The Greenbelt Cooperative: Success and Decline

By

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University of California • Center for Cooperatives

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ABOUT DONALD H. COOPER

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

Participation in the Greenbelt Cooperatives:

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

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

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

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

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

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

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

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

Appointed to Bylaws Revision Committee, 1987.

Chairman, Delegate Assembly Ad Hoc Futures Committee, 1988.

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

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

President, Greenbelt Cooperative Publishing Association, 1943.

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

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Other cooperative participation:

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

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

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

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

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

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

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

ABOUT PAUL O. MOHN

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

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

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

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

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

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

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

AUTHORS' PREFACE

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

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

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

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

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

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

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

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

INTRODUCTION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Appendix A. Lists the directors who served on the GCS Board and their years of service.

Appendix B. Identifies a number of accomplishments during the Cooperative's 50 year history.

Appendix C. Over the years GCS was involved with a large number of organizations. Appendix C lists those which were jointly owned with others and those of which were significant to GCS as a member.

Appendix D. Chronologically lists the historical highlights of the Cooperative.

Appendix E. As noted in Chapter 1, much planning took place in GCS. Excerpts from one such exercise is herein included because it clearly identifies serious problems and suggested solutions, solutions the Board chronically postponed.

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

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

PART I

What Went Wrong and Right

CHAPTER 1

What Went Wrong and Right

The growth and financial success of GCS was exceptionally spotty over the years. Numerous opportunities were by-passed and the timing of expansion moves seemed at times to be unfortunate at best. None-the-less, there was steady growth over the years until the late 1970s when retrenchment of all divisions except furniture became a necessity.

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

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

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

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

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

GCS's development can be categorized into six periods:

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

1938-1950: Steady, Profitable Growth in One Location

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

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

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

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

1951-1959: Dramatic Growth through Multi-store Operations

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

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

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

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

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

1960-1969: Overextension and a Crisis in Identity

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

Another problem arose with the rapid expansion drive. GCS entered the real estate business as an amateur in a highly professional field. Two shopping center deals—Penn Daw and Takoma Park—proved disastrous and financially crippled the Cooperative for many years. The centers continued to lose money, tied up precious cash for long periods, and drained management's time and energy just when the competitive situation in food operations demanded full attention.

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

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

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

a. The Cooperative had grown too much, too fast, and with too few human and financial resources.

b. The proposal for recovery was to reduce expenses, focus on merchandising, build a strong staff, and attract younger members.

c. It was recommended that losing facilities be closed including the Penn Daw and Piney Branch stores which were losing money at a great rate. (As explained later this was not done.)

d. It was also recommended that overhead be dramatically reduced (it was, by $200,000 annually), that the grocery warehouse be closed (it was), and that a new marketing strategy be implemented by moving to a discount operation (this too was done and all of the "Co-op" food stores became "Consumers Discount").

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

Competitors had a cost competitive advantage in the discount game. Most were integrated backward into manufacturing and processing of a far greater array of products than were the available CO-OP label products.

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

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

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

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

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

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

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

1970-1980: Retrenchment and SCAN Dominance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1981-1985: Divestiture and SCAN Growth

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

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

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

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

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

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

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

1986-89: Overconfidence and Disaster

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

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

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

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

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

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

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

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

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

CRITICAL DECISIONS

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

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

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

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

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

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

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

    Without a doubt the Congress was the key factor in the Board staying with the food and service stations as long as it did. To underline the strong feeling of the Congress, not a single director voting for closure of the food and service station divisions who stood for re-election was re-elected by the Congress after the decision to close the food and service station divisions was made by the Board.

3. December 1961, the Board approved the opening of a free standing SCAN store (no longer occupying space in a supermarket). It opened in April of 1962. This was the impetus which started the "real" growth of the SCAN division.

4. May 1967, the Board gave final approval for the purchase of the Washington Division of Kroger food stores. In the face of a 5-year plan adopted just months previously, the Board made a critical decision upon recommendation which was not consistent with the plan. This appeared to be an excellent opportunity to expand rapidly, but in a direction exactly opposite of what management had advocated—they bought worn out stores instead of new ones. Several problems immediately arose:
   a. Most of the stores were aging facilities or were in neighborhoods that were rapidly changing. This required costly remodeling in the stores and major adjustments in merchandise and merchandizing practices. GCS did not take the necessary steps quickly and within 5 years most were closed.
   b. The euphoria of expansion had not been matched with the effective recruitment of members around new facilities. The Kroger acquisition overwhelmed the staff and volunteers in developing a member base of customers except by the passive approach of automatic membership through patronage refunds. This approach has never developed a true membership base.
   c. Financially, long-term debt doubled, almost a million dollars was added to inventory, working capital needs increased significantly, net earnings to sales nose-dived and the total debt to equity ratio deteriorated from .75 to 1.54. (a) and (b) above worked against any improvement in the financial situation.

5. March 1976, the Board made a decision to change the Chief Executive Officer. This decision established the tone of the working relationship between the Board and the Chief Executive which prevailed at least until June 1986. For those ten years there was a "balance of power" between the Board and management, each carrying out their authorities and responsibilities without abdicating them to, or usurping them from, the other.

   Slightly earlier the Board had made the decision to engage Jerome Weiss of Hamel, Park, McCabe and Saunders, as their legal counsel. This move was significant in that Weiss guided the Board through a number of legal problems including law suits, the real estate deals previously made, and filings with the SEC. The relationship between the Board and Weiss was one of trust.

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

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

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

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

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

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

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

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

NON-DECISIONS

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

1. No Decision on a Comprehensive Financial Plan

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

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

2. Decision Gridlock on SCAN Expansion

   During the period 1974-1982, it was evident that SCAN was a proven success and that the other divisions of GCS were at best marginal and at worst real financial problems. In 1975, the Board at a planning retreat agreed that SCAN should be expanded aggressively. Over the next 10 years various alternatives were discussed, including greater saturation of the Baltimore/Washington market, expansion outside of that market area, franchising, joint ventures with other cooperatives, and joint ownership between store managers and the cooperative. Except for greater saturation in the Baltimore/Washington market, an additional store in the Virginia Peninsula area, and a management contract with Hyde Park's two SCAN stores in Chicago (replaced by GCS purchase in 1983), none of the ideas moved much beyond the discussion stage.

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

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

   Not only did the SCAN staff during his years as head of SCAN avoid recommending expansion other than within the market area and in traditional ways, but they also argued against it. The Board kept discussing how and where to expand but never pushed beyond that.
b. Most of the Congress members and part of the Board were in total agreement with the SCAN philosophy. Many viewed SCAN as a "cash cow" to be used to support the food and service station divisions. Certainly, they felt, scarce capital should not be used to expand SCAN outside of areas where GCS members didn't live.
c. The chronic shortage of capital did not provide breathing room for undertaking a pilot effort. For example, one area that appeared to have merit was Philadelphia. To be competitive it was determined that two stores and a small warehouse would be needed. This would require a minimum of 2 million dollars for inventory, equipment, and leasehold improvements. Most would have to be borrowed. There was great reluctance to do that in light of the chronic financial

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

3. Postponed Action on Business Entity Failures

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

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

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

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

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

These last ditch efforts in the face of virtually certain non-success resulted in the Board postponing closure decisions far beyond what most businesses would consider reasonable. In a proprietary business it might have brought stockholder suits against the Board for nonfeasance.

SOME LESSONS LEARNED

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Among the key points made by the Committee were:

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

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

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

a. GCS has done poorly by the consumer. Giant[2] outperforms GCS.
b. Changing the "Co-op" name to Consumers Discount and now back

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

to Co-op was costly both in dollars and in confusion among GCS members and customers.

c. Merchandizing, pricing, and advertising policies appear to be in disarray and the purchasing system is badly fragmented.
d. The uniqueness of the Cooperative has not been exploited for years.

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

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

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

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

Among the goals adopted at the retreat were:

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

pace of expansion in order to head off fiercer competition.

k. Achieve geographic diversification in the contemporary furniture business by expanding directly or indirectly into other metropolitan areas.
l. At least break even in the petroleum division.
m. And many more.

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

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

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

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

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

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

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

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

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

7. Instead of examining other alternatives to add new members, the initial decision to incorporate under the corporate laws of Maryland (since consumer cooperatives did not fall under the cooperative code), cost the cooperative hundreds of thousands of dollars. The requirement to register with the SEC cost $100,000 to $600,000 annually and took huge amounts of staff time. Membership could only be obtained by buying a share of stock rather than the usual way of just buying a membership. It was not until 1979 that GCS was able to get the Maryland law changed, which permitted a consumer cooperative to be a membership organization rather than a stock corporation.

8. A review of GCS's bylaws and other documents shows clearly the changes in the democratic process of GCS. In the early years decisions were promulgated after much input from members, resembling a town hall meeting approach. Membership meetings were held monthly where members were concentrated around a few facilities in a tight geographic area. With wider geographic expansion and more facilities, meetings were held quarterly. With the formation of area councils and the Con-

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

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

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

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

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

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

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

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

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

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

WHAT WENT RIGHT

1. The most obvious thing that went right for GCS was SCAN, until the last 3 years that SCAN was part of GCS. Refer to the last part of Chapter 2 for a discussion of this "went right."

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

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

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

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

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

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

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

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

   At first, closed sessions at Board meetings occurred only for personnel matters and proposed store leases. Even these brought protests from some members. Later, financial data and operations were discussed in executive sessions in an effort to avoid informing the competition. A concession was made by scheduling closed sessions toward the latter part of the meeting so that visitors would not have to wait outside the room for the open session. Minutes of closed sessions were sometimes kept in a separate minutes book, but in any event, the secretary periodically presented for declassification those minutes on matters no longer considered confidential.

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

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

NEWCO

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

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

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

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

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

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

GCS

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

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

UNITED COOPERATIVE SERVICES

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

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

Planning for services to be provided will begin in 1992.

CHAPTER 2

The Financial Peaks and Valleys

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

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

Giant Food and GCS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Several differences between the two organizations are immediately evident:

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

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

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

COMPARATIVE FINANCIAL HEALTH AND PERFORMANCE

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

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

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

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

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

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

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

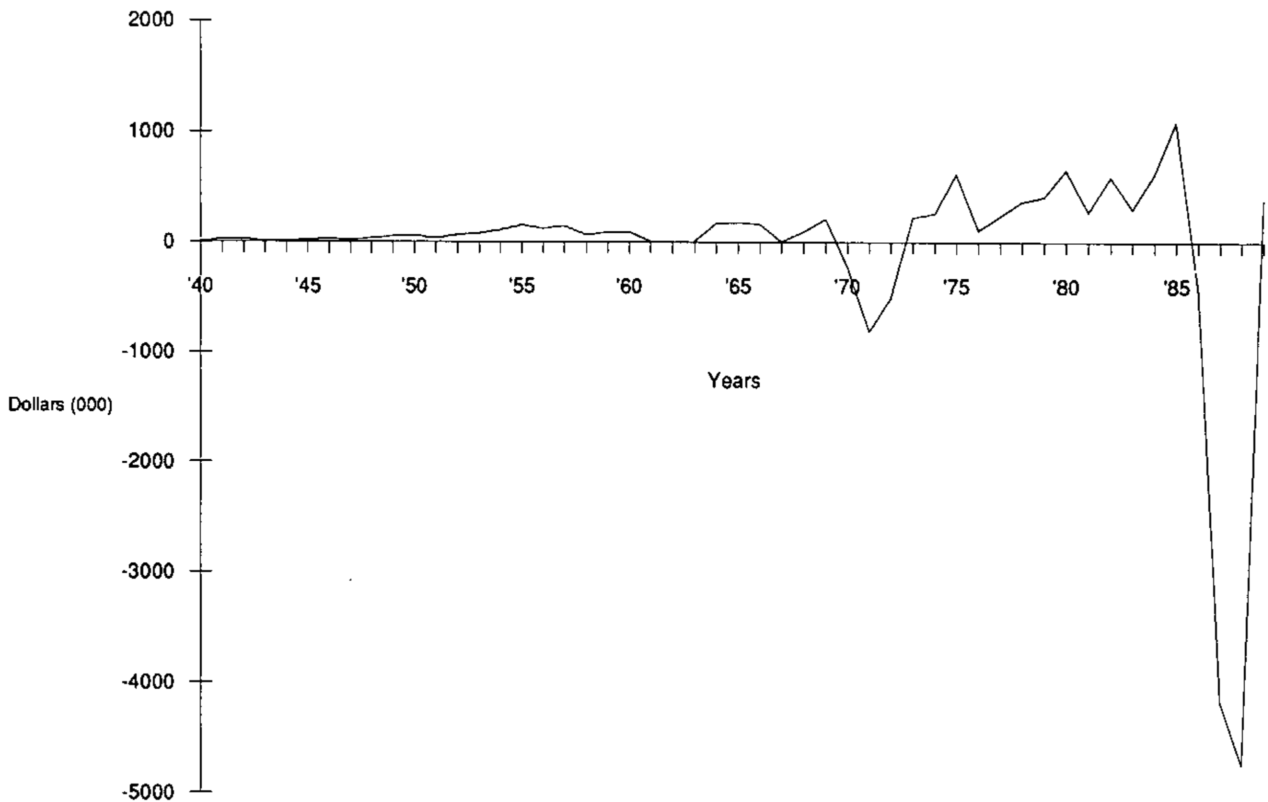


Figure 2: Comparison of Net Income as Percent of Sales, Greenbelt and Giant Foods

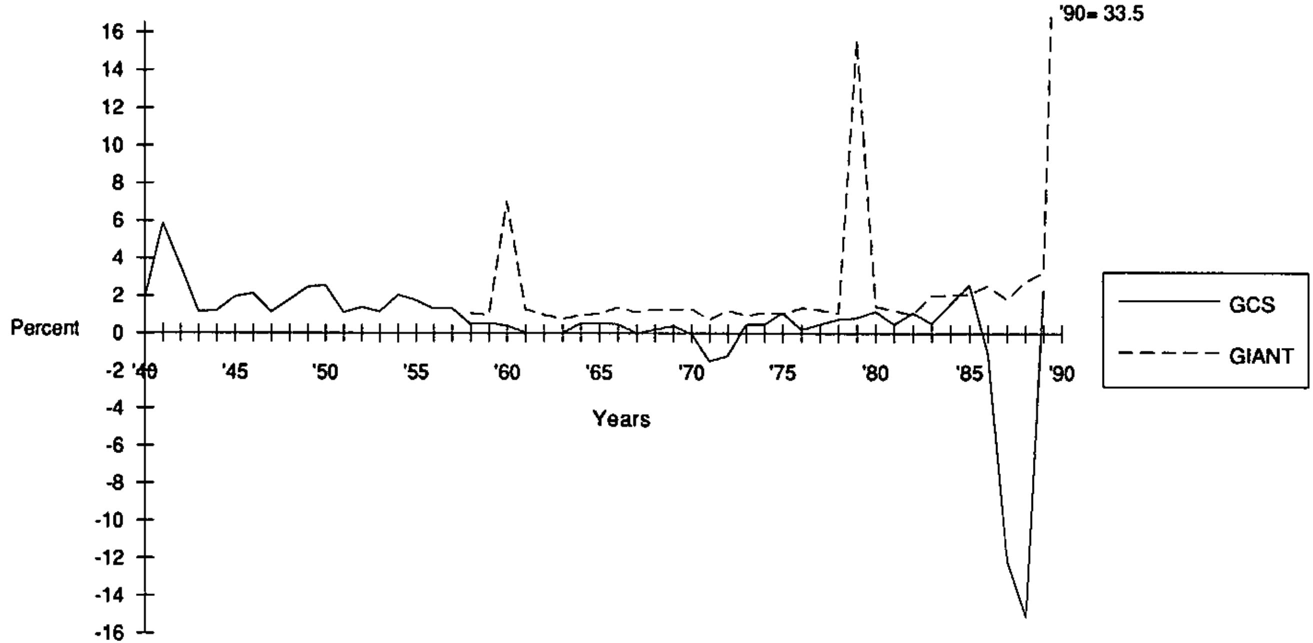


Figure 3: Total Sales in Millions of Dollars, Greenbelt

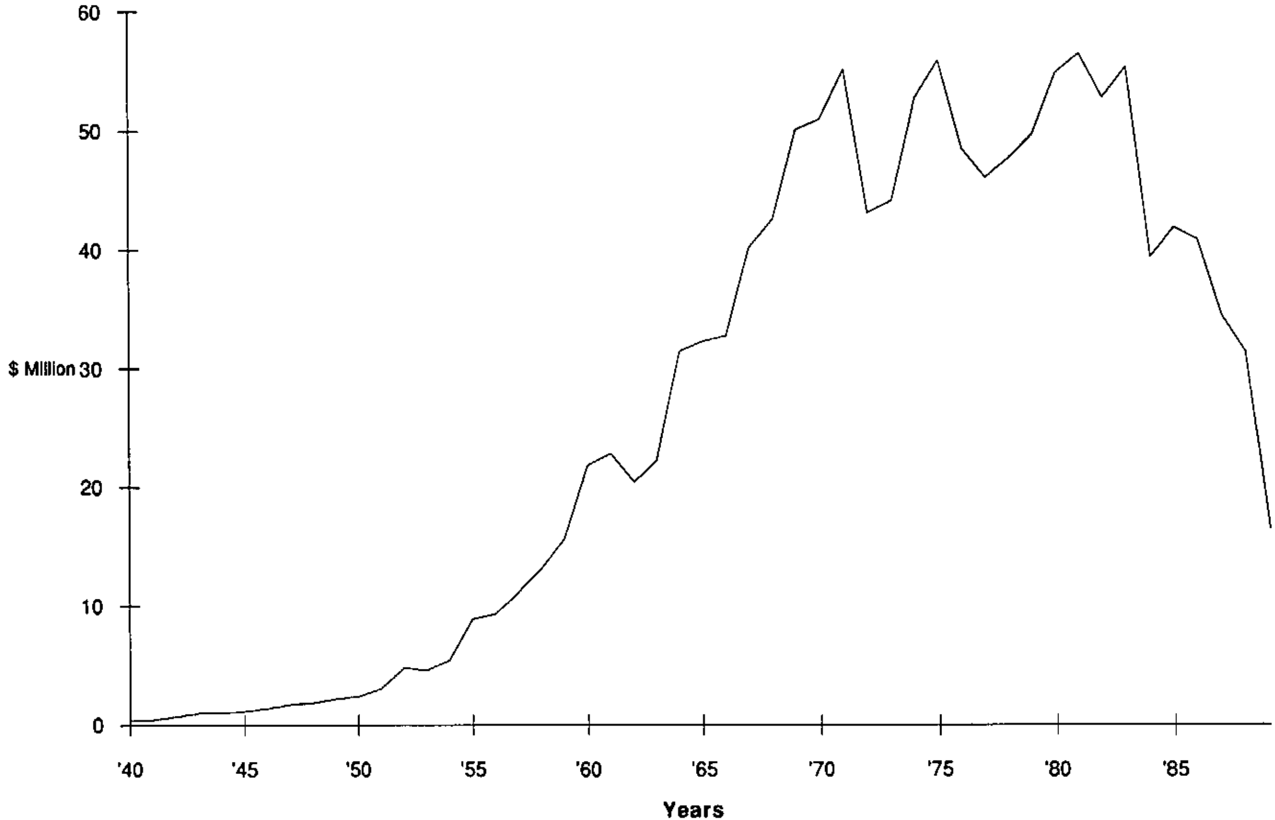


Table 1
Selected Operating Results of Greenbelt, Giant Foods, and Food Chains (under $100 million annual sales), 1970-75

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

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

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

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

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

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

Also, to give still another perspective, comparisons are made with data from a study by Wendell Earle and Willard Hunt of Cornell University of the operating results of food chains from 1970 to 1975 with sales under $100 million. Both the Giant data and the study data appear in some of the figures.

PROFITABILITY

Net Income/Total Assets

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

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

Net Income/Equity

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

Overhead/Sales

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

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

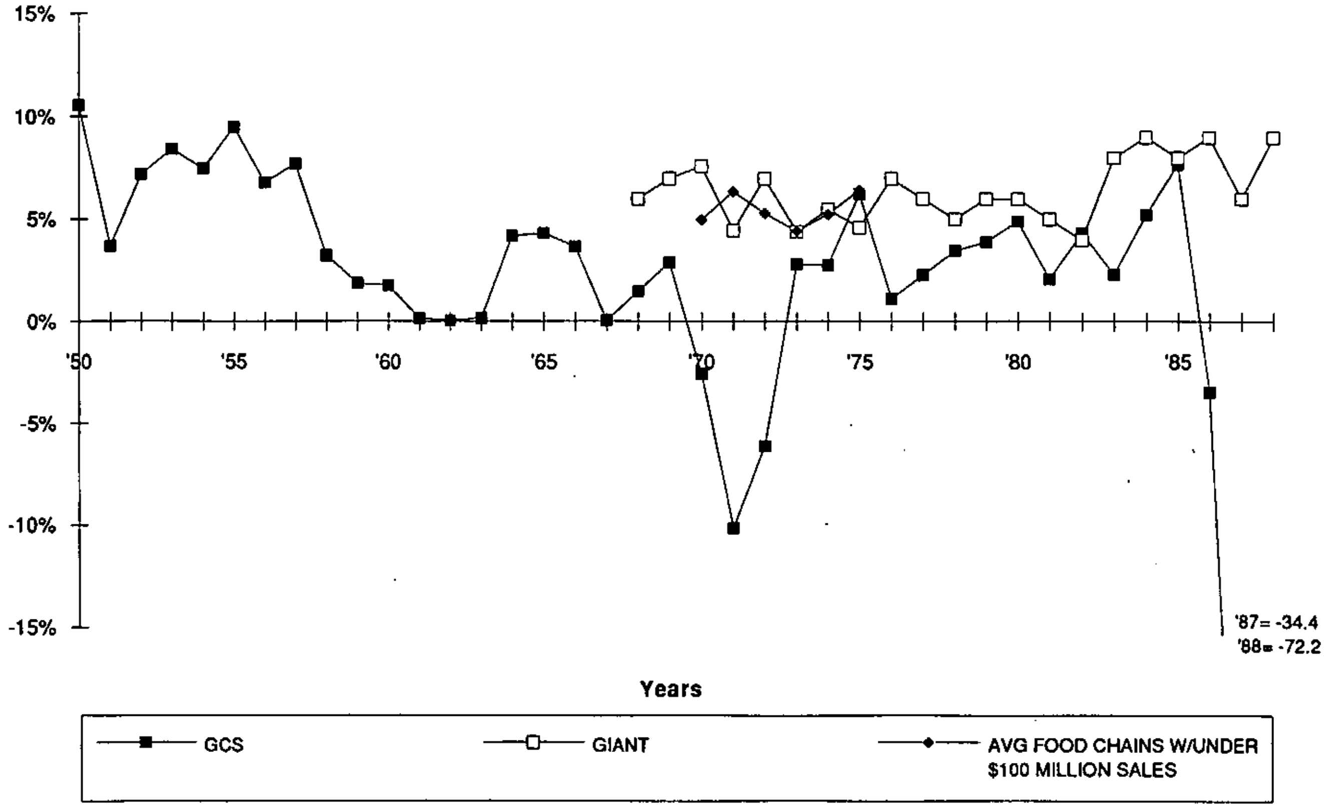


Table 2

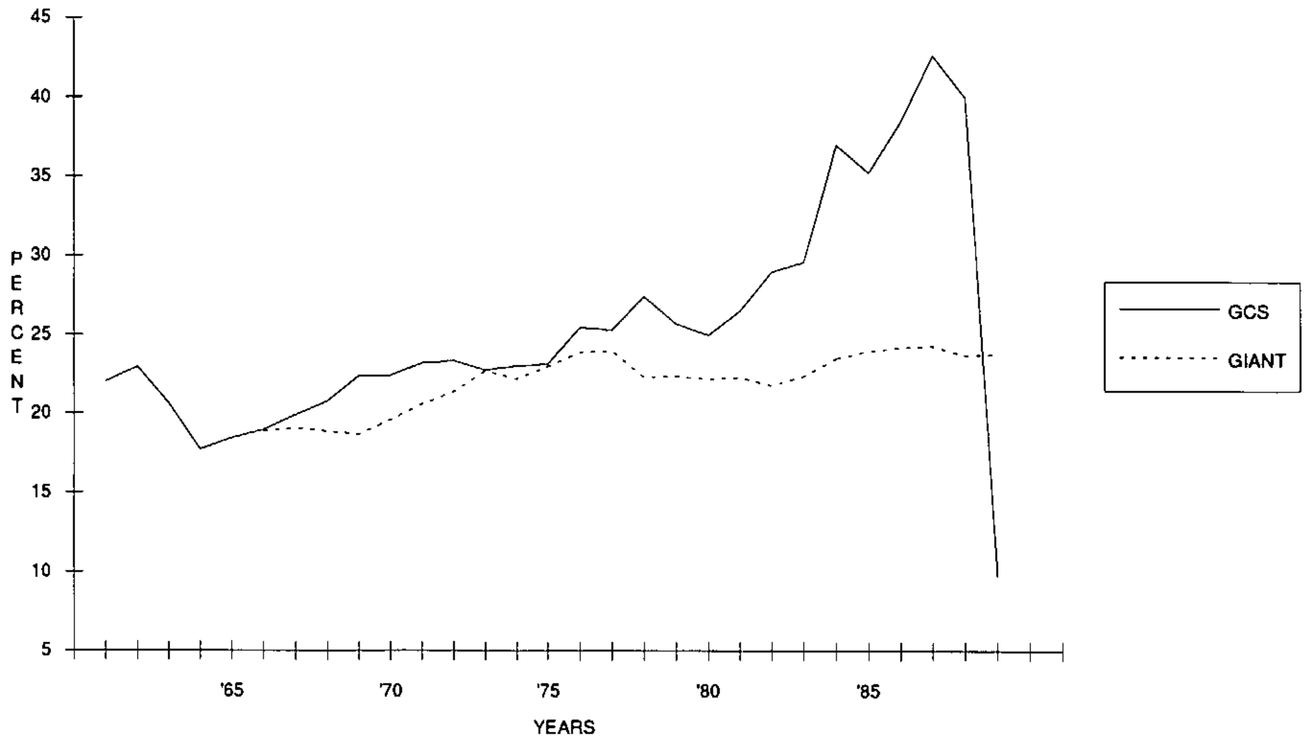
Financial Ratios, Greenbelt Cooperative, 1937-89

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

Table 2 (continued)

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

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



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

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

Net Income/Sales

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

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

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

LIQUIDITY

Current Assets/Current Liabilities (Current Ratio)

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

Inventory/Net Working Capital

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

SOLVENCY

Total Debt/Total Assets

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

Figure 6: Current Ratios, Greenbelt and Giant Foods

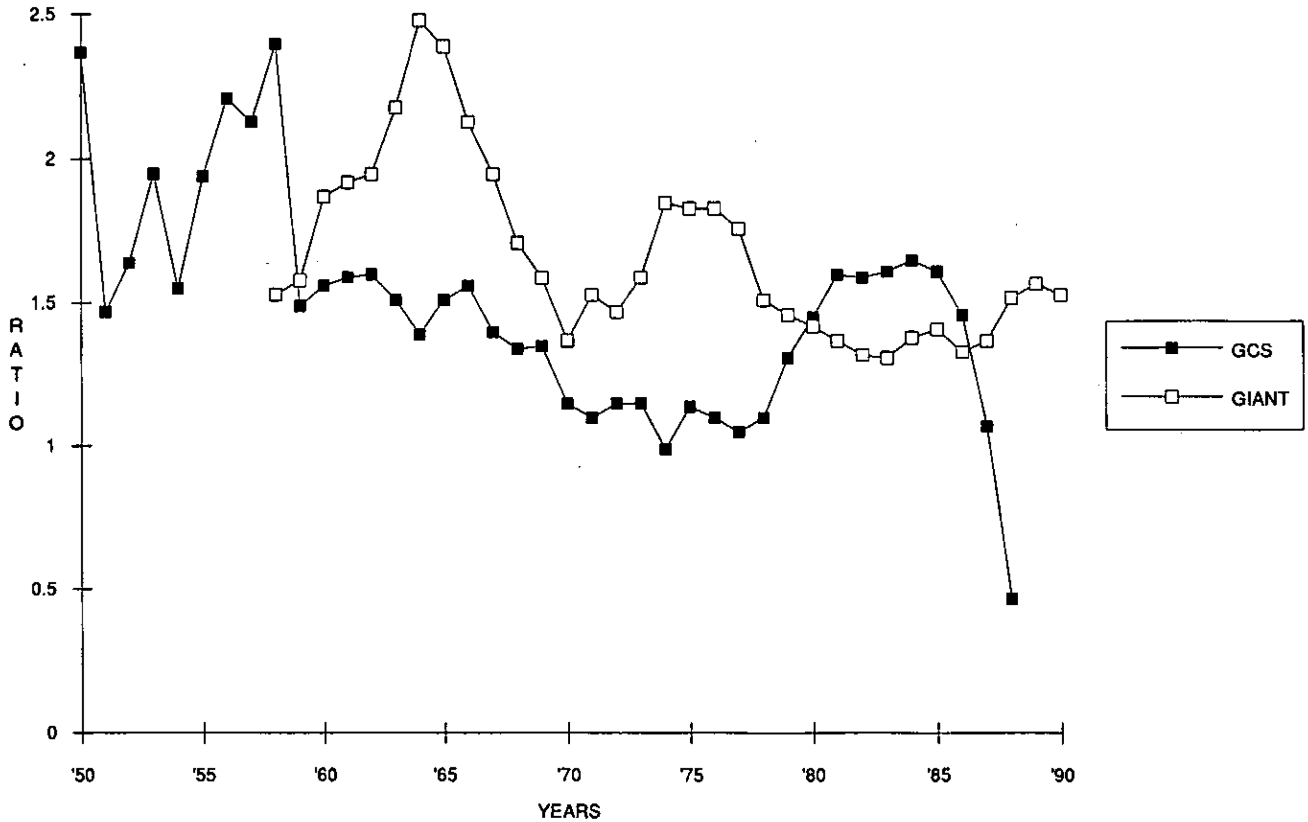


Table 3

Financial Ratios, Greenbelt Cooperative, 1937-89

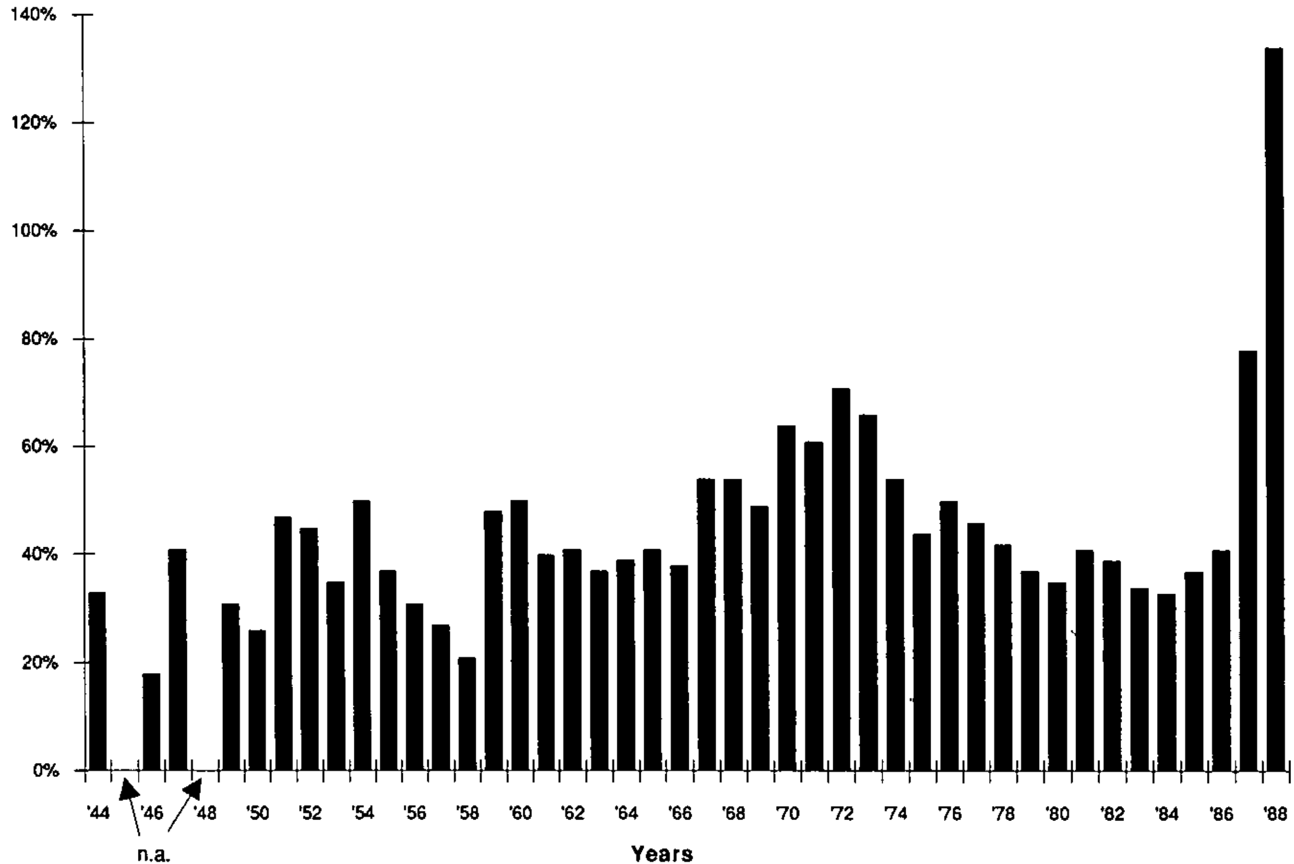
Year	$ Mil Total Debt	RatioTotal Debt toTotal Assets	Ratio Total Debt to Equity	% Accts Payable to Total Debt	$ Mil LongTerm Debt	Ratio Long Term Debt To Equity	% LongTerm Debt To Capitalization	Members	Employees	Number of Facilities: Food	Scan	Petroleum	Pharmacy
'37	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.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

