew this space and relocated in October 1977. The inventory expanded greatly, sales doubled almost immediately, and membership grew from 1,300 to 4,000 in five years. This success came with staff and governance challenges. Until this point, the co-op had had no formal governance system, board of directors, or staff structure—the staff operated on a non-hierarchical, consensus basis, and most governance issues were addressed at monthly membership meetings. It is important to note that while the co-op was created to supply consumers, there has always been a strong emphasis on worker empowerment, and the early, consensus-based organizational system evolved from the founders' major concern for the status of workers.

As the co-op grew, this system no longer met the co-op's needs and the business began experiencing financial losses. In response, the membership elected its first board of directors in 1979 and hired its first general manager in 1982. By 1985, the co-op was back on sound financial footing and decided to expand into available space in their building. Sales continued to grow and eventually the co-op was able to purchase the building.

In 1998, the board began yet another conversation about expansion, but there were nine board members and nine different visions of what that expansion meant. The board discussed renovating the current location, but it eventually became clear that they should look for a new location.

In 1998, the co-op purchased the former Eagles Club building at 1221 Williamson. The building, which has 20,000 total square feet and 9,500 square feet of retail space, was remodeled and opened for business in October 1999. Between 2000 and 2004, annual sales grew from $6.34 million to $11.4 million, nearly doubling sales per square foot.

Historical overview

The co-op's first storefront was located in the heart of the Willy Street neighborhood at 1101 Williamson Street. A small staff of volunteers ran the store, while another group of volunteers sought out a larger location. In October of 1974, the co-op moved to 1014 Williamson Street and was able to increase its inventory and hire six full-time workers. At first, staff members were not paid, but were allowed to take up to $50 per week for sustenance until the co-op was financially stable. Many of the workers took less or none of the allotted $50 and within three months the co-op was able to pay staff.
In 1999, a market study revealed that at $17–$18 million in sales, Willy Street co-op would be maxed out in their current space—and at $18.4 million in sales they were. On average, a typical grocery store turns their inventory over 18–20 times per year and has sales of $700–$1,100 per square foot. By 2007, Willy Street was turning their inventory over 35 times per year and averaging sales of $1,900 per square foot. While these figures were good for business, they created major labor and space constraints. In addition to pressure on the space and staff, co-op members began to comment on how crowded the store and parking lot were.

Convincing the board of the need for a second location was easy. They knew something needed to happen to alleviate pressure on 1221 Williamson and took seriously the opportunity to create good jobs in a difficult economy, give staff professional growth opportunities, and provide additional market opportunities for local farmers. With the arrival of Whole Foods Market in 1996 and Trader Joe’s in 2006, the co-op also needed to be proactive about protecting its position in Madison’s natural foods market.

Despite several setbacks, in November 2010 Willy Street finally opened a second retail location just west of Madison in Middleton. In its first year, Willy West exceeded sales and membership expectations and helped the co-op grow from 16,000 to 24,000 owners, from 173 to 276 employees, and from $20.1 to $27.6 million in annual sales.

**Contemporary structure**

**MEMBERSHIP**

Willy Street co-op currently operates two separate retail locations and has over 28,000 active owners, and most of them live in and around the Madison area. The co-op offers individual and household memberships. An individual member is one person with one vote, whereas a household membership consists of two or more people who live in the same house and are entitled to one vote.

In order to join the co-op, prospective owners complete an application form and make an equity payment. An individual ownership consists of a one-time full payment of $58 ($56 equity payment + $2 administrative fee) or up to seven payments of at least $10 ($8 equity payment + $2 administrative fee for each payment), for a maximum investment of $70. A household ownership requires a one-time full payment of $93 ($91 equity payment + $2 administrative fee) or up to seven payments of at least $15 ($13 equity payment + $2 administrative fee for each payment), for a maximum investment of $105. All members can access the following benefits:

- Patronage refund during years the co-op is profitable (initiated in late 2009)
- Owner rewards sales
- Free tickets to co-op’s annual meeting and party
- Discounts on pre-ordered case purchases
- Special order items not regularly sold in the store
- Mailed copy of monthly newsletter, the Willy Street Co-op Reader
- 5% discount on Reader advertising
- Right to serve on committees or run for the board of directors
- Co-op reciprocity (When traveling, owners pay owner prices at most other retail food co-ops throughout the country by showing their owner card.)
- 5% savings every day (Owners pay shelf price; non-owners pay 5% more.)

The main way owners participate in the co-op is by shopping there. While only 7% of Willy Street’s owners voted in the fiscal year 2011 board election, 93% of sales were to owners. Providing feedback is another valuable way owners can participate. In fiscal year 2011, the co-op received a total of 2,356 written comments in the store and via the website.

**GOVERNANCE**

The co-op is governed by a nine-member board of directors, which is elected by the membership. There are four standing committees: finance, policy review, board development/nominations, and audit. Each committee is made up of a combination of board members, staff, and non-board owners. The board uses policy governance to set priorities and strategies for the co-op.

**STAFF**

A member-elected board of directors governs the co-op, but the business is managed and operated entirely by paid staff. Since the co-op’s inception, staff members have played a critical role and that tradition continues. Staff members are able to run for the board and participate in some committees and on the employee council, which sets policy that directly affects employees. Each department elects a representative to the council annually.
In fiscal year 2011, Willy Street’s staff expanded from 173 to 276 employees, which includes 160 full-time staff. The co-op prides itself on offering employees an excellent benefits package that includes health insurance, paid vacation, employee discounts, profit sharing, and participatory management.

**FINANCES**

Willy Street Co-op is a mature, self-sustaining business. Despite the inherent financial challenges of opening a new retail location, the co-op ended fiscal year 2011 on sound financial footing. In fiscal year 2011, the co-op generated $27.6 million in gross sales, exceeding projected sales by 15%.

Financing for Willy West included a landlord-tenant improvement allowance, an owner bond drive, cash held by the co-op, vendor credit, and a business loan. Total financing for the project was $3,450,562. Money earned from the owner bond drive provided a portion of the cash needed to finance the second store. The co-op had a goal of raising $600,000 in bonds but was authorized to raise up to $1 million. They reached that stretch goal in an astonishing 39 days. The ease and speed with which the co-op financed the expansion is likely due to the co-op’s strong financial position, owner support for a second location, and the central role the co-op has come to play in the Madison community.

The co-op sought bids for debt financing from a variety of sources. In keeping with Cooperative Principle Six, cooperation among cooperatives, the co-op chose to work with Summit Credit Union, which had recently developed a strategic initiative to work more closely with cooperatives.

As a result of the expansion, the co-op took on approximately $1.5 million in long-term liabilities between fiscal year 2010 and 2011. This raised the co-op’s long-term liabilities to $2.8 million, the highest level in the co-op’s history.

Table 1 shows key indicators of the co-op’s financial health over the last two years. In fiscal year 2010, the co-op paid its first patronage refund to owners, returning $96,775 in cash and allocating $387,085 in equity to owners. The co-op did not generate a profit in fiscal year 2011 but hopes to distribute another patronage refund as soon as it is profitable again.

**Analysis**

The question of whether or not a grocery co-op should expand gets to the heart of what it means to be a cooperative business that exists to serve its members. As a well-respected, established business, Willy Street co-op is well positioned to have a major impact on the Madison community. But what is the best way for the co-op to do that?

While most owners were incredibly supportive of the co-op’s expansion efforts, some owners accused Willy Street of getting too big and “selling out.” One long-time owner mentioned she has “personal friends who were very opposed to a second location. To them the co-op was becoming too big and losing its co-op feel. They’ve also been members since the ‘70s so they remember when you went in and did your three-hour shift. And now we don’t even permit that. So to them, they felt like the co-op was selling out and becoming more like a big business.”

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**TABLE 1. Key financial health indicators**

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<thead>
<tr>
<th></th>
<th>FY 2011</th>
<th>FY 2010</th>
<th>Note</th>
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<tbody>
<tr>
<td>Cash</td>
<td>$2,643,196</td>
<td>$3,364,097</td>
<td>The decrease in cash reflects the co-op’s $835,000 cash contribution to finance expansion.</td>
</tr>
<tr>
<td>Current ratio*</td>
<td>2.2</td>
<td>3.1</td>
<td>This ratio indicates the co-op’s ability to meet near term obligations to vendors, staff, and other creditors.</td>
</tr>
<tr>
<td>Debt to equity</td>
<td>1.3</td>
<td>0.9</td>
<td>The increase in debt-to-equity ratios over the last two years is due to the increased debt-to-finance expansion.</td>
</tr>
<tr>
<td>Fair share**</td>
<td>$1,496,875</td>
<td>$1,172,107</td>
<td>28% growth</td>
</tr>
<tr>
<td>Total equity</td>
<td>$3,575,587</td>
<td>$3,366,357</td>
<td>Growing total equity allows the co-op to finance more of its growth from internal resources.</td>
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</table>

* The current ratio is equal to current assets divided by current liabilities. The higher the ratio, the more liquid the company.

** A fair share is the equity payment one must make to become an owner of the co-op.
The March 2006 issue of the Willy Street Co-op Reader, the co-op's monthly newsletter, included the following letter:

"I am so tired of hearing about "expansion." If the co-op is making so much money, why not consider the following instead:

- lower mark-up margin (i.e., lower prices)
- donate money to other local cooperative, struggling businesses (e.g., Mifflin)
- increase the amount given to the Community Reinvestment Fund
- raise staff salaries and benefits

I am deeply saddened that Willy Co-op is becoming so mainstream and corporatized, with the sole goal of "expansion" and with "management" making all business decisions. Nowadays, it seems to be almost a misnomer to call the store a cooperative."\[23\]

Others disagreed. One owner emphasized that, "people who are having success doing good work have an obligation to do more of it."\[24\] Another owner added, "I'd like to see them replicate the success in whatever way they think is best. It might not be another store; it might be something else. The co-op is a very successful enterprise. If you look at the ends policies they talk about being an economic cornerstone. We should not rest on our laurels."\[25\] It can be difficult for successful co-ops to balance the desire of some owners to maintain the status quo with the need to grow in order to survive in the highly competitive grocery industry.

Despite strong support from staff and owners, the general manager has questioned whether or not the co-op should be in the business of starting other co-ops.

"In some ways, for me it's tough to balance if it is our job to open other co-ops. Because I do think that co-ops are somewhat grassroots efforts and communities build them and that's why they thrive. But I do know that it's very hard to do as a start-up. So my long-term goal is that the Middleton store might be spun off and turned into a Middleton co-op. I know that's a ways down the road and that not everyone would agree with me."\[26\]

Evaluating whether or not expansion is the best way for the co-op to serve its owners, employees, and community is not a simple task. This is especially true given Willy Street's large owner base and the diverse needs and desires of those owners. At its inception, the co-op was a small buying club that enabled eastside residents to access healthy, natural foods at prices they could afford. As the business has grown and changed, so have the priorities of owners and the ability of the co-op to impact the broader community. While opening a second store is arguably beneficial to employees, who now have greater opportunity for professional development; to farmers, who now have a larger market; and to owners on the west side of Madison, who now have better access to the co-op, the benefits to other stakeholders are less clear.

**Conclusion**

It has been two years since Willy West opened and both sales and membership have exceeded expectations. Furthermore, despite the growth at Willy West, sales continue to be strong at the flagship location. After years of hard work, it is a relief to owners and staff members that Willy Street's second store is open, embraced by the community, and on track for financial success.

