

# A Dynamic Force: The Power of Cooperatives

*In many ways, cooperatives are like the powerful waves that continually crash upon the long and jagged coastline of the western United States — they start small, increase in size and strength over time and then relentlessly assault the terrain (or anything else in their path) with force and authority.*

*Co-oper•a'tive, n. A business enterprise or society whose objective is to enable its participants or members to buy or sell to better advantage; it is generally collectively owned for mutual benefit.*

Cooperatives in America are as old as the nation itself.

The first successful U.S. cooperative was organized in 1752 by none other than Benjamin Franklin who formed the Philadelphia Contributionship for the Insurance of Houses from Loss by Fire. The firm, which continues in business today, is the nation's oldest property insurance company and also the nation's oldest continuing cooperative.

Over the years, cooperatives of all shapes and sizes have thrived because the business concept they are based on is fundamental, yet universally appealing — individuals or businesses banding together to form an independent business, one that supports the collective needs of the entire group or membership. By improving economies of scale or by leveraging the purchasing power of many, cooperatives bring efficiency and power to individuals or members who would likely never achieve such strength or clout on their own in the marketplace.



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Part of the appeal of the cooperative as a business structure are the principles that drive its success as an organization. Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. Anyone can join a cooperative if they are willing to accept the responsibilities of membership; cooperatives are controlled democratically by members who actively participate in setting policies and decision-making; members share equitably the costs and benefits of operating the cooperative; and cooperatives are strongest and most effective when members are working together toward common goals and objectives.

Typically, cooperatives are formed when the marketplace fails to provide needed goods or services at affordable prices or at acceptable levels of quality. This was certainly the case in the early part of the 20th century when marketplace forces appeared to be conspiring against small “mom and pop” grocery stores that were located on some of the busiest streets of America’s fastest growing urban areas. Firms like the Great Atlantic and Pacific Tea Company and National Tea Company began to aggressively expand their “chain of grocery stores” concept across the country in a campaign designed to forever change the face of the local hometown grocery store.

Because it was easier — and more profitable — to sell products to one customer with many stores, suppliers of grocery products and dry goods changed their pricing to favor the multi-store operator. The small, independent store owner could still buy from the same product supplier, but generally at higher prices

than the multi-store operator had to pay. The supplier rationalized this behavior by claiming that smaller quantities were more expensive to distribute to single store operators. Smaller retailers argued that higher prices made it more difficult for them to compete.

It didn’t take long before the small, independent grocery retailers realized that something would have to be done in order to level the playing field between themselves and the upstart chain grocery stores. In November 1915, a handful of merchants in Portland, Oregon (then with a population of about 220,000 residents) decided they needed to form a “buying exchange” to pool their orders and obtain better prices. Naming their enterprise United Grocers of Oregon, Inc., their stated purpose was “to promote, preserve and protect the retail grocers’ trade and business in the city of Portland and to cooperate in the purchase of goods.” One of the very first retail grocery cooperatives on the West Coast of the United States was born.

In 1922, small independent retail grocers in the Los Angeles marketplace reached the same conclusion as their brethren in Portland — in unity there was marketplace strength. Meeting at the Hotel Green in Pasadena, California, 15 grocery retailers formed Certified Grocers of California, a grocery cooperative that would combine the purchasing power of its members to obtain better terms from product manufacturers and suppliers. After the organization’s initial membership fees were paid, the group’s first purchase was a carload of soap, which they divided among themselves in a Los Angeles rail yard.



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Retailers in Los Angeles reached the same conclusion — in unity there was marketplace strength.

Noting the success and growth of grocery cooperatives elsewhere in the country, a group of grocery retailers in the Seattle area decided that the concept of pooling their resources to better themselves collectively had merit. In 1934, with the help of a San Francisco grocery executive, J.B. Rhodes, the retailers formed Associated Grocers Cooperative, which began its life with a single Model T truck, an old Model A truck and an old warehouse in downtown Seattle.