TABLE 3 (continued)

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

* All became current

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



Total Debt/Equity

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

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

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

Long-Term Debt/Equity

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

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

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

OTHER FINANCIAL INDICATORS

Interest Expense/Sales

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

Figure 8: Percentage of Debt to Equity, Greenbelt

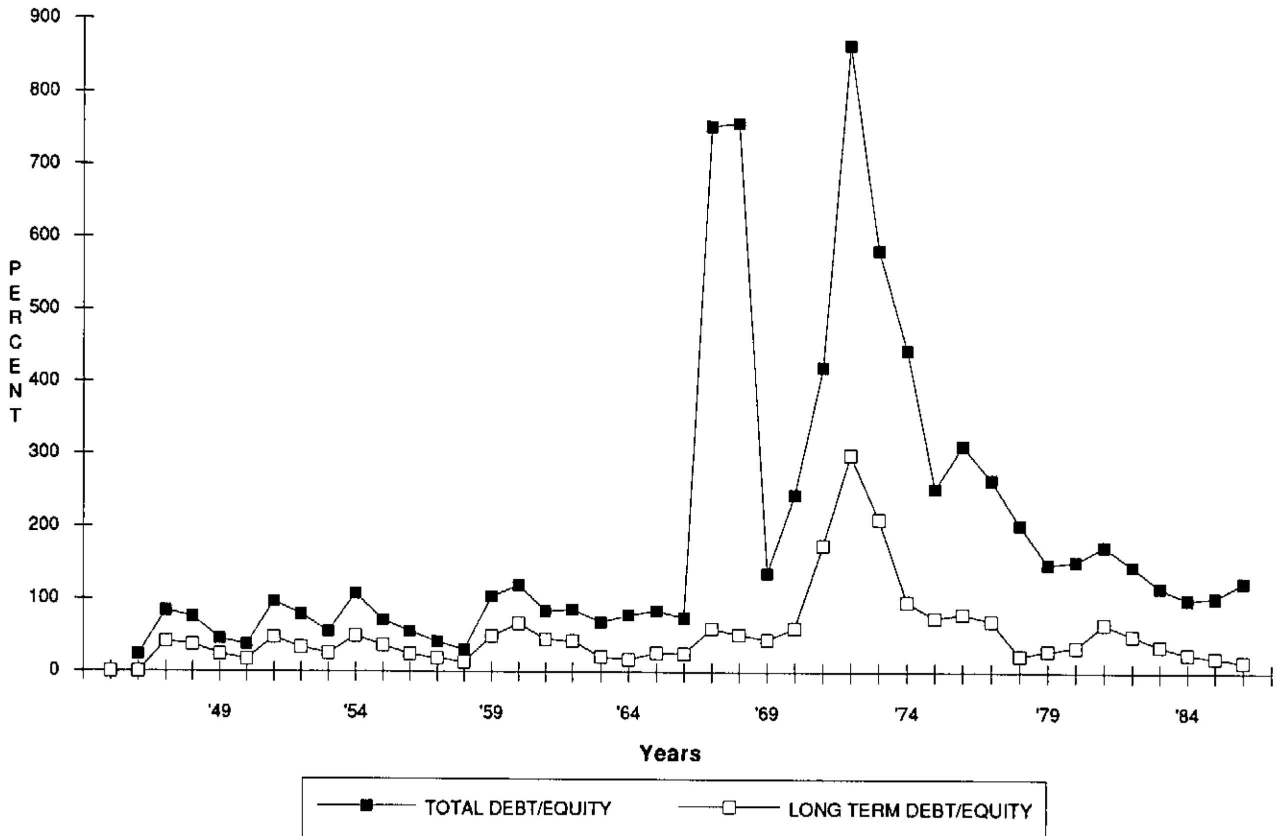
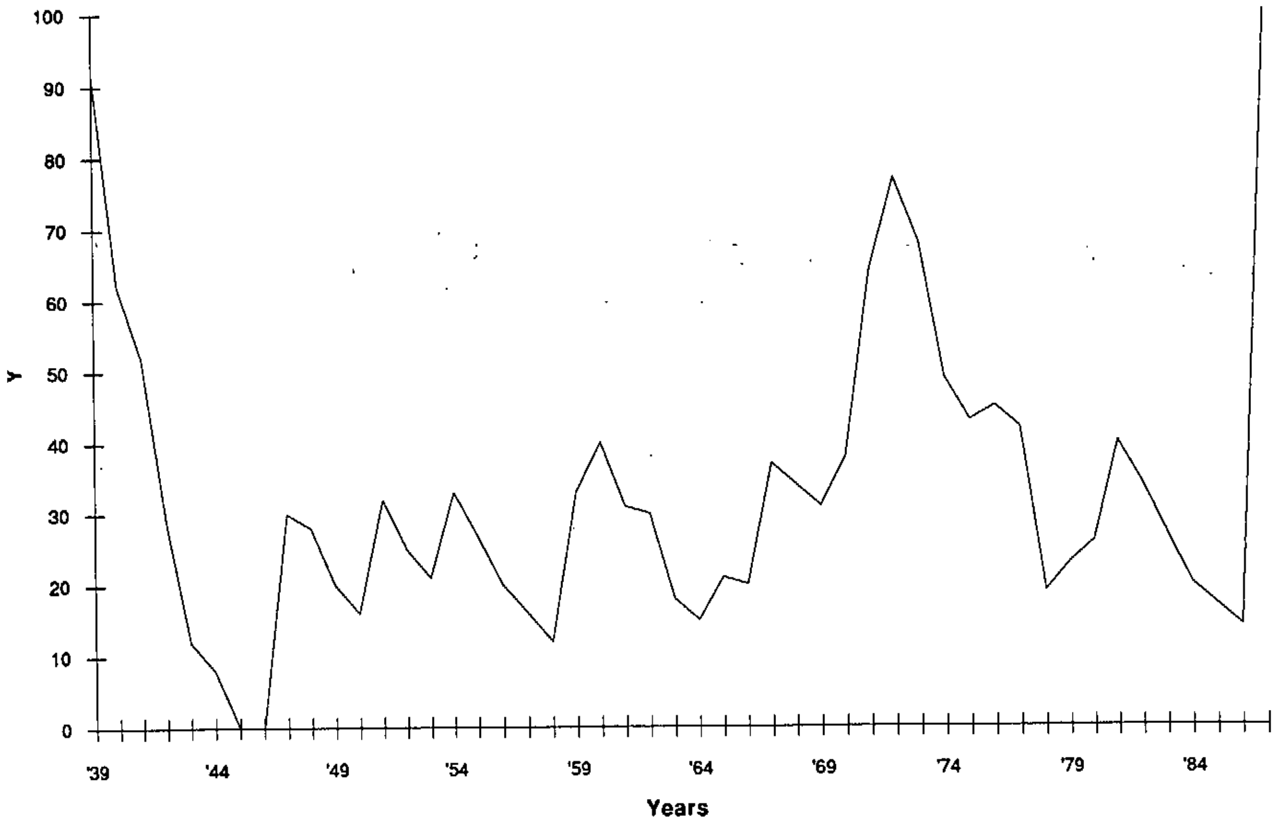


Figure 9: Long Term Debt/Capitalization, Greenbelt



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

Member Investment

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

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

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

Dividends and Patronage Refunds

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

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

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

Working Capital

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

Cash Flow

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

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

Employees and Retail Facilities

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

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

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

BOTTOM LINE PERFORMANCE

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

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

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

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

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

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

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

THE FOOD DIVISION

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

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

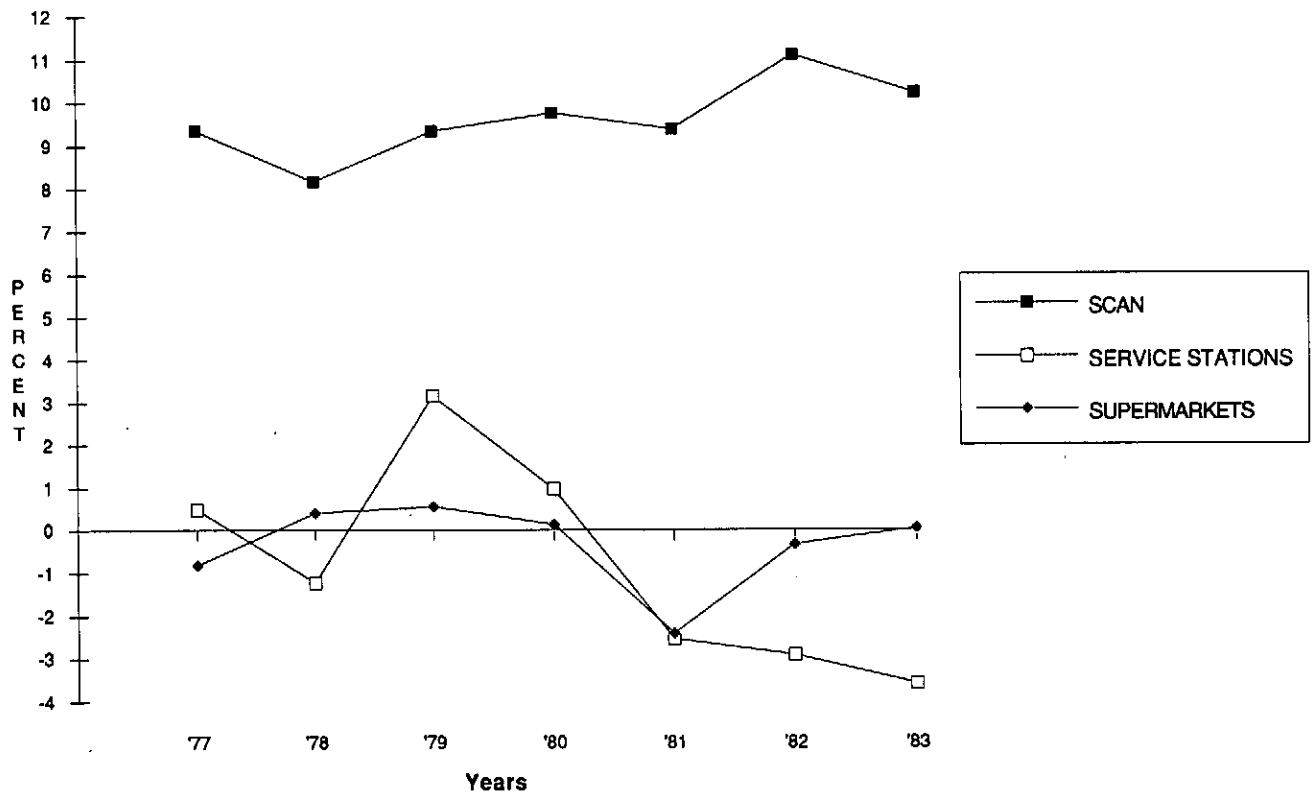


Figure 11: Net Earnings by Divisions, Greenbelt

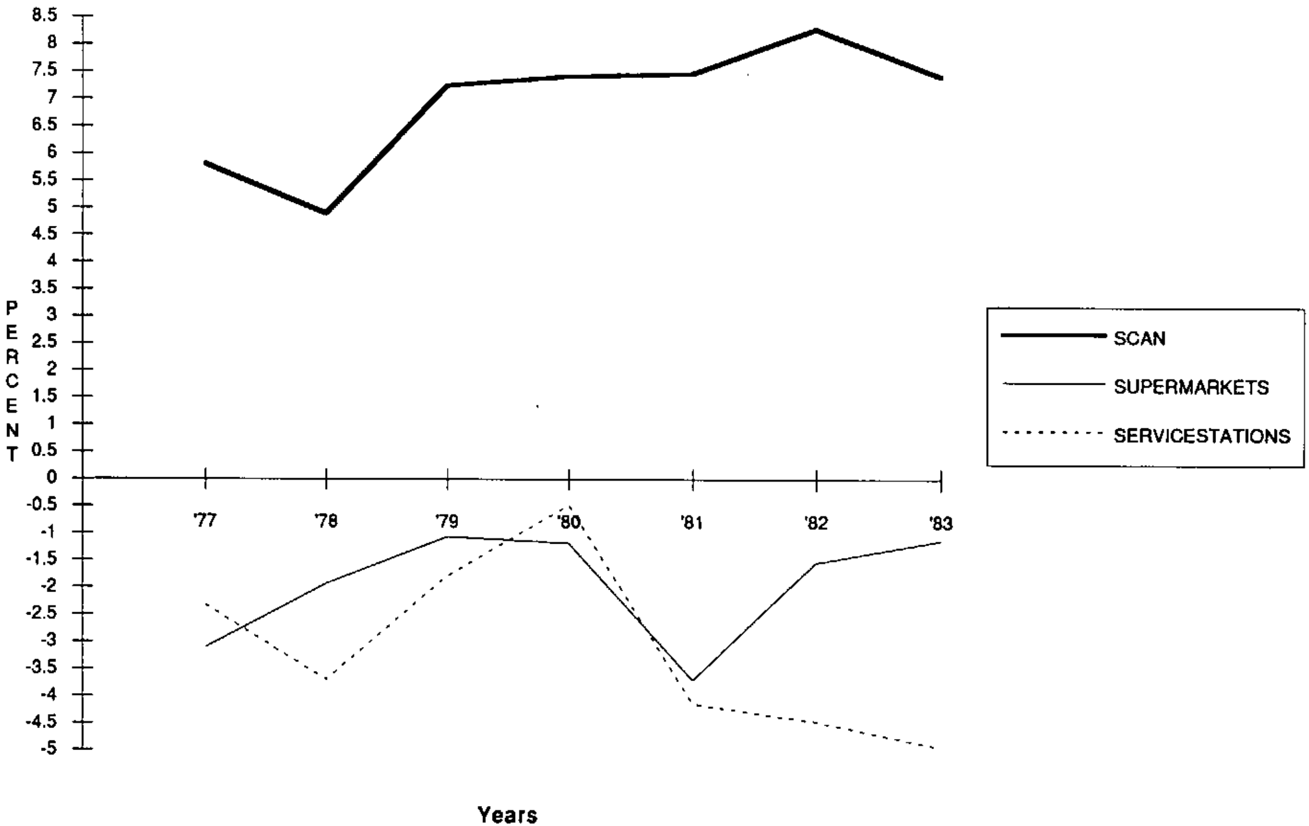


Table 4
Greenbelt Division Share of Sales, Contributions, and Operating Profit, 1977-84

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

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

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

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

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

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

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

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

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

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

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

THE FURNITURE DIVISION (SCAN)

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

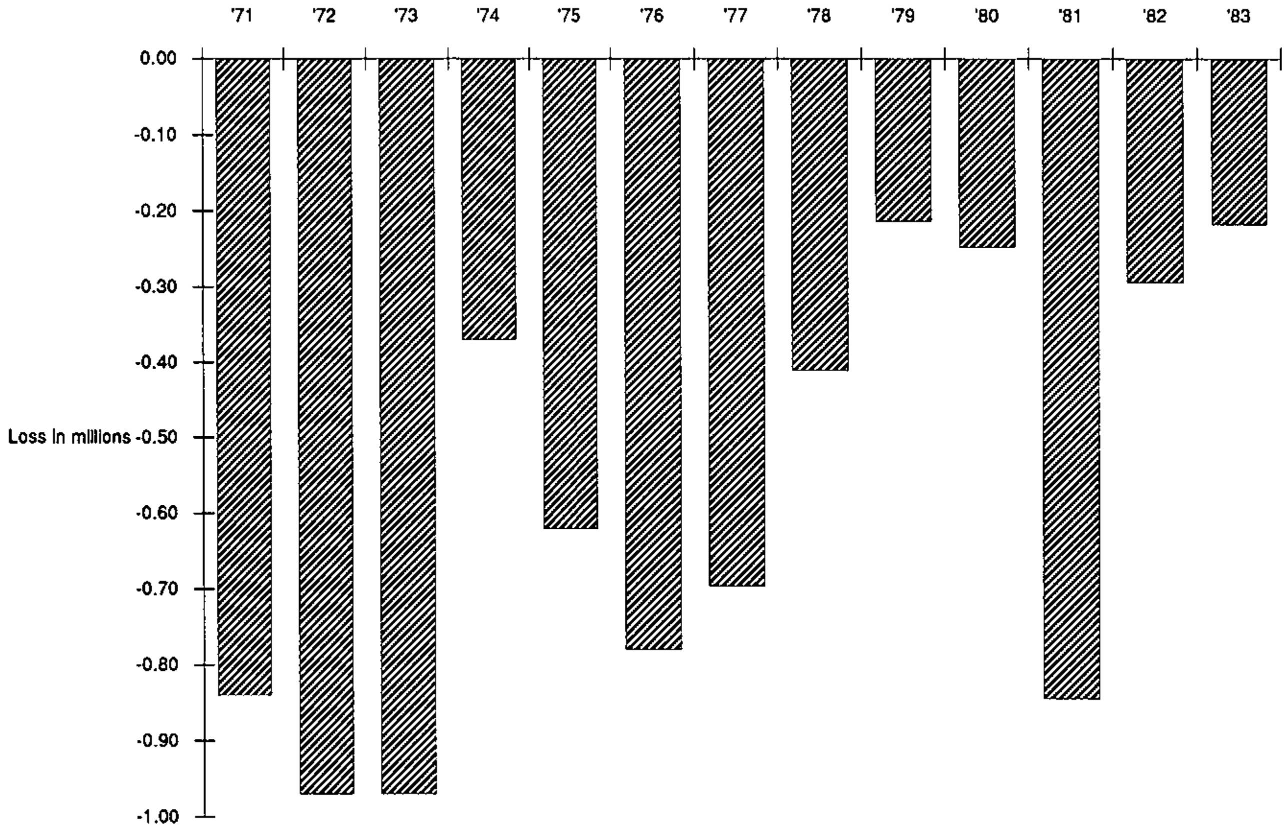
Table 5

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

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

* Perishables outlets

Figure 12: Supermarket Losses, Greenbelt



$7,174,656 loss in supermarkets in the 13 years before divestiture

Figure 13: Performance by Store

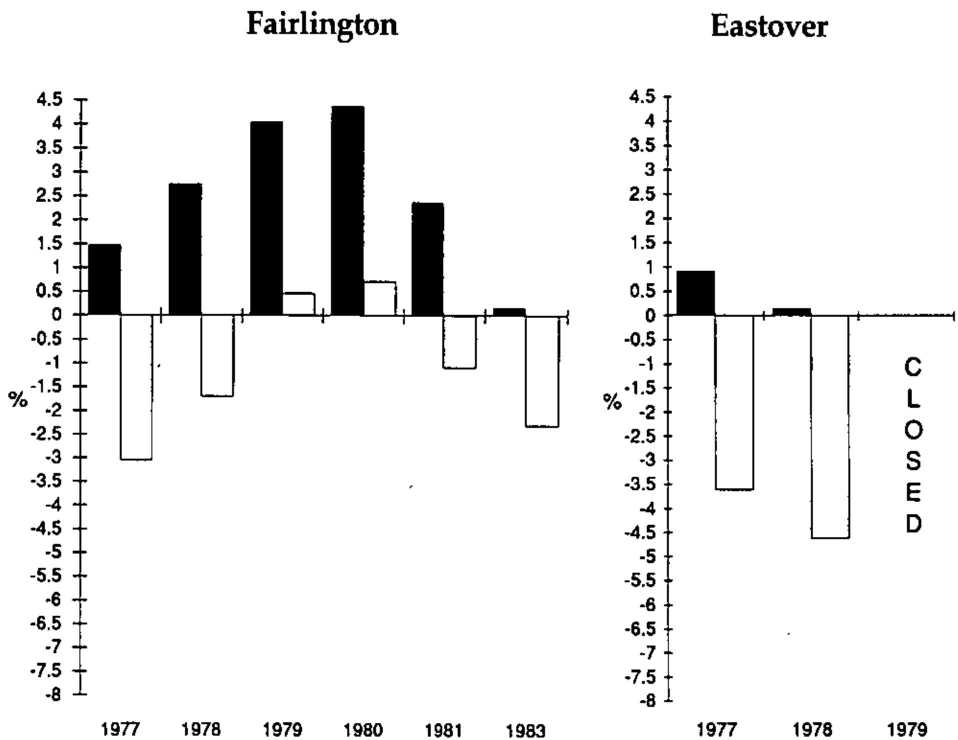
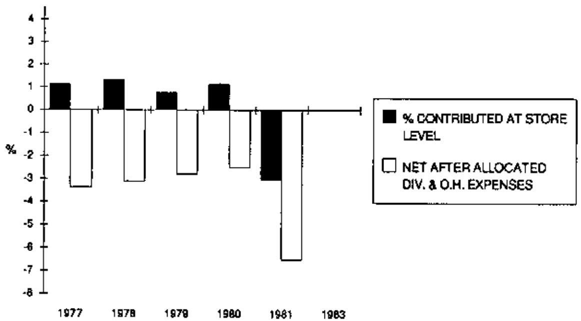


Figure 13 (continued)

Rockville



Kensington

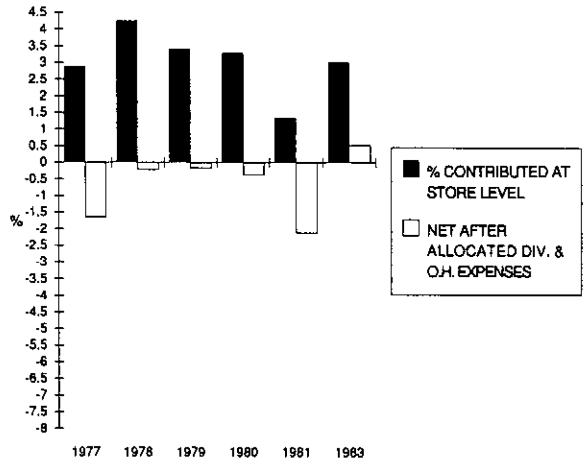


Figure 13 (continued)

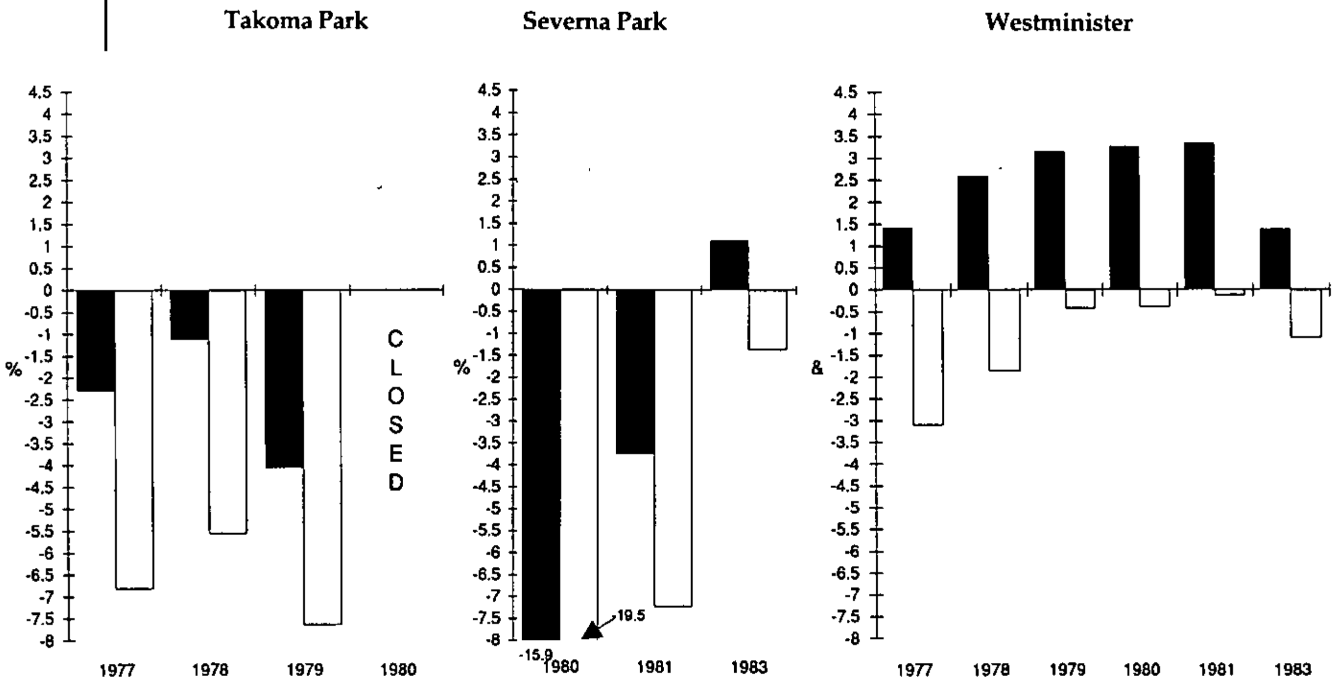


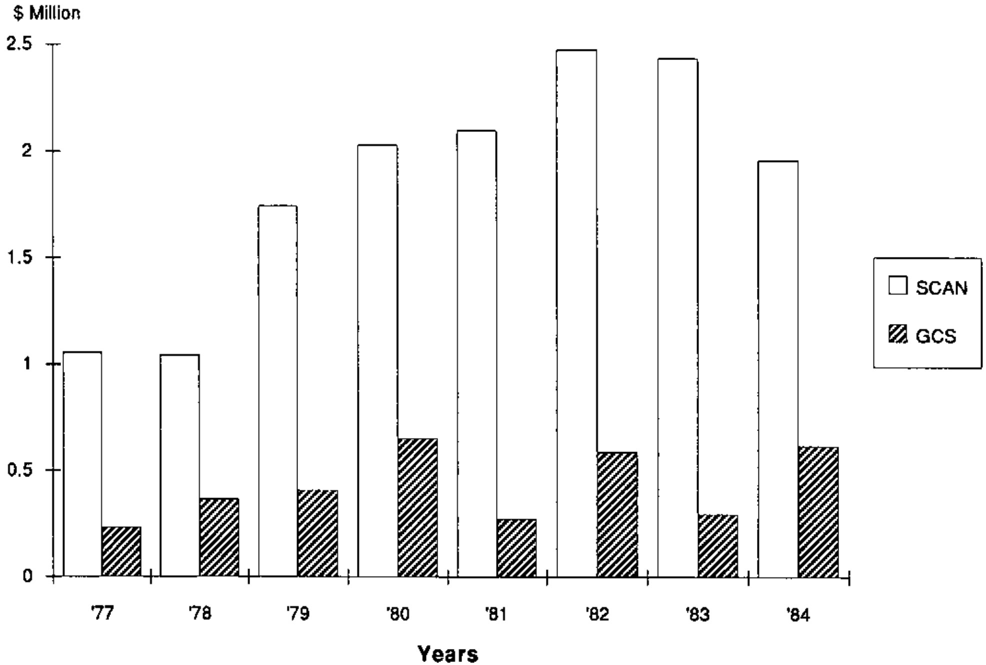
Table 6
"Store Contributions, Allocated Division and Overhead," and Net Earnings for GCS Supermarkets

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

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

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

•$14.8 million contributed to net earnings by SCAN 1977-84;
•$3.4 million consolidated net earnings by GCS 1977-84;
•$11.4 million, less taxes, was subsidy of SCAN 1977-84 to other divisions



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

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

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

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

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

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

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

Change in number of SCAN stores, 1962-1989

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

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

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

The second question is, "Why didn't GCS expand SCAN into market areas outside of Maryland and Virginia?" Bob Gowell, the long time head of SCAN, believed that SCAN should saturate the Maryland / Virginia market before expanding outside. To a degree this was probably a good strategy. On the other hand, it constrained SCAN from entering into three joint ventures with other cooperatives. Additionally, the majority of GCS Congress members felt that moving outside of the area would not be serving current GCS members. The Board was usually evenly split on the issue.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IN CLOSING

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

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

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

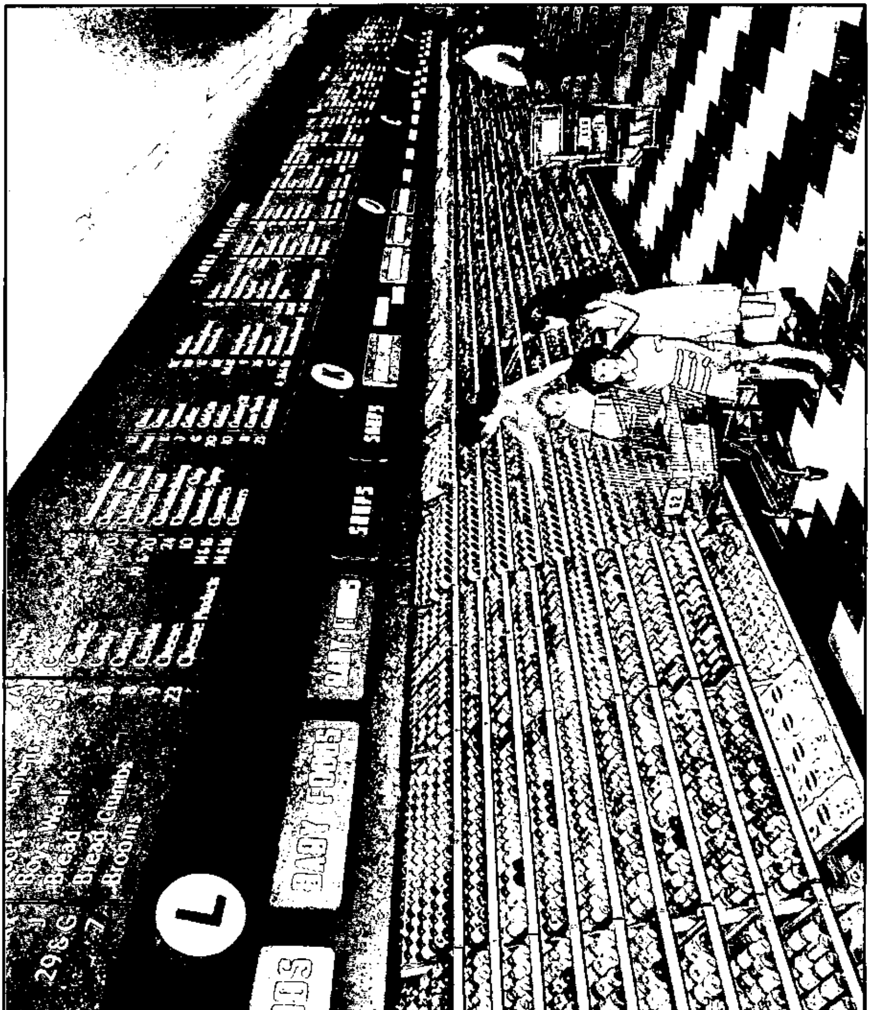
Part II, "Historic Growth and Decline", chronologically traces the events, and the people involved in the events, that Part I has covered broadly and generically.