The co-op could have chosen a number of paths for expansion instead of opening a second location, including remodeling the 1221 location, buying a farm, starting a restaurant, or establishing a natural foods warehouse, among others. As the co-op explores future opportunities, many of these options are still on the table. In February 2011, the board of directors met to discuss Willy Street's strategic priorities for the years ahead. The board whittled 10 ideas down to three core initiatives:\[27\]

- Develop the local food system
- Pursue green initiatives
- Make the co-op more financially accessible

In the coming years, these initiatives will be an essential touchstone as the co-op considers how best to effect change in the world while serving its members and sustaining a profitable business.

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Works cited

Some hyperlinks may no longer be current.


Willy Street Co-op. Owner Bond Program Information Packet (2010).


Endnotes

Some hyperlinks may no longer be current.


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5 Dungan, “Williamson St. Grocery Cooperative.”

6 Willy Street, “Willy Street Co-op History.”

7 Ibid.


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22 Willy Street Co-op owner, author interview, April 6, 2011.


24 Willy Street Co-op owner, author interview, April 5, 2011.

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Food for the Revolution: The Story of the Mifflin Street Community Cooperative

Molly Noble

The Mifflin Street Community Co-op, the first food cooperative in Madison, Wisconsin, emerged out of 1960s opposition to capitalist exploitation and materialism. Founded on the ideals of participatory democracy and egalitarianism, it evolved to embrace food politics and healthy eating. Eventually, faced with decreasing sales, increasing competition, and the discovery of years of unpaid taxes, members decided to close the store in 2007. The story of the Mifflin Street Community Co-op (MSCC hereafter) and an examination of its internal governance structure reveal challenges of operating a “community controlled enterprise” such as maintaining member participation and a committed and empowered staff.

Historical overview

In the 1960s Madison was booming with political activism solidifying around the anti-war movement. Much of the mobilization stemmed from the Mifflin Street neighborhood, located between the Wisconsin State Capitol and the University of Wisconsin–Madison. Affectionately called Miffland, the area was a hub for radical students, political organizers, and others swept up in 1960s activism.

When several Miffland residents heard that their local grocery was closing, they came up with the idea to transform it into a food cooperative. “They envisioned a co-op with broad community support and member participation.” They sold $5 memberships around the neighborhood and campus and received a $250 loan from a local book co-op. Through these efforts they raised about $1,500, just enough money for a temporary lease on the old grocery building, some secondhand coolers, freezers, shelving, other equipment, and finally, a random assortment of groceries from another store going out of business in a nearby suburb. Despite being poorly stocked and staffed entirely by volunteer labor, MSCC opened in January of 1969.

In its early days, the co-op embodied the “counter-culture looseness” of the 1960s and functioned as a local hangout in the neighborhood. “[It was] the center of the universe. People called up on the phone all day long to find out what was going on.” Dogs and cats roamed the aisles, posters and banners littered the walls, and workers smoked dope at the register. The store also took up some less than traditional business practices.

To demonstrate the community ownership of the store, customers were allowed to check themselves out. On several occasions when no one volunteered to stock shelves after a delivery, a staffer would lock the door until shoppers completed shelving.

The co-op was also a hub of political activity. The story of the first Mifflin Street Block Party, now an institutionalized event that happens every May in the same area, captures MSCC’s engagement in the politics of the community. In the spring of 1969, area residents congregated in the MSCC storefront to plan a celebration of the Miffland community. The party proceeded peacefully on a Saturday afternoon in early May until police arrived and told the crowds to disperse. Mifflanders refused to leave and eventually the confrontation erupted into violence that lasted three days and spread to other parts of the city. Whether the party was organized to take a stand against the police and their repressive tactics is disputed. But as the informal convener of the block party, MSCC helped to solidify Miffland as a community of resistance. In the years that followed, residents continued to hold meetings in the storefront to plan demonstrations and other community events. In a pre-internet and pre-cell phone era, this type of space was vital for sharing information and coordinating actions.
Another critical moment in MSCC's early years was its transition from a typical corner grocery to a health food store. Until the early 1970s, candy, cigarettes, and Coke constituted a large portion of the co-op's daily sales. However, as members and staff became increasingly aware of whole and organic food options, they questioned the morality of selling junk food. MSCC organized a community meeting in a neighborhood park to discuss whether or not to stop selling these items and increase the variety of health items. The debate was heated and long but eventually the group agreed to "purify" the store.11

From this point forward health consciousness and food politics became a central part of MSCC's mission. For example, the store instituted a two-cent banana tax to provide support to a local group working with Central American refugees.12 MSCC was also conscious of the privilege required to purchase food based on its politics and not its price. During the tuna boycott of the '80s,13 staff debated whether or not to stock tuna. On one hand, they wanted to support the boycott. On the other hand, they recognized that tuna was an inexpensive source of protein for the neighborhood's low-income residents. They compromised and decided to sell the tuna but include information about the boycott on the shelf.14

The store struggled financially throughout the '70s and early '80s.15 Inflation increased food costs and decreased sales, and the store subsequently lowered the merchandise volume.16 The neighborhood also lost much of its activist base. "The co-op used to be the hub of the Mifflin Community... Now, all those people have moved to the east side. There isn't a Mifflin community anymore; we're basically just a neighborhood store."17

As political activism gradually dissipated, the co-op had, perhaps, outlived its role as a counter culture institution. The co-op experienced much internal conflict about how to deal with these struggles and what direction to take the store. The staff was burned out, and members considered closing the store on more than one occasion.18

In the mid '80s to early '90s, however, MSCC reached the height of its financial success. The store averaged almost a million dollars in sales every year,19 and membership reached around 2,800 at its peak.20 There are several possible explanations for this revival. MSCC obtained several grants to remodel the store, including a $30,000 community development block grant. These renovations included new energy-efficient windows; new doors, floors, and equipment; and a ramp to make the store accessible in accordance with the Americans with Disabilities Act.21 The store also hired additional staff members who helped restore energy and develop outreach, marketing, and educational strategies to engage the community. They wrote a community newsletter with recipes, political educational material, and the business news of the co-op. They held food demonstrations to teach people how to cook with different kinds of natural and international ingredients. They posted a series of three coupons in local newspapers: one for a familiar household staple item such as toilet paper, one for a (perhaps) unfamiliar item such as rice, and one to be a member for the day so non-members could take advantage of the price discounts provided to members.22 Food consciousness was also on the rise in the 1980s.23 Not only was MSCC one of the few groceries in Madison at the time to provide such an extensive variety of whole and organic foods, but they were able to undersell their competitors by purchasing stock directly from producers and cutting out the middle man.24

The co-op used the Mifflin Street Block Party as a source of fundraising and as a political education opportunity. Each year the party had a different political theme, such as anti-apartheid, anti-pesticide, and Central American Solidarity. Unlike the first years of the block party, there were few, if any, confrontations with the police.25 Finally, the co-op obtained a grant to redesign the mural painted on the side of the store. This six-month process began with weekly community brainstorming sessions to design the mural and ended with community painting sessions led by two Chicago artists.26

During this period of economic success MSCC supported the growth of other local and regional cooperatives. They started a development fund to give grants to groups that were often overlooked by traditional funding sources.27 Alternative political and economic groups submitted funding requests to the co-op, and the staff collectively decided how to disperse funds. Cooperative startups used grants to purchase equipment such as bulk bins and coffee grinders or to send
board members to trainings on collective decision making. MSCC not only provided financial support but also offered guidance to groups starting their own cooperative or collective enterprises. As a quasi-leader in the growing cooperative movement, MSCC helped several local collectives get off the ground, including the Willy Street Co-op (WSC), 89.9 WORT FM, Union Cab, and several housing cooperatives.

Despite its financial success, the co-op consciously chose to stay small. In the mid-'80s, and again in the early 2000s, the co-op was presented with an opportunity to move to a larger storefront in the same neighborhood. Some members felt that moving out of their current cramped location would allow the co-op to expand the variety of its stock and continue to grow its membership. Cooperative consultants encouraged this growth strategy, and WSC, another Madison grocery co-op, undertook a major expansion project.

However, other members and staff at MSCC were skeptical that such growth would be in the best interest of the co-op. The staff was still unwinding from the hectic atmosphere of the renovation during which staff had donated much time. They worried that undertaking another big project would quickly lead to burnout. Additionally, people felt that the store was operating at the appropriate scale and worried that expansion would jeopardize the extent to which members could participate in the decision making of the organization, thereby violating the co-op's principle of direct democracy.

A comparison of MSCC to WSC points to an interesting dynamic between the size of a store and other elements of its operating practices. While MSCC privileged direct democracy over the possible benefits of growth, WSC gave up on collective decision making when it decided to expand. According to a WSC marketing manager in the '80s, "There is a point at which consensus decision making breaks down, once you have a $2 million business." Each store has also notable differences in politics. MSCC viewed providing nutritious food options and political education as one of its fundamental responsibilities to the community. WSC's food politics follow customer demands. According to a general manager in the '80s, "We can only be a co-op as long as we are a food store. The first rule in our bylaws is to be a food store to suit the near east side. That makes us less of an (extreme political) alternative, but that is a compromise we must make." This comparison is not to value one model of cooperative grocery store over the other, but rather to point to the connection between business strategy, organizational governance, and ideological foundation.

In the mid-1990s MSCC's sales began to steadily decline, and eventually the store was operating at a loss, from which it never recovered. Several possible reasons explain why business declined in the '90s. The neighborhood demographics continued to change. MSCC's new neighbors did not share the history of resistance with the co-op's founders. A local resident at the time noted, "Not as many liberal and organic-minded students coming in, especially in this neighborhood. Mifflin's the big party street now." Luxury condos also attracted a much wealthier demographic than had previously inhabited the neighborhood. This gentrification contradicted MSCC's egalitarian principles, and some felt that the co-op looked down at these new residents and overlooked them as potential new customers.

MSCC also faced increasing competition from local grocery stores that were better able to meet changing customer demands. Two market trends converged to drive up MSCC's competition. First was an increased market demand for organic and healthy food. Natural and organic foods were more readily available at traditional supermarket chains. While MSCC was able to undersell its competitors in the '60s and the early '70s, supermarkets in the '90s were able to purchase large volumes of goods at a discount and undersell MSCC. They also offered a much greater variety than MSCC was able to offer in its 1,000 square feet store. New chains catering specifically to a food conscious clientele such as Whole Foods (opened in 1996) and Trader Joe's (opened in 2006) took a direct bite out of MSCC's customer base.
Second was an increased market demand for packaged and prepared foods. One staffer reflected: "People want to spend less time cooking food. There is more desire for packaged foods." This presented an ideological dilemma to MSCC staff members who were committed to teach people to understand where the food they eat originates. Another staffer expressed that even the discount the co-op offered to people who helped around the store did not draw in many volunteers. "People would rather pay a higher price than spend an hour packaging cheese." These changes reflect a growing detachment of MSCC from the Milffland neighborhood. Fewer people treated the co-op as a community institution and those who continued to shop there purchased fewer items. By the early 2000s, people spent an average of $20 per shopping trip.

Nearly every year since the early 2000s, the co-op faced the decision of whether or not to close the store. Members consistently voted to keep the store open but struggled to find ways of surviving that upheld the organization's values. They took out loans, experimented with different business plans, and embarked on a massive campaign to increase membership and volunteer hours. Increasing community participation was a critical part of the plan to save the store. As one staffer noted, "Either the membership comes together as a community and takes control of the co-op and participates fully in the co-op function, or we should let it go now while we can do it gracefully and make sure that everyone gets the money that we owe them." Despite these efforts, MSCC continued to lose money and failed to significantly increase the number of members or volunteers.