On the West Coast there were now three wholesale grocery cooperatives — each organized with the goal of improving the competitiveness of independent retailers and each working to expand their influence throughout the regional marketplaces in which they operated. For United, Certified and Associated, business in the early decades of the 20th century was all about growth — a growing product offering, additional distribution locations and an ever-growing roster of new members and customers.

Many years later, these same three cooperatives would find a way to leverage their growth in a different manner — combining multiple cooperatives in order to create a single, stronger cooperative.

### Cooperative Growth in the West

The pioneer of the grocery cooperative movement in the West, United didn't encounter immediate success. The organization faced strong opposition and early

financial losses. In their November 1915 edition, *Oregon Retailers Journal* editorialized against the fledgling grocery outfit, "There is no reason for a Buying Exchange in Portland. The distributing service for this territory is already fully supplied." Opposition against the group by "unfriendly interests" was so strong that the original 35 members felt compelled to pledge an "Oath of Loyalty" to "never divulge any business transacted at any of the meetings, and/or prices or discounts obtained through the efforts of the corporation."

Soon their hard work, wise management and good luck combined to make the organization a viable operation and model for the development of future cooperatives. The membership that was initially limited to 50 retailers, was later raised to 100, then 150 and eventually all limitations were removed — the "Oregon" was dropped from the company's name when United expanded service to communities in southwestern Washington and northern California.

From 1926 through 1951, under the general management of H.E. (Hal) Carr, United and its retail membership prospered and grew. They did so by not only focusing on buying quantities of dry grocery, but also by providing local produce, meat and seafood offered from Oregon's plentiful agricultural and port communities.



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In 1953, United boasted that they had built the “most modern warehouse in the West” and continued their expansion into northern California and southwest Washington. On the company’s 60th Anniversary, the *Oregonian* newspaper quoted then general manager, Fred Gast, “I don’t think we can ever say we are satisfied with either our wholesale or retail performance. We have yet to reach our potential.” During the ‘80s when most of Oregon was facing widespread unemployment, United continued to grow. In 1986, United’s president reported the company’s ninth consecutive year of record growth and looked positively to the years ahead, saying, “In the future, there will be many different types of stores, but I don’t see any reason why all of them can’t be successful.”

Similar paths of growth and commitment to retail success were followed by Certified Grocers. In 1928, just six years after its founding, Certified merged with Cooperative Grocers, another small retailer-owned wholesaler. That year, Certified’s sales volume exceeded \$1 million, almost three times the sales volume in 1926.

Throughout the 1930s and ‘40s membership and sales soared. Outgrowing warehouse space became routine. In 1947, Certified bowed to ever-increasing demand for greater quality and variety from post-war consumers and introduced the Springfield line of private label products. A year later, they further diversified their grocery lines and established a Frozen Food Division.

Diversification, efficiencies and growth continued to be the focus for the next 40 years. In the ‘50s,



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Certified launched its General Merchandise Division, opened a coffee bean processing facility, started a Delicatessen Division, and constructed its first dry grocery branch warehouse in the San Fernando Valley.

The ‘60s, ‘70s and ‘80s were no less eventful. In conjunction with Southern California’s rapid population growth and increased consumer demand for better quality and service, Certified established Grocers Equipment Company (GEC) and invested more than \$1 million into equipment, layout planning and merchandising to help stores handle the volume. In 1963, Certified established its fifth operating division, the Ice Cream Division. In 1974, the company acquired a bread company and dairy. At the start of the ‘80s, Certified took another big step toward helping its customers meet the needs of their diversifying consumer base by launching Grocers Specialty Company (GSC). GSC provided one-stop shopping for retailers needing ethnic foods, health foods and gourmet brands.

In Seattle, J.B. Rhodes also understood the need for retailers to take advantage of their inherent ability to tailor strategies for the communities in which they operated. He encouraged AG’s entire organization to always “Think Retail.” Long before advertising became fashionable, Rhodes strongly advocated that retailers set aside one percent of gross sales for advertising — if not alone then as a group — so as to distinguish themselves from what he called “cookie cutter chain stores.”

After leading the cooperative movement in the state of Washington for nearly 20 years, Rhodes retired in



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1952, but not before seeing the customer base rise to over 600 stores and witnessing the construction of AG's "new, modern" grocery warehouse facility at its present location in south Seattle.