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

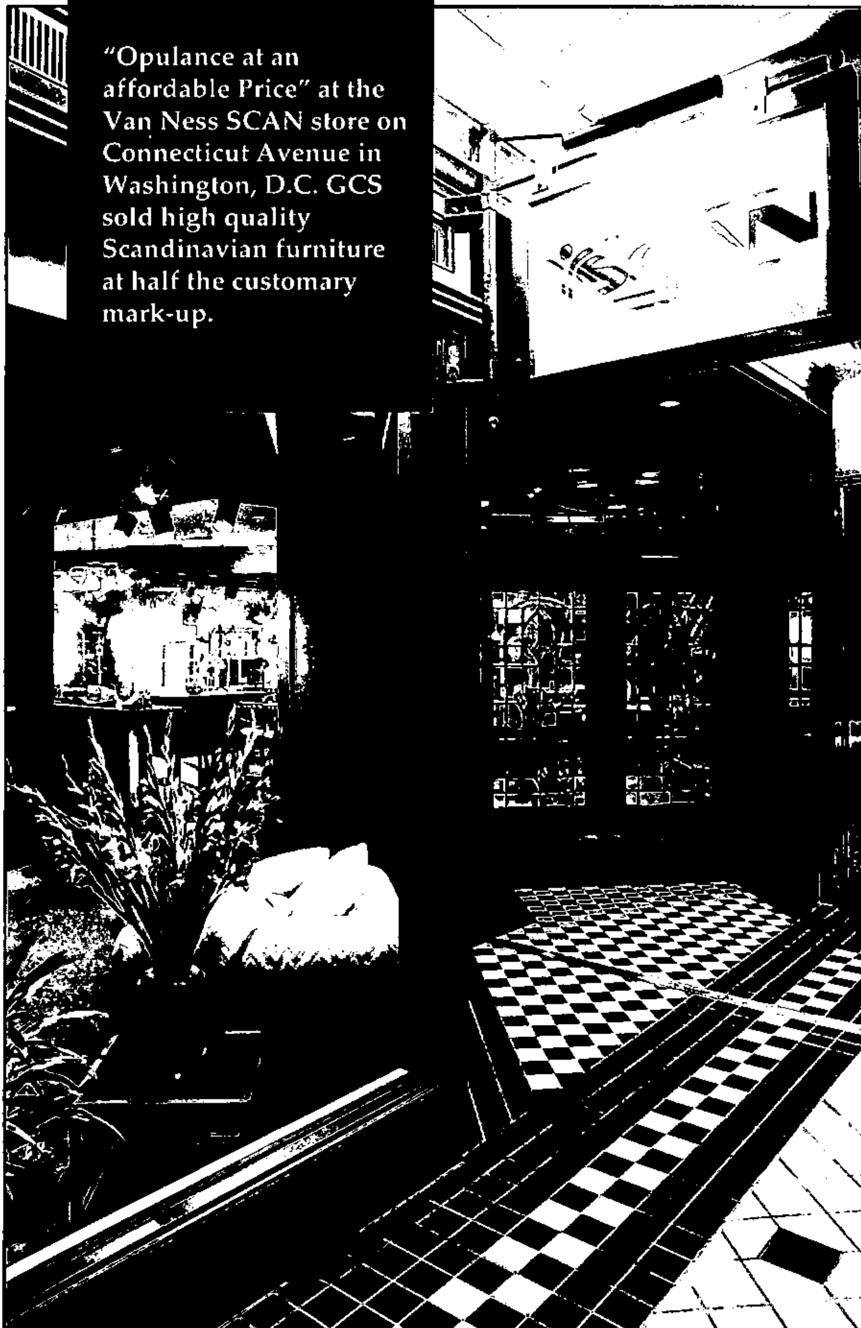
First food store operated in Greenbelt, Maryland by GCS—1938.

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

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



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



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

PART II

Historical Growth and Decline

CHAPTER 3

How it all Started (1937-1939)

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

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

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

In this climate, the Filene Fund agreed with the Resettlement Administration to provide stores for the difficult start-up period with the prospect that the resident families themselves could take over the enterprise after meeting certain conditions. To that end the Fund administrators, through a subsidiary known as the Consumer Distribution Corporation (CDC), created a Maryland entity incorporated as Greenbelt Consumer Services, Inc. (GCS) on September 1, 1937. The directors of CDC served as the board of GCS until the member-owned cooperative was organized and took over on January 1, 1940.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

With a January 1, 1940, deadline established in the contract between the Resettlement Administration and CDC for the town residents to decide whether they wanted locally owned cooperative stores, a crisis loomed. The C.O.C. debated the interpretation of the word "members" in the contract, and decided that anyone who had signed up to purchase a share of stock could be considered a member. Further, the enterprise now had enough net margin so that possibly some of that could be used to fill out the required payment of $5,000.

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

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

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

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

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

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

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

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

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

To protect CDC, there were the following provisions:

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

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

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

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

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

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

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

(2) All payments received on capital stock subscriptions

(3) The amount of defaulted payment, if any

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

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

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

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

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

The retiring Board of GCS met December 29 to wind up the details of the transfer. It found the transition at this time to be "feasible and desirable". It made the necessary changes in the Maryland charter and replaced its original bylaws with those approved at the December 12 meeting. It retired shares of stock owned by CDC, and then approved issuance of 303 shares of voting stock and 40 shares of nonvoting stock to paid-up members of the new Cooperative. Finally, the retiring Board scheduled an organizational meeting of paid-up subscribers on January 2.

CHAPTER 4

Learning to be a Cooperative (1940-1944)

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

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

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

• Voted to retain Sulo Laakso as general manager (Laakso had been hired in March of 1939, bringing with him 16 years of experience in both chain stores and cooperatives).

• Discussed a patronage refund on receipts which shoppers had saved during 1939, and voted to present this for decision at a first annual membership meeting to be held February 7. The auditor's report would be ready by then.

• Agreed on wording for a membership application form. This included agreement to forego proxy voting which Maryland law provided, but which seemed out of place for a cooperative in a small compact community.

• Approved the design for a stock certificate.

• Determined a schedule of semi-monthly meetings of the Board.

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

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

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

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

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

Assets	
Current assets	$31,791
Investments in cooperatives	807
Leasehold	8,400
Fixed assets (net after depreciation)	8,328
Deferred charges	5,073
Total assets	$54,399
Liabilities and Capital	
Current liabilities	$15,896
Long-term debt (owed to CDC)	35,000
Capital:	
Stock outstanding	$3,430
Reserves	73
Total liabilities and capital	$54,399

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

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

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

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

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

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

- The purpose shall be to promote the economic welfare of its members and patrons by utilizing their united funds and efforts for the purchase, distribution, and production of goods and services of good quality; to associate itself with other cooperatives for mutual aid; and to advance the consumers' cooperative movement.
- Membership would be open to any Greenbelt resident and to any nonresident, except persons whose aims and purposes are contrary to GCS or other cooperatives.
- The authorized share capital was set at $60,000, divided into $20,000 Series A voting stock and $40,000 Series B nonvoting stock, each with a par value of $10 per share.
- Membership required purchase of one $10 share of Series A voting stock, but additional share holdings were limited to Series B nonvoting stock. This fulfilled the "one member — one vote" principle.
- No one could own more than 20 shares, a maximum investment of $200, in order to prevent undue influence on policy or operations by one or a very few persons with large investment in GCS. This limit had to be raised later when GCS began to expand.
- The initial dividend rate was set at not more than 3 percent (later raised to 6 percent to attract needed capital).
- Members who wanted to sell their shares would have to offer them first for repurchase by GCS at a price not to exceed the lesser of par value or book value. This provision would eliminate incentives to buy shares for

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Assets</u>	
Cash on hand and in banks	$18,206
Merchandise inventories	17,443
Investment in cooperatives	3,191
Leasehold	7,350
Fixed assets (net after depreciation)	10,339
Deferred charges	2,570
Total assets	**$59,099**
<u>Liabilities and Capital</u>	
Current liabilities	$17,042
Long-term debt (owed to CDC)	25,996
Capital:	
Stock outstanding	$6,694
Net margin for dividends, refund, taxes, reserves	9,366
Total liabilities and capital	**$59,099**

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

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

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

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

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

On the down side, Co-op members for too long a time looked upon investment in GCS shares of stock as something like a credit union or savings account, where money could be withdrawn whenever needed. The Board's practice of accepting all shares offered for repurchase encouraged this attitude, and the result endangered the Cooperative's cash position. On the other hand, directors feared residents would not risk the purchase of shares without the buy-back assurance.

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

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

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

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

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

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

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

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

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

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

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

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

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

While the Board and general manager searched for ways to provide facilities for serving the new war housing residents at the north end of town, the Federal Works Agency, which controlled these houses, advertised for commercial enterprises to locate there. When GCS complained that it had not been notified or invited to bid, the FWA withdrew its bid request, acknowledging it had not been in touch with the Farm Security Administration and was not aware of the GCS lease.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

• Passing information from the Board down to the neighbors.

• Encouraging attendance at the quarterly meetings.

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

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

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

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

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

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

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

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

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

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

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

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

Fruchtman, the theater manager, offered to take over the general manager position and the Board approved, 5-4, but then backed off when three store managers handed in their resignation in protest against Fruchtman as general manager.

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

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

CHAPTER 5

Growing Up (1945-1946)

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

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

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

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

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

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

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

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

If the Board was enjoying a brief period of consensus, the town council was not. 1945 saw the election of a slate endorsed by a group calling themselves the Committee of American Voters (later the Greenbelt Improvement Committee). The group was generally unsympathetic to cooperatives, and in favor of increasing competition in Greenbelt by bringing in private enterprise. While this group never achieved enough representation on the GCS Board to seriously jeopardize the Co-op's founding principles, they had enough influence to stir up dissention and widen the growing rift between the pro and anti co-op factions. This rift would continue to reverberate for a long time.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The use of loss leaders came up for discussion early in 1946, with some members favoring their use to encourage more shoppers to use the Greenbelt store rather than the chain supermarkets offering loss leaders in Washington and the suburbs. GCS decided against loss leaders as deceptive. Years later, when GCS supermarkets had to compete for customers, loss leaders were used.

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

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

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

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

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

Another critical problem was finally solved when FPHA signed a lease with GCS for the long-planned new supermarket building in the shopping center. The signing was on November 15, 1946, exactly 364 days after the Cooperative had sent in its application. The FPHA, after another considerable delay, renewed the GCS lease on the rest of the shopping center. With these leases in hand, the Cooperative launched a drive for sale of stock shares to raise $200,000 in capital. The initial effort brought in $33,355 in new shares to be added to $26,000 from the previous drive. There were further delays, though, before construction got underway, and the new store didn't open until November 10, 1948.

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

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

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

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

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

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

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

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

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

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

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

Here are the key figures from the operating statement:

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

CHAPTER 6

Fighting for Survival (1947-1949)

The arguments between those who supported cooperative enterprise and those who didn't continued to take up much of GCS's time. 1947 and 1948 saw Greenbelt affected by both national and local stagings of this debate.

On the national level, GCS, along with cooperatives in general, were plagued by charges from the National Tax Equity Association that cooperatives do not pay taxes and are therefore unfair to the American way of doing business. Their campaign caught up with GCS in early 1947.

The Greenbelt co-op drug store was a member in good standing of the Maryland Pharmaceutical Association, which published a trade journal. Drug Store Manager Si Pearson was surprised to read in THE PHARMACIST, an article labeling co-ops a "vastly growing menace," and warning that "these Co-operative retail stores have invaded Maryland....They operate without the payment of taxes and their profits are not subject to an income tax. Moreover, they enjoy the privilege of borrowing money from the U.S. government ....The question of the continuation of retail cooperatives will likely be something for our new Congress to consider. Know your representatives in Congress and make known your sentiments."

General Manager Ashelman, familiar with this sort of disinformation, wrote to the editor. He noted that one of the Association's members was a cooperative, incorporated under Maryland's General Business Act, and that it paid all types of taxes the same as any other drug store, including state and federal income taxes. He pointed out as a further correction to the article that although GCS had never borrowed money from the Government, it did have the same right as any other private business to borrow from the Reconstruction Finance Corporation.

But the "co-ops don't pay taxes" attacks didn't stop there. Two months later the GCS board was startled to find the Maryland Senate in Annapolis about to vote on a bill to impose a tax on the patronage refunds of cooperatives. Apparently no one ever informed the State Finance Committee that the

Supreme Court had long ago determined that refunds to patrons on their purchases during the year were not profits, and therefore not taxable as profits.

A large number of GCS members, along with members of other cooperatives in the State, telephoned and wrote to key Senators, and managed to kill the measure. With this step, GCS leaders tested the political waters they were to become familiar with as the subsequent years churned up more legislative tests.

This issue, however, did not disappear. The Washington newspapers on August 18, 1947, carried the news that Greenbelt Consumer Services, Inc., was the subject of an investigation by the Small Business Committee of the U.S. House of Representatives.

Chairman of the committee (actually a subcommittee) was Representative Walter C. Ploesner (R., Mo.). The other members were Representative R. Walter Rielman (R., N.Y.) and Representative Wright Patman (D., Texas). The committee's press release stated its purpose was "to ascertain whether, and to what extent, tax-exempt privileges of cooperatives are harmful to free competitive enterprise". Although the investigation was reportedly aimed at farm marketing cooperatives, Committee Chairman Ploesner picked Greenbelt Consumer Services, Inc., as the first target.

GCS issued its own press release, pointing out that it enjoyed no tax exemption whatever and that it did not have the exclusive contract for business in Greenbelt.

In the hearing before the Congressional subcommittee, the president of the Maryland Economic Council testified that "in every community in Maryland where I have visited...the leading merchants and businessmen express fear and concern over the threatened or existing competition from cooperatives."

A former employee of the old Resettlement Administration testified that some businessmen who wanted to come into Greenbelt had complained that they "were given the runaround".

Greenbelt Mayor George Bauer testified that "the people of Greenbelt never had any choice in the matter" of deciding whether the cooperative or "private business" should run the stores. He said he felt the best interests of the town would be served by the introduction of private business. However, a letter signed by three Councilmen was introduced a little later which stated that Bauer was not authorized to speak for the Council.

Five other Greenbelt residents spoke in favor of having other businesses in the town. Thomas B. Ricker, GCS's former general manager who had been replaced after disagreement with the Board about time spent on his private business, testified that he would like to see private businesses in Greenbelt.

Jack Fruchtman, former manager of the theater, spoke along the same line, saying he would like to operate the theater there.

Residents who testified for the Cooperative included Town Manager Gobbel, Councilman Morrison, GCS Secretary Frank Lastner, Greenbelt Mutual Housing Association President Sherrod East, and several others.

General Manager Ashelman was the last witness called to testify. He explained that GCS "...enjoys no tax exemptions, cannot borrow from the bank for (farmer) cooperatives, is not exempt from S.E.C. regulations, has no special privileges under the anti-trust laws, and in general appears not to be involved in any of the things which this Committee states that it is investigating.

"A series of persons, some with personal axes to grind, have been given an opportunity to air their views, to endeavor to discredit the cooperatives, and in some cases to give their explanation for the fact that they no longer hold positions they once held in the Cooperative....When all is said and done, however, it is evident that the Greenbelt Cooperative is itself a small business, struggling to do a good job in the face of problems that face all small businesses today....We think the Committee could undertake no more useful nor more daring project than an attack upon monopoly — but we must confess that we are amazed to find the Committee's brave sword turned first in our direction."

Immediately upon conclusion of the hearing, Chairman Ploesner read a resolution, approved by a 2-1 vote, describing the GCS contract with FPHA as contrary to the purpose and spirit of the anti-trust laws of the United States and urging that the contract be cancelled.

It had been pointed out by an attorney from FPHA during the hearing that the lease's exclusion of competing businesses in the Greenbelt shopping center was no different from countless shopping center lease contract provisions all across the nation. Representative Patman stated that the hearing had not demonstrated that the contract was monopolistic. He said he would oppose the resolution before the full House Small Business Committee, and if it got as far as the Congress he would oppose it there, too.

But the resolution never reached Congress. Apparently the investigation simply fizzled out after the Greenbelt hearing.

The National Tax Equality Association continued its attacks on cooperatives, but by late fall of 1947 it was under investigation by the Post Office Department for mail fraud. For the Greenbelt Cooperative the tide seemed to have turned. Its severest challengers in Greenbelt had met defeat in a new Town Council election. The identity and limited numbers of those who opposed the cooperative idea were now known throughout the town. The threat to GCS (and to the community's other cooperative organizations) at the national level dropped away after the Ploesner hearing. Mutual housing to replace government ownership of the town was well on its way (although many problems lay ahead), and that would seem to assure GCS of a friendly climate in which to develop and offer services.

And, finally, building for the new store at the northeast corner of the shopping center was underway.

To raise enough money for escalating building costs, GCS faced a charter change which would permit it to issue up to $1,000,000 in stock, an amount undreamed of when the charter was obtained back in 1937. Because GCS was organized under Maryland's general corporation law, any charter change required approval by two-thirds of all stockholders. This was a near-impossible task with such a large number of members, some of whom had moved out of town. More than a year was required to gather enough directed proxies for the change. Another change recommended by the Board, to make possible future changes in the charter by a majority vote instead of the two-thirds requirement, failed to win enough votes.

A continuing membership campaign among residents in the war housing at the north end of town achieved gratifying success. This campaign was linked to expectations that the new capital raised would make possible a new co-op store that would be located in that part of town. GCS management, with Board approval, negotiated for land. When it became apparent that the new store in the shopping center was the limit of expansion for the immediate future, the Board OK'd a mobile "Co-op Pantry". This served homemakers profitably for several years, making the rounds in Greenbelt and neighboring Berwyn.

Net margins were down for 1947, $24,597 representing 1.4 percent of sales amounting to $1,726,666. Ashelman noted in his year-end management report that although this was low as a return on sales it was high in the industry (at 13.6 percent) in relation to invested capital. GCS paid the usual 5 percent dividend on shares, but only a 1 percent patronage refund.

In January 1948, Dayton Hull resigned as president after 4 years on the Board. Frank Lastner replaced him, for a second period of service as president.

At about the same time, proposals for streamlining Board proceedings were adopted. One improvement was the creation of a three-director Executive Committee to handle routine items, prepare agenda for meetings and proposals for presentation, and put motions in writing. The Executive Committee was also instructed to recommend improvements in the committee structure.

The long wait for the new Greenbelt co-op supermarket ended on November 9, 1948, with appropriate ceremony and celebration to open the new facility at the northeast edge of the shopping center. Despite threatened holdup in materials and equipment due to the war in Korea, the building was completed on schedule. About 9,000 came for the opening to admire the new supermarket. It boasted more than double the floor space of the old food store, five checkout counters, an in-store bakery, and the first self-service meat department in the Washington area.

The Board intended the large basement to be used as a bowling alley for the community, but GCS lacked the money for that at the time, and war shortages made installation impossible until later anyway. In the meantime, this space was used for economical wholesale warehouse storage.

A series of stock drives had brought in enough capital to provide a solid base for investment in the new building. A mortgage loan of $150,000 came from the Reconstruction Finance Corporation. Financing was completed by two loans, $10,000 from Prince Georges Bank and Trust and $25,000 from Amalgamated Bank of New York.

In addition to the new supermarket, GCS remodeled its auto service station, providing more space and easier operation as well as improved appearance.

Sales for 1948 totaled $1,881,510, with cost of goods sold at 73.6 percent, salaries at 15.5 percent, and expenses at 8.7 percent. Net margin was $42,332, or 2.2 percent of sales. This made possible a patronage return of 1.8 percent on purchases during the year.

Despite the considerable increase in facilities to serve Greenbelt families and the upturn in financial returns, member apathy persisted. After a quarterly meeting which drew only 22 members, the weekly newspaper lamented that, "The members are not really interested in trying to have their own business run as efficiently as possible. If they were, there would be adequate turnout for the quarterly meetings, and even for the Board meetings WHICH ANYONE CAN ATTEND."

For most meetings there were mailed notices at least 10 days in advance, newspaper stories, posters, telephone reminders, and sometimes even a sound truck. Noted speakers, vital decisions, entertainment, refreshments, and door prizes failed to attract the large attendance that a healthy cooperative is supposed to have. With a few exceptional intervals, poor attendance continued through the years to be a threat to the survival of the Greenbelt Cooperative as a member-controlled organization.

In 1949, the Board and management of GCS turned its energies to improving store operations. The variety store was moved into the old food store space. The greater space permitted expansion of merchandise lines, better control of shoplifting, and made shopping easier. The pharmacy was moved into space vacated by the variety store, and this made room for expansion of the restaurant space in the drug store.

The Board authorized the general manager to negotiate with the Public Housing Authority for the purchase of the land underneath the new supermarket. This finally was achieved.

At the end of March 1949, GCS, in combination with co-op stores in Washington, D.C., Westminster, Maryland, northern Virginia and Hampton, Virginia, opened a warehouse in Baltimore. It operated under Eastern Cooperatives, Inc., as part of its wholesale structure. The facility had 11,000 square feet for storage and a railroad siding. This immediately reduced shipping costs which had been higher from Philadelphia and New York.

Later in the year Greenbelt joined with other area co-ops in a Potomac Cooperative Purchasing Association, to further reduce wholesale costs.

By this time GCS was listed as the fourth largest urban cooperative in the United States. The book value of its $10 shares of stock stood at $12.45. Operating margins improved to the point where the Cooperative fell into the 57 percent federal income tax bracket.

Of all its operations, only the bus line and the north end food store continued to lose money. The bus transportation service had operated at a loss every year from its start in 1945, for a total of $8,500 by end of 1949. The Board continued it partly as a public service and partly as compensation for its inability to build a new store in the north end of town.

In October 1949, Frank Lastner retired from the presidency of GCS after serving in that capacity for just short of 6 years. Replacing him was Walter J. Bierwagen.

When the auditor completed his examination of the 1949 operations, he reported to the Board that "this is the finest internal control I have seen anywhere." Inventories were down but sales were up. Gross margins were down but net margins were up. The current ratio had improved to 2.25:1. Net worth had increased.

The sales figure for the year was $2,199,818. Gross margin was $545,547, or 24.8 percent. Salaries were down to 14.2 percent and expenses also were down — to 7.5 percent. The net margin worked out at 3.1 percent, and there was a 2 percent patronage refund.

The members, Board, management, and staff of Greenbelt Consumer Services, Inc., had successfully come through their first decade.

CHAPTER 7

Early Expansion (1950-1953)

By 1950, with operations firmly in the black, the Board and management of GCS began looking beyond the town of Greenbelt. The Co-op Pan try truck served members and other customers in neighboring Berwyn. A small store had been opened by members in nearby Glenn Dale, with servicing out of Greenbelt. General Manager Ashelman was providing management advisory service under contract for the Westminster co-op and a co-op in Hampton, Virginia. Joint purchasing and some shared management services with co-op stores in Washington, D.C. had become beneficial.

At a Board meeting in April 1949, Director George Davidson raised the possibility of working with former Greenbelters who had moved to the Takoma Park area just northeast of Washington, D.C. to open a co-op store on New Hampshire Avenue. Nothing came of this suggestion until March 1950. This time the idea took hold and planning developed quickly.

The Board called a special membership meeting for April 19 to discuss expansion into the Takoma Park area. The announcement, in the form of a letter mailed to each shareholder, said in part:

"The most important item which the Board would like to discuss with you is its belief that it would be wise to open a new supermarket in the New Hampshire Avenue area. Many former residents of Greenbelt have purchased homes in the area and are anxious to secure some of the benefits of shopping locally at a cooperative store....We believe that several advantages will accrue to all members through the opening of an additional supermarket. It will enable us to buy merchandise more economically. Additional volume will also decrease the administrative expense percentage."

A motion was made to support the Board's plan for expansion. After many questions, considerable discussion, and defeat of a tabling motion, the resolution was approved by a divided vote.

The resolution had referred to "the Board's plan for expansion." Actually there was no thought-out plan at this point. The Board simply acted more promptly than usual on the general manager's proposal. But all circumstances seemed to point to the advantages for reaching out beyond Greenbelt at this particular time:

• The impending sale of Greenbelt by the Federal Government raised some question about the Cooperative's security and potential for growth in the town.

• The start-up and growth of other consumer cooperatives in the Maryland-D.C.-Virginia area pointed to an opportunity for an entity like GCS with a decade of successful growth to fill a consumer need.

• Administrative and overhead expense for GCS operations in Greenbelt could be lowered if spread across stores in other locations.

• The new cooperative warehouse in Baltimore could provide lower wholesale prices if volume could be increased by more co-op retail stores.

• A larger organization would attract more highly qualified employees by offering opportunity for promotion.

• A favorable cash position and the willingness of banks to provide loans now that the GCS credit rating was solid encouraged investment in a larger operation.

• It was apparent that GCS members who had moved out of Greenbelt could provide a nucleus for a store in another locality, although no survey had been made at this time.

Still, the idea of GCS reaching out beyond Greenbelt had not been anticipated. It was received in the community with some shock and a great deal of opposition. The GREENBELT COOPERATOR immediately raised questions about how expansion would affect service in Greenbelt. There were complaints that if GCS had money for expansion it should be put to use locally, perhaps for recreation facilities. And some members were simply uninterested in looking beyond their own backyard. These same concerns about expansion would follow GCS into the 1980's.

While the Board agreed unanimously on the desirability of expansion and on Takoma Park as the preferred location, there were varying views within the Board about two questions.

• At what point should a drive for members and stock sales in the new area get underway and what methods should be used? Organizing Greenbelters into a cooperative had been straightforward. The town was small, compact, and was precisely laid-out. This made door-to-door canvassing, distribution of leaflets, and meetings easy. A sympathetic weekly newspaper supplied free publicity. From the start, there was little choice in local shopping. And the population was fairly uniform in age and economic level.

Takoma Park's potential was unknown. The geographic area was without boundaries, and contained a hodgepodge of random streets, all kinds of homes and commercial establishments mixed in with vacant spaces. Aside from the families who had moved there from Greenbelt, there would be few households with any cooperative experience or even much information about co-ops. One big plus, however, was the fact that there was no modern supermarket in the vicinity of the site being considered.

• How would a store and members 10 miles distant from Greenbelt fit into the existing organization and control pattern of the Cooperative? To what extent should consumer-members in the Takoma Park area have a say about how the new supermarket in their area would be run? And what would their responsibilities and rights be in respect to the Greenbelt stores? Should they be able to elect a director from their local membership to the GCS Board, or just vote along with the Greenbelt members for election of all nine directors? Should Takoma Park members have separate meetings or join in the Greenbelt meetings? How would patronage refunds be computed — separate for Greenbelt and Takoma Park operations or for the combined enterprises?

There were no easy answers to these questions because GCS was pioneering a new field of operations. There was no pattern to offer guidance. Consumer co-ops in the United States at this period were single store or at least single location enterprises.

It was Ashelman's view that some adaptation of the structure used by large consumer cooperatives in Europe, and especially in Sweden, could be developed. The aim would be toward an organizational pattern that would encourage patron interest and participation at the local store level, and at the same time gain the advantages of large volume and centralized management.

The Board decided against launching a membership and stock share drive in the Takoma Park neighborhoods until the store neared completion, to avoid the possibility of such a drive losing steam unless the target of shopping in the new supermarket was clearly in view. However, a small committee of interested members who had moved to the new area from Greenbelt organized and began talking with community leaders about GCS plans.

Management and the Board agreed on a site being developed on the north side of New Hampshire Avenue, about half a mile northeast of the District of Columbia line. The Farm Bureau Insurance Co. [now Nationwide] agreed to a loan of $100,000 toward opening costs. On June 1,1950, the Board approved a lease with Kass Realty Co. for the new supermarket. Toward the end of the year, the Board appointed Director Robert T. Mitchell to be chairman of the promotional campaign in Takoma Park. The new supermarket was scheduled to open in August 1951.

The 17 months between the first public mention of GCS expansion to Takoma Park and the opening of the new supermarket bristled with controversy.

Most of the criticism focused on the Cooperative's expansion beyond Greenbelt. Many Greenbelters were simply uninterested in anything outside their community. Others were concerned that expansion and growth would be antipathetic to a democratically run cooperative. Still others felt that GCS had enough problems to deal with at home without taking on other enterprises. These views, however vocal they at times became, did not prevail, and plans for the expansion to Takoma Park went forward. It is interesting to note that in this period the debate within the community began focusing more and more on how a cooperative should be run, and less and less on the desirability of the cooperative itself. This marked a distinct shift from the trials of the past several years.

The debate over GCS expansion got another boost when Paul Ashbrook, a popular and successful agent for Farm Bureau insurance and a member of the Cooperative himself, suggested to General Manager Ashelman that GCS lease the entire shopping center at the New Hampshire Avenue location. When Ashelman took this idea to the Board at its January 26 meeting, he was asked by unanimous vote to explore this possibility. Two weeks later, armed with favorable consumer data and encouragement from businessmen, banks, and GCS store managers, Ashelman recommended to the Board that GCS open a combination variety/drug store in the same shopping center with the supermarket, concluding that such a venture "offers a good business opportunity; merchandise and personnel can be obtained, the promotional job would be made easier, and advertising costs could be spread."

The only serious caveat was the timing. Construction was at a stage where a quick decision would be necessary to avoid expensive changes in plumbing and wiring. A letter outlining the plan was immediately sent to all members. It called for a special meeting to discuss the proposal, stressed that prompt action would be needed to take advantage of the opportunity, and concluded that "with the freeze on new store construction, it may be a matter of years before another good opportunity for expansion develops."

At this meeting several days later, detailed information of the plan was distributed to the 30 or so members present. While several current and former Board members spoke in favor of the expansion, many members were wary. The same questions raised over the grocery store proposal were raised again: Would expansion endanger services in Greenbelt? Was the Board being business conscious rather than coop conscious? And would growth break down the democratic process upon which the coop was founded? The only new criticism was the valid complaint that the membership had been given too little notice (only a couple of days) before being asked to make such an important decision. Some saw this as a sign that the Board was trying to steamroll the plan through without giving the membership enough opportunity for input.

The Board, however, after a 2 hour debate, voted 6-3 in support of proceeding with negotiations for the variety/drug store in Takoma Park.

Two and one half weeks later, at the annual membership meeting on March 7, the members affirmed the Board's action by re-electing all six incumbents who were candidates for another term, and by voting down a motion to rescind the action on the Takoma Park variety/drug store. While dissenting views remained, the expansion went forward.

Looking back from nearly 40 years later, it seems clear that once expansion had been approved, there were two ways GCS could go. One was a federation of locally owned and locally controlled cooperatives, with centralized services for purchasing, accounting, training, promotion, etc. The overall servicing entity could be owned and controlled by the individual retail cooperatives. The other choice was one big cooperative. This was the path taken by GCS.