MSCC's financial difficulties with the daily operation of the store were compounded by the discovery that a previous bookkeeper had failed to pay payroll and unemployment taxes between 1998 and 2004. The co-op owed the IRS $18,000 in back-taxes, plus as much as $80,000 in penalties and late fees. The co-op took out several loans to cover their debt to the IRS. However, in October 2006 the discovery of an additional $14,000 owed in back-taxes left the co-op with no other option but to close the store and liquidate its assets. Empowered by the membership, the board sold the building and paid off its IRS settlement and other debts. MSCC still had money left over from the sale of the building and planned to reinstitute the community fund started in the '80s.

Whether the co-op would've eventually closed if it had been financially well-managed or if it had moved to a larger location or if it had better catered to consumer demands remain open questions. This discussion is not meant to uncover the causal factors that led to the store closing but rather to portray the difficulties the store faced leading up to its closing.

Structure and functions
MSCC had a strong ideological commitment to operating as a "community-controlled enterprise." In principle, this meant "maximum member participation" and encouraging neighbors to become cooperative members. While these principles underlie the co-op's governing structure, they were not always reflected in its actual operations.

MSCC was managed and governed by five overlapping groups: members, volunteers, committees, a workers' collective, and a board of directors. Anyone could become a member by paying a small annual fee and filling out a membership card. These fees gradually increased over time but were never more than $15. Members gathered at annual meetings to discuss concerns and proposals, vote on bylaw changes, and elect five representatives to serve on the board of directors. Like most cooperatives, MSCC operated according to the one member, one vote principle. The extent to which members guided the direction of the co-op varied over time. In the late '60s and early '70s, members were highly engaged in developing store policy (as evidenced by the public meeting to discuss selling Coke, cigarettes, and candy). In the '80s and early '90s, membership meetings were more sparsely attended and mostly celebratory.

While the co-op had a paid staff for most of its existence, volunteers were an "integral part of keeping Milfflin a grassroots, democratically run business." The co-op believed that the responsibility of ownership entailed partaking in the daily operations of the store. Volunteers also lowered the overhead cost of running the store by helping out with tasks such as stocking, cleaning, outreach, or office work. In 1969 the store was run entirely on volunteer labor. During the height of its success in the '80s MSCC had as many as 20 volunteers per week. However, through much of the 1970s, late 1990s, and 2000s, the co-op struggled to solicit volunteers.

Committees were groups that, along with the staff, carried out "important areas of the cooperative business: finance, education, marketing, maintenance, and personnel." Each committee consists of at least one
member of the collective, one director, and any interested members. Similar to volunteers, the activity of committees ebbed and flowed throughout the course of the co-op's history.

Paid staff members, with the exception of several part-time shift workers, were members of a worker collective. The collective operated as an independent worker cooperative within MSCC. Staff divided the management responsibilities of operation in "specialty areas" such as purchasing, marketing, education, maintenance, and volunteer coordinating. The collective also appointed two representatives to serve on the board of directors.

Examining the relationship between the staff and the board of directors reveals an unequal distribution of power in MSCC. According to the co-op's bylaws, the worker collective was responsible for the day-to-day operation and management, while the board was responsible for store policy, budget, and long-range planning. However, according to staff who worked at Mifflin in the '80s and early '90s, the board deferred to the collective for most decisions.

"During the time I was there the collective was really driving decisions... the board was very weak... It was a challenging dynamic to have a strong collective and a weak board and to understand the relation between [them]. I could see theoretically how it's supposed to work but I don't know about [practice] because you have staff in the store meeting two hours every week and the board meeting once a month trying to come in and give a broader vision... You say: 'You don't really know what you are talking about because you aren't there every day.' I don't really know how it should work in practice."

This quote aptly captures the difficulty of translating the governance of an organization on paper to the governance of an organization in practice. The board did, however, play a larger role at different points in the co-op's history. In the early years, the board struggled with the staff over the direction to take the co-op. Then again, in the last ten years of the co-op's existence, the board took on some of the responsibilities previously handled by staff, such as bookkeeping. Still, with the exception of a couple active members and directors, most of the burden of dealing with the financial crisis fell on the shoulders of the staff.

Despite the amount of control it had in MSCC, the worker collective was in some ways one of the most consistent examples of the benefits of direct democracy over the course of the co-op's history. From the first year of business through the '80s and early '90s, and even in the wake of the fiscal crisis, staffers consistently reflected about how great it was to work at the co-op. Workers found the collective a good place to work not only because it offered health care and a living wage (at least during the greater part of its history), but also because of its collaborative governance structure. The collective met every week to discuss the day-to-day business of the store and its policies. All decisions were made through consensus. These meetings also provided a time to air grievances, improve communication, and facilitate healthy relationships among the staffers.

"When I came to Madison I had a very hierarchical notion of organization and my experience at Mifflin changed my opinion about the role and value of collective processes... In the staff meeting process, the most important thing is not what you talk about at the meetings, but that you have them. It was the process of the meeting that created a common language among staff that allowed us to function as a staff... We could be talking about peanut butter or giving money to El Salvador."

This staffer emphasized that in addition to the substantive content of the meetings, the meetings helped to create a common culture.

The benefits of direct democracy are not without their cost. Personal conflicts sometimes created barriers to healthy group dynamics. At one point there was also concern that some staff, by virtue of their longer tenure and higher time commitment to the collective, had more decision-making power. This created tension among the staff. On one hand, those who participated more felt others lacked commitment to MSCC. On the other hand, those who participated less felt that time constraints should not reduce their leverage in decision making.
However, because the collective spent time reflecting on their strengths and weaknesses, they recognized problems when they arose, had honest conversations about them, and, in most cases, resolved them. For example, in order to address differences in the amount of time each staffer spoke during meetings, the collective developed the following strategies: round-robin to give each member a turn to speak, creating speaker lists when conversations became heated and fast-paced, and encouraging quieter members to speak by calling on them directly.82

While the benefits of direct democracy might not be appropriate for every work setting, Mifflin exemplifies what it takes to make it successful in a small grocery store. The lesson might also be appropriate for other small service sector businesses.83 As one staff member noted: "It's very difficult to know what's going on in each [customer's] head when you are in the service industry... It's good to have a lot of people to think about the needs of the service industry."84 Members also seemed to notice and appreciate the exceptional qualities of the staff. One shopper noted: "There is a level of education...Everyone is connected with the produce... The people who [work here] are enjoying what they're doing...They're sensitive to the clientele."85 A local reporter in the '80s also said, "If you're starting to experiment with unusual foods, you also will find employees who have the patience and knowledge to explain to you what you might do with items like miso, tempeh, adzuki beans, or dried seaweed."86 These quotes suggest that customers shop at MSCC not only for the items the store stocks but also because of the expertise and attitude of the staff.

Analysis

An examination of MSCC's internal governance and its relation with its immediate community reveals the challenges and benefits of operating a community-controlled enterprise. Throughout its history, MSCC struggled to find the right balance between staff control, member participation, and the board of directors. While historical accounts indicate that the Mifflin neighborhood was directly engaged in the co-op's strategic decision making in the late '60s and early '70s, over time the governance of the store was determined more by the staff than by the residents or even the members.87 On one hand, it is possible to view the staff's authority as appropriately reflecting their familiarity with the details of the store's operations. On the other hand, their authority may merely reflect disengagement with the neighborhood. While those most active in the co-op and deeply committed to MSCC's foundational principles felt it was incumbent upon them to restore the sense of community ownership, in the absence of broad participation, leadership fell on those who attended the meetings.

The struggle to engage membership and communities is not unique to MSCC. Quite to the contrary, it captures an ongoing challenge of (sometimes) democratic organizations including other cooperatives, labor unions, and grassroots organizations.88 MSCC's strategies to increase community participation significantly overlapped with marketing strategies to increase sales.

MSCC pursued two distinct approaches in varying extent and with mixed success throughout the course of their history: the pull approach and the push approach. The pull approach involved adapting to changing marketing conditions by selling more prepared foods. The push approach involved community outreach to educate people about food politics and the value of alternative economic institutions. These community engagement approaches presented ideological and practical challenges.

Some members and staff worried that the pull approach would make the co-op beholden to market trends and therefore threatened the extent to which it could operate as an alternative economic institution. Others, however, recognized that in order to instill a deep commitment to the values of the co-op in neighborhood residents, the residents must be persuaded to shop there. The co-op struggled to find a balance between staying true to its foundational principles and achieving financial stability.

The benefits of the MSCC's organizational structure are most apparent in the worker collective. The practice of regularly engaging with coworkers outside the context of working shifts in weekly meetings improved the quality of communication among staff and helped to resolve personal and business issues that came up in the daily management of the store. This model of direct democracy not only contributed to worker satisfaction but also to customer satisfaction. As such, it may have value in a broad array of businesses in the service industry. It is important to note, however, that the organizational design is only partially responsible for establishing the positive work environment. MSCC's staff were, for the most part, very committed to making sure the democratic process worked for everyone in the collective. This required ongoing self and group reflection and
also influenced hiring decisions. The collective wanted to make sure that new staff would be able to effectively participate in collaborative decision making. This was a more important requirement than previous experience working in a grocery store.89

Considering MSCC from a more macro perspective reveals the extent to which its model presents an alternative to a traditional capitalist model of growth. At the height of the co-op's success in the '80s and early '90s, MSCC prioritized the growth of the cooperative movement over an internal expansion. Rather than moving to a larger location, MSCC used surplus profit to start a local development fund. It also opened its own fund-raising events, such as the Mifflin Street Block Party, to other community groups, allowing them to set up their own tables to provide information and solicit funds.

Nurturing the cooperative movement beyond Miffland was consistent with the co-op's stated purpose "to provide...a model for social-economic structures that seek to replace the values represented by the monopoly capitalist social system."90 The people who participated in the Mifflin Street Community Cooperative experiment stuck to their values even at the risk of losing the store. As one staffer put it, "You can't build socialism in one co-op."91

Author's note
I would like to thank the staff and board members who spoke with me about their experiences at the Mifflin Street Community Co-op and who provided me with organizational documents. To protect their identities I have made them anonymous with generic descriptions such as "staff member."

I would also like to thank Anne Reynolds, Craig Borowiak, and Richard Dilworth who provided valuable feedback on earlier drafts of this chapter. Finally, I would also like to thank Michael Bodden for his historical account of the origins of the co-op and John Gastil for his research on the co-op's decision-making processes, without which the history and organizational structure presented in this paper would have been much weaker. I take full responsibility for any mistakes and misconceptions.

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It is important to note, however, that staff's authority in guiding the direction of the store suggests an unequal distribution of power within the co-op, it does not necessarily suggest that had power been more evenly distributed MSCC would have been more successful.


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Mariposa Food Co-op

Andrew Zitser

Introduction

For 40 years, Mariposa Food Co-op nestled in a tiny 500 square foot storefront at 4726 Baltimore Avenue in the Cedar Park neighborhood of West Philadelphia. Through most of its life, Mariposa served a small membership of a few hundred, with most members walking to the co-op to purchase groceries off the shelves or through bulk pre-orders.