Throughout AG's 75 year history, the "Think Retail" philosophy acted as a guiding principle for helping retailers discover and develop their own marketing niches, whether they were multi-store organizations in metropolitan areas, or single stores in seasonal, tourist towns. In the '60s, consistent quality was top of mind for consumers and AG introduced the Western Family brand. In 1975, AG was the first in the Northwest to introduce IBM scanners to consumers. The company opened the '80s with the unveiling of a 225,000 square foot perishables warehouse to meet the growing demand for fresh foods and the wave of alternative shopping options opening up to consumers.

### Re-Leveling the Playing Field

By the 1990s, however, it had become quite apparent that becoming a dominant wholesale grocery cooperative in a region wasn't enough to compete with large multinational grocery companies, new competition and industry consolidation (mergers and acquisitions) in which "the big were getting bigger." All three cooperatives — United, Certified and Associated — began to look beyond their walls and marketing territories for new growth solutions — solutions that

would help the organizations retain competitive balance within the fast-changing grocery industry.

The general conclusion was that the playing field needed to again be "leveled." Interestingly, the same principle under which these cooperatives were born — members banding together for the collective good — now seemed to make sense when applied at the macro level, cooperatives themselves banding together to improve their collective strength in the marketplace.



Throughout the next two decades, talks about combining regional wholesalers — even though they often competed in overlapping territories — persisted. While many attempts were made over the years to bring these organizations together (i.e. via mergers, acquisitions or agreements), few of the discussions went very far and none made it to the finish line.

The first modern-day success in combining cooperatives in the western United States was the merger of Certified Grocers and United Grocers in 1999. Fueled by both wholesalers' commitment to long-term success and the competitive pressures felt from the big chains, the time was right for the two companies to join forces. The combining of Certified's \$2 billion cooperative with United's \$1 billion cooperative created the largest wholesale grocery cooperative in the western United States. The new company subsequently changed its name to Unified



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Western Grocers and began realizing synergies and efficiencies required for further growth and expansion. In addition, at about that same time, Unified acquired four small companies (since reorganized as a subsidiary of Unified under the name Market Centre) and significantly expanded its Specialty and General Merchandise business.

Within a few years of the Certified and United merger, AG began exploring strategic alternatives for handling its competitive issues and resulting financial slide.

Following the company's January 2005 Annual Meeting of Shareholders, AG's Board identified a number of strategic objectives, including "a desire to maximize shareholder value and maintain a stable, competitive supply chain." Two years later, AG and Unified announced they had reached an agreement that met the criteria of both organizations' Boards. The combining of Unified's \$3 billion company with AG's \$1 billion company created a \$4 billion wholesale powerhouse for improving the competitiveness of both companies' membership for years to come.

### **Playing at a New Level**

If the history of the grocery industry is any indication of the future, competition for the consumer's dollar will only intensify in the marketplace of tomorrow. In fact, as international interests continue their advance into U.S. markets and self-distributing chains

continue to swell in size and expand their reach, the fight for market share will become more competitive and intense than it is today.

Bolstered by the combined strength of three powerful regional cooperatives under a single roof, Unified is now better equipped for battle in the competitive grocery industry marketplace. The Company has built an organization that not only commands respect among the key players within the supply channel but also

an organization that ensures the future success of the enterprise.

Long-term success is also the guiding principle behind the Company's current Mission Statement: Success at Retail, Sustainability at Wholesale.

The future is bright for independent retailers in the western United States. The year 2007 marks the 91st anniversary of

Unified Grocers (including the anniversaries of its predecessor organization) and a new level of success for cooperatives has been embraced and confirmed. By improving economies of scale, leveraging purchasing power and creating synergies that improve the efficiency and effectiveness of the entire organization, Unified has strengthened its position in the marketplace and has solidified and secured the success of the cooperative business model for many years to come.

Ben Franklin, founder of the nation's oldest active cooperative, would be very proud.



The combining of the companies created a \$4 billion dollar powerhouse.



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