Meanwhile, other activities kept GCS busy. Despite a divided Board, continued member apathy, controversy about expansion, and anxiety about the future of Greenbelt, it had been a very good year for the Cooperative's operations .

Early in the year, a patronage refund of 2.1 percent went to those who turned in their sales slips. Net savings on sales totaling $2,399,316 in 1950 were $74,044 before income taxes and patronage refunds. Gross margin across the board for all operations was 24.5 percent.

On the down side, a bowling alley housed in the basement of the supermarket had failed, and the theater, facing increased competition from television, was forced to close 2 nights a week. GCS also closed two money losing operations: the traveling pantry and the bus service (which was picked up by the Town Council as a municipal responsibility).

Minutes of Board meetings during the spring of 1951 show some weaknesses. Committees appear to have disintegrated — there is no indication of an Education Committee reporting over a period of many months. It was becoming clear that GCS leaders often lacked knowledge and background on the organization. The need for orientation of newly elected directors was acknowledged by the Board, and plans were made for tours of the stores, study of each of the operations, and training sessions on what directors need to know.

Some of this had been tried in the past, but orientation for leaders became much more important in the following years as GCS grew in size and complexity. Although leadership development was recognized as a top priority, planning and accomplishment were somewhat sporadic.

In addition to these internal education efforts, there was the Cooperative Institute Association. Supported and controlled by the consumer co-ops in the New England and Mid-Atlantic states, this was a nonprofit, amateur, and loosely organized group of cooperative leaders who offered a week of classes each summer in one of the land-grant colleges. In April 1951, the GCS Board designated Ben Rosenzweig as its representative on the CIA board.

It had been apparent for some time that GCS needed a promotional and educational employee on the staff. But, there was divided opinion among the directors as to whether such a position should be created, what the employee's role should be, whether this should be a full-time or part-time job, and whether GCS could afford such an addition to the staff.

Assistant General Manager Bassett Ferguson, Jr., stated the case for a full-time education position to the Board in April 1951:

"We get to the point where we save our money and lose our Cooperative.... GCS is entering a period of expansion, and throughout the country other cooperatives are very much interested and impressed with what Greenbelt is doing, but here in Greenbelt we have very few really active members, so few in fact that we have trouble finding people to serve on a committee. If we don't have interested members we don't have a cooperative. To a certain extent, expenditure for securing member participation is a necessary business expense. I don't think the present trend can be reversed through volunteer efforts alone."

After much discussion and wavering by directors, the Board authorized the position. Shortly after that, Edith Christianson came on the staff and was placed in charge of consumer education at the Takoma Park supermarket when it opened. GCS opened its cooperative supermarket on New Hampshire Avenue on August 29, 1951. The opening followed several months of intensive and very successful co-op educational efforts and stock sales to build a membership base in Takoma Park.

The new store offered a 90- by 75-foot selling area, a 93-foot meat counter, automatic photo-electric doors, powered checkout counters, self-service bakery section, and a play area for small children while their mothers shopped.

Customer response to the new Co-op supermarket was enthusiastic. The local newspaper called it "the addition of an important community asset."

On November 9, the Co-op variety/drug store in the new shopping center at Ethan Allen and New Hampshire Avenues opened.

By year's end, the new pair of facilities were contributing income for GCS. Changes in the Cooperative's operating statement and balance sheet were dramatic. Sales increased almost 30 percent, even though the Takoma Park additions counted for but a short period. Net savings were down, as expected in opening new stores. Here are the comparative figures for 1950 and 1951:

Condensed Income Statement

	1951		1950	
Sales	$3,064,408	100.0%	$2,399,316	100.0%
Gross margin	688,766	77.5	588,725	5.5
Salaries	421,648	13.8	329,338	13.7
Net operating margin	68,173	2.2	73,347	3.1
Store opening expenses	21,359	0.7	-	-
Net savings*	46,814	1.5	74,044	3.1

*(before income tax and patronage refund)

Balance Sheet as of December 31

Assets	1951		1950	
Current assets		$429,732		$232,709
Cash on hand & in banks	$110,927		$ 59,743	
Accounts receivable	12,807		12,024	
Merchandise inventories	265,646		144,025	
Prepaid expenses	15,182		9,464	
Investments		17,650		5,598
Fixed assets		506,985		338,386
Total assets		**$945,367**		**$576,693**
Liabilities and Capital				
Current liabilities		$286,791		$102,481
Long term debt		212,740		73,549
Net worth		445,836		400,663
Stock outstanding	329,861		272,435	
Reserves	69,341		54,184	
Net margin	46,814		74,044	
Total liabilities and capital		**$945,367**		**$576,693**

In the report of the general manager, Ashelman wrote:

"Advantages hoped for to the Greenbelt stores as a result of additional volume from the new stores in Takoma Park are now being realized. One of these was the immediate strengthening of our buying position. Suppliers are now willing to grant us more favorable prices on many items we regularly purchase. Another is the reduction of our costs in handling groceries in the Baltimore warehouse of Potomac Cooperators, Inc.

"In business generally, margins of profit have been reduced, largely by the Office of Price Stabilization regulations, while at the same time operating expenses have been increasing. Our operating expenses, however, dropped from 21.4 percent to 20.3 percent. Total administrative expenses instead of being 3 percent of total sales as in 1950, dropped to 2.6 percent in 1951....

"Ten years ago we had only a handful of employees. Today several of these have risen through the ranks to very responsible positions, and in a growing organization there is always room for promotion. Where there is opportunity, your organization can keep and attract better people."

While critics would remain, it would seem that the case for expanding beyond Greenbelt had been justified.

Although Bierwagen, in his "From Your President" section of the annual report, stated that, "The Cooperative ended the year 1951 on a high point of success," and talked about "working together," the minutes show that he worked with a badly divided Board and continuing criticism from a vocal segment of the membership.

Dissension and divisiveness increased during 1952.

A group of individuals who had been using the GREENBELT COOPERATOR to attack the way the GCS Board and general manager ran the Co-op, decided they could do a better job than the incumbents. The paper's editor, Harry Zubkoff, ran a long editorial in the January 24 edition setting forth a minimum program any candidate for the GCS Board should offer. The next week's paper carried lengthy excerpts from the GCS bylaws regarding responsibilities of directors and the details of election procedures. The February 14 paper gave a nearly full page chart showing how each director voted on selected issues during the previous year, along with absences from Board meetings. The paper also announced the candidacy of Morris Soloman, staff member who headed the price checking committee and published the results regularly in the paper. Sam Schwimer, who had written several letters to the editor critical of the way GCS was operating, announced in a long letter to the editor that he would run for the Board.

At the annual meeting March 5, 1952, there were 14 nominees for the nine Board positions. Editor Zubkoff also ran as a write-in candidate. Three incumbents, including President Bierwagen were returned to the Board, but six positions went to newcomers, including Soloman, Schwimer, and Zubkoff. This was the first time a majority of the Board was changed at a single election, and the result guaranteed another sharply divided Board for the coming year.

This annual meeting, held in the theater and using a format based on results of a lengthy questionnaire earlier in the year, was an improvement over the previous three quarterly membership meetings. Two important agenda items were approved: amendments to the bylaws which raised the capital stock limit to $550,000, and changing the beginning of the fiscal year to February 1. Although it was defeated, David Reznikoff introduced a detailed resolution to have GCS "immediately dispose of all business enterprises which are not located within... Greenbelt...by sale of said business enterprises to a corporation which shall be cooperative in nature and which shall be owned and controlled by residents of the community in which said business enterprises are located...." Pretty much the same members spoke against raising the limit on sale of capital stock and in favor of restricting GCS to Greenbelt.

The Board met twice in June to review GCS options regarding government sale of commercial areas in the town. During this period, the general manager and the Cooperative's attorney learned that PHA would require purchase of all the commercial property as a unit and not just any part of it, and that the price would come out at $629,000. It was agreed that this price was higher than GCS could manage, and would amount to as much as $17,000 more annually than the current rental cost. It was noted that the Cooperative's leases had 4 1/2 years to run, no matter who owned the property. GCS, however, remained open to possible further negotiation either through Greenbelt Veterans Housing Corporation (GVHC) or directly with PHA.

A special membership meeting on June 27 attracted a quorum, unusual when so many special and quarterly meetings had failed to achieve a quorum. Members present approved the Board/management recommendation to not purchase the commercial property at the price asked by PHA. They then turned their attention to a recent controversy which had arisen over the filling of a Board vacancy.

The incident had started at a June 6 Board meeting when Charles Bicking, a director from Takoma Park, was dropped from the board because of excessive absences. The Auditing Committee had advised that it was customary to fill Board vacancies by putting the selection on the agenda for the following meeting and considering runners-up from the previous election. After some discussion, it was instead decided to fill the vacancy that night, even though only five directors were present, and a Mrs. Ritchie was suggested. Although protests were made that consideration should be given to a candidate representing the Takoma Park area, and that the appointment should be debated and approved by the entire Board, Mrs. Ritchie was approved by a 4-1 vote.

At the June 27 meeting, the Auditing Committee distributed a 4-page report reviewing the sequence of events from the determination that Bicking had forfeited his directorship due to excessive absences, to the selection of Mrs. Ritchie to replace him. The report cited two basic reasons for finding the procedure improper and explained them in detail. In summary, they were:

1. "Not all the board members were advised in advance that a vacancy existed and an election would take place. A careful check of the 27 times that the board has filled vacancies since the Co-op was organized in 1940 shows that the board <u>never</u> filled a vacancy without advance notice to board members of the existence of the vacancy....The agenda as accepted at the beginning of the board meeting did not include the election, and two directors left the

meeting on GCS business without knowing that an election was impending. Even the president of the Co-op did not know that an election was being held....

"...in filling a vacant directorship, the board is taking over a function which normally is the prerogative only of the membership...

2. "In filling the post vacated by a director from the Takoma area, no consideration was given to seeking qualified candidates from that area. The remaining Takoma area director was not present, nor were any residents from that area. Although a candidate from the Takoma area received more votes at the annual meeting than the new director selected by the board, his name was not considered...."

The report pointed to three consequences of the action by the board's minority:

1. "Alienation of a considerable number of members in the Takoma area....at a time when sales in Takoma have been advancing steadily and there is every evidence that the Co-op is winning strong consumer support in the area.

2. "Lessened confidence in the board at a time of important decisions....

3. "...If the action should stand unchallenged, a most unfortunate precedent should be established for future elections....We do not believe that the members should view lightly a departure from democratic tradition."

Members at the meeting agreed with the Auditing Committee's report, and adopted a resolution which called for the Board to correct its mistake, and refill the vacated seat, this time going through proper channels. At a meeting on July 11, after discussing an opinion by the Cooperative's legal counsel, the Board heard a three-page statement by Director Walter which pointed out that no Board member's personal interest was more important than the good name of the Cooperative, and offered four legal options to offset some of the damage done. The simplest of these was a letter of resignation by Mrs. Ritchie. She asked for more time to talk with her friends before responding.

Finally, on July 18, her letter of resignation came. In it she maintained that she had been legally selected to fill the Board vacancy, pointed out that "it has not been pleasant to be at the center of controversy," and concluded that "as of now it seems that the best service I can perform for the organization is to offer my resignation."

At a meeting on July 31, 1952, the Board split 4-4 on two candidates from Takoma Park. A meeting August 8 could not resolve the impasse. It was not until a special meeting on August 14, that the Board agreed unanimously on Frank W. Lewis, who lived in the Takoma Park area.

It had taken more than 2 months to resolve a question of Board control. There still was a split Board, but several determinations had been made:

• A quorum of members could be counted on to respond in a crisis.

• The filling of Board vacancies between annual meetings would be fair and democratic.

• The policy of expansion would continue, but attention would have to be given to some kind of geographical representation for the membership.

GCS's early expansion into Takoma Park showed dividends by the end of 1952. Net working capital increased from $127,137 to $172,291, the current ratio improved to 1.64 from 1.47, and a patronage refund of 1.2 percent was declared on 1952 purchases. All operations except the convenience store in the north end of Greenbelt operated in the black. Sales in the Takoma Park supermarket exceeded those in the Greenbelt supermarket, and continued to show sizable increases despite a temporary setback when a new Safeway opened nearby; that this setback was only temporary helped put to rest the nagging question in Greenbelt about whether success there was due solely to absence of competition within the community.

By the end of 1952, Greenbelt Consumer Services, Inc., seemed committed to the path of expansion. General Manager Ashelman said repeatedly and with increasing emphasis that the future for GCS, and for all consumer cooperatives, was dependent on growth and expansion, increasing the types of merchandise and services available, and consolidating smaller organizations.

In his annual report to the membership for 1952, he noted that, "Takoma stores have strengthened our operating picture. Another store would help immensely...another $3 million volume would save us about .5 percent in our present stores. Additional stores would give us still greater efficiency, and would soon put us in the position where we could take real leadership in bringing better values and services to consumers."

The Board was persuaded, at least in principle, and agreed to explore more expansion possibilities. Objectives, methods of financing, and a rough timetable were put into writing for future guidance.

The December issue of the *Co-op Newsletter* carried a lead article explaining that chain supermarkets make their profits by increasing the number of retail outlets, which enables them to buy in larger quantities and to spread overhead costs. It discussed in some detail the possible "formation of an area management corporation" for cooperatives, which would consist of numerous local cooperatives under the management of a central organization. It was even speculated that such an umbrella cooperative "might purchase an outright chain, turning it into a co-op."

With the policy of expansion gaining wider and wider acceptance, emphasis began to shift to problems of organization and control. Director Frank Lewis reported in the fall of 1953 that, "Takoma Park members are very much concerned with the organizational structure (of GCS) and how to achieve membership participation in an expanding organization." The Board was holding some of its meetings in Takoma Park by this time, and a membership meeting as well. But talk about GCS stores in other locations brought to the fore concerns about the geography of meeting places and communication with members, and questions about area representation on the Board and committees. Would expansion lead to one big cooperative spread across several locations, or several small cooperatives under some sort of a protective umbrella?

Meanwhile the policy of expansion still had its critics. Some felt that GCS was jumping the gun. Rather than opening new stores and then recruiting members, they felt that GCS should first recruit new members, thus raising a large portion of the necessary capital, and only then open new stores. These critics felt that local members were responsible for stores; thus, expanding into an area before establishing a membership base was seen as putting business concerns before cooperative principles.

But expansion went ahead. Several possible projects came up for attention in 1953, most of which were abandoned for various reasons. Rochdale Cooperative, a D.C. based organization, met with the Greenbelt board to consider a jointly-operated supermarket in Washington, but the project was eventually dropped. GCS also put in an unsuccessful bid to purchase another 6.5 acres of land at the intersection of Edmonston and Branchville Roads, about half a mile west of Greenbelt.

In Shirlington, Virginia, just across the Potomac from Washington, a group of cooperators had opened a department store in 1948 with financing from CDC. By spring of 1953, this venture was in financial trouble and its board decided to dispose of it. A number of cooperative leaders, both national and local, urged GCS to take over the Shirlington department store, arguing that its closing would hurt the business reputation of the consumer cooperative movement. The GCS Board voted to make an offer on the store, but this too fell through when a commercial department store corporation made a better offer.

The Takoma Park property, meanwhile, was the site of two successful expansion projects. GCS signed a lease for the lower level of the building which housed the variety/drug store, just about doubling the floor space. And on May 15, GCS took over the lease of a Sunoco service station located on the northwest corner of Ethan Allen and New Hampshire Avenues. Weekly gasoline sales before the changeover were $2,500; under GCS management they jumped to $4,350. Weekly sales of automotive supplies went from $700 to $1,600. And grease jobs moved from one per day to between three and eight per day. Combining a supermarket, drug store, variety store, and service station at one location proved to be a strong marketing strategy, and became the preferred pattern in future expansion projects: one-stop Co-op shopping.

In addition to expansion plans, 1953 saw operations going through their usual ups and downs. The Takoma Park variety/drug store space was used for three innovations. A shoe store and a men's clothing store operated for a considerable time, but ultimately discontinued. Longer lasting was the very popular community meeting room. Not only did this room meet a local need, it also brought potential customers into the store; many of these were newcomers to the cooperative idea who eventually became members. This meeting room was deemed such a successful public relations feature, that most future GCS stores included one if at all possible.

Another Co-op innovation involved handling general merchandise and other big-ticket items. GCS arranged for shoppers to order CO-OP brand refrigerators and other large appliances direct from the factory at considerable savings. Samples items were displayed in the stores. Co-op was the only store in the Washington area to offer this service.

Internally, an employee retirement and profit-sharing plan was instituted; and the 1953 director's elections enlarged the representation from Takoma Park.

Meanwhile, the Federal Government agreed to the sale of most of the Greenbelt housing, including the shopping center, to the mutual housing group, Greenbelt Veterans Housing Corporation. GCS agreed to lease the space it needed from GVHC.

By the end of March 1953, negotiations with PHA for purchase of the land underneath the Greenbelt supermarket and adjoining parking lot reached a satisfactory agreement, and the sale was finalized. GCS obtained financing for the purchase from the Farm Bureau Insurance Companies.

According to the treasurer's report, 1953, " was one of [the] Cooperative's best. Sales increased 4.1 percent over the comparable period a year ago and net savings increased 50 percent. All-time records were established during this year for sales, net savings, net worth, net working capital, capital stock outstanding, number of members, and patronage refunds declared. Our current ratio (is) 1.95. A year ago it was 1.64. In 1951 it was 1.47....GCS now has the enviable record of having paid 5 percent dividends (on stock shares) for 13 consecutive years."

The patronage refund was 1.9 percent. As in previous years, there was a choice of taking cash or applying the refund toward additional shares of stock: the majority opted for stock.

In terms of membership and volume of business, Greenbelt Consumer Services, Inc., was at this point the largest consumer cooperative in the country.

CHAPTER 8

Wheaton and the Co-op Congress (1954-1955)

Ashelman had been continuing his search for promising store locations, and in January he took the Board to the Wheaton triangle in Montgomery County, Maryland. Here, on a main traffic artery feeding into Washington, was an undeveloped tract of a little more than four acres on which Ashelman proposed a one-stop Co-op shopping center. It would have a large supermarket, drug store, and auto service station, with a number of small shops which GCS could lease out to services that would round out the center. The Wheaton triangle was a relatively new commercial area where three major streets intersected, and it had obvious growth potential as it was in the center of a large middle-class residential area. Some Co-op members had already moved into the neighborhood from Greenbelt and could be counted on to provide local leadership.

The Board liked the location, and 3 weeks later gave Ashelman the go-ahead. By the middle of February, investment people from Farm Bureau Insurance had examined the project and agreed to provide financing.

Given this continuing expansion, the Board had faced up to the need for changes in the Cooperative's organizational structure to assure fair representation and democratic control by the members in the geographic expansion. A committee was appointed to recommend a structure that could handle the expanding organization.

This committee, along with GCS management, studied the organizational structure of large consumer cooperatives in Europe and the districting patterns of American farm cooperatives. The concept finally agreed upon called for local organization of members around the cooperative store or shopping center which they patronized. Members in each area would then elect representatives to a local council, and these representatives from all the councils would comprise the GCS Co-op Congress. This body would meet periodically to bring together the ideas and concerns of the membership in the diverse areas. It also would report back through the representatives to the membership on GCS goings-on.

Its most important task, however, would be to develop and select candidates for the Cooperative's Board of Directors. In a compact community like Greenbelt, members were acquainted with candidates for the Board. With the Cooperative membership growing and spreading geographically, however, there was less opportunity to know who were the best candidates among the entire membership. The Congress members, as community leaders, would thus recommend candidates for the GCS Board. The Congress could also require that the Board candidates they selected be given training sessions in cooperative principles and background, the responsibilities of a director, how to read a balance sheet and operating statement, etc.

In addition to the Congress structure, the 1954 package of bylaws amendments contained some other significant changes. One was a switch from the Hare system of proportional representation voting to majority voting. Another change was staggered terms of office for directors. Instead of electing all nine at one time for 1-year terms, the revised bylaws provided for members to elect directors to 2-year terms: four, one year and five, the next. These longer terms gave a director more time in service to use what he had learned in the first few months on the Board. Staggered terms also provided more stability and continuity.

These bylaw amendments were presented to the membership at the April 14 annual meeting. The changes were adopted, and scheduled to go into effect when a third store area (Wheaton) achieved at least 200 new GCS members.

In other areas, Greenbelt's cooperative weekly newspaper switched from free home delivery to paid subscriptions and changed its name from the GREENBELT COOPERATOR to the NEWS REVIEW. From this point on, although the paper was still the product of the Greenbelt Cooperative Publishing Association, its staff devoted less space to GCS and to cooperatives in general. This was mainly due to a greater preoccupation with the town's growth and interaction with the surrounding county and State of Maryland, now that Greenbelt was no longer a government housing project.

Opening the Wheaton Co-op Shopping Center was front page news in the Washington, D.C., newspapers. More than 20,000 enthusiastic visitors crowded into the the area for the opening on December 12, 1954.

The Wheaton store was a pioneer in "one-stop shopping," with a food market, general merchandise sales, pharmacy, service station, and seven independent specialty shops all in one place, with parking for 350 cars. Special features included a "Food-O-Mat" (an entire wall of canned and packaged groceries stocked automatically by specially designed conveyor belts that fed items into slanted slots), rest rooms for customers, a community meeting room, and a snack bar under a hanging canopy in the center of the store. The store had 25,000 square feet of open shopping space.

The Co-op pharmacy with a separate entrance onto the parking lot offered a 24-hour prescription service for the first time in Montgomery County.

During opening week, sales in the General Store (supermarket) exceeded $100,000, and for the first 5 weeks sales were over $350,000. This was a Washington area record. The Co-op service station pumped more than 55,000 gallons of gasoline in that period, one of the largest opening volumes for any station in the area.

Although this third Co-op shopping center was only in operation 6 weeks before the close of the fiscal year, it substantially improved the GCS operating statement and balance sheet. Current assets doubled for 1953. Net worth gained $115,000. The current ratio for the year was 1.7, compared to 1.9 for 1953. And a patronage refund of 2.1 percent was declared for purchases in 1954.

Within a month of the Wheaton opening, membership in that area passed the 200 goal. In compliance with the new bylaws, the Board declared the new organizational structure operational, and determined that the first area meetings for the new Co-op Congress would be held in April 1955. Each delegation would be entitled to elect one Congressman for each 200 members in its area. Wheaton got four Congressmen, Takoma Park nine, and Greenbelt eleven.

The first meeting of the Congress convened in the Takoma Park meeting room April 27 and brought representative democracy to GCS. Although there was criticism that individual members no longer had direct input, there was general recognition that the large membership and the geographic spread of the Cooperative precluded the "town meeting" democracy which Greenbelt residents enjoyed in the early years.

"Exploratory" describes the first year of the Congress. There were no examples among other American consumer cooperatives to provide guidance. The Board and management arranged to have Richard Carlson, management advisor for the Cooperative League of the U.S.A., look at the Cooperative's structure and recommend a role for the Congress. Out of this came the following objectives and responsibilities:

Congress objectives:

1. To maintain and promote channels of communication between the Board and the membership.
2. To increase member participation and interest in Co-op activities.
3. To develop the best possible candidates for the Board.
4. To give the Board advice and counsel on matters referred to it.

Congress responsibilities:

1. To select candidates for the Board.
2. To appoint a Supervisory Committee.
3. To call special membership meetings when necessary.
4. To encourage development of consumer advisory committees.

To flesh these ideas into workable procedures, the Board appointed a Committee on Congress Functions and Procedures. This Committee was continued for most of 1956 and its work resulted in a detailed manual which served for more than a decade without major change. Details of this manual included the following:

• During each quarterly meeting, time would be set aside for the area representatives to question individual directors about GCS operations, their opinions, and their votes at Board meetings. It was made clear from the beginning that strict rules would govern the session. No speeches or opinions by the questioning representatives. Time limit on each question. No second question until all have had a turn at a first question. No insults or innuendos. The purpose was to enable members of the Congress to obtain information about how the Cooperative was being run and how well the individual directors were doing their jobs. Discussion and/or any action by the Congress would be held until after the question and answer period closed.

• Congress representatives elect two very important committees. An Election Committee, comprised of three Congress members and two non-Congress members, would oversee all aspects of area, Congress and GSC elections. A Supervisory Committee, also with three Congress and two non-Congress members, would replace the Auditing Committee as organizational watchdog, monitoring Board actions, and guarding again impropriety, willful neglect, or illegality.

Henry Redkey was chairman of this committee, and was elected first Speaker of the Congress. The Congress was up and running just in time to deal with a burst of further expansion.

The financial position of GCS offered a sound base for the continuing expansion. Net worth was $848,970 at the end of fiscal year 1955. The current ratio was 1.5 and long term debt was slightly over $300,000. Sales were almost $9 million and net savings were $198,129, or 2.2 percent of sales. There was a 1.8 percent patronage refund, and the usual expected 5 percent dividend on shares of stock.

Exciting Years (1956-1957)

In mid-1955, Ashelman brought to the Board a proposal to build a fourth Co-op shopping center. This one would be in an older section of Takoma Park, about 2 miles north of the New Hampshire Avenue shopping center.

The Board voted its approval, and management negotiated the purchase of about 2.5 acres through one of the Cooperative's wholly owned subsidiaries, Consumers Realty and Equipment Corporation. The price of the land was $150,000. Although the site was adjacent to existing shops, it was residentially zoned. Securing a zoning change held up the project for some months, so that by the time financing was obtained, construction completed, and the shopping center opened for business, it was not the fourth but the sixth Co-op supermarket.

Meanwhile, management and the Board undertook a schedule of projects and activities undreamed of by the earlier Greenbelt pioneers. This frenetic period saw GCS's Maryland charter amended to permit up to $50 million in stock sales, with a removal of the $1,000 limit on individual stock holdings. Membership doubled and then tripled. General Manager Ashelman and the Board took the Cooperative into the real estate market and financing arrangements at a fairly high level.

Within a period of 3 years GCS:

- built two additional Co-op shopping centers and had two more on the drawing board;
- expanded and remodeled two existing supermarkets;
- built a new auto service center in Greenbelt;
- built and leased to Nationwide Insurance Company a building for its auto claims office;
- arranged mergers with two other consumer cooperatives, which would add three more stores;
- explored the possibility of buying a controlling interest in a bakery; and
- provided a team to launch a network of cooperative supermarkets in Puerto Rico on request from the Commonwealth Government.

Another distinction of this period of growth was a stable Board of Directors. This probably was the result of three factors: the selection of a slate of candidates by and from the GCS Co-op Congress, the departure from the Hare system of proportional representation in voting, and the increased work load for directors which would scare off all but the most serious candidates.

In 1956 the Board arranged to have each department manager present an annual in-depth written and oral report on his division. Directors found this gave them a better overall view of operations, provided an opportunity to hear from the department heads, and avoided surprise emergency decisions because planning could be done on a longer time frame. The Board required that management reports be mailed out ahead of time in order for directors to come to the meetings informed and prepared to discuss and take action.

The Board also saw to it that the monthly financial summaries were mailed to all area delegates in the Congress.

Operating and financial figures again showed satisfying improvement in fiscal year 1956. Net worth topped the $1 million mark at $1,099,173, the current ratio was 2.6 and the patronage refund 1.4 percent. The Annual Report stated that GCS "could borrow a half million dollars on short notice from a strong bank without collateral if such a sum were needed."

The Washington newspapers were beginning to report GCS's growth in their financial section. An editorial in THE WASHINGTON POST noted that, "This cooperative movement has made ... an exceedingly valuable contribution to American democracy. It has not only given many people a stake in the economy which they would not have had otherwise, but it has demonstrated the feasibility of applying democratic controls to economic affairs."

Ashelman, by this time continually looking for additional expansion sites, found a new shopping center under construction on the main street in Rockville, Maryland, in late 1956. A decision to open a Co-op supermarket was hurriedly approved, and May 1, 1957, was set as the opening date. GCS staff and volunteers undertook a "get-acquainted" campaign and membership drive in the community by March 1. There were already some members of the Wheaton Area Council, including three representatives in the Congress, who lived in Rockville. This aided acceptance of the new store and quick organization of a Rockville area delegation in the Congress.

The new supermarket contained 17,000 square feet, plus 5,500 in the basement for grocery stocking and a community meeting room. The market opened with six checkout stands, a co-op information booth, and a "kiddie corner" to make shopping easier. Leasehold improvements were estimated at $160,000. The shopping center had parking for 1,100 cars.

Several other projects shared attention with Rockville during this time.

Ashelman, with Board approval, had been providing management services to Westminster Cooperative, Inc., for several years. Westminster was a farm marketing center about 35 miles north of the Capital Beltway which encircles Washington. This Cooperative, which had been formed in 1937 by a group of farming families struggling to pull themselves out of the Great Depression, had about 800 members.

Back in September of 1955, the Westminster board had approached GCS about the possibility of merging operations. Members in Westminster wanted a new and larger store, but could not manage it with the resources at hand. At a November meeting, the GCS directors agreed unanimously to a merger on three conditions: Westminster members would have to subscribe to $50,000 worth of GCS stock; they would agree to have their Board continue in an advisory capacity; and a lease for a new supermarket and service station would have to be obtained in a projected shopping center on the edge of Westminster.

By March 1956 the lease was approved, and a month later the Westminster members had fulfilled their membership requirement. The merger became effective October 1, when GCS purchased all the assets and assumed the liabilities of the Westminster Cooperative.

In the city of Greenbelt (no longer just a town), the long-promised improvements and expansion to the Co-op supermarket became reality. The February 1956, issue of the *Co-op Newsletter* announced plans to expand GCS's present supermarket building. It would be remodeled to include a big food store, a large variety store and a drug facility, patterned after the phenomenally successful 'general store' in Wheaton. Improvements nearly doubled the floor space, added an automatic electric-sensor door and a covered loading area at the southeast corner, a Food-O-Mat along the west wall to keep restocking operations out of the aisles, new lighting, full air conditioning, and a much larger parking area. On the lower level the bowling alley remained open, and much needed office space was added for the growing staff. The remodeling package totaled $200,000.

While the supermarket was expanding, Greenbelt was divesting itself of less successful enterprises. After years of operating the makeshift Northend Store at a loss for the convenience of the local neighborhood, the Board closed it down. The Greenbelt Theater was sold to Jack Fruchtman. The barber shop, beauty parlor, news/tobacco store, valet shop and shoe repair were turned over to their respective managers practically free of charge when the leases ran out, with the proviso that current employees be kept so far as possible.

The Co-op service station posed special problems. More space was needed but the location made expansion impossible. So with the expiration of the lease, GCS built a new station on Southway, at the entrance to Greenbelt from the Baltimore-Washington Parkway and from the Greenbelt Road to NASA and to Berwyn on Route 1.

While all these projects were reaching completion, a Co-op shopping center on Piney Branch Road in Takoma Park began to take shape. This was another one-stop Co-op shopping center which included a supermarket, drug store, service station, and community room, along with four small shops leased out to individual proprietors.

The supermarket offered a Food-O-Mat along one wall, which dropped another can into the slot when the customer removed one. It had a kiddie corner where mothers could park small children while shopping, a snack bar, glassed-in meat cutting area, co-op information desk, and especially wide aisles. The community room was equipped with a demonstration kitchen where weekly activities involving local homemakers could be held.

For the open house on September 22, 1957, the Cooperative published a 12-page supplement to THE WASHINGTON POST. Besides advertising merchandise on sale, there were two full pages of photographs of the center's features — paid for by the equipment suppliers and construction subcontractors. Articles by Murray Lincoln, Ashelman, and President Bierwagen explained what a consumer cooperative was and told the story of the growth of GCS.