Mariposa is committed to a participatory democratic structure, with consensus as its operating basis. This conviction, along with the radical activism of some of its most dedicated members, makes Mariposa different from many of the politically liberal but bureaucratic and hierarchical co-ops in the nation. Mariposa members are active on issues of food justice, gender and sexuality, anti-racism, and more. The co-op devotes considerable staff and member resources to its activism, attempting to make the store an expression and outgrowth of these values.

The co-op devotes considerable staff and member resources to its activism, attempting to make the store an expression and outgrowth of these values. As the co-op grows larger and more financially successful, there is concern among some members that the political agenda will be diluted or disappear altogether.

The neighborhood around Mariposa, Cedar Park, is an ethnically and economically diverse streetcar suburb of downtown Philadelphia, with "Center City" easily accessible by trolley and bus. The neighborhood is largely made up of renters, with a high transient population of students affiliated with area schools such as the University of Pennsylvania, Drexel University, the University of the Sciences, and Walnut Hill College. In the last decade, the area has gentrified, with an influx of young families and professionals driving up property values.

In March 2012, Mariposa relocated to a considerably larger store one block west, at 4824 Baltimore Avenue, adaptively renovating an old bank building using the latest in sustainable architecture. The co-op raised approximately $2.5 million for the relocation from a varied set of earned and contributed sources, including: member loans, conventional bank loans, sale of the other co-op storefront, and grants and low-interest loans from an array of funders, including the Takoma Park Silver Spring Co-op.

Mariposa has made significant strides in the last several years towards its goal of serving the broader West Philadelphia community. But the co-op is challenged by the debt it amassed in the course of its expansion, the high cost of labor, potential burnout of key staff and volunteers, and the challenge of staying true to its ambitious mission of social justice and making the retail grocery store the nexus of a social and political transformation.

METHODS

This case study forms part of a larger project exploring Philadelphia food cooperatives, focusing on Mariposa and Weavers Way. In the course of my research, I conducted 59 semi-structured interviews throughout 2010 and 2011. These interviews focused on current and former staff, board members, funders, and national cooperative thought leaders. I performed participant-observation in meetings of Mariposa and Weavers Way, including board, membership, and committee meetings. Last, I undertook document analysis of meeting minutes, newsletters, and news reports on the two case study co-ops and the cooperative sector gen-
Historical overview
Mariposa was founded in 1971, first renting and then buying the building it called home. For many years, it shared space and some operations with another co-op, the Life Center Co-op, until the two merged in 1980.

Broadly speaking, Mariposa and its forebears are part of the New Left that came to prominence in the 1960s and coalesced around social justice struggles such as civil rights and opposition to the Vietnam War. Activists became interested in ecology and the environment at this time as well, with the establishment of Earth Day in 1970 and the publication of _Diet for a Small Planet_ in 1971. Philadelphia in the 1970s and 1980s was also home to the Movement for a New Society (MNS), a national network of social justice activists influenced by anarchist political philosophy. Though Mariposa was not formally affiliated with the MNS, a number of group houses that were part of the MNS maintained (and some continue to maintain) shopping accounts at Mariposa and are considered allies of the cooperative.

In its early years, Mariposa aimed to provide cheap, simple and healthy food to the progressive (and largely white, activist) communities of West Philadelphia. Although the co-op was an outgrowth of MNS and most members were activists, the store itself was not primarily considered a political project. It served as a refuge, a place to nourish the activists in the community. For most of its existence, Mariposa was a vegetarian store, specializing in bulk orders, whole grains, produce, and dairy. All shoppers had to be member-owners of the co-op, and all member-owners had a work requirement. Members worked stocking shelves, staffing the cash register, cutting cheese, and unloading delivery trucks. After a probationary period, members could receive keys to the store allowing after-hours access, so they could shop and write down their purchases in the ledger.

Mariposa's racial and subcultural homogeneity through most of its existence came up as a constant theme in my interviews. People from within Mariposa and beyond it expressed concern about the exclusivity of a co-op in a diverse neighborhood like Cedar Park. Over the last 15 years, there has been significant gentrification pressure in parts of Mariposa's trade area, making the issues of race and class even more fraught. Racism at the co-op was the focus of at least one general member meeting, with the Food Justice and Anti-Racism committee (FJAR) emerging as a standing committee to address these issues. The committee helped put together community outreach surveys prior to the new store opening. It has also sponsored anti-oppression training and shown films relating to food, race, class, and gender.

For most of its history, Mariposa existed in a relatively steady state, open a few days a week, with a few hundred members. It had a staff of three or four, and most of the business practices were non-standard and ad-hoc. Books were kept by hand, there was no cash register, and there were no personnel policies.

But in the mid- and late-1990s, Mariposa experienced significant membership growth driven by increasing interest in local and organic food, mistrust of large corporate retailers, and the popularity of the Cedar Park neighborhood. This pressure pushed Mariposa to expand staff, professionalize operations, and ultimately choose to expand and relocate to a larger storefront.

Contemporary structure and functions
As of the beginning of 2013, Mariposa had approximately 1,550 members, which is a sharp increase from a few years before. This increase is due to a membership drive prior to the relocation of the co-op, and to the snowballing popularity of cooperatives and local and organic food.

Membership entails a financial investment in the co-op. This investment, commonly known as member equity, is the member's ownership stake in the co-op; the collective equity of the membership forms the working capital of the co-op. The required contribution totals $200 per individual member and is billed in $25 quarterly installments. If there are two members listed on the account, the total equity investment is $400. If a household has more than two members, the household can request reduced equity investment. The $200 equity investment is merely a minimum. Any member can contribute more—up to 1% of the co-op's overall equity. The 1% restriction prevents any one member from controlling a disproportionate share of the co-op's working capital though, according to the cooperative principles, each member still gets one vote in deliberations. During the expansion process, the co-op undertook a drive for additional member equity to help finance expansion and relocation.
Mariposa now allows non-members to shop but actively encourages shoppers to become members. Once shoppers have become members, they have two categorical options for membership: non-working and working members. Non-working members get a 5% discount and working members get a 10% discount off the posted shelf prices. Although member labor has been in decline in cooperatives for the past few decades, there are signs of its revival in new startups. It is unlikely, however, that these co-ops, with a small number of notable exceptions, will actually require member labor.

Members participate in the Mariposa Co-op through two primary means: work shifts and governance responsibilities. Work shifts happen in the store (or at offsite partners such as the Mill Creek Farm) and earn members discounts on products. Work shifts included stocking shelves, helping with deliveries, processing bulk orders, and working in the back office. Members can also earn work shift credit by serving on a committee, attending a general membership meeting or serving on the board of delegates.

Member-owners govern the co-op through their participation in general membership meetings and through the Mariposa Board of Delegates. Mariposa’s member-owners are eligible to run and vote in annual board elections, to serve on committees and working groups, and to participate in general membership meetings.

For most of its history, Mariposa was a direct democracy with governance enacted solely through meetings of the general membership. Decisions were made by consensus, where any member could use his or her power to block consensus and stop a decision from taking place. Mariposa’s consensus approach derived from the co-op’s roots in MNS, and MNS’ own formation out of the Quaker anti-war movement.

At first, consensus of the membership seemed feasible, as the membership was quite small. But over time, membership grew to the point where only a very small subset of the growing general membership would attend meetings, making decisions for everybody. In addition, the business of the co-op was getting more complicated and more responsibility fell upon the small staff. In the mid-2000s, the co-op membership empowered the Mariposa standing committee to serve as an organizing group that would convene meetings and serve as a clearinghouse for newly established working groups and subcommittees.

In 2010, a 13-member board of delegates (with more governance power) replaced the Mariposa standing committee. This move was not particularly controversial as the standing committee was instituted as an intermediate step, and the board was billed as a mechanism to facilitate the will of the members. Unlike the board of directors of Weavers Way, the Mariposa board reserves many major decisions for a consensus of the general membership. When the board of delegates was founded, it mostly set agendas and ran general membership meetings. Now it makes more of the ongoing, corporate decisions about the co-op. A number of committees work with the board including: food justice and anti-racism, member accountability team, member education and training, and operations and facilities. Each committee nominates a member to serve on the board, and they are called upon to serve once they are confirmed by a consensus of those present at the general membership meeting. Staff members are also allowed to serve on the board.

Member participation was a significant challenge at Mariposa prior to the relocation. The co-op struggled with members missing work shifts, which cost the co-op money, as it had to pay other members or staff to fill those slots. In addition, a number of general membership meetings did not attain quorum, demonstrating lack of member engagement. This disengagement might have been because the staff essentially operated the co-op and made all of the major decisions, which were then made official by the membership. But as the co-op grew, the staff, which did not want this responsibility, worked with the membership to create a stronger governance structure. Enthusiasm about the relocation and the new store also generated excitement among the membership, leading to significant engagement through the fundraising and member equity campaign; many of the members work shifts in the new building are filled by the co-op’s 300 working members. It will be up to Mariposa’s staff and board to continue this momentum over time.
Mariposa staff work as a collective, somewhat like an informal worker cooperative, which workers join after a 90-day probationary period. By early 2013, there were 35 people on the staff, with all but a few out of their probation period. The staff collectively works together to operate the store on a day-to-day basis. The collective sends delegates to the board of delegates and to various committees. Some staff members of the staff collective that predated the expansion have moved on to comprise the operations committee, a board-created committee that creates policies for the operation of the store. Other prior staff collective members decided to remain on staff collective alone and not to take on the additional responsibilities of being on the operations committee.

The staff supervises members during their in-store work shifts and works alongside them as partners on the board and in committees. The dynamic between staff and members is overwhelmingly cordial and mutually supportive, but my interviews and observation of general membership meetings uncovered occasional notes of suspicion of the staff by a minority of the members. These members feel that the staff has an “agenda” that it is trying to pursue to support its own ends, whether it is a pay increase or more worker-friendly policies in the store. I attribute this to the strong culture of solidarity among the staff collective and the weak governance structure that was in place for decades at the co-op. Now there are mechanisms such as a board of delegates and committees trying to assert governance responsibilities, but for much of Mariposa’s life, the staff effectively ran the organization in the absence of any other actors. So although the staff is actually exercising the same or less power than it did in prior organizational epochs, a minority perceives that the staff is trying to wield more than its share.

The co-op’s main sources of financing are sales and member equity. However, to fund its expansion, Mariposa turned to a number of other sources. It received conventional debt financing, low interest loans, grants, and member loans. Some of its supporters included the Philadelphia Industrial Development Corporation (Philadelphia’s public-private economic development corporation), The Reinvestment Fund (TRF) (a community development loan fund with over $1 billion invested since its founding), and the Merchants Fund (a private foundation that makes grants to Philadelphia-area businesses). These funders had diverse motivations. The members and other co-ops that were supportive presumably wanted to foster cooperative development and the principle of co-ops—helping co-ops while TRF and the Merchants Fund stated that they are interested in increasing food access. In all, Mariposa raised $2.5 million towards the first phase of expansion and relocation. Subsequent phases are planned and include the addition of an elevator and a roof garden.

Mariposa is the only grocer in West Philadelphia that carries the range of healthy, organic, and local products that it does. It provides these goods with the smallest markup it can muster and it offers discounts for working and non-working members. Mariposa’s competition comes from the downtown Philadelphia Trader Joe’s and Whole Foods, which are the major purveyors of similar food on a citywide scale. There are also two full service groceries stores (that do not carry a large selection of organic or local products), each about a mile away in West Philadelphia. But the Baltimore Avenue corridor, on which Mariposa sits, is mostly served by convenience stores.

Mariposa projects its annual sales to climb to more than $3 million, more than double the sales of the years prior to expansion. Although Mariposa realized a loss in 2011 due to the costs of expansion, sales have been strong, and the new store is paying down debt faster than expected.

**Analysis**

The people I have spoken to in the course of my research consistently expressed satisfaction that they are part of a cooperative. They appreciate that they are member-owners and that they are able to guide the decision making of the entity that provides them with their food. Members, staff, and board members contrast Mariposa in their interviews with corporate grocers and state that the latter do not have their best interests in mind, putting profit over people.

Interviewees spoke to the value they place on their dollars being spent locally, helping to build a cooperative economy. The nearby large natural and organic stores, Traders Joe’s and Whole Foods, are not in West Philadelphia; the profits from these stores leave the area entirely even if the stores provide jobs for Philadelphia residents. Unlike conventional grocers, Mariposa works to support local growers such as Mill Creek Farm and Lancaster Farm Fresh Cooperative. My contacts in these organizations have expressed support for and solidarity with Mariposa’s mission as well.
Mariposa displays an unwavering commitment to a participatory democratic process as it thinks critically through decisions about the present and future of the co-op. Many other organizations, cooperatives included, undergo a kind of normative isomorphism, feeling the need to streamline or adopt hierarchies in order to move away from the process-orientation of their 1970s-era founding ethos. Mariposa, however, has remained true to its democratic values, making decisions with the maximum input of member-owners and maintaining a non-hierarchical management structure. It continues to debate its core beliefs, including food access and food justice, anti-racism and anti-capitalist practice, and queer advocacy, among other issues.

Mariposa’s work in providing board and committee members with anti-oppression training and its insistence on thoughtful and robust debate on core values can serve as a best practice for other cooperatives to follow if they want to sustain a democratic, diverse, values-driven organization. There is a quality of reflective practice that occurs at Mariposa that is difficult to discern in other organizations, whether cooperatively owned or not. At the same time, the insistence on participatory process comes at a cost—both in time and money. Some examples include the long delay before setting up an electronic membership management system (eventually dubbed the “MESS”) and the installation of a point of sale system (previously, orders were tallied with a tape calculator). The staff serves on the board and on committees and is paid for their time in those venues. This contributes to high labor costs for the co-op. The insistence on a robust process also means that decisions can take a long time to make. It is difficult (and undesirable) to cut short discussion when consensus is the aim. Some issues are given just as much attention and space as others at times—even though they may have less of an organizational priority—because of the structure of decision making within the co-op. This is why Mariposa has worked to delegate more responsibility for daily management to the staff and for policy to the board of delegates. But the pace of decision making can still be an issue for an organization set up like Mariposa.

Mariposa has partnered with co-ops in the surrounding community. It is a member of the Mid-Atlantic Food Co-op Alliance (MAFCA), a member group of nearly all of the food co-ops in the Mid-Atlantic region who meet to discuss strategy and advocacy. Mariposa is also a member of the Philadelphia Area Co-op Alliance (PACA), a cross-sector cooperative organization founded in 2012 that seeks to promote cooperation within the Philadelphia region. As noted above, Mariposa purchases from Lancaster Farm Fresh Cooperative and works with The Energy Co-op to refer customers to their residential energy program. Weavers Way supported Mariposa during its expansion in a number of ways, most notably by providing staff members to help stock Mariposa’s shelves and set up its new store.

In its early days, Mariposa was seen as exclusive and removed from the West Philadelphia community beyond the activist core. That reputation is changing. Mariposa has recently reached out to its neighbors for a neighborhood survey. It has received support from the Wharton Small Business Development Center and the University City District, as well as the Spruce Hill Neighborhood Association. The pool of shoppers and member-owners is becoming more diverse. Members of the Food Justice and Anti-Racism Working Group have formed a partnership with the Agatston Urban Nutrition Initiative, an organization that does nutrition, food access, and farming work with young people in West Philadelphia. With its community outreach, along with its expanded retail operations, Mariposa is becoming an agent of change in the West Philadelphia community.
Conclusion

Although Mariposa Food Co-op has been around for nearly 40 years, it is still undergoing rapid change and revision. Since the mid-2000s it has experienced a tremendous growth in membership and demand for its services by the surrounding community. It is in the throes of a transition into a new, expanded home and to an organization that merely encourages, but does not require, membership and member labor. In some respects, this is an excellent time for a profile, a snapshot of this organization, for an assessment of what it has achieved. Mariposa has completed a membership drive, it has raised hundreds of thousands of dollars in member equity, and it has raised $2.5 million to fund its expansion and relocation.

But in another respect, it would be premature to predict this organization’s future. Although Mariposa displays many indicators of strength, it is still in a vulnerable position, as is any organization that is going through extreme changes. The core staff and volunteers are at risk for burnout, having gone through such tumultuous experiences over the last 2-3 years. There is a risk that the organization will have changed so much that they will not recognize it as their own and will decide that it is time to move on, leaving a vacuum of leadership and experience that needs to be filled. What effect will the turnover of experienced workers have on the bottom line? What effect will an influx (a possible tripling of size) of new staff in the staff collective have on the work culture and customer experience at Mariposa?

Meanwhile, fundamental questions remain about member involvement in the face of optional membership and member labor. Will members continue to desire involvement now that it is not mandatory? What effect will this have on the culture of the co-op? These and other questions remain to be answered as Mariposa hurdlers towards the future of consumer cooperation in West Philadelphia—a future it is helping to build.

Works cited

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14 Cornell, Oppose and Propose.
Isthmus Engineering and Manufacturing

Michael Billeaux, Anne Reynolds, Trevor Young-Hyman, and Ayça Zayim

Introduction

Although the U.S. manufacturing sector has faced significant challenges in the past 40 years, the small cooperatively owned firm, Isthmus Engineering & Manufacturing (IEM), has thrived. Located in Madison, Wisconsin, IEM competes in the customized automated manufacturing machinery industry, serving customers who need solutions to complex automation challenges. Its team of engineers and fabricators takes projects from concept development through proof of process to on-site installation. IEM’s customers have included industry leaders in medical equipment, the automotive industry, and industrial manufacturing.

Although IEM began as a partnership of engineers, it is now organized as a worker-owned cooperative. Membership in the cooperative is open to all employees, regardless of their position in the company. IEM employs about 50 people, of whom 29 are members. These members include machinists, engineers, assemblers, electricians, and administrative staff. IEM extends a high degree of substantive, rather than simply nominal, empowerment for its entire workforce.

The last three decades have witnessed a gradual decline of the manufacturing sector in the nation. The changing landscape of the global economy, with the integration of low-cost labor from developing countries and the consequent shift in the comparative advantage of the United States, has led many to declare the demise of the manufacturing sector in the United States, notwithstanding the heterogeneity of this sector.

In contrast to this general pessimism, IEM stands out as a success and presents a story of survival. IEM, as a worker-owned cooperative, has not only been successful in surviving in a high-technology industry for more than three decades, but has grown, recorded stable revenues, and provided competitive incomes for its employees.

Methodology

This study was conducted in 2011 through interviews, direct observation, and document review. After presenting the research proposal to the IEM board of directors and obtaining permission, 25 interviews were conducted with employees who volunteered to be interviewed. Interviewees included long-term and new members, members and non-members, engineers, assemblers, machinists, administrative staff, and electricians. The semi-structured interviews enabled investigation into the daily workings of IEM; attitudes toward work processes; perceptions of prior workplaces; and the governance, management, and history of the company.

The second method of data collection was direct observation. Field visits to the company, in order to conduct interviews, provided opportunities to observe the company and its workforce. We were given an extensive tour of the company, and observed one of the weekly lunch meetings, which bring all IEM employees together to review the status of current projects.

IEM also shared important corporate documents, including bylaws, an employee handbook, and an owner’s manual. These documents helped corroborate and verify some of the data we gathered from interviews. As there was no prior study on IEM, secondary data was not available.
Historical overview
Isthmus Engineering started in 1980 as a partnership of three mechanical engineers who had worked together for a family-owned business, plus a bookkeeper. Initially, they did contract engineering work for nearby firms. When they added a machine shop, they were able to extend the design process from concept and blueprints to actually building machines. As they brought in partners with additional skills and acquired machining equipment, they needed to find a business model that would limit the partners’ liability and allow for the efficient entry and exit of new members. Two of the partners heard about worker cooperatives at a conference and learned about the success of the Mondragon Cooperative in Spain. With the help of attorneys and other advisors, eight of the nine partners (including two machinists) incorporated the business as a cooperative in 1982.

IEM grew quickly after incorporation, working largely in the automotive industry. Its location in the Upper Midwest gave it access to a large customer base, a skilled labor force, and a competitive supply chain. A major milestone in the late 1980s was the decision to build a building. The decision required significant financial risk for the members, since they had to personally co-sign the bank loan. However, their investment in a building gave them customized space and an improved identity in the marketplace, allowing them to grow significantly.

IEM’s workforce increased from the initial eight partners to 50 people in about 12 years. Employees were hired and became members quite quickly. Although membership required a significant investment (described as the price of a small car), the application process was fairly undemanding. During the 1990s, the board went through a protracted and difficult process of terminating some members. A rigorous membership process was put in place during the early 2000s. Cooperative membership is open to every IEM employee, except the general manager, but the member approval process gives the board significant flexibility in considering applications.

Isthmus Engineering has seen huge changes in its market. At its inception, 90% of its customers were within a five-mile radius of the shop. As manufacturing downsized in the United States, and particularly in the Upper Midwest, IEM made the decision to proactively expand their customer base. It moved into new industries, like consumer products, solar equipment, and medical equipment, and developed relationships with large, innovative, and global companies.

Currently IEM competes in the highest end of the automation manufacturing industry. Global work presents challenges, since their business model includes installation and service of the machines that they design. In the past few years, they’ve had several international projects, and more global customers are on the horizon.

Contemporary structure and functions
Isthmus Engineering is a mid-sized firm in its sector, with annual sales of about $15 million. There are 50 employees, divided into six areas: administration, sales, electrical engineering, mechanical engineering, controls (electrical assembly, mechanical assembly, and machining. The limited administrative staff includes a human resource manager, sales staff, a purchasing agent, a scheduling manager, and a general manager. Contract workers allow IEM to take on larger jobs than the current workers could handle alone, and they help ease the peaks and valleys in workforce needs. Many of the contract workers are retired former IEM employees, who are highly skilled and understand its projects and culture.

Production at Isthmus Engineering is primarily organized around project teams, as is typical of firms in the custom automation field. As a high-tech, lean firm, IEM has much in common with its competitors. According to worker testimony, most custom automation work is performed by teams, with quality assurance processes that include design review mechanisms. Yet IEM does differ from more typical firms in fundamental ways. While it is clear that empowerment is not equal among workers, for reasons related to division of labor and membership status, the extent to which IEM is able to maintain an egalitarian workplace, despite these constraints, is striking.
When asked about the important distinctions between IEM and its competitors, workers talked about the sources of their motivation. It cannot be overstated that the cooperative structure of the firm has a major impact on how employees experience their work. They consistently pointed out absence of hierarchy. There is no particular person within the firm to whom they must answer, who is continually compelling them to work, or who has the last word on project designs. Instead, they pointed to self-motivation and mutual monitoring as the most important incentives to work, as opposed to being "under the thumb" of management.