Also for this occasion, Ashelman published and distributed an 8-page brochure to merchandise suppliers, urging their participation in the "week-long gala promotion" for the opening of the center. Nationwide's Murray Lincoln was the special guest for the ribbon cutting. This had special significance because Nationwide was providing the financing for the center. Before Piney Branch opened, GCS had arranged for Nationwide to buy the entire shopping center at a price of $705,000 for the building and $200,000 for the equipment, and then lease it back at $59,000 a year for 20 years. This lease, like most GCS leases, had a renewal option, on the assumption that the neighborhood would not change and that the Co-op supermarket business would go on for decades at that location.

"Sale and lease back" was management's new pattern for financing and it was used from 1956 on for all its facilities wherever possible. The rationale was that the Cooperative's cash would yield a higher return if invested in merchandise inventory than in real estate. It also released cash that could be used in negotiating for new store sites. Sale and lease back was becoming the preferred method for all the grocery chains and for many other lines of retail business. The renovated and enlarged Greenbelt supermarket and headquarters building was sold and leased in 1956.

Greenbelt Consumer Services was becoming such a success story that a steady stream of VIPs from other parts of the United States and of the world came for tours of the stores and to participate in meetings and other activities. During 1956 alone, GCS staff, Board, and members played host to several hundred foreign visitors. These included government officials, labor leaders, journalists, officials of cooperatives, and students. They came from Ethiopia, Turkey, Switzerland, Ceylon (Sri Lanka), Israel, Indonesia, Thailand, Pakistan, Viet Nam, Japan, Denmark, India, Finland, South Africa, France, New Zealand, Austria, Cambodia, Sweden, West Germany, Philippines, and Central and South America.

During this time and over a period of many years, the Greenbelt Co-op participated in an exchange program for training employees in cooperative-owned stores in several countries. In response to a request from the Cooperative League of the U.S.A., General Manager Ashelman with Board approval set up a training program in the GCS supermarkets for several employees of consumer cooperative stores in Puerto Rico. This experiment proved so satisfactory that the Governor of Puerto Rico proposed a contract which would have GCS allow Ashelman and other personnel from Greenbelt Co-op to invest time in developing a comprehensive program of cooperative stores and supermarkets for the Island. The contract took Ashelman and others to Puerto Rico for short periods during 1955-57. This involvement helped build a cooperative enterprise that lasted for many years.

Long-time Personnel Director Kay Hildeen recalls that, "our international involvements really enriched staff at all levels. It raised the sights of our store employees to learn that GCS had big and interesting cousins across the sea."

By the end of 1957, customer growth at Takoma Park made the Co-op's facilities at that location obsolete. Parking space was totally inadequate, the supermarket needed upgrading, and the corner service station was too small. Management had the Board's approval to build a much larger Co-op shopping center across the street on the southeastern side of New Hampshire Avenue.

Other plans called for opening a Co-op shopping center at Penn Daw on Route 1 south of Alexandria, Virginia, purchasing controlling interest in a bakery and constructing additional auto repair bays at the Wheaton service station.

Sales had taken a great jump in fiscal year 1957. Net income increased, but income as a percentage of sales showed no gain. Net worth improved by more than $100,000.

Toward the end of the year, GCS entered into a management contract with Rochdale Cooperative, Inc., of Northern Virginia, thereby eliminating duplication in staff and offices and resulting in economies for members of both organizations. This was a clear step away from the idea of a little storefront co-op on a back street, staffed by volunteers, and featuring natural foods and lots of social philosophy. There were still some members dedicated to "small is beautiful", and the leadership still took time to offer help to start-up cooperatives in other areas, but GCS was headed for the big time.

CHAPTER 10

Aiming for the Sky (1958-1961)

As GCS entered 1958, several expansion projects were already in the planning stages or underway, and there was much more to come. Ashelman had advised the Board that the goal was to "make an impact on the Washington market area." At this time, the supermarket industry in and around Washington was dominated by Safeway, Giant, and A.& P.

Management's appetite for growth increased as the decade of the 1950s moved into the 1960s. An article in the trade magazine FOOD TOPICS for November 1960 titled "Co-op Campaigns To Outdo Chains", stated:

"General Manager S. F. Ashelman, Jr., ventures the guess that his is the fastest-growing retail business in the Metropolitan Washington Area. Currently, Co-op is scrambling as fast as it can to achieve a sales volume that will put it on an even basis with the competition it worries most about — Giant, Safeway, and A&P."

Of the expansion projects laid before the Board at the beginning of 1958, the most significant was probably the Rochdale merger. It signaled the outreach of GCS beyond the borders of the State of Maryland for the first time, and it brought into the organization experienced, dedicated employees and leaders whose influence helped shape the consumer cooperative movement in the Washington area for the next three decades.

Rochdale Cooperative, Inc., had its beginnings in the neighborhood and church-based buying clubs which had sprung up in the Washington D.C. area in the early 1930s. By 1937, several of these clubs had opened up a store in Georgetown, and expansion continued after that, albeit at a very slow pace. In 1958, when the merger was agreed to, Rochdale had a small, walk-in neighborhood market on Quaker Lane, in Fairlington; a supermarket on Broad Street, in Falls Church; a service station adjacent the Falls Church store; and a service station on Virginia Avenue NW, in a part of Washington known as Foggy Bottom. William Petri was manager. Rochdale President W. Gifford Hoag, who later served the Greenbelt Cooperative in many capacities, remembers that prior to the merger some members had apprehensions about

GCS, regarding it as more commercial oriented and less cooperative minded than Rochdale.

Rochdale Cooperative listed assets amounting to about $600,000, against liabilities of about $390,000, and a net worth around $210,000. Sales had been dropping in all the facilities, and sale of the service station on Virginia Avenue had already been decided.

In October of 1957, the Rochdale and Greenbelt Cooperatives had signed a management contract which consolidated bookkeeping, auditing, some buying arrangements, and supervisory services. In June of 1958, the Rochdale Board recommended to its membership that the two organizations officially merge. It gave the following reasons for the proposal:

1 "Improvement of our chances for a more consistent patronage refund on your cash register slips. GCS refunded $82,259 last year at the rate of 1.2 percent of sales. It has paid patronage refunds and 5 percent dividends on stock every year since 1940.
2 "Improvement of our chances for maintenance and expansion of modern facilities. We will have a combined net worth of nearly $1.2 million. This will put us in a favorable position for securing leases and financing future development.
3 "Larger organization which can employ more specialists, wield greater bargaining power with suppliers, and more rapidly engage in production of items where better quality can thus be secured or costs reduced."

Rochdale members voted 74-1 to merge with GCS by exchanging stock shares on a one-for-one basis. The book value of Rochdale shares at that time was $10.91, and for GCS shares $12.00.

Management began putting the two organizations together. Some immediate improvements went into the Fairlington and Falls Church stores and the Falls Church service station. Planning started for expansion of the Falls Church shopping center. Rochdale held its last annual meeting December 3 and made preparations for area representation in the Co-op Congress. Falls Church and Fairlington became separate areas to represent the former Rochdale membership.

The merger with Rochdale Cooperative, which was incorporated in Virginia and had operations and membership in Virginia and the District of Columbia, required GCS to file with the Securities and Exchange Commission (SEC). Until now, membership shares (Class A) and non-member shares (Class B), had been sold only in Maryland, where GCS was incorporated.

The offering circular dated September 25, 1958, noted that, "These securities are offered pursuant to an exemption from registration with the Securities and Exchange Commission." This initial circular was an offering of 30,000 shares, $10 par value.

"Both the A and B stock are common stock. They are identical except that A stock carries the right to vote. One person can hold only one share of A stock (a husband and wife can hold two jointly). No one person can hold more than $5,000.00 of stock in the corporation. No other type of stock has ever been issued by Greenbelt Consumer Services, Inc. The first share of stock issued to any person is A (Voting) stock. All subsequent shares of stock purchased are issued as B (Non-Voting) stock. A and B shares would share equally in the event of dissolution. Dividends are non-cumulative. The rate is established in the bylaws at 5 percent per annum on the par value of the shares. Shareholders desiring to dispose of their shares must first offer them to the issuer which has a three month first option to purchase them. The Board of Directors is authorized to cancel shares issued to shareholders whose whereabouts have been unknown for seven years. The Board of Directors has the authority to repurchase outstanding capital shares when deemed in the best interests of the issuer."

The following year GCS moved to full registration, and from then down through the years until 1980, re-registration with SEC and publication of disclosure circulars was a regular and increasingly expensive requirement in order to secure members and increase equity capital.

While the merger with Rochdale took shape, GCS's Board and management also moved ahead on planning the layout and financing of the large new Takoma Park shopping center. The site comprised 14 acres of undeveloped land on a deep fill. The property had a little over 700 feet of frontage on a 4-lane thoroughfare which led directly into downtown Washington. A newly erected Hot Shoppe restaurant occupied the corner lot adjoining the proposed shopping center.

Back in 1956, General Manager Ashelman had obtained unanimous approval to invest $50,000 in a new corporation, Takoma Park Shopping Center, Inc. The agreement gave GCS a 50 percent ownership of the tract of land, with the original owner retaining the other 50 percent. By agreement, GCS assumed majority control of the proposed development, with two board members plus Ashelman and Comptroller Robert Morrow from staff holding four positions on the corporation's board of seven directors.

In mid-1957, GCS secured $70,000 in financing from Southern States Cooperative toward construction of a 6-bay service station which opened for business on this new site October 18, 1957. Sales immediately doubled what the earlier Takoma Park service station took in. GCS also constructed a small office building for about $145,000 on a part of this land and leased it to Nationwide Insurance Company for a claims center and other business. This was completed in mid-1958.

The new shopping center was designed with a 40,000 square foot Co-op supermarket, and 20,000 square feet of rental space for 12 small shops.

The layout for the supermarket was radically new, with aisles radiating out in a fan pattern from the checkout counters. The plan called for an in-store bakery, drugstore, and variety items sections. All the latest supermarket innovations were included, such as the glassed-in meat-cutting room and self-service displays, large community meeting room with kitchen on partial second floor, customer rest rooms, snack bar, and Co-op information booth.

Since the building was on a gentle slope, it was easy to provide basement space for a bowling alley. Parking space was almost unlimited.

Potential annual sales volume was estimated at $3 million, based on a commercial survey which showed a daily average traffic count of 47,000 cars, and a stable population of 26,000 white collar workers and skilled artisans within a half-mile radius and more than 78,000 within a 2-mile radius.

This "Super Co-op" opened September 20, 1960. It was an impressive step ahead for consumer-owned marketing in the Washington metropolitan area.

It did not, however, live up to its rather glowing expectations. Construction had not moved as fast as anticipated. There were substantial cost overruns. The exact extent of the overruns can't be determined, because GCS's early records were disposed of during one of several headquarters moves, but a former Board member remembers it as close to half a million dollars.

Initial satisfactory sales began falling off as competing supermarkets followed the Co-op into the New Hampshire Avenue strip beyond the D.C. line.

It is worth noting here that Giant and Safeway provided aggressive competition throughout the years of Co-op growth. Safeway opened a huge supermarket on Georgia Avenue two blocks from the Wheaton Co-op shopping center within 6 months of the latter's opening. When GCS planned the regional shopping center at Penn Daw in northern Virginia there were only one small grocery market and two service stations within a half mile. A year after the Co-op supermarket, drugstore, and service station were in place, there were two new supermarkets and six service stations.

Although many cooperators in the leadership were reluctant to admit it, Greenbelt Consumer Services was beginning to be run from the top down instead of from the bottom up. Members, or at least those members elected as area representatives, were active and had some influence at the local store level. However, the big decisions were made and approved or rejected by the Board, with the membership's involvement largely limited to its representation in the Co-op Congress. With the member/stockholders now climbing above 15,000, and spread across two states, there appeared to be no other way to run the business.

Under revised bylaws adopted in May 1958, directors received compensation of $125 per quarter. Those who served as officers could receive additional amounts, but the total paid to all the officers was not to exceed the total paid to all the directors. The president was allocated $500 per year, the other officers $100, and each of the three on the executive committee $350. These payments were to cover expenses for transportation, postage, meals, etc. However, travel costs away from the Washington area could be billed separately. This schedule held for many years.

From 1958 onward the Board improved its operations in many ways. One particularly valuable innovation was a quarterly report on 10 basic financial ratios and several operating ratios which needed to be watched for trend changes. The Comptroller gave training sessions periodically for new directors and any representatives to the Congress who wanted to understand the normal ranges of key ratios and what they signified. These sessions also covered balance sheet and operating reports.

During the period when the new Takoma Park shopping center was moving toward completion, other projects were also underway.

On November 15, 1958, there was a groundbreaking ceremony at the new Westminster shopping center. On completion, a Safeway supermarket anchored one end of the shopping center, and the Co-op supermarket and service station stood near the other end. At the open house preview and ceremony, August 30, 1959, Edmund Carr, president of Carroll County's Board of Commissioners, praised the appearance of this newest GCS supermarket as the largest in the County. More than 4,000 members and their neighbors from Westminster and surrounding farms inspected the store. Next day and all the next week, they came back to shop. Sales so far exceeded expectations that both the store and the wholesale staffs worked overtime to keep the shelves stocked.

After having used Smith's Bakery in Ladiesburg, Maryland for several years to supply Cornell formula bread, GCS bought a controlling interest in the bakery in 1958. The bakery at this time improved and enlarged its plant to accommodate the demand for CO-OP label breads and other baked goods. GCS Board and management then went ahead with a program to install baking equipment in its supermarkets. Most of the production was prepared in the Ladiesburg bakery, frozen there, and then transported to the various stores for "bake-off." This innovation was most successful at the Wheaton supermarket. Along with the installation of baking equipment, that store was enlarged in 1958 to the tune of $200,000.

In January 1958, GCS signed an option for 10+ acres at Penn Daw, south of Alexandria, Virginia. Development of this shopping center marked a departure from earlier projects. There was no cluster of families who already were cooperative members in the area, and any serious campaign to build membership before building the store was pretty much neglected.

The prospectus presented to the Board and passed on to the Congress appeared well researched and favorable:

"The proposed shopping center will be located in a heavily populated residential section with a 'long reach'. The tract has over 1,300 feet of frontage on Kings Highway, U.S. 1, and Poag Street....The recently completed intersection at this point provides the utmost in accessibility to the proposed center....

"The market analysis of this site indicates that there is a definite need for a shopping center at this point. Over 30,000 cars pass the intersection daily. The primary trading area lies within a two-mile radius of the proposed center in which over 26,000 people live....There are no large markets south of the site for a distance of 45 miles so that it should attract large numbers of rural shoppers....We hope to do an initial volume of something in excess of three million [dollars].

"We expect to purchase the land at a cost of $315,000 and then sell it to a syndicate which will raise $600,000. Weaver Brothers is presently seeking to obtain a mortgage for about $800,000 for us....We will guarantee the rent on the entire center to the syndicate. In turn, we will sublease all the stores we do not operate."

There followed detailed cost and revenue estimates for a supermarket building to include drugs, variety, and bakery departments (40,000 square feet); bowling alley (48 lanes) under the supermarket; service station (6 bays and Virginia State inspection station); rental stores; and parking lot for 500 autos. Total project cost was estimated at $1,390,000.

This appeared to be a golden opportunity for expanding the Cooperative, however several flaws came to the surface later:

- The entrance was not exactly on U.S. 1, but on Kings Highway which at that point made a bend in what proved to be a very difficult intersection to negotiate. What looked simple on paper turned out to be a traffic problem which discouraged drivers trying to enter the shopping center.
- Actual costs exceeded estimates. The center was to have been owned by GSC, but funds to develop it were exhausted prior to its completion. The center was sold to a syndicate on a sale/leaseback arrangement. Some $300,000 excess of cost over budget was capitalized, to be amortized as leasehold improvements over the term of the lease.
- The necessary membership base never developed. The top count of stockholders barely exceeded one thousand. One negative factor seemed to be lack of a sense of "neighborhood" which had encouraged organization in previous store locations.
- Unexpected rapid growth of competition developed along U.S. 1.

GCS picked up the option on the Penn Daw site in January 1958, construction got underway in March 1959, and the supermarket opened for business May 17, 1960. In addition to the usual grocery, variety, drug, bakery departments, and community meeting room, there was a watch repair service and the first SCAN furniture store (more about SCAN later).

Two months before Penn Daw opened, GCS added still another supermarket to its collection. This one was in the Pennmar shopping center, in a relatively low-income area northeast of the District of Columbia, called Forestville, Maryland.

This was a hurried decision. Food Town, Inc., with eight stores in the Washington area, went into voluntary bankruptcy in the summer of 1959. Although the management staff and the Board of GCS was already heavily involved with expansion projects, they decided to explore acquisition of this small chain. GCS made a bid but lost out to the Kroger Co. However, Food Town had a supermarket under construction in the new Pennmar shopping center, and the lease for this facility was offered to GCS.

The center was reported "as going to be a healthy one". It contained 80 acres, although only half would be developed in the first stage comprising 33 stores including Peoples Drug, Kress, J. C. Penney, and a Grand Union supermarket at the other end from the location the Cooperative was examining. There was direct access from Pennsylvania Avenue S.E. and from the Marlboro Pike. Ashelman estimated the breakeven point for the market would be $30,000 a week, but that sales of $40,000 a week could be expected.

The Board approved the leasing, at a minimum rent of $41,500 against $1^1/_4$ percent of sales, and plans were rushed to fit the 25,000 square feet as near as possible to the Greenbelt Co-op pattern. A hoped-for Co-op drugstore and service station could not be secured, so Pennmar did not fit the "one-stop Co-op shopping" concept. There was a community meeting room, though.

At the time of its opening, there were only two members of GCS living in the Pennmar area. A month prior to the opening, the membership relations department began holding meetings at the store which managed to attract about 200 people. Within a few months enough customers had signed up to create a Pennmar area Council with representatives to the Congress.

The supermarket opened March 8, 1960. Sales at Pennmar for its first full year showed a weekly average of $22,990, far below the $30,000 breakeven point and just over half of the predicted $40,000. Results at the much larger Penn Daw supermarket located within a Co-op shopping center did not look much better.

In other store areas, the Cooperative's member relations and customer relations programs had proven satisfactory and for some activities even spectacularly successful. Hoping to clarify the goals of such efforts, the Board drafted Policy No. 4, "Member Relations," in 1959. Revised slightly in 1962 and 1967, it outlined the goals of the Co-op's member relations program: to provide a continuity of trained consumer leadership; to keep members informed about their rights and responsibilities as owners, and about Co-op activities and operations; to secure greater member participation in the activities of the Cooperative; and to keep consumers informed about cooperative principles.

In the main, this policy was followed and worked well. There was, naturally, a wide range of emphasis on techniques used to achieve desired results in member relations. This came in part from shifts in the importance placed, for instance, on cooperative education, consumer information, member signup, leadership development, participation in activities, or increase in sales. Another variable was the availability of competent staff and volunteers, and on funding for member and consumer relations.

An August 1959 report to the Board by the membership relations department gives an example of the scope of its activities. Reported program efforts included in-store suggestion cards; a newsletter; new member nights; outside customer promotion; a library of CONSUMER REPORTS magazine; employee training; and a host of activities which included a homemakers' open house, product testing committees, consumer study groups, in-store demonstrations, cooking schools and homemaking and shopping skills classes.

Other features of the Greenbelt Cooperative's consumer education program in the stores included recipes tied in with shopping specials, organically raised fruits and vegetables, "best buy" indicators on the shelves, nutrition leaflets, and tours of Co-op supermarkets and of suppliers' facilities such as the bakery at Ladiesburg, frozen food plants on the Delmarva peninsula, fruit orchards, cooperative poultry farms, etc. A few years later when reduced operating margins forced staff economies, the information programs for shoppers could not be maintained. While they lasted, however, they were an attraction that no other supermarket offered. Later, Giant supermarkets, which along with Safeway dominated the retail food trade, adopted many of the benefits for shoppers that GCS had pioneered.

The Co-op Congress also took a lead in the field of consumer information and protective legislation. They arranged for members to appear before committees of the Maryland Assembly and the U.S. Senate and House of Representatives as well as hearings by the U.S. Department of Agriculture and the Food and Drug Administration. They testified on behalf of such legislation and regulations as Senator Hart's bill on packaging and labeling, water content of hams, the "truth in lending" bill, repeal of the so-called "fair trade" law, and removal of the regulation barring pharmacies from being under the same roof with food stores. Co-op members provided strong support for content labeling which is now required on most canned and packaged food.

The Co-op at this time was brimming with ideas; many of these proposals failed to reach actuality. In this period from the late '50s into the '60s, the general manager brought to the Board such ideas as a site for recreation and vacations for Co-op members, an arrangement for nonprofit funerals, a mutual investment club for Co-op members, made-to-measure men's suits, car leasing, cooperative housing in the D.C. area, low-cost eyeglasses, books on a discount basis, cooperative child care, and a plan to convert the Embassy Dairy to a cooperative milk supply for GCS stores.

Other management ideas won Board approval and became part of the GCS operations with varying degree of success. Some continued for years; others had a short life. Here is a sampling.

Danish furniture.

In 1956 the small consumer cooperative stores in Denmark were converting to supermarkets, and sought help from both GCS and Rochdale to train employees. A series of Danish trainees were sent to Rochdale's Falls Church supermarket, and one of them suggested selling furniture made in the Danish cooperatives. Price lists showed that the few examples which were available in the Washington area were 3 1/2 to 4 times the Danish prices.

Ashelman was enthusiastic. While in Europe on business, he brought back about 30 sample pieces of the Danish furniture. He believed the careful workmanship and simple design would sell well in the Washington area, and that the margin in furniture sales was so high that GCS could pass significant savings on to consumers. With Board go-ahead, temporary furniture displays were set up in the hospitality rooms at the Falls Church and Piney Branch stores. $10,000 in orders were taken in the first month.

The furniture was so well received that display sections were a part of the Penn Daw and the new Takoma Park supermarkets when they opened. By 1961, sales were $237,000, with a net operating profit of $26,000. The Co-op was selling furniture at a gross margin of 32 percent at a time when furniture store gross margins in the area were believed to be at least three times that figure.

Bob Gowell—the man who ran SCAN for more than 20 years, and was largely responsible for its success—remembers that most of the GCS staff thought selling Danish furniture in a supermarket was "a nutty idea." But it worked. Gowell's central idea was "high quality, contemporary furniture at low prices ordinary people can afford". The low prices were based on buying directly from the manufacturers instead of through importers and wholesale houses, shared overhead with other departments, minimum advertising, and markups about half what furniture stores and department stores were charging. There were very few price increases in the 1960s, made possible in part by stable exchange rates.

By any viewpoint, SCAN was a phenomenal success. From its modest beginnings, it eventually grew until it supported GCS when other operations went sour. It was the only remaining asset when the Greenbelt Cooperative went into the Chapter 11 bankruptcy settlement in December 1989.

Charter flights. Another successful co-op innovation was charter flights. The idea was originally proposed by Ashelman in November 1958 as a scheme for consumer cooperatives in Denmark, Sweden, Switzerland, and Germany to exchange roundtrip charter flights with American cooperatives. The exchange concept was soon dropped as too cumbersome, and restrictions on group travel charters imposed by IATA had to be resolved, but there seemed to be a genuine demand for lower-priced air fares to Europe. When the first two GCS charters to Europe took off in the summer of 1961, there was a standby waiting list.

"Shop Co-op" bumper stickers. Co-op shoppers who paid cash for their gasoline and agreed to have a red and white "Shop Co-op" sticker affixed to their car bumper earned a one cent per gallon discount for supplying co-op advertising wherever they drove. It was one of the most effective promotion devises management ever thought up.

While management and the Board experimented with new services, they continued to open additional stores. Before the Co-op shopping center at Penn Daw and the supermarket at Pennmar opened, management and the Board had agreed already on picking up a lease for a new supermarket at Capital Plaza. This was another hurried decision. The location was in Bladensburg, Maryland, at the northeast intersection of the Washington-Baltimore Parkway and Route 450. This new development was a large regional shopping center, with a Grand Union supermarket at one end and the GCS market at the other. The presentation to the Board set the breakeven point at $40,000 to $50,000 but estimated gross sales at $50,000 to $60,000 per week. When the Capital Plaza supermarket finally opened in May 1966, weekly sales averaged $39,000 for that year and the next.

This was the first store area for which no membership council or representatives to the GCS Co-op Congress developed.

At the end of September 1959, GCS moved its headquarters from Greenbelt to a new warehouse and administration building in Beltsville, Maryland. The new facility doubled the space that GCS had in its old Baltimore warehouse. Located on an 11.3 acre site, the half-million dollar building had its own railroad siding and specially designed loading platform. The location was just a few hundred feet from U.S. 1. The warehouse featured four chilling and cooling rooms for storage of vegetables, fruits, dairy products, and candy. Flexible doors provided uninterrupted entry and exit for fast product transfer. The modern labor-saving equipment for handling merchandise included invoice and inventory control. The offices included a testing kitchen, conference room, and an "IBM" room with special temperature and humidity controls.

GCS went into the Baltimore area for its next supermarket. In the summer of 1960, Ashelman obtained Board approval for purchase of the

N&W Supermarket, 2825 Old North Point Road, in Dundalk, Maryland. This was a stable working class neighborhood, with most families owning their homes. It was an established store with a solid customer base. Failing health was forcing the owner to retire and he declared himself unwilling to have a chain take over the business. GCS purchased this store for $200,000, and for a time retained the original name and advisory services of the former owner. He became the Cooperative's first member there and encouraged what became a heavy investment in GCS stock. In less than a year, Dundalk had enough members to become an area council within the GCS Co-op Congress structure. This became one of the strong groups in the Cooperative's family and provided significant leadership.

Estimated weekly sales would be "between $60,000 and $75,000" according to the proposal given to the Board. Actual sales averaged $41,799 for 1961 and fell to $35,066 for 1962.

The Board had become accustomed to performance falling short of forecast budget, but after 1959 the shortfalls seemed to be getting worse. Looking back over the operating reports, 1959 is obviously a peak year followed by a slump. Total annual sales for GCS increased in 1960 and 1961. With new store openings and some general inflation in the economy affecting prices, this was to be expected, but the sales totals at individual stores fell.

There was a gain in sales for 1960 but it was the result in part from a strike in February which closed 257 of the largest grocery stores in the Washington metropolitan area. The GCS contract with the meat cutters and grocery clerks unions expired a few months later than the contracts which Giant, Safeway, and the other chains did. The Cooperative, therefore, was in a position to benefit from a volume of sales nearly three times what it did normally. The real gain was largely in the favorable publicity for the way it coped with the emergency and for not raising prices. As a result, many new shoppers became steady Co-op customers and some became members. Little profit was realized from the strike bonanza, because of overtime pay rates and premium prices which had to be paid for emergency transportation rerouting of merchandise.

Looking at net margins (before deducting allocation of central office expenses), six supermarkets registered a gain from 1959 to 1960; the following year only two showed any gain while eight had a worse showing. Service stations showed some improvement during this period. Drug stores did not register much change. Neither of these two divisions accounted for any large percentage of total operating results.

Substantial increases in facilities, staff, and inventory in the late '50s and into the '60s in the face of declining operating margins posed a cash flow problem that became apparent to management and the Board in 1960 and grew critical in 1961. This required some tightening of expenditures and some careful shifts in debt financing.

Here are key figures from the operating reports for fiscal years 1958, 1959, 1960, and 1961, presented close together so that comparisons can be made.

	1958		1959		1960		1961	
Sales	13.2*	100%	15.6*	100%	21.9*	100%	22.8*	100%
Gross margin	2.7*	20.7	3.2*	20.7	5.0*	22.89	5.1*	22.23
Net savings	192,038	1.5	251,127	1.6	212,000	0.97	34,586	0.15
Patronage refund		1.0		1.1		none		none
Working capital	646,195							
Current ratio		2.4		1.6		1.57		1.59

*mil

The main balance sheet items as of January 28, 1961 are:

Assets	
Current assets	$2,362,566
Investments (affiliates, others)	550,065
Net fixed assets	2,429,027
Deferred charges, other assets	53,783
Total assets	**$5,395,441**
Liabilities and Capital	
Current liabilities	$1,501,700
Deferred income	25,886
Long term debt	1,525,909
Net worth	2,289,702
Capital stock outstanding	1,941,172
Other	348,530
Total liabilities and capital	**$5,395,441**

The Board watched the monthly financial and operating reports with increasing apprehension as loans were adjusted to get extensions and better terms, as sales failed to meet budget projections, and as net savings dwindled. The directors also took alarm at the trends in the quarterly charts of 10 basic financial and operating ratios. In January 1956 and January 1957, all but two of the key indicators had been in the satisfactory range. By January 1961, seven of the ten were unsatisfactory, and this was still the situation in January 1962.

The comparisons and the danger points can be seen in the chart on the following page.

During this period of deteriorating operating conditions, the Board and Congress increasingly began to ask themselves how fast GCS should expand and by what methods. In December 1960, Treasurer William C. Arntz reported to the Congress, "Simply stated, our major problem is that we have too much investment in fixed assets such as real estate." The Congress appointed an ad hoc committee under Louis Stolcis, then chairman of the Wheaton delegation, to examine in detail and report on the financial condition of the Cooperative in relation to its expansion program.

The committee met with top management and the Executive Committee of the Board. On March 10, 1961, it presented a written report that suggested GCS expansion had been too rapid. Several stores had fallen behind expectations, and were unable to contribute towards indirect expenses such as the warehouse, central office, etc. "The Board's attitude toward new store offers has changed. The possibility of stores in Thurmont and at the intersection of U.S. 29 and Maryland route 32 will be considered only if the developer builds and equips the stores. GCS will pay a fixed minimum rent plus a percentage of gross sales. This would allow a minimum overhead operation....The Board is searching for effective techniques for better evaluation of information supplied by management (and) techniques for supervision of management."

In September 1961, Comptroller Robert Morrow warned the general manager and the Board against taking on any further projects which would require capital.

For some time during spring and into the summer of that year, cutbacks on store maintenance and in personnel resulted in increasing complaints by member and non-member shoppers.

Individual directors began complaining that top management did not seem to be dealing with the situation very effectively. Margin notes from one director's operating report during this period complain "Same old problems — we have gone over this with Sam for years." A notation on the margin of another director's copy of a report reads "if we can't possibly break even, why are we in the real estate business?" Another: "Petroleum sales above budget and loss goes up? Something very wrong here!" And still one more sample: "Fuzzy report — not responsive to question." As one director commented to Ashelman during a Board meeting, "You keep telling us the reasons last month was so bad and saying things will be better next month, but supermarket sales are still under budget and getting worse."

The Supervisory Committee proposed to the Board that a management survey be conducted in order to get a better grip on some of the problems. The head of Nationwide's investment department also suggested that an

Basic Ratios	Norm	Jan.1958 OK	Jan.1958 Not OK	Jan.1961 OK	Jan.1961 Not OK	Jan.1962 OK	Jan.1962 Not OK
Net worth/ total assets	over 50	63			42		47
Current assets/current liabilities	2 or over	2.1			1.57		1.58
Fixed assets/net worth	under 75	51			106		83
Long term debt/net wkng capital	under 100	41			177		121
Wages/sales	10-12	11.1		11.87		11.96	
Sales/inventory	14-21	14.5			13.2		12.7
(inventory turnover)							
Net savings/sales	2-4		1.7		.98		.25
Gross margin/sales	20-23	20.8		22.89		22.22	
Other expenses/sales	7-8.5	8			10.03		9.84
Sales/net worth	10-20	9.8	10		10		

outside consultant might be helpful. Nationwide had been for many years both a principal source of funding and a strong advocate of expansion. But if it was agreed that a new management perspective was needed, where did that leave General Manager Ashelman? It was generally agreed that Ashelman was chiefly responsible for the growth and success of GCS since 1944; but it was also agreed that drastic times called for drastic measures.

Thus, cautiously, to avoid any public action that could damage the image of the Co-op and alarm the creditors, the Board began looking for a management firm and new general manager.