This experience of the firm was widely held among all workers in the firm. None of our informants presented IEM as a stratified and disciplinary organization, with highly asymmetrical relationships. Rather than being motivated by managerial pressure from above, workers are generally self-motivated, and the self-motivation is ensured by peer monitoring. All employees, both members and non-members, participate in a diverse set of peer-monitoring activities. These include formal reviews, weekly project status reports, design reviews, and frequent project-related communication.

GOVERNANCE
The IEM board of directors consists of all worker-owners and is responsible for managing the business and affairs of the cooperative, including the establishment of rules and regulations, the guidance of executive officers, the management of personnel, and ultimate oversight of management. The board is organized around a number of permanent and ad hoc committees, including an executive committee, which organizes and administers board activity. Non-members are invited to join committees, which facilitate many administrative tasks. With some exceptions depending on the pace of business, the board meets biweekly to govern the organization.

Another important meeting at IEM is a weekly lunch, catered by the cooperative and attended by all employees. During the lunch, the status of every current and future project is reviewed with budget, personnel needs, and scheduling issues discussed and examined. In a project-oriented business, this means that all employees, regardless of status, are equally informed on many of the most critical issues of their workplace.

MEMBERSHIP
Any full-time employee that has worked at IEM for two years can submit an application to join the cooperative. This is the first stage of the membership process. Unless an employee's application is rejected by two-thirds of the membership, the applicant has an interview with the board and must attend both open and closed sessions of board meetings. Applicants are also encouraged to serve on select board committees during the application phase. Only one applicant can be under consideration at a time. After a maximum three-month review period, the board must approve or reject the application. Applicants receive an offer of membership if they receive no more than 3–5 no votes (varying with the size of membership). In the final stage, an applicant must purchase stock in the cooperative, currently priced under $20,000.

All workers at IEM receive an hourly wage, with the exception of two salaried employees: the sales manager and general manager. Wages are set along a "laddered" scale when a worker is first hired. When workers become members, their compensation is dependent on the profits of the business. Profits are shared according to a formula that includes hours worked and a laddered skill factor. This skill factor is assessed according to the remaining distributions made after the close of the fiscal year. Distributions are made in cash and stock. Since IEM's goal is to equalize the amount of stock owned by each member, members receive a larger percentage of stock during their early years of ownership. If an owner leaves IEM, their stock is repurchased by the cooperative.

Analysis
Members and employees generally agreed about the quality of decision making and efficiency of management at IEM. While some lamented the time-consuming and sometimes stressful nature of decision making, no interviewees suggested that the company was poorly managed. In fact, the quality of decision making and attention to detail was consistently highlighted as an added value of the cooperative structure. One member described the cooperative's management decision
making as a bell curve: At the tails were outstanding and poor decisions, but the majority of decisions were somewhere in the middle. The cooperative structure helps IEM to avoid bad strategic decisions and to make effective decisions most of the time.

New employees remarked on the distinctiveness of a lack of formal management positions at IEM, and described the costly and inefficient layers of middle and upper management at competitor firms. Team-based project management is an increasingly common organizational feature in manufacturing industries, but the IEM structure distinctively blends managerial and administrative roles into production roles. In other firms, customer communications, scheduling, and purchasing may be wholly handled by an administrator or manager. At IEM, many of these responsibilities are shared by the project teams, the board, committees, and the limited administrative staff.

While much of the motivation that drives the cooperative's success is due to monitoring, self-censure, and structured management roles, a fundamental source of IEM's effective governance and overall success can be attributed to its choice of personnel. The application for membership constitutes possibly the most important weeding stage. Membership is formally open to all employees and new employees are able to, if not encouraged, to attend the open parts of board meetings. A long-time member emphasized that members will seek out particularly motivated new employees and use membership to create a commitment to the organization.

As IEM has grown, it has faced issues that illustrate important aspects of its challenges and successes as a worker-owned cooperative in a high-tech, highly competitive industry. Globalization and structural changes in the economy have had major impacts. IEM has needed to be extremely flexible and productive, while attracting and maintaining a skilled workforce. They have invested in sales and marketing, technology, and their facility. At the same time, they have explored and invented responses to expansion and change that are consistent with the vision of their cooperative owners.

IEM started as an engineering design firm, in a manufacturing environment heavily dominated by the automotive industry. As the automotive industry declined, IEM developed specializations that were independent of any particular sector. In a rapidly changing environment, they increased their value through innovation. They have taken advantage of their small size, skilled work-
chapter 12

PART 3: WORKER COOPERATIVES

Just Coffee: Roasting Social Transformation
João Alexandre Peschanski

Introduction
This case study examines how a small coffee roasting cooperative in Madison, Wisconsin challenged prevailing fair trade social relationships through its unique model of commerce. At the heart of this case lies a paradox of fair trade. A worker-owned cooperative created in 2002, Just Coffee developed a distinct model of trade based on social justice and economic democracy and challenged existing fair trade institutions while becoming a reference in Madison. Despite periods of financial difficulties, Just Coffee’s growth eventually stabilized and the cooperative managed to build and reinforce what one of its members calls “the fair aspect of fair trade.”

As many stories of fair trade business go, Just Coffee was born as a channel for the commitment to social justice of its founders. The roaster was founded to help small farmers from Chiapas, Mexico, from whom founders bought coffee beans. However, it soon expanded to source from other countries. As of 2010, Just Coffee bought coffee beans from growers in Bolivia, Colombia, the Dominican Republic, Ethiopia, Mexico, Nicaragua, Peru, and Uganda, sometimes paying the producers more than twice the minimum price set by the fair trade movement for a pound of beans. Establishing fair relationships with growers, who are themselves organized as cooperatives, has been a core element of the Just Coffee way of doing business. The Just Coffee approach to business has also involved creating new relations with potential competitors and customers.

In spring 2010, I observed operations at Just Coffee, taking part in meetings and interviewing five members and two employees. In 2010, Just Coffee had seven members who were worker-owners and four employees. Except for financial statements collected from Just Coffee’s website, the data in this case study originates from direct observations and interviews.

Historical overview
According to its founders, Matt Earley and Mike Moon, Just Coffee was created to provide resources for impoverished rural coffee producers in Chiapas, Mexico. In the late 1990s, Earley and Moon were part of a solidarity campaign to help rural producers from this area. Their vision was to pay a fair price for green coffee from producers in Chiapas and roast it in Madison, where they lived. Earley and Moon came from different backgrounds, but neither had experience with coffee roasting or trade. Earley was a graduate student at the University of Wisconsin–Madison who focused on Latin American politics. Moon was a farmer, but had never worked in the coffee business. Non-governmental organization (NGO) activists in Chiapas taught them how to transport coffee from Mexico to Madison and put them in touch with Cooperative Coffees, a coffee-importing cooperative created in 2000 that was starting to build trade relationships between North American coffee roasters and producers in developing countries. Earley and Moon also sought advice on how to build their business plan from the University of Wisconsin–Madison School of Business, but were told that their enterprise was impossible: “The person we talked to said we were doomed to failure. ‘It was not profit-motivated.’ ‘You won’t make enough money.’ ‘There are too many roasters in Madison.’ We were escorted to the door with some literature,” Earley recalls.

At the end of 2001, Just Coffee incorporated as a limited liability corporation, and by September 2002, it started selling coffee. The company had only two members, so it did not legally qualify to be a cooperative—a firm must have at least five people signing the articles of incorporation to legally become a cooperative in Wisconsin—but it was nevertheless run as a cooperative. Just Coffee officially became a cooperative in 2005. The investment to create the coffee roaster came from the members’ savings and from a local nonprofit orga-
nization, the Madison Development Corporation. Two local banks refused to give loans. Roasting equipment was bought from another coffee roaster, and production began at the Madison Enterprise Center, an incubator for small businesses that offered Earley and Moon a reduced rate for business space. Sales strategies were (and remain) linked to the founders’ social justice commitments. Products were sold in few places: a farmers’ market and some cafés in Madison. According to one of the founders, the most ambitious expectation at this initial stage was to sustain two part-time jobs.

Just Coffee oscillated between losses and profits from 2002 to 2007. An interviewee described this initial period as “financial chaos,” associated with the fast pace with which they were growing. In 2002, its sales were $13,450; in 2007, it reached more than 1 million, but the roaster still faced a deficit. Because of its financial situation, Just Coffee borrowed money from Cooperative Coffees, was late to respond to demands, and wasn’t always able to pay producers on time. The owners considered closing Just Coffee, especially when they were unable to pay back loans. With the stabilization of internal production dynamics, growth, and the devotion of more time and resources to social justice commitments, 2008 marked the beginning of a new phase. The cooperative moved to a larger space, which was risky given the financial imbalance of the previous years, but was eventually paid in full. Since 2008, the cooperative has been profitable and has met its payments.

Contemporary structure and functions

Since 2003, several new members have joined Just Coffee. As one of them said, “We started showing up, and we were self-selected. We started by volunteering and never leaving, making a job for ourselves over the years.” In 2010, all seven members were white males, and most of them were under 40 years old. Several of the interviewees had activist backgrounds.

One becomes a member by working 400 hours for the cooperative or by giving the equivalent in money or equipment. Buy-ins have varied throughout the years, mostly depending on people’s willingness and capacity to invest in the cooperative, but were always at a minimum of $6,000. According to one interviewee, the buy-in process generally takes 1–2 years; the varying length depends on the amount of earnings that workers pay toward membership. All owners have remained workers; a key difference between members and non-members is that the former sit on the board of directors, co-sign loans, and are financially liable if the cooperative is unable to repay debts. Wages are determined by work time and number of years in the cooperative. Members’ hourly earnings range from $18.50 to $21.50, and members are eligible for 75–100% of health care benefits depending on the financial situation of the cooperative. Just Coffee also has nonmember employees who earn less than members and have different benefits and decision-making opportunities. Nonmember employees earn $13.50 per hour, and only those who have worked at least 20 hours per week are eligible for healthcare benefits.

Just Coffee activities are divided into departments: sales, production, mission control, administration, and finances. A member leads each department, with leaders regularly changing. Two members generally take part in each department; the number of nonmembers in each department varies. Officially, members are not part of more than one department, although activities often overlap. Each department is responsible for routine decisions; important matters are reported at monthly board meetings (though meetings can occur more frequently). There is no general manager. Interviewees raised concerns about the decision-making process. For instance, one interviewee remarked: “People who are new to Just Coffee do not know how to tell the difference between what is important and what is not, and they just don’t talk. They are too afraid to sound inappropriate or foolish.” Interviewees also expressed concern that the need to report decisions made in each department has transformed board meetings into long reports of “decisions that have already been made.” One interviewee complained that nonmembers do not have consistent means to take part in decisions, even though they sometimes have worked as hard as members.

The sales department focuses solely on what members call “friendly markets.” It has divided markets into café/restaurant, co-op/market, group sales and fundraising, and web sales. Sales to cooperatives represent more than 50% of business. No commission is attached to sales. Just Coffee does not sell products to companies with policies and practices that contrast with fair trade deals. Each new account needs to meet Just Coffee’s criteria. When members have doubts about whether or not they should sell their products to a company, they hold a meeting and vote. For instance, members engaged in an internal discussion when Whole Foods, a supermarket chain specializing in organic products, asked to sell their coffee. Some members did not want to sell to Whole Foods because it might have generated unfair competition for other groceries with which
they worked. Members were also concerned about the treatment of Whole Foods employees. After voting, members decided to sell to Whole Foods, but only in Madison. According to one interviewee, Whole Foods asked to expand sales beyond local markets, and Just Coffee refused.

The sales department’s general guideline has been to maintain, as much as possible, a personal relationship with the businesses and people to whom Just Coffee sells coffee. They generally visit the eight coffee shops they work with in Madison weekly and call other businesses at least once a month. The personal relationship with these businesses is important, according to an interviewee, because Just Coffee’s products are more expensive than others, so “we need to explain why our price is higher than others, [and this is] because we pay more to growers.” Higher prices to customers are the main strategy to absorb extra costs related to paying more to coffee growers. According to an interviewee, Just Coffee’s wages are lower than those of large commercial coffee roasters, but are equivalent to or higher than those of most small coffee roasters. The cooperative keeps updated accounts of how its prices are set on their website, highlighting how much it pays growers. As of May 2011, prices negotiated with growers ranged from $2.05 to $3.11 per pound. Just Coffee also attempts to maintain good working relationships with other roasters with similar practices and visions. According to one member, it’s careful not to impose its products—which have acquired prestige in Madison’s activist scene—in Wisconsin coffee shops where other cooperative roasters are present. It has mapped potential buyers in what one of the interviewees called “our Midwest basis of operation,” which includes Michigan, Minnesota, Illinois, Ohio, and Wisconsin. Just Coffee also has buyers on the West Coast.

Analysis

Just Coffee’s founding mission is to enhance economic democracy. This involves the internal practices of the cooperative—making sure that members and nonmembers have a say in decisions—and a business model built around transparency. As one member described, it is “a model in which businesses are transparent about what they are selling, show their entire chain, going down to the production and showing how people are being treated, developing and expanding a model of trade based on transparency, equality, and human dignity.” The business model that Just Coffee is building is still at an early stage, though the cooperative has been investing in it since 2008.

Just Coffee intervenes on almost all steps of the traditional coffee supply chain, aiming to change existing social relations. An interviewee described the traditional supply chain as a four-step process:

First, corporations buy coffee very cheap from growers, and growers compete among themselves, sometimes from the same community, to sell their coffee. Second, the corporate pressure leads to unfair work relations in large plantations, where workers are treated poorly. Third, when it comes to the consumers’ market, competition among corporations drives the price-setting, and buyers have little information about how products were produced and where prices come from. Fourth, corporations use everything they get from selling coffee to develop new schemes to increase their rate of profit, leading to worse working conditions for growers.

The trade strategy of Just Coffee goes beyond what is generally regarded as fair trade in the United States. Just Coffee was previously part of the fair trade certification system but left in 2004, claiming that the model of Fair Trade USA did not provide equal opportunities for growers, especially from poor countries, to voice their opinions and interests. They also oppose Fair Trade USA’s tendency to grant fair trade certification to larger businesses in North America that do not prioritize worker and grower empowerment. Just Coffee is instead involved in the building of a new certification system, called the Small Producers Symbol, that combines fair trade and fair production practices.

Just Coffee is developing additional strategies to empower coffee growers. They have taken intentional actions to help strengthen the cooperative aspect of producers with whom they work, but they are also sensitive to the local experiences and knowledge of producers. As a Just Coffee member describes, “We don’t go to, let’s say, Nicaragua and tell families who have produced coffee for centuries how they should produce...
E X P L O R I N G C O O P E R A T I V E S : P A R T 3

it, but we try to find enough roasters in North America that want to buy from a producers' cooperative and the producers' cooperative gets more involved with this international community of cooperatives." Just Coffee is also considering the possibility of pre-financing production so coffee growers are less vulnerable to unexpected problems that may arise during production.6

As part of its social trade model, Just Coffee has organized delegations to meet coffee growers. Just Coffee members, employees, and customers, mostly from Madison, have taken part in these delegations. The general idea, as one interviewee explained, is to create bonds between Madison and the rural communities with which Just Coffee works. The organizing of these delegations has made Just Coffee a reference point for socially committed people in Madison who want to be involved with an international social justice agenda. Just Coffee attempts to have as much direct contact with customers (coffee drinkers) and Madisians as possible. They do so by demonstrating their products, with delegations, and by stimulating customer involvement with Just Coffee through their website and occasional cooperative meetings. Just Coffee has participated in events and street demonstrations that members and nonmembers have felt politically connected to, giving away coffee to show solidarity and make their product known among activists in Madison. For instance, Just Coffee set up free coffee stands during the demonstrations against anti-union policies that led to the occupation of the capitol in Madison in February 2011.7 Coffee deliveries in Madison are made with bikes that advertise Just Coffee while also connecting with the city's bike-friendly culture. According to one member, many customers are activists in Madison or people who have political commitments to social justice. As an interviewee put it, by Just Coffee being deeply embedded in the Madison activist scene, a form of "activist peer pressure has been created." "Every customer that I talk to reminded me that we had to be consistent to [sic] our principles." On some occasions, customers have written complaints to the cooperative. For instance, when customers complained about the excessive use of plastic bags, members of Just Coffee discussed how to respond to this valid complaint.

One Just Coffee founder has described the cooperative as "an ongoing process that still faces enormous difficulties." One notable challenge has been balancing the commercial and the political aspects of the cooperative. This has required internal cohesion, an expansion of the cooperative-friendly supply chain, and determining the amount to reinvest into production and the amount to spend on the social justice agenda.

Conclusion

The case of Just Coffee shows possibilities and challenges of combining trade and social justice ideals. Its trade model is original, because it relies increasingly on the building of a fair commodity chain that involves growers, roasters, and customers. Through trade, Just Coffee attempts to empower growers by stimulating cooperative aspects of production, setting fair prices with growers, and establishing other strategies to lower risks and vulnerabilities throughout production. Within Just Coffee, governance is democratic among members, even though nonmembers—who have less at stake in the financial aspect of the enterprise—remain less involved. Sales strategies consider social justice issues, such as coexisting with roasters sharing Just Coffee's political commitments. The relationship with customers is as transparent as possible.

Guaranteeing the continuity of its commercial-political model is likely Just Coffee's greatest challenge. The cooperative has continuously grown in number of member and nonmember workers, net income, and social and commercial impact. Yet, Just Coffee depends on maintaining a balance between profitability and social justice priorities; this might be difficult to negotiate internally, especially amongst new members and nonmembers. Future stability will entail sustaining internal cohesion, which may become threatened with increasing task specialization. Just Coffee members appear to be aware of these difficulties, and have been in touch with scholars and activists in other cooperatives to help them face with these challenges.
WORKER COOPERATIVES

4 One year after my research, a member I had interviewed reported that tensions between employees and members had become more severe, mostly related to goals and governance aspects of Just Coffee. There was an internal dispute about whether Just Coffee should focus on its profit margin, increase workers' wages, or improve the trade conditions for the coffee producers. Nonmember employees, some of whom had recently joined the cooperative and had an activist background, expressed their discontent with how members had dealt with this dispute and the resulting tense working conditions. Eventually, employees organized and threatened to quit Just Coffee if members did not properly deal with this internal problem and create a document and a governance strategy to inform dispute solutions. Ultimately, these tensions led to organizing retreats with workers to strengthen the cohesion among workers and a commitment to change aspects of the governance structure to be more efficient in dealing with internal crises. Just Coffee decided to use profits they were making with increasing sales to better conditions of coffee growers; shortly after, a member who had strongly argued in defense of increasing workers' wages left the cooperative.

5 The activist origin and the continuing investment to a social justice agenda has led Just Coffee to be identified as a "real utopia," broadly defined as functioning institutions or institutional designs that contribute to improving human conditions. See E. O. Wright, Envisioning Real Utopias (London: Verso, 2010).

6 Just Coffee is engaged in strategies to "deepen fair trade," as an interviewee put it—that is, working on a business model that is not merely defined as "paying more to producers." This is especially important in a period in which coffee prices have reached a peak, when non-fair trade companies are paying close to what fair trade-certified companies are paying to growers. Just Coffee supports pre-financing production in order to secure the coffee and to help producers cope with potential problems that might arise during production, Just Coffee prepaid some of the contract. This is a form of strengthening bonds with coffee growers.

chapter 13

PART 3: WORKER COOPERATIVES

Union Cab: Democratic Worker Ownership in the Taxi Industry

Trevor Young-Hyman

Introduction

This chapter presents the history and organization of the Union Cab of Madison Cooperative, a fully worker-owned cooperative providing taxi and transportation services to the city of Madison, Wisconsin. The organization is distinctive, even as a worker cooperative, due to its size and its participatory governance structure. Its history offers some insights about the conditions under which such an organization can emerge. The first section lays out the governance and operations of the business. The second section presents the history of the cooperative’s growth. In the final section of the chapter, I identify points of intersection between the Union Cab case and various literatures on worker ownership and suggest ways that the case might be more broadly relevant.

Chapter data was gathered through narrative interviews, archived newsletters, newspaper articles, and company policy manuals. I conducted three in-depth interviews with cooperative members, each in different occupations. A fourth interview followed up on themes that emerged in the first round of interviews and was conducted with two other researchers. The interviews were conducted at the Union Cab facility, and were recorded and transcribed.

Contemporary structure and functions

OPERATIONS

Union Cab derives revenue from two related areas of business. The first is the cash business for consumer-based taxi services, which garners the majority of the business’s earnings. Second, Union Cab accrues nearly 40% of its revenue from contractual business, in which the cooperative provides transportation services for an organization. Over time, the cooperative has held such contracts with the city of Madison, the University of Wisconsin, local health care providers, and the local school system.

The workforce is composed of six general occupational groups: drivers, dispatchers and phone answerers, administrators, IT workers, maintenance technicians and mechanics, and management. Union Cab was the first cab business in Madison with an IT department. Union Cab’s 187 drivers, however, make up the majority (about 85%) of the workforce.

After a three- to six-month probationary period, which was described by interviewees as mainly intended to ensure basic professional competencies, workers are required to take a membership share in the cooperative for $25. Each member gains a single vote in board elections and the option to serve on various governance bodies. Members also gain access to a share of any annual surplus, which is allocated according to the number of hours worked, the income contributed to the cooperative, wage level, and seniority. Seniority also manifests itself in the governance process, where some committees require senior members. Lastly, members have substantial autonomy over their schedules, in terms of both when and how much they work. Some members work overtime, some work fewer than 20 hours per week, and others vary their hours seasonally.

GOVERNANCE

The company has a highly decentralized management and governance structure. An organizational chart lays out the range of bodies that oversee and implement the organization’s management and governance. Consistent with the company’s background in unionist traditions, governance mechanisms position worker-owners to oversee the management of both administration and operations. On the administrative side, the highest
level of oversight is the board of directors, which is a nine-member body, elected by the membership. In order to avoid the establishment of coalitions, elected members are randomly assigned to one-, two-, or three-year terms. Board members are selected from the membership and any member may propose his or her candidacy to the board. Historically, they hire the general manager (GM), whose direct responsibility is to oversee and monitor the general operations of the cooperative and the activities of each division manager. However, changes to the governance structure have replaced the GM position with a steering team, of which the business manager is part. Seven permanent committees handle governance responsibilities ranging from strategic planning to education. Some of these committees have members appointed by the board and others are appointed by the GM.

Union Cab has made frequent efforts to democratize disciplinary processes, and these efforts continue today. Disciplinary processes have progressively shifted towards management by committees, as opposed to a single individual. Since the founding, the workers' council has served as an oversight committee for disciplinary decisions from management. In December of 1979, an accident review committee was created to peer review driver accidents. Within the past three years, the initial review of all internal behavioral misconduct has been removed from management's hands and transferred to a peer-based committee. A mediation council was also established for workers to resolve conflicts through non-punitive avenues. This committee is even used by managers seeking to address conflicts with employees. Finally, the stewards' council shepherds worker-owners through the range of governance bodies and committees.