Nationwide had to be informed, as it had the largest financial investment in GCS and one that had extended over many years. Consent from Nationwide's investment department was necessary for a change in general manager. Nationwide's Murray Lincoln was a strong backer of expansion for GCS. Lincoln, along with Ken Stern of the American Institute of Cooperation and Jerry Voorhis of the Cooperative League were in touch with officers of GCS off and on during the autumn months. At this particular time, Nationwide had some contract arrangements with Checchi and Company, a Washington based management consulting firm with a good reputation and a growing list of clients.

A deal was struck with Checchi whereby they would offer Ashelman a position on their staff, after which GCS would sign a contract with the firm for management services. So, with no adverse publicity, the Board unanimously approved a draft proposal for the contract: "ON MOTION, Weinberg/Barrett, to retain Checchi and Company along the general lines of the draft proposal presented to the Board for management analysis and management services, after checking with the Corporation's attorney, and within any limitations imposed by the bylaws of GCS, and that appropriate officers of the Corporation be authorized to sign the contract and other necessary papers, CARRIED UNANIMOUSLY."

CHAPTER 11

Changing to Checchi (1962-1963)

GCS signed the contract with Checchi and Company on February 9, 1962. By that time the change in management and the new contract had been examined and approved by the attorney for GCS and by J. C. Beall and Forest Lombaer for Nationwide Insurance Company. The initial agreement was retroactive to December 2 and extended only until the Cooperative's annual meeting and election in June. At that time the new Board could renew the contract. The bylaws limited the Board to management contracts of not more than 1 year.

The contract provided for management services and analysis. The firm specialized in studies for entering new markets, building new facilities, and financing. There were at that time about 45 employees on CEO Vincent Checchi's staff, and he described his organization as "employee-owned." Among the firm's clients were cooperatives in Sweden and Italy.

Before the end of January, Checchi installed Comptroller Robert Morrow as acting resident general manager. The changeover was announced first to the Executive Committee of the GCS Co-op Congress. Then on January 19, the full Congress heard the news and gave retiring General Manager Ashelman a vote of thanks for his past services of 17 years to the organization. Notification went to the membership January 31 in the weekly CO-OP NEWSLETTER.

Morrow had been on the GCS staff since 1946 and served as comptroller for the previous 6 years. He had frequently served as acting general manager when Ashelman was away from the office. Morrow was a graduate of the University of Michigan with a BS degree cum laude and a Phi Beta Kappa key. Before coming to GCS he was selected as one of four outstanding students nationally by General Motors for its summer training program. By the time of the Cooperative's changeover in management, Morrow was vice president of the Montgomery County Board of Education as well as comptroller for the Cooperative.

Contracting with a management firm rather than hiring a single general manager was experimental and innovative, but the Board anticipated several benefits. For one thing, a management firm offered a large staff of specialists which the Co-op as a small business could not afford to hire separately. These specialized services included talent search for middle-management personnel, commercial surveys for site selection, advertising effectiveness surveys, sources of financing, legal services, analysis of economic trends, and recommendations for effective management procedures and communication techniques. A contract with a firm would also alleviate the necessity of depending upon a single individual in the top slot, and reduce the trauma of having to find a replacement if necessary. Additionally, it was hoped that Checchi would bring wider commercial contacts and access to operating information of other business enterprises.

By the end of March, Morrow had clipped $200,000 from annual operating expenses by trimming staff, reducing advertising in the Washington dailies, and eliminating the store hostesses. This last move was sorely felt by members and other shoppers. Food and homemaker demonstrations had been attracting as many as 125 women at a session.

In line with these economy measures, Checchi reduced its management fee for the initial contract period, and the directors voted themselves a 10 percent cut in compensation. While this was largely symbolic, it was intended as acknowledgement that changes were necessary at all levels. 1962 would be the second year without a patronage refund. The 5 percent dividend on shares of stock was still being paid, however, so purchase of additional shares continued to bring in much needed capital.

Before the change in management had time to really make a difference in operating results, a night-time fire gutted the Greenbelt supermarket and pharmacy building April 11, 1963.

Management, staff, Board, and members of the Greenbelt area delegation responded immediately to restore Co-op service to the community's residents. A free shuttle bus carried shoppers to the Takoma Park Co-op shopping center on Thursday evenings and all day Fridays and Saturdays. A home delivery service for groceries and prescriptions was instituted for orders over $5. Customers wishing to carpool for shopping at either the Piney Branch or Takoma Park Co-op supermarkets could get one gallon of free gasoline for each passenger.

By April 20, management opened a small temporary grocery in the basement of the old store building. Twin Pines Savings and Loan gave some of its office space for a temporary pharmacy. Insurance offset losses in the fire, including some "loss of business" coverage. Planning began immediately for an improved replacement building. Knowing the cost would exceed proceeds from the insurance, a call went out from the Board asking each member to buy an additional share of stock. The response was good. Members who bought 10 shares ($100) were named on a bronze plaque mounted on the wall in the replacement building.

The new structure was completed and equipped with surprising speed; the Greenbelt supermarket and pharmacy were opened for business again on November 12, 1962, only 7 months after the fire.

Despite the changes in management and the Board, employees continued to carry on the day-to-day operations and activities of the Cooperative:

• In the spring of 1962 the first separate SCAN store opened in the Takoma Park Co-op shopping center. The suppliers had not been happy about their products being sold alongside groceries, so the move to a separate store was largely in response to the overseas suppliers.

• For many months, GCS had been arguing with Southern States Cooperative about price protection on gasoline, the way patronage refunds were computed, and a credit card for patrons. When satisfactory arrangements could not be worked out, the Board reluctantly accepted a contract with Sinclair Oil Company. This shift in suppliers brought criticism from members who viewed the loss of "CO-OP" gasoline as a serious setback, but despite the unhappiness, sales figures at the service stations climbed as additional drivers responded to the credit card availability and the familiar dinosaur emblem.

• At the end of June, sales of stock shares just about equaled requests for repurchase, and the backlog of those requests amounted to $54,000. By November the backlog of requests to have GCS repurchase shares was down only a little, but sale of new shares was nearly double the requests for repurchase.

• Two more charter flights took members to Europe. The price for the roundtrip, New York to Brussels ticket was $245, less a patronage refund after the accounts had been tabulated. The first two years of charter flights were so successful that the Board put together a policy statement and procedures for future flights based on the experience of the first flight leaders.

The Board assumed responsibility for determining the number of flights and general time of year, signing the contracts, and selecting flight leaders. The GCS office took care of publicity, handling the payments for fares, accounting, and insurance. A flight-leader couple put the flight package together, receiving inquiries, giving flight information, organizing get-acquainted meetings, and taking care of participants' needs during the trip. For this work, the leaders earned free tickets. A written report was required from flight leaders after return from the trip.

These flights, along with other travel services, proved to be one of the Cooperative's most successful member benefits.

• The Board approved auto insurance with Nationwide at a special discount rate as a member benefit.

Aside from the setback in operations resulting from the Greenbelt fire, sales and net margins for 1962 showed some improvement. Central office overhead, which had been 7.17 percent of sales in the first quarter of 1962, dropped to 6.26 percent in the second quarter, and to 5.93 percent in the third quarter. On the down side, although second quarter figures showed stores moving into the black, it was not enough to offset losses in the first quarter of the year.

In October 1962, Checchi presented a comprehensive report on the Cooperative's operations as specified in the management contract. This report, much of which was put together by Morrow, was one of the most discerning and helpful analysis of GCS ever made. The study was "Confidential — For Board Information Only," 37 pages long, and contained 14 exhibits. It clearly spelled out why operations had run into trouble, and it proposed remedial actions for management and for the Board.

Because this analysis explains why GCS was facing a crisis after two decades of heady success, much of it will be reproduced on the following pages. It should be noted that Checchi's team spotted weaknesses that continued to haunt the Greenbelt Cooperative through the next three decades until the bankruptcy in December 1989. It may be observed also, that many of Checchi's findings and recommendations are applicable to today's large cooperatives.

"Six principal reasons stand out why GCS got into difficulty:

"1. <u>Too rapid expansion.</u> In a short period of time GCS expanded too much and too fast. Within a period of 8 months in 1960 the organization added four stores to the chain — [new] Takoma Park, Penn Daw, N&W and Pennmar. The cash resources of Co-op were seriously depleted by the opening of these stores in such rapid succession. In addition management spent so much of its time on the four stores that regular operations were neglected. Unfortunately the sites did not turn out to be favorable. None of the four stores has achieved anywhere near their forecasted sales level thus causing a continuous cash drain from operating losses....

"2. <u>Failure to stay within budget on new store construction.</u>

...construction costs at Takoma Park and Penn Daw exceeded budget by $400,000. This sum is approximately equal to 20 percent of the value of GCS shares outstanding....

"3. <u>Involvement in unprofitable real estate transactions.</u> GCS first entered the real estate field at Wheaton, where it was spectacularly successful. This success encouraged the organization to enter into other transactions, where unfortunately GCS was an amateur in a highly professional field. In the first 6 months of this year there was a loss from real estate operations of $23,856. Furthermore, GCS has $861,000 of badly needed cash tied up in real estate....almost $500,000 has been invested in the Takoma Park Shopping Center and will be unrecoverable for a number of years.

"4. Insufficient caliber of management staff. As a concern grows...there is needed a larger amount of expertise in store operations, merchandising, advertising...it is more necessary than before that there be competent store managers who are thoroughly trained.

"5. Failure to keep costs in line. Overhead expenses had been allowed to get completely out of hand. A large warehouse was built though there was not nearly sufficient volume to support it on a cost basis. Advertising expense as a percent of sales was significantly higher than the national average. There was too large a staff in almost every department. Annual central overhead costs had risen by more than half a million dollars and as a percent of sales from 5.97 percent to 7.17 percent in a little over 2 years....

"6. Over-saturation of supermarkets in Washington area. Co-op sales have declined sharply in a number of stores because new markets have opened in the locality. The most recent example is Piney Branch [Safeway and Food Fair stores within a 2-month period]. Within a little over a year new competition has caused major declines in sales in Falls Church, N&W, and Greenbelt...."

The report then identifies improvements which have been made and are underway: expense reduction ("every $1,000 cut in expenses has approximately the same effect as if sales rise by $10,000"); cash preservation; supermarket improvements ("cleanliness, reduction of out-of-stock items, more courteous service"); improvements in other divisions (petroleum showing 20 percent increase in sales with Sinclair as supplier and will show profit for year, pharmacy division in black for first time in several years but return on capital still very low).

The furniture division, in contrast to other operations, had a big 42.2 percent sales increase and $6,098 in earnings for the first 6 months of 1962 compared with the year-ago figure. This division "produced a handsome 71.2 percent return on investment".

"Other areas of management concern" were discussed. These included:

—"Develop a solid overall **merchandising** program....displays have been poor and sparse... signs need to be improved...programs have not gotten across to customers....

—"**Personnel**....there is no training program to develop employees for senior positions....this deficiency puts too great a burden on the general manager....

—"There is no spark to the **member relations** program and very little in the way of benefits. The very great majority of members are inactive in Co-op activities. The lack of young members is especially noticeable... .responsibility properly lies with the Board and Congress but management will provide all possible assistance....The member relations program cannot be effective if it depends solely on resources of men and money provided from the income of the Co-op....Promote activities initiated by members....which may be financed by the members themselves.

—"**Capital structure**....the 5 percent dividend is in effect a true cost of over 11 percent since dividends are paid after taxes [plus] cost of maintaining stock records, processing redemptions. Co-op stock is treated as demand money...GCS cannot count on permanent use of the proceeds.

—"**Price policy.** The aim of last year's every-day low price policy was to lower prices on 125 of the fastest-selling items to a level below the competition. The lower price was to be made up through higher volume. This program never got off the ground. Massive additional advertising [needed] to support the program was out of the question in light of the acute cash position....In any event it did not create enough volume."

—"**Site Analysis.** Poor site selection is one of the significant factors in the unsatisfactory performance of some GCS stores....Last year GCS had to absorb a $91,000 operating loss at **Penn Daw**. It would be cheaper to move out entirely and just pay rent on the property [but] the terms of the lease stipulate that a supermarket must be operated on the premises. Every effort will be made to find a tenant. The **Piney Branch** store was built perpendicular to the road rather than parallel. The service station was then built in a way to completely obstruct the entrance and the front of the store. The store is largely hidden from view and many potential customers pass by without realizing a Co-op store is there. Three major chains — Kroger, Giant and Food Fair — opened in the immediate area. For the first 6 months of this year the store had a loss of $22,000.... Management is looking for means to dispose of the store. **Takoma Park** was built too far back from the road. **N&W** is the only Co-op store in the Baltimore area...uneconomical. It was a mistake to enter a different market on a single store basis without plans to expand in Baltimore.

"There has been in the past a mistaken policy in regard to loss operations. Substantial amounts of money and management time were spent on unprofitable parts of the organization at the expense of the profitable parts. This will not be done in the future....To pour money blindly into losing operations is to weaken the Cooperative. GCS should be flexible, closing stores when necessary....

—"**Organizational structure.** Two major changes have been put into effect this year. One removed a level of management...producing swifter communications...and sizable savings....The other reflects the increasing importance of furniture to GCS operations. The furniture director now reports to the General Manager rather than to the Supermarket Division....This

[new] division has its own budget, is a profit center by itself and is better prepared to continue its expansion into the future.

—"The **Board of Directors.** Few corporations in American industry can claim as high a standard of integrity, devotion or sense of purpose as this Board. **But** — the Board should be able to distinguish what is important and to approach major decisions and assess the performance of management with competence and assurance, whereas in fact the Board does frequently spend too much time on trifles....the Board must have at its fingertips the fullest statistical and analytical data it is possible for management to provide. In order to meet this need, management has introduced the 'Green Book' [for] operations information. Whenever management now presents to the Board a recommendation for action, the data in support of the action as well as data counter to the recommendation are presented...[so as] to make decisions on the basis of all the relevant data.

"GCS has a dual character; it is (1) the largest consumer cooperative in the country, and (2) a business operating in the context of the American economic system. By the nature of the co-op movement and because of the method of election the GCS Board tends to be slanted wholly to the Co-op side of its dual character. The difficulty of the Board's work is aggravated by the lack of a balanced expertise such as is present on a well selected private corporation board....

"The Board must become more involved in business analysis and long-term planning....There is still an unfortunate tendency for some Board members to see themselves as representatives of their respective areas on decisions concerning operations in the neighborhood where they live. This is obviously not the intent of the bylaws....

"An even more disturbing tendency is that of Board members presenting a disorganized view to the membership. There must be genuine differences of opinion on such important matters as the Board discusses and such differences must be forcefully presented for the Board's deliberations. However, once such differences have been resolved, or in the absence of unanimous resolution a majority vote has decided the Board's position, it is irresponsible of Board members whose opposing views have not prevailed to take their views back to the membership for airing....

"The Board also devalues its role by spending far too much time on relatively unimportant matters and not enough time on the major problems....It is much too touchy about fine points, wordings, definitions and procedures when debating general policies.

—"**Future planning.** No expansion of any magnitude must be undertaken until the financial position is satisfactory. This means not only that GCS should be operating in the black, but also that the cash position, reserves, and credit standing must once again be restored to realistic levels.

"Protection of the assets of the Co-op is a greater service to the members and the consumers than risky investments. The Board should satisfy itself that, if the investment proved to be a mistake, GCS could take the losses without sinking the Co-op....Another factor to be considered, no matter how promising the opportunity, is whether GCS has the money to carry the investment through....

"Of particular concern to a co-op is whether the proposed expansion would fill existing consumer needs....If adequate shopping facilities are now provided, it would be unwarranted for GCS to use resources to enter into head-on competition with the others.

"GCS experience in real estate operations reflects an amateurism that gives little hope of future success...try to divest itself of this type of business....A policy that merits further investigation, is that we should plan smaller, expandable supermarkets in the future. They might revert to being primarily food stores...soft goods buying and merchandising calls for different talents than those required for groceries....Reduced size will require a smaller investment of men and money, with a commensurate smaller risk....Some consumer needs may be provided now, but at prices which GCS could reduce significantly while still satisfying its investment criteria: home repairs, lawn and garden shops, do-it-yourself shops, etc....For the time being, expansion plans will be developed only as and if the financial and administrative capabilities warrant and only in accordance with sound planning."

After directors read the report they met with Checchi in a day-long discussion of the many details and possible remedial steps to be taken. Various directors took exception to some findings and conclusions, especially some points relating to overall observations about consumer cooperatives and the Board, but in general it was agreed that this was the only thorough and detailed analysis of GCS ever made. Followup conferences explored various management recommendations, and emphasis was put on reducing real estate holdings, putting together a better advertising program, lowering wholesaling costs, and deciding when and how to expand or limit facilities for the good of the Cooperative. There was a feeling that after 2 years of escalating problems and discouraging operations, that GCS was pointed in the right direction and could expect better performance for its 24,000 member-owners.

However, despite many improvements in operations and phenomenal sales and net margins for the new SCAN furniture division, there were disappointing declines in sales and continuing operating losses in supermarkets, service stations, and pharmacies.

Despite the moratorium on expansion, there were two additions in 1963. After a long search, management negotiated a new location for Fairlington when the lease expired on the original store building. The floor space was

25 percent larger in the new location, and there was more parking capacity. The rent was higher than management or the Board wanted to pay, but sales justified the decision. This continued to be the smallest of the Cooperative's stores.

The other expansion project was a SCAN furniture store on West Broad Street in Falls Church, about a block from the supermarket and service station.

CHAPTER 12

The Checchi/Morrow Experience (1964-1966)

After the summer of 1963, operations began to slowly improve. Four ac tions were critical in effecting the slow turnaround:

1. Deep cuts in staffing and controllable expenses.

2. A wide range of improvements in operations, including attention to store maintenance, shifts in merchandising, better training of personnel, and more efficient use of resources.

3. Sale of real estate, which had been tying up capital, helped relieve the cash crunch.

4. Conversion of the supermarkets to Consumers Discount Supermarkets. This new identity was part of a strategy to grab a larger share of the discount merchandising market, which was rapidly shrinking due to a flood of competing new supermarkets.

This last move was the most successful.

In June of 1963, the Board agreed to try drastic measures to breathe some life into the Penn Daw supermarket. Penn Daw was the least successful of the Cooperative's 11 supermarkets. It had registered a $76,867 operating loss in 1962. Its average weekly sales for May 1963 had fallen to $20,772, less than a third of what had been forecast when the store was opened. Average weekly sales per square foot were 99 cents compared, for instance, with Wheaton's $4.05. Inventory turned over 11.02 times per year compared with an industry-wide figure of over 14. As an experiment, the Board approved a management proposal to convert the Penn Daw supermarket into a lower price format in the expectation of higher sales. The new store would be called Consumers Discount Supermarket.

The 'new' Penn Daw store opened on July 24, 1963. The first week's sales jumped to $57,135. Average weekly sales for December 1963 were $54,310. Weekly sales per square foot went up to $1.60, and inventory turnover improved to 16.69. In the first 3 months as a Consumer Discount Supermarket, Penn Daw showed an operating profit of $10,627; for the 9 months prior to the conversion, the store had lost $13,516.

Encouraged by results at Penn Daw, the Checchi/Morrow management team recommended that this aggressive, low-gross-margin program be introduced at the N&W and Pennmar supermarkets. These stores, like Penn Daw, had gained only a few hundred members each, were somewhat isolated, and faced declining sales that were far below those forecast. After the conversion, sales improved (though not as dramatically as at Penn Daw). Westminster was the next store to be converted.

By November, there had been a 70 percent gain in sales at the four stores since the changeover. The Board voted on November 20 to let management convert the remaining supermarkets to the Consumers Discount format.[1] For legal and accounting purposes, the Board created an additional corporation as a wholly owned subsidiary: Consumers Discount Supermarket, Inc. While sales overall continued to improve after the conversions, they did so only modestly; by this time competing chains were aware of the GCS marketing plans and fought back with discounting schemes and sales promotions of their own.

The conversions were not without controversy. Some members and leaders decried the loss of "CO-OP" identity. Long familiar "CO-OP" signs went down, to be replaced by "Consumers Discount Supermarket" signs. In the beginning, advertisements identified the new supermarket as 'co-op CONSUMERS DISCOUNT', but soon dropped the 'co-op'. Flyers, shopping bags, and the newsletter all replaced "Co-Op" with the new name. Inside the stores, signs calling attention to 'CO-OP' and to member ownership were removed. Some felt this was contrary to management assurances that 'Consumers Discount' would be used to bring non-shoppers into the stores, where they could then be exposed to 'CO-OP' and become participating members. Other members were under the impression that the co-op had gone out of business.

The sale of real estate also helped the Co-op at this time by relieving the cash crunch. In addition to bringing in an infusion of cash, real estate and equipment which were sold could then be leased back and the rent written off as a business expense. This was more economical than borrowing cash for operations and was preferable when the debt ratio was already high.

By 1963, all but a small parcel of the GCS holdings in Greenbelt had been sold. At the end of that year, the Board sold the Beltsville warehouse and land options for $557,133.82; one hundred thousand dollars of this was in cash, which was a real boost for the Cooperative's operations. This sale

[1] Other wholly owned subsidiaries at this time were:
Rochdale Cooperative, Inc. — to permit operations in Virginia.
Potomac Petroleum Distributors, Inc. — for contracts and purchases for the service stations.
Consumers Realty and Equipment Corporation — to handle real estate transactions.
Potomac Export-Import Corporation — for overseas buying and selling transactions.
N&W Consumers, Inc. — to afford legal and financial protection for the supermarket at Dundalk.

gave GCS a net gain of $94,977. GCS continued to rent space in the Beltsville warehouse until 1977. The Cooperative's offices were maintained at the Beltsville location until 1969, when they moved to the Piney Branch store.

During the latter part of 1963 and into 1964 GCS was able to rent out shop spaces which had been standing vacant in Takoma Park, Penn Daw, Piney Branch, and Wheaton. This improved the income picture a little. At the Wheaton, Takoma Park, and Piney Branch service stations, garage space was rented to independent auto mechanics when figures showed that GCS was operating repair service at a considerable loss.

Nevertheless, GCS continued to lose money on real estate operations. It had over $500,000 tied up in the Takoma Park Shopping Center, Inc., partnership. Because this real estate corporation operated at a loss, GCS had to supply cash for interest payments on a bank loan to the Takoma Park corporation. There was no early prospect of unloading this albatross.

Along with the conversions and real estate sales, operating procedures were improved. As money slowly became available, the older supermarkets were renovated one by one. The percentage of out-of-stock items was reduced to acceptable industry levels. Slow moving goods were removed from the shelves. The number of brands of a particular product were reduced to lower inventory. CO-OP label products carried on the shelves increased to 364 by mid-1964, and sales of CO-OP label items supplied through the warehouse increased. By mid-1964, sales per man-hour in GCS supermarkets averaged 34.1, compared to an industry figure of 27.4. The average salary for store personnel (excluding the manager and department heads) was $2.48/hour, compared with a $2.00 industry average.

All new Co-op employees were given an orientation about consumer cooperatives and some background on GCS. A schedule of training and development for top staff and middle management was also maintained. This included supervisory skills, marketing, and the range of specialized information needed for grocery, auto service, drug store, and furniture operations.

All of these factors helped build sales volume and net margins, and reduced customer complaints.

While money went into employee training and staff development for some, there were staff cuts in other areas, particularly administrative staff. In a period of two and a half years, while the total number of employees increased by 65, the number of administrative and supervisory personnel was reduced by 40, a drop of nearly 50 percent.

By the end of 1964, it was clear that GCS had emerged from its sales decline and financial threat. Supermarket sales for the calendar year were above the projected budget and 44 percent above the previous year. Every store was above its 1963 sales level. All four divisions showed net operating savings, and the net income total for GCS was $304,183.

The 1964 dividend was back to 5 percent, but still no patronage refund. Morrow argued that members were getting a patronage refund up front through the discount prices. As a matter of policy, the Board determined that if net savings continued they should be used to rebuild reserves before consideration of patronage refunds.

GCS used its improved financial position to bring all requests for repurchase of stock up to date. By the end of 1964, enough confidence was restored so that purchases of new shares marginally exceeded the repurchase of old shares.

Better sales, improved operations, and favorable margins also allowed some selected expansion. First on the list was a third SCAN store on T St. NW in Washington, D.C. It was a good location, and after an elegant opening, it added sales and profits, as well as prestige, to the Cooperative.

Looking ahead, the Board created SCAN, Inc., another wholly owned subsidiary corporation. This new corporate entity was organized under the District of Columbia model consumer cooperative law and was advantageous to GCS in computing state income taxes.

Sales and net margins from the three SCAN furniture stores were so far ahead of expectations that Morrow/Checchi recommended a furniture warehouse. In a 9-page presentation to the Board, Morrow and Checchi argued that while "leasing this warehouse space increases our fixed commitments in the furniture division and thus increases our risk," it was nonetheless vital, "if we are to continue to grow and if we wish to handle furniture efficiently." The report concluded by recommending that, "we should continue to expand the furniture business as fast as we can secure personnel to handle the additional responsibilities. It is expected that sales of furniture will exceed $2,000,000 next year...."

The Board agreed. A 15-year lease was signed on a new warehouse in the industrial area of Beltsville, Maryland, which provided 25,000 square feet at 85 cents per square foot, with room for expansion. The equipment budget was $45,000, with two-thirds of it leased, so that minimum cash investment was required.

Another expansion project in the fall of 1964 was a twelfth GCS supermarket, this one in Glen Burnie, Maryland. A detailed market survey showed that this was a blue-collar community with rapid population growth. The building was for a former Safeway that had closed during an extended strike in the Baltimore area. The area was already saturated with stores, but the leasing terms were attractive and only for an initial 2-year period. The Board had hopes that this might become a companion co-op venture to the store in Dundalk, however the store never did well and no real customer interest in the Cooperative was developed.

The biggest and most important expansion project in 1964 was a fourth SCAN furniture store. This one was located, after an exhaustive study of options, in the western suburbs of Baltimore in Pikesville. The building had originally been constructed for a savings and loan that failed to move in, so the price on the vacant building was low. The cost was $157,000 for about 6,200 square feet of floor space. Purchase was contrary to the Co-op's policy of leasing facilities to avoid tieing up capital, but in this case, the Checchi/ Morrow recommendation concluded that returns could be 22.5 percent over renting.

In September of 1965, GCS opened its eighth, and largest, drug store about a mile south of the Falls Church supermarket. It was one of the only drug stores not a part of a "one stop Co-op shopping" complex. It was known as "Consumers Discount" store, with little CO-OP identification. Sales and margins turned out to be below expectations.

At almost the same time, the Falls Church supermarket got a much needed facelift. As the year came to a close, GCS's eighth service station was opened in Fairlington, Virginia, about two blocks from the small Fairlington market.

All new ventures and expansion projects at this time were required to be in compliance with the Cooperative's One Year and Five Year Plans, a policy which had been adopted in 1962. These long range plans were to address types of services and location of facilities; amounts and sources of financing; membership and stock outstanding; and adequate staff, training programs, and executive development. Planning itself was to be based on the Cooperative's objectives and policies; stated assumptions regarding the Cooperative's ability to serve its consumers, improve its competitive position, and maintain a sound financial position; and sound economic and financial analysis and thorough marketing research. During the Checchi years, this long-range planning laid a successful foundation for the Cooperative's operations. It was especially valuable in scheduling the financing program so that borrowings and repayments could mesh without causing cash flow problems.

Checchi's management contract itself was another key to GCS success, as it contained financial incentives for meeting specified goals. The contract was to be renewed annually. There was a flat annual fee to be paid in equal monthly installments, in addition to a bonus of 5 percent of net savings before taxes in excess of $200,000, payable upon completion of the annual audit. This was designed to encourage margins for GCS which would assure the 5 percent dividend on shares of stock and hopefully patronage refunds at some point.

While the Board's main concern in hiring Checchi had been improving operating margins, it expected more than financial know-how from the firm.

An attachment to the contract also stated that GCS expected improvements in member relations and consumer orientation. Success in meeting these additional objectives would result in an additional bonus for the general manager of up to 10 percent of any net margin before income tax above $200,000. The percent was to be determined at the end of the year in the board's annual review of the general manager's performance.

With improved net margins from the stores, there was more leeway for working with other cooperative entities. The Greenbelt Co-op was a major supporter of the Cooperative Institute Association during the '60s, and the International Cooperative Development Association, which GCS joined as a charter member to assist cooperatives overseas. This was a link for GCS with farmer production and marketing cooperatives. The Board also authorized a donation of $2,500 to the Cooperative League for its Worldwide Extension Service.

There was money, too, for some public relations promotion. GCS took part in the International Food Show when it opened at the Armory in Washington. The booth was manned by 45 member and staff volunteers, taking turns.

Some public exposure was free. Scandinavian Airlines featured SCAN furniture in a downtown window display. Pepsi-Cola sponsored a nationwide "shopping spree" contest which was won by a family who were strong supporters of the Co-op and regular shoppers at the Takoma Park supermarket. In a 15-minute race through the aisles, they carried $11,002.49 in meats and groceries to the checkout counter to the cheers of hundreds of onlookers. The newspaper and radio publicity was a priceless boost for Co-op. The Greenbelt Cooperative also picked up public relations kudos for being the first merchandisers in the Washington market area to sell biodegradable detergent. By the end of its first year, this CO-OP label product had out-sold all other detergents on the shelves, and helped solidify GCS's reputation as an innovator.

The Morrow/Checchi management and the Board continually came up with innovations that benefitted shoppers. One of these was a new type of plastic milk carton that was less likely to collapse. Other chains adopted it shortly thereafter. Bulk food sales (beans, rice, dried fruits, nuts, coffee beans, etc., from covered bins at prices lower than packaged goods) was another idea that was soon followed by the chains.

Another innovation may have been a few years ahead of its time. GCS, the National Council of Senior Citizens, and the National Farmers Union entered into a joint venture to provide a prescription-by-mail service for senior citizens who did not have easy access to a drug store. GCS managed the service with NFU sharing the start-up capital. Both NFU and NCSC would do the promotional work. Older members of all three organizations would be eligible to buy prescription drugs, vitamins, and health accessories by mail at discount prices.

In the spring of 1965, Senior Citizens Direct Drug Service, Inc., began operations from a pharmacy located near a post office, at 823 Upshur Street NW in Washington, D.C.

The enterprise was moderately successful, serving thousands of elderly, and lasted until 1974. With an obvious need for this type of service, and enough membership from the three sponsoring organizations to support it, this enterprise's eventual failure was a disappointment. But perhaps the mail order pharmacy idea was too new and the promotion inadequate. Increased postage rates and packaging costs were also negative factors. When it closed in April 1974, the service had a deficit of $60,000.

1966 was the year of one of the most unusual incidents in GCS's history: a take-over attempt.

A former director of GCS has suggested that a cooperative is most likely to be a target for takeover when (a) it has accumulated capital, especially cash, or profit potential, and (b) at the same time there is a vulnerable board or a membership which does not understand its strength or advantages as owners. By 1966, the Greenbelt Cooperative certainly fit the first criteria; its success under Checchi was well established, and the Washington newspapers had carried articles on increased sales and "profits".

This bizarre chapter in GCS's history began back in November of 1965, when one L. D. Pratt, identified by the press as an active member of the Free D.C. Movement, presented the Board with a proposal for taking over GCS's Piney Branch store. Pratt proposed to organize a group called the Washington-Baltimore Freedom Partnership (WBFP) for this purpose. WBFP would purchase a fleet of Volkswagen buses—to be driven by high school drop-outs—which would transport shoppers from D.C. to the Piney Branch store. The shoppers were to refund to WBFP from 50 to 100 percent of their savings resulting from shopping at the Piney Branch store.