Historically, a divisional manager hired by the GM has managed each occupational group. However, in an effort to further democratize management of operations, divisional teams have been established to serve as partners to the divisional managers. Furthermore, the cooperative has revised its governance policy such that workers from different occupational categories serve on the different division teams. This means, for example, that both drivers and dispatchers are required to serve on the operations team.

Ultimately, approximately one-third of the membership participates in governance or management. Eighty-four of the 219 members currently participate in a committee, council, or managerial team. One member estimated that approximately 20% of membership attends annual meetings, where board elections occur. Responding to members' concerns about the cost efficiency of participatory governance, one worker-owner began conducting an annual internal audit in 2011. According to this report, the company paid $86,312 for 5,756 hours of governance work from its members. Considering that this work is equivalent to approximately 2 1/2 full-time positions, Union Cab pays relatively little for their management of a cooperative with $6 million in annual revenue and more than 200 employees.

HISTORICAL EVOLUTION OF UNION CAB
Union Cab emerged out of a flurry of union organizing activity in Madison during the 1970s. Starting in 1973, workers at various Madison cab companies began successful negotiations and strikes to demand stronger benefits and rights. By 1978, failed negotiations and strikes had already led to the closure of one Madison cab company and threatened another, both of which were dominant in the local market.

FOUNDING
In January 1979, five workers from one of the embattled companies left and resolved to establish their own company and organize it as a worker cooperative. The model was not entirely foreign to the Madison business community. Long-standing Madison-based cooperatives like Community Pharmacy Cooperative, Madison Housing Cooperative, Williamson Street Food Cooperative, and Isthmus Engineering and Manufacturing were all established between 1968 and 1982. Madison also had an existing set of resources to provide legal guidance to the nascent cooperative. The founders enlisted the assistance of Toby Reynolds, a local lawyer who specialized in cooperative business law, and organized their bylaws around the detailed Wisconsin cooperative statute.

In 1980, the upfront costs to commence operations were estimated at $150,000, and the company took more than six months to find financing. The company was able to obtain it from a combination of public and private sources, all of which were locally based. The cooperative negotiated a $95,000 loan from First Wisconsin National Bank, which was based in Milwaukee. This loan, however, was facilitated by
the guarantee of a $35,000 loan from the Madison Development Corporation (MDC). The MDC is a quasi-public economic development organization that has, since its founding by Madison Mayor Paul Soglin in 1977, provided commercial loans at competitive rates to Madison small businesses. MDC also provided startup funding to other local Madison cooperatives, like the Williamson Street Food Cooperative. Union Cab received an additional $15,000 in financing from a Madison-based public-private partnership called Wisconsin Horizons and raised the remainder from sale of preferred stock. The purchasers of preferred stock were friends, family, and community members committed to cooperative ideals. Ultimately, the cooperative was able to raise sufficient resources to purchase 11 taxis and start operation. Despite several initial profitless months, the company was quickly profitable, adding five cars in the first year. During its first decade, Union Cab outgrew its initial location, replaced its taxi fleet, and integrated computer systems into the cabs.

EARLY REVISIONS TO COOPERATIVE GOVERNANCE
During its first decade, Union Cab made substantial revisions to its governance mechanisms, as it sought to find a balance between democratic representation and the centralizing tendencies of organizational growth. By the winter of 1984, traditionally the busiest season because of the cold Madison winters, the cooperative had grown substantially due to several competitors’ bankruptcies, but it was receiving high numbers of customer complaints. Management reacted by identifying several worker-owners primarily responsible for the poor customer service and disciplined them. The discipline was contentious and a board member resigned, citing dissatisfaction with relations between owners and management. In response, the board of directors voted to work with an outside advisor and establish a reorganization committee to redesign the management structure. The roles of personnel and operations manager were split into distinct positions, the committee established a GM position, and four permanent committees were established to advise the board on finance, education, personnel, and planning. Simultaneously, members created a monthly newsletter and a steward program to increase worker-owner information about the business. Member interest in board participation also grew. After having failed to garner enough interest to field competitive board elections in the winter of 1983–84, the 1985 spring elections drew 11 candidates for 4 seats.

CATALYSTS AND OBSTACLES OF GROWTH
In the company’s first decade of operation, several of the leading taxi companies in Madison closed due to labor disputes, and public transit drivers went on strike. Thus, demand for transportation services was high, and unemployed drivers fundamentally concerned with workplace rights and interested in a cooperative ownership structure were in abundance. The cooperative expanded during this period because it met the demands of both consumers and workers. By 1990, it had approximately 100 members.

Union Cab’s second decade was characterized by a second generation of owners and a failed effort at diversification into alternative transportation services. Until 1990, all board members were workers who had started their careers in the polarized and contentious context of the 1970s Madison labor protests. In the 1990s, members who had not been exposed to those influences took board positions for the first time. New managers entered from outside of the company, as opposed to the early management who had risen through the ranks and were often founding members.

In the early 1990s, the owners decided to expand and diversify the business by taking contracts for school bussing and paratransit services. A range of differences between the human resource and management demands of the new and old areas of the business strained the organization. Driving school buses and paratransit vehicles for contracts with the city of Madison attracted workers who were comfortable working with children and disabled individuals, who received an hourly wage as opposed to a commission rate, and who were willing to work in a drug-free workplace. This was a different population from the more senior Union Cab members. The drug testing issue was so contentious that the cooperative had to set up a separate call center so that some worker-owners would not have to be regularly tested. Governance conflicts and financial losses resulted. This turmoil culminated in 1999, when Union Cab lost its contract for school transportation services.

After the failure of the previous decade, the membership recommitted to its core business model, core organizational structures, and core members. As a longtime employee described it, in the first decade of the 2000s, Union Cab “really focused on being a cab company. No more busses, no more schools. We built back our cash business.” The cooperative did, however, provide transportation service to publicly subsidized medical assistance programs during this period. Union Cab grew
consistently between 2002 and 2008. Similarly to earlier decades, the board membership and management continued to change frequently. However, while some previous managers had come from outside, all four GMs during the 2000s were previous board presidents.

In the 2000s, in contrast to the negative experience with school bussing and paratransit, the company effectively took on medical assistance transportation. Growth through medical assistance was highly profitable and led to the sustained expansion of the cooperative. These services were paid, in part, through funds for publicly subsidized medical care. However, the patients had autonomy in selecting their transportation provider, and these jobs were treated as commissioned jobs and more closely resembled Union Cab’s traditional line of work.

Ultimately, this aspect of the business was undermined in 2011 when the state government contracted with a private management company to provide medical transportation. According to several Union Cab workers, they were popular because they provided reliable and timely service. However, when the private management company took over regulation of medical transportation services, it began to select the transportation providers for patients. Union Cab’s percentage of total revenue from this business declined from 40% to 15%.

Since 2011, Union Cab has been characterized by renewed focus on governance reforms and expansion of participatory democratic institutions. The cooperative has shifted responsibility in the peer review process directly onto worker-owners and is implementing team-based management. The cooperative has also prioritized environmental sustainability, through the conversion to a fleet of hybrid cars, the installation of solar panels at the headquarters, and incremental changes like encouraging drivers to turn off their engines while waiting to pick up passengers.

**SITUATING UNION CAB IN THE ACADEMIC DISCOURSE**

While this chapter’s length constraints and limited data preclude a deep critical engagement with academic literature, we can at least identify several points of intersection between the Union Cab case and some ongoing debates about democratic employee ownership.

First, scholars have dedicated substantial energy to examining the rarity of worker cooperatives. Many explore reasons why they shift into conventional ownership structures or why they fail to compete, but fewer have examined the foundational moment. Some of the only scholarship to address this issue attributes the rarity to a lack of awareness. Having examined economics textbooks and business curricula, scholars have shown that the cooperative business model is almost completely absent from post-secondary education.

The experience of Union Cab offers a new and compatible dimension to the awareness argument. The cooperative was founded during a period when a number of other cooperatives were being established in Madison. Both legal and financial institutions with knowledge of the worker cooperative ownership structure provided key supporting resources.

A. R. Levinson has recently introduced the argument that the foundation of worker cooperatives can be usefully analyzed as an instance of a social movement. Here, too, the case of Union Cab resonates. Founders and early members all emerged out of an environment of contentious labor-management relations, experienced job loss and exploitation, and viewed Union Cab as a mechanism with which to organize their material and human resources. Uniting the awareness and social movement arguments, many institutions that supported Union Cab and other emerging worker cooperatives during this period were locally grounded institutions like local banks, quasi-public development organizations, and social networks in the labor movement.

Second, the Union Cab case speaks to the issue of member heterogeneity and growth. H. Hansmann was one of the most prominent scholars to advance the view that worker-owned firms are limited in their growth by the heterogeneity of the workforce. As a cooperative diversifies, the governance costs increase. As a result, worker cooperatives are thought to remain small organizations, for the most part. Union Cab’s experience speaks to this question. In some senses, the case supports Hansmann’s claim. The effort to diversify into state contracts for medical and school transport required new and different employees, which created insurmountable governance costs. At the same time, Union Cab has continued to grow, but only in certain areas of production. This case suggests that heterogeneity is not an unmediated variable, as it impacts growth, but one that is necessarily tied to the organization’s area of production. The type of service that Union Cab sought to provide and the character of its membership...
were intertwined. Some types of member heterogeneity, for example between dispatchers and drivers, were acceptable because they fit the demands of the commercial taxi service process. Other types of heterogeneity, however, like that between bus drivers and taxi drivers, were insurmountable because of the differences between their occupational routines.

Third, the Union Cab case speaks to the relationship between growth and democratic governance. J. Nilsson argues that growth, business diversification, and increased worker heterogeneity may lead to degeneration of democratic participation in worker cooperatives. In this view, governance is a mechanism for worker-owners to monitor their ownership stake in the cooperative. As a worker’s stake becomes proportionally smaller and the range of interests widen, the costs of advancing individual interests increase and the payout shrinks, leading to high free-riding costs. While the case requires further examination to speak to this issue, growth at Union Cab has resulted in a narrower segment of the membership participating in governance, but it has not resulted in degeneration of the cooperative ownership structure.

**Conclusion**

This chapter has sought to present the unusual case of broad democratic participation and growth at Union Cab of Madison Cooperative. A better understanding of the historical contingencies, key actors, and environmental characteristics that shaped the cooperative’s evolution may help to understand the likely obstacles and catalysts that broad-based workplace democracy faces in a competitive market context. First, not so surprisingly, this case lends evidence that a supportive network of enabling institutions, like banks, universities, government agencies, and other businesses, facilitates the establishment and growth of cooperatives. Second, worker cooperatives are much stronger and are also deeply impacted organizationally when they are associated with social movements, like the ’60s labor rights movement in Madison. Third, the cooperative ownership structure does not preclude growth, but does shape the type of growth that is possible. In particular, growth is most likely when it does not challenge existing managerial structures. Certain types of innovation are enabled and other types are precluded by the organization’s ownership structure, as in the case of Union Cab’s effort to enter the school bussing program. Union Cab offers a rich case of workplace democracy, and its historical evolution merits greater examination.

**Works cited**


**Endnotes**

Some hyperlinks may no longer be current.