GCS, quite naturally, questioned the merit of some of these proposals, pointing out that operating a fleet of buses might necessitate complying with Transit Commission regulations; that the WBFP proposal to collect fees from its own members might involve the sale of securities and require compliance with the Securities and Exchange Commission regulations; and that the proposal, which ultimately entailed operating a non-union store, would violate GCS' contract with the union.

Pratt replied that he would love to take on the Transit Commission; would be glad to picket the SEC; and that he had people just as big as the union. Pratt also implied that if GCS did not go along with the idea, WBFP would picket the stores and block aisles.

Following this conversation, both sides retained legal counsel. GCS's lawyer, Philip Hirschkop, advised that any threats against GCS in order to secure financial gain for the threatening individual could be treated as criminal. On December 21, 1965, a final meeting was held with Mr. Pratt. He was accompanied by counsel who opened the conversation by assuring GCS that his client had never threatened any action and by making it clear that if GCS rejected the WBFP proposal as a business proposition the matter would be closed.

GCS rejected the business proposition. The Piney Branch landlord, Nationwide Insurance, had stated through counsel that under Ohio insurance law they could not approve such a group as WBFP as a tenant.

GCS did, however, offer to help Pratt and his group if they could. The Board offered to look into opening a store in a low income area of D.C. They also offered to extend the Co-op's discount program to community organizations, donating to WBFP one percent of their members' purchases at the Piney Branch store. Next was an offer to assist WBFP in establishing their own cooperative in the District. Pratt declined all offers of aid.

One would have thought that the matter was closed.

The Co-op Congress met in early April and selected five candidates to run as a slate in the June 12 Board of Directors' election. These five would constitute a majority on the nine-director board.

Then on April 25, Mr. Pratt filed papers for 20 petition candidates for the GCS Board of Directors. All 20 had the requisite 10 signatures. As the CO-OP NEWSLETTER reported it, "A group of people identifying themselves with the civil rights movement are attempting to take over control of GCS by electing five of their members to the nine-person Board of Directors in the annual election June 12."

Because the candidates had co-signed each other's petitions, only 32 signatures were represented. Eight of the 20 joined the Co-op on April 25, the day they filed as candidates, by buying one $10 share. Seven others had joined April 23. Only two had been members for more than a year. None of the candidates had previously served the Co-op in any capacity; none were known to have attended any Co-op meeting.

News of the petition candidates hit the front pages of the Washington newspapers the next day. Two spokesmen for the group were quoted at length about their intentions to use the Co-op to help the poor. When the Board and other Co-op leaders met with five of the candidates May 17, the petition candidates talked in generalities about civil rights, poverty and the "Dynamics of Power Change." None admitted any previous co-op experience. They seemed unaware, and uninterested, that the Co-op had been concerned with the plight of the less privileged groups for more than a quarter of a century.

The petition candidates were invited to address any or all of the area membership meetings along with the Congress slate of candidates, and were given the schedule of meetings. Several did attend and speak at one or more meetings. They were courteously received but not much enthusiasm was observed.

Directors, Congress leaders, and management staff were deeply concerned, not so much about the possibility of petition candidates winning — obviously 20 candidates vying for 5 positions were going to split their own votes — but about the impression a high vote for the newcomers would make on the membership and on the public. It seemed that an effort was being made to cast the Cooperative as a part of the 'establishment', ignoring the poor and the defenders of civil rights.

The Member Relations Department, and a committee made up of directors and Congress leaders, organized a campaign to inform members what was at stake in the election and to get out a record vote. More than 400 member volunteers visited other members door-to-door or by telephone. Carpools and baby sitters were provided on the day of the annual meeting.

There was a record turnout on June 12. When the votes were counted, 8,940 valid ballots had been cast. Votes for the Congress-nominated slate ranged from 8,855 to 8,868. Four of the petition candidates had 18 votes each; one had 15, two received 4, two received 2, and the others received a single vote each.

Shortly after this demonstration of member loyalty, the new Board sat down with management and planned defense measures which would protect the corporate integrity of the Cooperative in future years. One step taken was a change in Board terms from 2-years, which elected a majority of directors every other year, to 3-years, with only three directors up for election at any given time. Another bylaws change required 100 signatures for a petition candidate instead of 10. A third safeguard called for a Board candidate to have served in some participatory role in leadership or committee work within the previous 5 years.

It is ironic that the ill-conceived idea of taking over the Co-op for the asserted purpose of helping the poor came at a time when groups in GCS already were at work doing just that. The 12th Co-op Congress unanimously adopted a resolution involving the Cooperative in "Inner-City Anti-Poverty Activity," emphasizing the techniques of cooperation and self-help. The area delegations were encouraged to work on local projects, while the Board and management concentrated on establishing a store or stores in the poorer sections of Washington. Several buying clubs and two small stores did develop and survive briefly. One of these buying clubs, operating out of St. Marks Church, established five auxiliary clubs with a total membership of 200 families after the first year. Its first president said in a letter: "We have been a great success in showing people CO-OP products and saving money for them....We are sold on the cooperative idea and thank Greenbelt for getting us started."

In the midst of all this excitement and outside activity, GCS had a good year operationally and financially. A new 'user-friendly' and simplified balance sheet for 1966 highlighted a good year:

"We received during 1966—	
from our customers for products and services	$32,757,522
from interest earned on investments	9,408
Total we received	$32,766,930
What we did with the funds received—	
We bought materials and supplies and paid for services provided for our members and customers	$28,329,924
Co-op employees earned wages and salaries of	3,442,451
The Co-op provided additional employee benefits and paid payroll taxes in the amount of	428,213
We contributed to our communities through State and Federal income taxes	153,000
We paid interest of	42,570
We allowed for depreciation	210,106
We provided for a minority interest in our operations and paid dividends on the preferred stock of a subsidiary	1,258
The total we paid out or provided was	$32,607,522
We had left as net income	$ 159,408
We used this net income	
to pay dividends to our member-owners	$ 86,715
to reinvest in the Cooperative	$ 72,693

The operations summary by Morrow noted that although 1966 had been a year of rising prices, GCS had fought the trend, even to the extent of taking significantly lower margins. Even so, "our sales for the third consecutive year set an all-time record....Our net savings were the second highest ever."

Net working capital at the end of fiscal year 1966 was $822,488, and the current ratio of assets to liabilities stood at 1.58, better than previous years but still not as high as it should be.

Vincent Checchi had set ambitious goals for GCS earlier in the year when he addressed the annual conference of the Association for Cooperative Educators, at the University of Maryland:

"We don't want to create great, soulless co-ops like big corporations, but we don't have to be small....[Remember] these three steps in attaining growth: Set high standards at all levels for members, board of directors and management; do a few things well — budget your financial, management and technical resources; and look ahead to target social and economic goals for 10, 20 years from now and plan for them."

By year's end, these goals seemed attainable.

Kroger Buyout and Shift to SCAN (1967-1969)

During 1966 the only expansion in supermarkets had been a $130,000 remodeling of the Rockville store. By 1967 GCS was about to take the biggest plunge in its history.

On April 19, 1967, Greenbelt Consumer Services, Inc., bought out the entire Washington Division of Kroger Company. This purchase represented the largest single, one-shot expansion ever made by a consumer-goods co-operative in the United States.

The WASHINGTON POST, under a four-column headline, reported that "The Kroger Co., third largest grocery chain in the Nation, has sold its nine supermarkets in the Washington area to Greenbelt Consumer Services, Inc., of nearby Maryland. The price was not disclosed but was believed to be in excess of $3 million for [leases], inventory, fixtures and leasehold improvements. Land and buildings were not owned by Kroger...."

Eight of the supermarkets reopened May 1 as GCS Discount Supermarkets, with no initial change in managers or employees. Four were in Virginia and four in Maryland. The ninth supermarket was under construction in Virginia and would not open until August.

The Board vote on the acquisition had been unanimous. Checchi and Morrow had urged the purchase and presented projections which seemed attainable.

A year later it became apparent that the Board had been over-optimistic.

The Arlington, Virginia, store had to be closed and was lost after the first month by court order over a legal problem beyond the control of GCS. That left the Cooperative with eight supermarkets from Kroger, for a total of 21 supermarkets altogether.

At the end of the first fiscal year, weekly average sales of all eight were below projected budget. The weekly average for sales in March 1968 for each store was below the 1967 average and it was below the previous month for all except two stores. Four had made some contribution toward administrative overhead during the fiscal year; four showed a loss even before considering central office expenses.

The disappointing results from the Kroger acquisition were felt all through the Cooperative's operations and structure. Management's annual in-depth report to the Board on the supermarket division in May 1968 acknowledged that operating results for this division were unsatisfactory. It was the first year in the past four that GCS failed to achieve an increase in sales and net margins in the first quarter (13 weeks).

The report acknowledged that the acquisition had been quite an undertaking. "We underestimated the cost and the length of time necessary to effect the transition of the Kroger management, personnel and stores into our organization. It was difficult to change Kroger managers from policies and procedures which they had worked under for up to 10 years to our own....We also found it difficult to liquidate the Kroger label merchandise at an acceptable margin....We are spread very thin in several areas....New stores and conversion of existing stores to discount operations continue to cause sales problems."

Looking back it was easy to see that GCS had swallowed more than it could chew. The report from Morrow and Checchi covered only part of the problem. There was not enough money on hand to remodel, rearrange, and redecorate the acquired stores to meet GCS patterns and standards. There was not enough staffing in the member relations department and there were not enough volunteers from the Congress leadership to convert shoppers to knowledgeable cooperative members in eight new areas all at once.

A second Virginia store was closed in 1968; a third in 1971. GCS's largest acquisition to date had not been a resounding success.

Another major shift in GCS operations occurred in 1968. The year-end report for fiscal year 1967 showed that, for the first time in 28 years of operation, the supermarkets were no longer the main support of the Cooperative. The SCAN furniture division rang up net operating savings of $298,921 in 1967. All other divisions ended up in the red: supermarkets ($91,039), petroleum ($4,887), pharmacy ($2,083). After 1968, as sales diminished, operating margins disappeared, and supermarkets, service stations and pharmacies closed one after another, the Cooperative became essentially a furniture business.

1968 saw other changes. Several women shoppers in the Wheaton area council introduced an innovation which changed grocery merchandising in the Washington area. Weary of looking at cans and packages of varying sizes, weights, and prices, and trying to figure which was the best buy, they proposed that shelf markers show the price per ounce. The management of the Wheaton store agreed to try it. Unit pricing was an overnight success, so popular that it spread to five other Co-op supermarkets the following week. Shortly thereafter, Giant and Safeway followed, and now unit pricing for shopping comparisons is universal.

Expansion of GCS took another leap in 1968 when the Peninsula Cooperative Association members voted to merge with Greenbelt Cooperative Services, Inc. Peninsula at this time had about 4,000 members in Hampton, Newport News and Norfolk, Virginia, about 200 miles from the GCS office. The Peninsula cooperators operated two markets, a bookstore (which management closed shortly after the merger), and a Scandia furniture store. All the stores were losing money until a management contract with Checchi and Company found economies that put them in the black.

It was agreed that GCS would exchange shares of stock on a one-for-one basis. Peninsula members officially approved the merger in June; GCS in August. It took time, however, to recover the required number of shares to finalize the merger. This took place in February 1969, but by then activities of the two cooperatives were already being put together. A Peninsula delegation to the GCS Co-op Congress was elected and participated in nominations for directors in the 1969 election.

Additional expansion in 1969 included Skinker Tires, Inc. This was a family business established in Washington in 1919. The acquisition included a retail Sinclair gasoline service station and Goodyear tire distribution franchise at 4444 Connecticut Avenue NW, about two blocks north of the Van Ness SCAN, and a fleet truck tire business and warehouse on Butler Road in Bethesda, Maryland. The business specialized in tires and tire servicing for heavy construction equipment. Skinker staff remained after the purchase, as did the name; no "Co-op", "Consumer Discount", or "Greenbelt Consumer Services" sign appeared on the premises. By the summer of 1971 GCS would be trying to get rid of Skinker Tires, as it was losing money and had no membership constituency.

One controversy that arose during this time was in response to a grape boycott. In support of Caesar Chavez's struggle to improve grape pickers' wages, GCS was asked by a local union not to advertise California grapes. It complied, although it continued to carry the grapes, explaining that "We feel that the decision with respect to the grapes should not be made [by board or management] but by you, the consumer." A statement on both sides of the controversy was placed in the produce section of each supermarket.

This did not satisfy those members of the Cooperative who felt that store shelves should demonstrate social consciousness. A similar controversy within the Berkeley Co-op in California was being watched by GCS leaders. As there were other arguments about products from time to time — lobster tails from South Africa, lettuce picked by non-union labor, the use of pesticides on produce for instance — the Board adopted a written policy on controversial products. It said, in effect, that barring all items that some group within the membership of 25,000 families wanted to boycott was unworkable. There were also the non-member shoppers to consider. Posting information in the stores about product controversies was the practice followed.

Sales and both operating and net income for GCS improved in 1968 in contrast to the discouraging results of the previous year. Operations in 1969 were still better. Here are some of the key figures:

	FY1969	FY1968
Sales	$50,122,294	$ 42,755,021
Operating income	500,843	263,768
Other income	69,346	29,352
Net income	206,402	92,709
Total assets	7,310,013	6,354,642
Shareholders' equity	2,621,204	2,143,242
Current ratio	1.45	1.36
No. of shareholders	3,357	27,907
No. of employees	1,070	923

Two of the above figures are benchmarks in the history of GCS. Sales topped $50 million for first time and the number of employees passed the one thousand level. Also worth noting: the current ratio of assets to liabilities continued to indicate undercapitalization.

The Board obtained SEC clearance for a new issue of debentures in 1969. These carried 7 percent interest for the 5-year series and 7 1/2 percent for the 10-year ones. A total of $124,000 were sold in November and December.

By 1969 the membership had grown to such a size that representation on the Congress was changed to one for 400 members instead of 200.

It is interesting, and telling, to note that the minute book of Board meetings by this time was referring to the "Company" instead of the "Co-operative".

CHAPTER 14

Slipping (1970-1972)

After 1969's bright financial picture, 1970 was a disappointment. While sales for the year were a little higher due largely to the opening of two new SCAN stores, the year end statement showed a serious loss instead of earnings. The end of 1970 also marked the end of the GCS's management contract with Checchi and Company.

GCS's sixth SCAN store, opened on March 25, was a departure from the others in two respects. The location was a pricey one in Washington's Georgetown. The store was in a converted warehouse and contained a number of other fine shops. Merchandise also distinguished the Georgetown SCAN; it included home accessories and gifts like imported fabrics, dresses from Finland, Rya rugs, lamps, kitchenware, and handicrafts. A seventh SCAN was opened in January of 1971 (FY '70) in Virginia, and an eighth in August of 1971 in Columbia, Maryland.

In an effort to maintain sales levels in the supermarkets amid increasing competition, two were extensively remodeled: Kensington and Westminster. The Westmininster area delegation launched a capital contribution drive to raise the needed $110,000 for their store. Enough shares of stock and debentures were bought to cover the refurbishing. GCS debentures were so popular, that the Board had to go to SEC for approval of another issue of $100,000. The 7 percent series was sold out in 10 weeks.

Unable to organize a consumer-owned cooperative store in the low income areas of Washington, GCS contented itself in 1970 with helping the Martin Luther King Food Stores. Checchi and Company had by this time started an Inner-City Project, headed by a former store manager from the Greenbelt Co-op. GCS helped with equipment and wholesaling service for CO-OP label products. The aim was to "train and develop employable people for the labor market and to save low-income residents considerable money on their food budgets compared to the convenience-type stores in which they previously were forced to shop."

The Co-op Congress' structure was studied by a Board appointed committee, and a report was issued which clearly identified a basic problem in the GCS structure. The Congress had been set up to provide representation to every Co-op member in a growth situation where geographic spread and increasing membership made direct participation impractical. Now, however, a second layer of representation had been created between the membership and the Board in the form of the Area Councils. The way the system was working now, the Congress was acting as a link between the Councils and the Board, not between the membership and the Board. The result of all this was a lack of member identification with specific stores, and a general feeling of malaise. Members, in general, didn't effectively feel they were member-owners.

This report helped fan dispute between individual Board members, and between the Board and Morrow and Checchi. There were differences of opinion over how much time and money should be spent on stressing GCS's identity as a member-owned cooperative. Checchi strongly emphasized the business side of GCS.

In mid-May, Checchi announced to the Board his company required Morrow's services for some of its contract work with cooperatives overseas. Paul Nelson replaced him as executive vice president of GCS, with Board approval.

By June, however, the Board decided the time had come for a return to a single individual as chief executive officer instead of a management firm. Checchi was notified that the management contract would not be renewed upon termination at the end of the fiscal year.

The Board thereupon authorized $12,000 plus costs for an executive search. It also called for a management audit; an outside evaluation of the GCS organization, operations, objectives, and key personnel; and proposals for a study of supermarkets in the Washington marketing area.

On January 6, 1971, Eric Waldbaum was named the new president and CEO of GCS. Waldbaum, a 32 year-old New Yorker, had extensive experience in food marketing, as well as a notable record on consumer issues and a stated commitment to cooperative principles.

Sales in fiscal 1970 totaled $50,974,463. The operating loss was $227,420, and the net income loss was $169,049. This figured out at a loss of $.81 per share of capital stock, compared with $1.17 income per share in 1969. Members' investment had slipped slightly, from $2,226,597 to $2,170,680.

The early months of 1971 were taken up with adjusting to Waldbaum and stemming the losses, but some bright spots appeared as well.

Waldbaum and GCS scored a benefit for consumers—as well as a public relations coup—by unlocking the Freshness Code Book that all supermarket chains used, but kept carefully hidden from the shopping public. In a news conference on March 8, the new president and CEO announced that beginning immediately the guide to coded dates on some 2,000 items on the supermarket shelves of all GCS stores would be available to shoppers, along with explanation on how to use the books. Attending the meeting were not only representatives of the press and radio/TV but Rep. Benjamin Rosenthal (D, N.Y.), representatives of Maryland and Federal offices concerned with consumer affairs, and "Nader's Raiders."

GCS soon introduced several more "freshness" programs. These included a 90-hour time limit for sale of milk (current practice was 7 to 10 days), 1-day limit on CO-OP label bread (current practice was 3 to 5 days), and 3 days for fresh red meat and poultry with the pull date plainly marked.

The Cooperative's travel program had grown so big and popular by the 1970s that management assigned a staff member to work with the Co-op Travel Committee which involved more than 100 volunteers from the membership. In 1971 alone, more than 1,800 members went on trips. On top of the already low-cost charter flights, a patronage refund totalling $15,000 was divvied up in 1971.

SCAN's heady success suffered a series of setbacks in the latter part of 1971. President Nixon unexpectedly announced a 10 percent import surcharge on foreign goods. The U.S. dollar was cut loose from the gold standard, leaving it to float on international exchanges. And there was a 56-day strike by dock workers followed by a 90-day cooling off period.

The first two Governmental actions immediately raised the cost of furniture to SCAN stores. As an act of good faith, SCAN honored all orders placed prior to the Government action at pre-surcharge prices, even though the Co-op had to pay the difference when the furniture was delivered. Although the surcharge was subsequently lifted, devaluation of the dollar in relation to Scandinavian currencies made imported furniture substantially more expensive.

Despite the setbacks, SCAN finished the year with substantial increases in sales and net margins.

GCS as a whole did not fare so well. In July of 1971, Waldbaum and his key executives held a meeting with the Board to discuss GCS leases. He outlined each lease, noting cost and renewal options, and the state of depreciation for each supermarket. He explained that the industry standard was never to let a supermarket depreciate more than 20 percent and that the better operations kept maintenance of equipment, fixtures, and exterior at no more than 10 percent. Most of the GCS supermarkets were far below the industry standard. The Board went away from the briefing quite shaken about future prospects.

Although total sales were up by about $4 million to a total of $55,139,097, the net loss for 1971 amounted to $813,267. This was a loss of $3.79 per share of stock. The board voted a 5 percent dividend, but it had to be paid out of dwindling reserves. A large chunk of the net loss, about $375,000, was attributable to closing supermarkets which had been operating at a loss. High labor costs and intense competition were taking their toll.

The number of employees had been reduced slightly, but total labor costs increased by more than $850,000.

The balance sheet showed cash on hand down to less than half what it had been at the beginning of the year. Total assets were down by $1.25 million.

One major success brightened the GCS picture in 1972, but by the end of the year it was evident that operations were slipping badly. The bright spot came in May. Beef prices had been high, squeezing supermarket margins and outraging shoppers. It may have been coincidence, but at the point when wholesale prices for beef started to drop, Giant and Safeway in the Washington area kept retail prices up. GCS Chief Executive Officer Waldbaum had a full-page advertisement prepared for the WASHINGTON POST and the STAR to challenge the big chains' claim that beef's wholesale prices were still too high for reduction in retail prices. The Consumers Discount Supermarket ad featured a photo of a cow with the caption: "While the giants of the food industry were feeding you bull we were feeding you beef."

The two Washington dailies refused to print the advertisement. They claimed it was in poor taste and affronted the competition. The result was a PR bonus for GCS. The suburban MONTGOMERY COUNTY JOURNAL published the ad, along with an editorial headlined "Freedom of Information." The hubbub was finally reported in the Washington papers after radio stations picked up the censorship aspect. Secretary of Agriculture Earl Butz, two U.S. Congressmen, and spokesmen for the farm lobby took up the issue and all sided with the Cooperative. Finally Secretary of the Treasury John Connally called a conference of representatives of the nation's 12 largest supermarket chains. And with that, beef prices in supermarkets came down. GCS had scored a valid point about profit margins.

This public pat-on-the-back was not enough to save the Consumer Discount supermarkets, however. Sales, after some fluctuation, again decreased, and losses kept climbing. Management changed wholesalers in an effort to secure better service, fewer out-of-stocks, and better prices.

When flood damage ruined the inventory and equipment in the just-remodeled Arlandria, Virginia, supermarket, that store had to be closed. In June, both of the Baltimore stores were closed as hopeless loss operations. Another long-time loser, the Piney Branch supermarket, closed in July. The next casualty was Penn Daw in October. The Penn Daw pharmacy shut down the following month.

In several areas, members of the local councils made efforts to step up sales, but these were mainly ineffectual.

In the face of these failures, SCAN furniture operations continued to prosper.

By the year's end, visitors to Board meetings were required to sign a confidentiality form in order to be permitted to sit in on executive sessions. The Board was discussing closing the remaining pharmacies. Management reported they were too small to be profitable.

Sales in 1972 were $43,122,933, a small gain over 1971, due largely to SCAN sales increases. There was a net loss of $507,429, resulting in a $1,519,306 deficit. From the sale of assets during the year, working capital had been increased by $83,721. Total current assets stood at $5,356,275, but current liabilities were $4,818,113; this showed a very poor current ratio of 1.11.

The membership total stood at 38,411, although how many could be considered "active" would be hard to decide. Employees had dropped to 875.

CHAPTER 15

Decline — And Some Recovery (1973-1975)

The decline which had become so evident by 1972 worsened in 1973. Losses and supermarket closings continued, and the nation-wide gaso line shortage threatened to close down the service stations. Beyond that, there appeared a disintegration in nearly all aspects of operation and communication within GCS.

The Board itself seemed unsure of its role in the Cooperative's performance and future. It was often late in responding to inquiries from area councils. Board minutes show indecisiveness, with directors abstaining from votes and many postponements of agenda items. Committees also were not functioning well, increasingly late with their reports.

At every Board meeting during the year, there was at least one executive session which was closed to the members. More and more considerations seemed to require secrecy, and this drew criticism from the members.

For example, it had long been recognized that any forewarning of a store closing led to serious "shrinkage" (theft and failure to charge fully at the checkout counter for friends) and to lower productivity as employees turned their attention to replacement jobs. Because of this, store closings were usually planned quietly. But the flip side of this perceived need for secrecy was the anger of employees and members at not being informed well in advance. While employees were often aware of store problems, and thus less likely to be taken by surprise when a facility closed, members and shoppers for the most part failed to understand the economic imperative and responded with resentment and charges of mismanagement.

Several directors recall a flurry of ad hoc meetings toward the end of the year. These were held in homes of the directors with no one present from management or from the Congress or its Review and Evaluation Committee. No minutes were kept. One director has reported that "the primary purpose was to discuss the Cooperative's finances, potential of survival, and most importantly the extent to which we trusted management. To some of us, management appeared top-heavy and second-line executives were coming and going with little apparent improvement in operations."

Operationally, 1973 was a dismal year. Four supermarkets (Wheaton, Pennmar, Falls Church and Arlington Boulevard), three service stations (Suitland, Fairlington and Connecticut Avenue), and a pharmacy (Takoma Park) were closed. Two of the service stations were reclaimed by the gasoline distributor, BP Oil Corporation, which had replaced Sinclair. The supermarket locations were subleased. Net loss from these discontinued operations was $93,441 (including a credit of $87,000 for earlier income taxes), far below the previous year's losses of $491,570 for the same facilities.

Total deficit at the end of FY 1973 was $1,293,795. The consolidated statement of income and deficit took a different format from what had previously been used in order to show income from continuing operations and loss from discontinued operations separately. Income from continuing operations was shown at $216,952. Capital shares at $10 par value appeared on the balance sheet as $2,182,900. However, shareholders' equity had dropped to $4.15 per share.

To take advantage of tax benefits in the event of possible future sale, the Takoma Park Shopping Center, Inc., was liquidated as a subsidiary corporation and merged with GCS in January 1974.

GCS operations were hit by events beyond its control in 1973. In addition to increased competition, there was rapid inflation, which ran up prices and angered bargain shoppers. Maryland facilities were hurt by an appeals court ruling that old "blue laws" were still valid; stores with more than six employees had to close on Sundays.

This was also the year the OPEC oil crisis hit. BP Oil Corporation, which supplied the GCS stations, favored its own company-held stations and cut the allocation to leased stations. The company even attempted to cut off GCS entirely, informing management that there would be no more deliveries after July 9. Waldbaum fought the order and threatened to go public with the question of whether BP was trying to force up the price of gasoline through monopoly manipulation. After a difficult negotiation, BP agreed to provide gasoline to GCS for a limited period, but terminated the franchise identification. GCS renamed the stations "EXVAL" (note: not CO-OP, Consumer Discount, or GCS).

The only expansion for GCS this year was a doubling of warehouse space for SCAN. While inflation in the U.S. and Scandinavia and the dollar's decline in European markets was cutting into SCAN's profitability, the furniture division nevertheless continued to hold more promise for the future than supermarkets, pharmacies, and service stations.

With members increasingly disillusioned and upset about the disappearance of patronage refunds and dividends, management attempted a little compensation by putting discount coupons in the CO-OP CONSUMER for members only. Occasional checks on coupons used, however, suggested this was no big deal compared with promotions competing chains were offering shoppers.

There were also increasing complaints about poor morale among employees. From membership leaders there were repeated demands for more orientation that would help employees to realize they were working within a consumer cooperative, and that this was fundamentally different from other organizations.

The closing out of loss operations put a special burden on the accounting staff and involved the need for outside legal counsel. Reports were required by the Internal Revenue Service and the Securities and Exchange Commission. The December monthly operating report was not available to the Board until March 16, due to an inability to find qualified accountants. The year-end operating report and financial data, normally ready by February or March, were not certified by the auditors until June.

A lawsuit with Checchi and Company also occupied the Board in 1973. This lengthy suit, which charged GCS's former management company with, among other things, negligence and mismanagement, was finally settled in February 1976 by a $20,000 payment to GCS.

Meanwhile, the Board tried to strengthen its own capabilities. There was a 3-day conference on the Board's role in planning and the objectives of the Cooperative in April 1973. In August there was a 2-day training workshop led by Leon Garoyan, and in January, Owen Hallberg, president of the American Institute for Cooperatives, led a workshop on "Director Responsibilities and Qualifications in a Cooperative."

Leaders in both the Board and the Congress realized how precarious the GCS position was in the face of problems which had accumulated. The Congress held a workshop in November for answers to the question: "What Kind of a Co-op do we want?" Most of the suggestions listed, however, carried a substantial price tag.

One of the more significant findings was the fact that among the Cooperative's 38,000 members, there was a tremendous reservoir of untapped leadership, and that the current leadership was made up of familiar faces who, after years of service, were beginning to show their age.

GCS entered 1974 slimmer but healthier and with some optimism for the future. Earlier losses were being reversed, and sales for the continuing operations were $4 million higher.

SCAN continued to contribute net margins despite unfavorable currency exchange rates. The only serious problem with the operation was high inventory, about half a million dollars above what management judged it should be. The problem was linked to the tendency to buy larger quantities in anticipation of continuing price escalation. This was a sensible precaution, but it kept GCS short of cash for other operating needs.

The pressure for operating cash became acute at mid-year when a large issue of debentures had to be repaid. This required an additional bank loan. Fortunately the SEC cleared the way for a new prospectus, so GCS could issue up to $750,000 in 10-year subordinated debentures at 9 percent interest and 3- year debentures at 7½ percent.

The scheduled remodeling of most of the 12 supermarkets still operated by GCS also contributed to the pressure for cash. Takoma Park was completed in April, Capital Plaza in September, and Rockville in November. All showed immediate increases in sales.

GCS opened an innovative fresh produce store in the space vacated at Penn Daw by the closing of the pharmacy. It had a "farmers market" image, and estimated weekly sales at between $22,000 and $38,000, with a gross margin of 23-26 percent. The store, called "Straight from the Crate," was self-service and had three checkout registers. It opened November 12. The atmosphere was informal and friendly, but sometimes untidy, as produce from bushel baskets spilled onto the floor.

In September there was an 8-day strike against the large unionized supermarket chains. Because their contract with the union expired a bit later, GCS supermarkets in the Washington area picked up about an extra $1 million in sales. Extra costs for overtime pay, emergency deliveries, and some higher wholesale prices consumed any additional net margin, but GCS won goodwill and retained some of the new customers. Shoppers and leaders of the Co-op praised employees for their cooperation and cheerfulness in meeting the emergency.

While the furniture stores and supermarkets were producing satisfactory results in 1974, the auto service stations surmounted the gasoline shortage crisis and began to move into the black. Sales at the Penn Daw service station were $20,000 ahead of 1973.

In the early part of 1975, two more pharmacies were closed; the only remaining GCS pharmacy was the one adjoining the Co-op supermarket in Greenbelt.[1] Another divestiture was GCS's partnership share in Smiths Bakery, long supplier of CO-OP label bread and baked goods; for the last several years it had been operating at a big loss. In September, 1975, GCS sold back its shares for $64,000.

The range of matters to which Congress, Board, and management devoted time in this particular year can perhaps be illustrated by two examples at opposite ends of the spectrum.

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[1] This pharmacy still serves the people of Greenbelt today, although now it is operated and owned locally by the Greenbelt Consumers Cooperative, Inc. which purchased the facilities from GCS in 1984.

One was the sale of around 60 tons of watermelons raised by very poor small-farm families belonging to the Federation of Southern Cooperatives. Countless hours went into the arrangements and promotion for selling the melons. This was the sort of project a co-op would undertake, but which no profit-oriented supermarket chain was interested in. The project's primary purpose was to extend a helping hand to a struggling new cooperative made up of low income black farmers, not to improve the GCS balance sheets.

A totally different project was the switch in the SCAN division from the FIFO (first-in, first-out) method of valuing furniture inventories to LIFO (last-in, first-out). Its sole purpose was to run the business more efficiently with an eye towards reducing taxes and maximizing profits.

GCS finished the 1974 fiscal year with a record high sales figure of $55,918,677 and net income amounting to $466,641, despite reports during the year of losses. The 6 percent increase in sales could be attributed largely to inflation and to a 53-week reporting period instead of 52 weeks. The gain in income brought the book value of the $10 shares up to $7.80, from a low of $3.12 at the end of fiscal year 1972. Cash on hand and in banks was $584,540.

There was to some extent an awakening in 1975. Local area leaders offered more suggestions. Committees were functioning better and coming up with meaningful reports. Workshops and seminars attracted large attendance. The Board showed signs of improved organization. And management paid more attention to the membership potential of the Cooperative. It began to look as though the struggle to unite sound business practices with the "Co-op" identity had succeeded.

A "letter to the editor" in the October newsletter described the new feeling:

"There's new life, new vigor stirring in our Co-op....There's renewed interest in consumer information: note the aggressive move on sugared cereals, the lively 'Consumer Alert' messages, the experimental Consumer Center at Capital Plaza....Yes, our Co-op has moved ahead in many different ways."

There were other encouraging signs in 1975.

The Board established strict guidelines for staff incentive plans. No longer would bonuses be paid exclusively on earnings, as it was felt that additional criteria would better serve the long-term interests of the organization.

A legal services program was approved, and began to offer members recourse to a lawyer at reduced rates.

The travel program got a shot in the arm when the Civil Aviation Board backed down on its threat to stop charter flights by membership organizations. However, airlines came up with more attractive price packages which reduced the margin of savings that GCS could provide. The Co-op's travel committee began shifting attention to 1-week overseas package-tour trips and to l- and 2-day local trips which became popular for members.

Small scale expansion continued. Management remodeled and upgraded two supermarkets. GCS, with financing from the Small Business Administration, opened its ninth SCAN store in Norfolk, Virginia in November. Offsetting this expansion, management closed out the pharmacy division entirely, as there seemed to be no prospect for profitable operation.

However, the rift between the Board and management, noticeable in previous years, was widening and tension was growing.

Back in the latter part of 1974, CEO Waldbaum had formed an executive committee of operating management which included Bob Gowell for SCAN, Donald O'Keefe for finance, Charles Heft for supermarkets and pharmacies, William Darby for supermarket operations, and Catherine Hildeen for personnel. The committee held regular meetings and kept minutes.

Waldbaum gave copies of these minutes—which reflect that decisions were often by committee vote—to the Board. Several directors unfavorably viewed this system as management by committee rather than by the CEO. Additionally, some directors felt that too much top executive time was being devoted to these meetings as opposed to the operation of the Cooperative. Indeed, this committee's work became so burdensome at one point that there was a proposal (which was later dropped) to hire a secretary. A third Board concern reflected in the minutes was the fact that Waldbaum's committee appeared to spend as much time on procedures and processes as it did on substantive issues. Also recorded were occasions when the executive committee "authorized" Waldbaum to take certain actions. The Board took strong exception to such indications of confusion about who was really in charge of the corporation.

The Board, meanwhile, had its own Management Committee, comprised of the chairman of the Board, the vice chairman, and one other director, rotated among the other seven making up the Board. While this Management Committee had no final authority (any action taken required ratification by the full Board), it nonetheless served as a link between the CEO and his top staff between Board meetings.

In April 1975, the Board's Management Committee and management's Executive Committee began to meet bi-weekly to maintain closer communication. In retrospect, these joint meetings ended up diminishing discussion at Board meetings and increasing friction between Board and management — exactly the opposite of what was intended. From November through the balance of Waldbaum's tenure these meetings were held only sporadically.

Two specific issues came up at the end of the year that added to the

Board's discontent with Waldbaum. The first was the renewal of his employment contract. During sometimes heated debate over the terms of the renewal, concerns were voiced about Waldbaum's proper title, his bonus and compensation package, management accounting procedures, and liability that might arise if the CEO is sued or commits a fraudulent act. These debates eventually led the Board to officially conclude that it had "a duty not just to oversee what the officers are doing; it has a responsibility to supervise what is going on." Then, fanning the flame, management's Executive Committee meeting notes show that Waldbaum presented the draft for his employment contract to his committee for review and approval. The Board felt this issue was exclusively between itself and Waldbaum, without input from other members of the staff.

The other divisive issue was over legal counsel. The Board wanted to hire a new law firm, but at a Board/management retreat in December 1975, it became apparent that there was a lack of agreement on who to select. Waldbaum made it clear that he was not impressed with the Board's choice. In a management Executive Committee meeting held shortly thereafter, a top staff member was quoted as saying: "the legal counsel issue was just the tip of the iceberg. The issue is whether the Board is wise to make decisions directly in opposition to the opinion of operating management."

There was another major debate over whether a proposed new Membership Relations Committee should report to the Board or to the CEO. A compromise, which favored the former, was eventually reached. Later in the year, though, when several directors questioned why management's long-range planning report had so little reference to member relations, Waldbaum snapped, "The responsibility for membership has been removed from operating management."

By the end of 1975, the growing friction between the Board and management had become a concern for both groups. Waldbaum felt that he had "turned the Co-op around and made choices possible," but that the Board was not "facing its responsibility to make choices and determine the direction of the Co-op." Some of the directors felt that the operating situation had become untenable: (1) the remaining supermarkets were continuing to lose money, (2) there was no assured source of supply for gasoline in the service stations, and (3) SCAN was supporting the GCS overhead. Over and beyond that, 2,400 members now had requests on file for GCS repurchase of their shares of stock. To the Board, management was not doing its job.

CHAPTER 16

Another Transition (1976-1979)

By the time 1976 rolled around, on top of friction with the Board, Waldbaum's committee itself seemed to be in disarray. At a meeting in January, Vice President Gowell indicated he would stay with GCS only if the long range plan included sufficient growth and development of SCAN. Vice President O'Keefe "felt dumped upon" because the executive committee would not address the issue of the SCAN data processing system. And Vice President Heft complained that "the whole data processing approach is audit oriented rather than a management tool approach." The Board learned on February 29 that the Management Executive Committee had requested O'Keefe's resignation because of "repeated difficulties" in getting his support for the Executive Committee.

The Board met in February of 1976 to officially draw up a new contract for Waldbaum. The proposal contained many changes which reflected concern about the way things were being run; it also contained a provision which would make the bonus a Board decision, rather than an automatic reward for meeting certain conditions.

When the Board met on March 16, a letter from Waldbaum was read which stated that most of the new contract's provisions were acceptable or could be negotiated, but that a "base salary as total compensation in 1976 is wholly unacceptable to me." His letter appears to accept or indicate willingness to negotiate all points except this "discretionary bonus."

This was, however, an issue the Board was not willing to negotiate. On March 16, it was decided that: "....Whereas Waldbaum has rejected the offer by the Board of Directors...it is in the best interests of the Cooperative that the resultant forthcoming change in management take place immediately....Eric Waldbaum is hereby relieved of all responsibility and authority as Chief Executive Officer of the Cooperative immediately."

The Board agreed to "....continue to fulfill all the provisions of the existing employment agreement <u>unless</u> Mr. Waldbaum should choose to accept a sum to be determined by subsequent Board action in return for his signed agreement to release the Cooperative from any further obligation under the existing employment agreement."

The Board approved the separation motion unanimously and agreed on $20,000 as the appropriate termination payment. The Board then reinstated Donald O'Keefe as vice president of administration and finance, and also designated him as Waldbaum's temporary replacement for affiliated entities such as the GCS Pension Plan and the Employee Benefit Trust Retirement Plan and all partially or wholly owned subsidiary corporations.

The Board asked Rowland Burnstan to be chief executive officer of GCS for 3 months (later extended to the end of the year). Burnstan was a retired businessman, management consultant, and economist, who had served as Assistant Secretary of Commerce at one time. He accepted at $1,000 a week, plus car and some provision toward living expenses.

All this done, Chairman Mohn called Tony Tona, chief of security and loss prevention, to place a guard on the corporate offices to secure all records and to change all locks. The Waldbaum era was over.[1]

Another disconcerting incident marred 1976 when it was discovered that several SCAN employees had stolen between $300,000 and $400,000 worth of furniture. The operation was discovered when a complaint was made to the police about a large number of SCAN delivery trucks coming and going at a house in northwest Washington, D.C. Customers came to the house and placed orders at deeply cut-rate prices. Then SCAN drivers would bring the ordered furniture to the house for pickup, or deliver it directly to the 'customers.' It was a lucrative business for those involved, and had been going on for several years at the time of its discovery.

Recovery was minimal due to difficulties in supplying hard evidence for the amount of the loss to the bonding company and insurance carrier. A suit against the insurance carrier yielded a paltry $29,988. Following this massive theft, holding pens were built in the warehouse, with one crew placing orders into the pens, and a separate crew loading from the pens onto the trucks. A new data processing system with inventory control capacity was also installed.

The supermarket division continued to lose sales and operate at a loss in 1976. This trend continued and worsened, despite remodeling and a variety of experiments in merchandising and advertising. When Burnstan took over the CEO responsibilities, he expressed shock at the extent of food store losses.

[1] Almost. Waldbaum took issue with the Board's action and filed several suits against GCS, which were finally settled in 1977 by payment of $45,000 to the former CEO. These suits, however, took up much of the Board's attention during 1976.

There was a growing realization that every time a store was closed, the newer, younger employees were released, and the older employees had to be retained under union seniority rules. This meant that the average retained employee commanded a higher salary and more vacation and retirement benefits. A business that is growing and adding new outlets does not have this problem. Chairman Mohn pointed out at an October board meeting that the total GCS payroll package was considerably out of line with industry standards and put the Cooperative in a poor competitive position.

By this time, the Co-op was being flooded with angry requests by shareholders to get their money back. "You have robbed me of my $10 which I paid in good faith and now you won't give it back or pay me any interest on it," wrote one woman. Some threatened to sue. Others wrote to the Securities and Exchange Commission. The explanation that shares of stock are an investment that carry risk to the owner fell on deaf ears. For so many years members had the option of selling shares back to GCS for cash when they needed it, that they looked upon the Co-op as a sort of savings bank. Many members had never understood the difference between interest and dividends.

It was also around this time that people began pressing the idea of closing the supermarket division entirely. Director Leonard Lineberry was an early proponent of this idea, insisting that in the long-term tightening crunch, the Board's first priority must be to protect the remaining assets of the member-owners.

Members in the Norfolk/Hampton/Newport News area of Virginia also urged the idea. They were incensed at having their money tied up with no returns on it, especially since their bookstore had been closed when GCS took over Peninsula Cooperative. And now GCS was closing the remaining food stores and one of the furniture stores.

Supermarket closings in 1976 included Sherwood, Southampton, Capital Plaza, Pimmit Hill and Aspen Hill. This last store was in a good location and was converted to a SCAN in November.

Waiting for the SEC to approve the issue of a prospectus prevented the sale of stock or debentures during the year, with the result that GCS became more and more dependent upon borrowed money. As operations continued to show deficits, the shortage of cash became acute. By October the Board had to make some hard choices about which projects could be funded and which would have to be set aside. Plans for two more fresh produce stores were dropped, and scheduling of a new SCAN store in the Peninsula area was postponed. The opinion was voiced that "the Cooperative has apparently lost its borrowing power." There was a consensus that the big job ahead was to restructure GCS "into a profit-making organization before considering expansion."

A new member benefit was developed during 1976. Art Danforth, with a background in both cooperatives and law, put together a legal services cooperative with endorsement from the GCS Board. More than 200 members signed up within 2 months to take advantage of discount rates from a panel of lawyers. By May of the following year there were 320 members. After that growth was slow. In April 1984 the Board voted to make legal services at reduced rates part of the Cooperative's package of member benefits.

Another member benefit was created by the Board in September when an option was taken for vacation apartment units at Merritt Island, Florida. This was part of a cooperative apartment complex purchased by Cooperative Services, Inc., Detroit. The apartments were fitted with SCAN furniture and then rented to GCS members at discount rates. The travel and recreation program handled rental arrangements. Some members of the Peninsula area delegation criticized the Merritt Island project and again questioned "the authority of the Board to make any investment of this type when they are unable to pay dividends."

From around two hundred inquiries for the CEO position with GCS, the Board selected Roy Bryant late in the year. He came on duty January 1, 1977, bringing with him 21 years of experience in the corporate food industry and nearly 4 years as general manager of the large and successful Consumers Cooperative of Berkeley, California. The Board had high hopes for Bryant, who had earlier written to them that, "There isn't any reason why your food stores should continue to lose money if you have a proper source of supply and a realignment of staff for seven stores instead of the previous twenty-one."

Bryant came on board just in time to see GCS end up the year with a net loss of $462,022. In 1976 sales had dropped to $48,522,820, nearly $7,400,000 less than the previous year. The cash position was worse. Members' $10 shares now had an equity value of only $5.69. Total staff was down to 588 employees.

There was a lot of repair work to do. One of Bryant's first moves was to cut the staff still further. After 3 months in office he had reduced general overhead by half a million dollars annually.

Next, with Board approval, he set about designing a merchandising program for each supermarket that would fit the store's market area. All seven were operating at a loss.

For the Eastover store, on the edge of Washington's Anacostia area, management talked with neighborhood leaders about what local shoppers wanted and then renewed the lease for a year instead of closing it; Bryant showed that closing costs would save only $30 over keeping it open in 1977. There was no membership base for the store, however, and operating results did not improve. Eastover was an old market in a crime-ridden area. It would require $200,000 to modernize and was costing GCS $25,000 a year for security guards. Safeway and Grand Union each had a supermarket in the area offering competition that GCS could not match. The store was eventually closed in April of 1978; the new owner paid GCS $3,750 for equipment and the inventory at retail price less 25 percent.

There were some improvements to the small Fairlington store, which was generally acknowledged to be a walk-in neighborhood operation with a small but loyal Cooperative membership. It was continued on a month-to-month lease because the landlord had other plans for the location.

The most drastic change occurred at the large Takoma Park supermarket. Over the years the neighborhood had deteriorated, the area delegation of members had dwindled, and sales had been down for a long time. The operating loss for a period of 36 weeks was approximately $150,000.

As a last ditch effort at saving the store, management closed it for 3 days and reopened it December 1 as a "bare-bones" warehouse-type operation with no frills, reduced hours, shelf stocking in original carton bottoms, and deep cuts in markups. Slow-moving items were removed from stock. Advertising circulars went to the houses and apartments in the area. The hope in all this was that a large increase in customers and high sales figures would offset the thin margins and put Takoma Park back in the black. The first week's $100,000 in sales were close to expectations. After this initial surge, however, sales again sagged and remained unsatisfactory until the store was closed in 1979.

After a long and frustrating delay, GCS had obtained from the SEC authorization to issue a new prospectus to sell membership shares again. The head of personnel arranged for 24 store managers and other key employees to take the Maryland examination to become security agents. That made it possible to have someone in each facility certified to sell shares. Nevertheless, sales were slow. And all through this period there were members clamoring for repurchase of their holdings.

Much of 1977 and 1978 was given over to seeking a new approach to membership and raising equity capital. It was agreed that a "fair share" investment for each member ought to be about $100, but in the remaining years of GCS no way was ever found to achieve that goal. Board and management sought legal help in exploring options for restructuring GCS. With the help of members in the Congress, an attempt was made to have the Maryland Assembly amend the State Code to permit incorporation of consumer cooperatives. This would enable GCS to be a membership fee organization and not depend upon the high cost and complexities of stock shares. This campaign was successful in 1978.

Leadership and staff continued to experiment with merchandising and services during these years of attempted recovery. The 'Fresh from the Crate' produce market at Penn Daw was popular, but operated with marginal financial success. Even so, another one, known as the Co-op Green Grocer, was opened in August 1977 in the Pennmar Shopping Center. A renewed effort to sign up members and form a new area council was made, but without much success. Both the Green Grocer and Straight from the Crate were sold in September 1978 to former GCS staff members at book value.

Working with the Board/Congress Long-range Planning Committee, CEO Bryant came up with some merchandising policies and goals to improve service to shoppers and the cooperative's image in the remaining food stores. His suggestions included eliminating the use of colored lights to deceptively enhance the appearance of meat or other merchandise, using end-aisle signs to note if a better buy was available elsewhere in the store, marking each seafood package or tray with a sign saying "fresh" or "frozen" or "frozen and thawed," and ensuring that no more than 10 percent of all prices will end in "9".

Vice President Darby introduced a monthly special purchase as a member benefit. The first was a smoke alarm at a price barely above wholesale. They went so quickly, that he placed a reorder for $5,000 worth. Information about upcoming special buys was carried in the members' newsletter.

In February, the Board approved a recommendation to switch suppliers, from Mid-Eastern Cooperative, Inc., to P.A.& S. Small. For a number of years, GCS relations with Mid-Eastern had been deteriorating, due mainly to distance and an unfavorable pricing system. GCS also frequently found itself at odds with the management of Mid-Eastern on policy questions. Outages constituted another problem. The switch to P.A.& S. Small resulted in an estimated one percent saving.

SCAN sales were affected by two things in 1977. On a positive note, the Board and Congress leaders agreed on appropriate credit arrangements for SCAN shoppers. There had been a strong push to make the Greenbelt Credit Union the only, or at least the preferred, source of credit purchases, but this was modified to have the credit union one of several options. In the fall, Gowell reported that 33 percent of SCAN shoppers paid for their purchases with credit cards. The other matter was a strike by the dock workers union in Baltimore. After a month, the cutoff in deliveries had cost GCS and SCAN $400,000 in sales. Even so, the SCAN stores turned in total profits of $705,000 in the first 11 months of 1977.

In early 1978, the Denbigh, Virginia, SCAN store was closed, and a new one was opened in nearby Hampton.

While furniture sales sustained GCS, food stores continued to be a drain. For the first 11 months of 1977, supermarket losses were $580,000.

At the start of 1978, CEO Bryant reorganized his executive staff. He made Bob Satake assistant CEO, with Board approval. Satake had worked with Bryant at Berkeley, where he had experience with cooperative service stations and produce departments.

In August and September came further staff reorganization, with deep cuts in personnel and some resultant savings. Vice presidents for finance and administration, food operations, and personnel were terminated with 6 months' pay.

Money—or rather the lack of it due to continuing supermarket losses—colored nearly all considerations at staff meetings and Board sessions. Even the unions recognized the Cooperative's plight. In their 1978 contract negotiations, employees set aside wage increases for three years in an attempt to help the Cooperative reestablish its margins.

The deficit position of GCS in the spring of 1978 was made even worse by a new required accounting procedure, FASB-13, which specified that certain leases had to be capitalized. The effect was to increase GCS's deficit by $328,000. Vice President O'Keefe announced in July that GCS would have to report to the SEC that it had negative working capital.

Director Leonard Lineberry continued to urge that the entire supermarket division be closed out. At a September 18 meeting he pointed to food store losses for the last 7 years and to a loss of $769,448 for the current fiscal year. He also noted that less than 10 percent of food store patrons were members. In a long resolution he asked that management close stores responsible for the losses. The Board tabled the motion, 6-1.

Six weeks later the Peninsula area members presented the Board with a petition bearing 316 signatures requesting a special meeting of the entire membership to decide on closing the Cooperative's remaining food stores. Still smarting from the "hasty" closing of the food stores in Hampton and Newport News in 1976, the Peninsula Area Council felt that continuing to sustain losses in other supermarkets—which made dividend payments and membership share repurchase impossible—was negligent and irresponsible.

Even so, Board and management felt the cost of calling a special membership meeting was unrealistic in the face of the Cooperative's serious financial situation. The member relations staff convinced the petitioners to table the request until the annual membership meeting in June of 1979. Although the motion to close the remaining food stores was substantially defeated at this meeting, the Peninsula area's agitation prompted the Review and Evaluation Committee to begin an inquiry into supermarket losses, estimated at $2 million over 8 years.

Despite the grave losses in the supermarkets during most of 1978, GCS finished the fiscal year in the black by $228,000. The SCAN operations, cutbacks in administrative staff, and an income tax credit for carry-forward of prior years' losses were responsible for the improved showing. Supermarket sales and earnings did improve and the food division showed a profit in the last quarter. Working capital was recorded as a negative $52,000, but book value per $10 share of stock was up to $6.02.

The following year saw some encouraging gains. Sales were up by $2 million, although some of this was due to rising prices. Net income was $410,000. However, $210,000 of that came about from switching back from LIFO (last in, first out) to FIFO (first in, first out) furniture inventory, with permission from the Internal Revenue Service.

On February 1, 1979, Greenbelt Consumer Services, Inc., became Greenbelt Cooperative, Inc. This shift after four decades was made possible by the amendment to Maryland's incorporation law which the Cooperative had been able to win through its friends in the State Assembly. For the first time it was now possible to incorporate a consumer cooperative and legally use the "cooperative" identification which had been restricted to farmer production and marketing organizations. From here on, GCS became GCI.

By mid-year, the start of a transition from a stock corporation to a membership association was made possible by major changes in the certificate of incorporation and the bylaws. A campaign to call in the $10 A shares of stock in exchange for a non-stock voting membership was set in motion. There was no change in the non-voting B shares, and GCI was pleased to report that full equity value had been restored as a result of the improvement in operations.

The July 1979 issue of the CO-OP CONSUMER advised:

"1. Anyone not now a member may purchase a non-stock voting membership in Greenbelt Cooperative, Inc. for $10. Membership will be open and available at all times.

"2. Current members may continue as members by requesting that their Series A share of stock be converted to a non-stock voting membership. By doing this, they will continue to be entitled to vote, hold office, participate in affairs of the Cooperative, and have access to benefits designed for members. However, membership will not earn dividends, nor will it be transferrable.

"3. If a member no longer wishes to continue as a member, no action is needed because at the end of a six-month conversion period (December 3, 1979) the Series A share certificate held will automatically become evidence of ownership of one share of non-voting common stock. If you wish to continue as a member of the Cooperative, we remind you that you must sign and return the Request and Authorization form."

A legal notice also appeared in the paper. By the end of 1979, 9,063 members had converted the A share to the new $10 non-stock voting membership and 1,146 new members had joined. A hopeful indication for the future of GCI was the discovery that nearly half of the new members were in the 30-39 age bracket. The next largest age bracket was ages 20-29.

The Cooperative had gradually begun realizing that it was losing its pioneer generation of leaders at an increasingly rapid rate. In 1979, and into the 1980's, a special effort was made to bring new leaders into the organization. One way this was done was by stepping up membership drives. In 1979, for instance, membership cards were mailed out to all members, and Chairmen of area councils called or wrote to all new members in their areas, welcoming the newcomers and inviting them to area council meetings. The hope was that some of these new members would assume a leadership role in the future.

One of the major legislative efforts of GCI leaders came to fruition in 1979 when Congress passed an enabling act for the Consumer Cooperative Bank, and this new financing entity began setting up house. The Greenbelt Cooperative later borrowed from the new Co-op Bank.

There was one important expansion project in 1979 when GCI's tenth SCAN store opened on July 1 at Lakeforest Mall in Gaithersburg, Maryland.

At the close of a very successful year in operations, Bryant resigned. He explained that when he was hired, he had several goals which he hoped would help turn the Cooperative around. "The financial report for 1979 indicates that the turnaround has taken place and the goals are completed." The Board accept Bryant's resignation with "deep regret."

Bryant's assistant Satake was named president and CEO, a position he maintained until GCI filed for Chapter 11. This was GCI's last change in top management.

CHAPTER 17

With Satake and Mohn (1980-1983)

Fiscal year 1979 was so successful that the Board was able to set aside $50,000 for repurchasing shares of stock from people who wanted to get their original investments returned. A list of applicants for repurchase had been set up, and these shareholders were informed that GCI would buy back shares in request date order.

With past accumulated deficit wiped out, the Board was able to declare an 8 percent dividend on shares still being held — the first dividend since 1971.

Although the food markets and service stations gave no promise of net returns in 1980, furniture sales continued to be profitable enough to carry the total costs of GCI with some left over. The Board began to plan for a future patronage refund. When management bought new electronic cash registers for the Greenbelt supermarket and then other stores for $175,000, there was assurance that the new equipment could compute a patronage return.

However, there were reservations about the generally optimistic picture of operations. At mid-year, it was noted that sales increases lagged behind inflation, so GCI figures on gains were not a valid measurement.

Sales for the year were boosted by a complete renovation of the Greenbelt supermarket in August and the opening of a new one at Severna Park, Maryland, on December 3. Price tag for the Greenbelt remodeling was $485,000. Improvements included a lower ceiling and other features to save on heating, cooling, and lighting costs. The renovations, with suitable reopening publicity, provided a little bulwark against competition from new chain supermarkets in the area.

Severna Park was more worrisome. The area had no co-op membership and there was already supermarket competition nearby. The lease was for 5 years, at $3.10 per square foot for 15,477 square feet. Satake had estimated weekly sales at $100,000; the first week did $85,000.

The Board had talked about operating Severna Park as a "direct charge" store, for members only, with wholesale prices at a fixed weekly fee to cover costs. This concept, popular in Canada, was abandoned. Instead, a marketing strategy identified as "Co-op Cost Plus" was implemented at Severna Park at the end of 1981 when sales and margins did not respond to other merchandising efforts. After details were worked out with the union, this store paid a lower wage and closed for 2 days during a 40-hour week. All frills such as free bags, car loading, and a store hostess were eliminated. Card-carrying Co-op members were charged wholesale cost plus 15 percent for orders less than $20, 12 percent on orders up to $50, and 10 percent on orders over $50. Non-members paid cost plus 15 percent; senior citizens 10 percent. When this proved too complicated, a straight 12.5 percent markup was substituted. "Co-op Cost Plus," however, was not the hoped for panacea, and the store operated at a loss for 2 more years; it closed in 1984.

The early 1980s was a time of intense exploration for innovative ways to serve old members who were unhappy with cutbacks in facilities and services and to attract new members and additional capital. Numerous committees and ad hoc task forces were created, carefully crafted reports were prepared, numerous study retreats were held, trips were taken to see what other cooperatives were doing, and consultants were hired to analyze and advise on potential projects.

The majority of area council and Congress leaders were oriented toward supermarkets, service stations, and pharmacies. Several of the newer, younger members who had come into the Cooperative's leadership through SCAN purchases left. Several gave "the bickering and trivia dealt with at council meetings" as the reason for leaving. One disenchanted couple wrote to Chairman Mohn: "When a council meeting devotes almost an hour in discussing whether an annual area meeting buffet should be vegetarian or serve meat it is wasting our time. We believe that Greenbelt Consumer Services should be run like a business..."

One project that held promise was to use the experience of the Greenbelt Cooperative and its position in the market place, to help "new wave" co-ops and buying clubs get started and reach firm ground. Working alongside people in the anti-poverty program, the Cooperative League and the National Consumer Cooperative Bank, GCI offered wholesale grocery supplies geared to the specific needs of the small buying groups and training in skills required for organizing and operating cooperatives. Some of these new organizations took advantage of the offer, but there was not the response that was hoped for. In talking with some of the young leaders of the new co-ops, one could sense a reticence about accepting GCI as a partner in the cooperative movement. Was there some feeling that GCI was too big, too successful to understand the problems of a real "grass roots" co-op?

One of the biggest and most time-consuming projects of 1980 involved an unsuccessful foray into housing. Somewhat prior to 1980, GCI and Cooperative Services, Inc., of Detroit had explored a joint venture using Government loan money to build a low-cost apartment house for senior citizens in Essex, on the outskirts of Baltimore. When GCI found the venture impractical, the Detroit organization went ahead on their own. When Cooperative Services, Inc., ran out of cash, GCI was asked to buy the $6 million project for an up front investment of $250,000. Some directors and members of the Housing Committee pushed hard for this venture, not only to put GCI into housing for its older members, but also to bail out a sister cooperative. There were too many problems, however, and GCI gave up on the proposal for a second time. The Essex apartment house was offered for sale by the Detroit cooperative to the prospective residents, but then retained when that co-op's finances improved.

In January 1981, Satake named Jim Nelson as vice president and director of operations. His organization chart also called for a vice president for finance and administration, but this position was vacant until the end of 1982.[1] Gowell had retired as vice president for the furniture division, but was brought back for a period as a part-time consultant.

Two new furniture stores were opened in 1981 and two old ones closed. Greenway SCAN, in Prince Georges County, Maryland, opened on July 12, in a highly visible location at the end of the building and was within a few hundred feet of the Capital Beltway (I-95), the Washington-Baltimore Parkway, and the busy road to NASA. Break even point for this store was determined to be $25,000 per week. First week sales totaled $101,000. Rental for the 13,000 square foot facility had been projected at $113,000 for the first year.

The second store opened on October 17, with 12,000 square feet of space on three levels in the heart of fashionable Georgetown. This new SCAN had neighbors such as Garfinkels and Abercrombie & Fitch, in a Victorian setting with fountains and gardens. Rental at this location was $18.50 per square foot (compared, for instance, to $7.34 at the Pikesville SCAN on the western outskirts of Baltimore). Opening week sales came to $106,000 and then settled down at around an $80,000 average.

SCAN stores in Takoma Park and Canal Square in Georgetown closed. Closeout sales brought in much needed cash. Several special events also boosted sales and income, including a warehouse sale which disposed of slow-moving inventory pieces.

Management reported that by the time the two new SCAN stores opened, the furniture division was exceeding sales and profit forecasts by about 11 percent. About 25 percent of furniture sales were cash and carry.

It had been obvious that a profitable operation like SCAN would attract

[1] The position had been eliminated during budget cuts in late 1978.

and build up to 60 groups of 20 families at each of several depots.

The idea made sense. It went back to the old buying club concept but it was much more sophisticated. Each month a printout of groceries and prices was made available to the group. Its leader then called a meeting where members went over the list and filled out order sheets. Individual orders were then adjusted so that the total order would be in case or carton amounts. The combined order was sent to the GCI offices, and on a designated date, delivery was made to a depot where the purchasers came to pick up their groceries. They all helped with the unloading and sorting, and the leader totaled each order on a calculator and collected payment. The total collected was then sent to the GCI office. An advance deposit provided security against failure to pick up orders.

POPS prices carried a 6 percent markup in the beginning, but it was soon obvious that this didn't cover costs. The markup was increased to 7.5 percent plus a 2 percent delivery charge. Satake assigned supervision of POPS to John Gauci, vice president of membership. Satake clearly regarded the project as a membership benefit rather than a business operation within the supermarket and petroleum division. By year's end it was obvious that part-time supervision of this operation, on top of Gauci's schedule of other assignments, was not working, but growth of the service was so much slower than predicted that a full-time supervisor could not be justified. Gauci proposed three options for the Board, none of which could cover the costs of the service.

By January 1983 POPS was serving 1,000 families, but at this current stage costs for administration and distribution amounted to $100 per family. A loss of $29,000 by the close of the year was forecast. In a determined effort to make the experiment work, a full-time manager was hired and a depot was rented. For the families using POPS there was an 18 percent savings compared to shopping at Giant, but only a 3-5 percent saving against prices at the Bonus stores. The POPS manager left in less than a year. The enterprise limped along until 1984 when the Greenbelt Cooperative got out of the food business completely.

Despite the anxieties about operations and the financial condition of GCI during the year, final figures as of January, 1983 showed $52,381,000 in sales with net earnings of $589,000. This was enough for a 4 percent dividend on outstanding shares of stock and a patronage return of 1.5 percent.

The 1983 budget was ambitious. For the first time, a $1 million goal was set for net income. Possible SCAN expansion into either Chicago or Philadelphia was discussed, with the latter city preferred. SCAN franchising was also discussed, but this involved recognized dangers.

After agreeing on a budget, the next step was to establish priorities. These included:

1. Capital structure.
2. Expansion of SCAN.
3. Food distribution alternatives.
4. A fourth earnings center (business).
5. Leadership identification and development.
6. Governance structure for the Cooperative's future.
7. Membership survey.
8. Other continuing programs (service stations, POPS, member benefits, member education, tri-partite committees including employees).

Several things happened to SCAN in 1983, some more encouraging than others. The encouraging things first. Reporting in February, Satake called the SCAN store in Loehmann's Plaza, Falls Church "an absolute gold mine and a main factor in the furniture division's profitability." The October issue of the membership newsletter carried a double-page spread on SCAN as "a 23 year old co-op success story." It reported that prices and merchandising policies were written from the customer's instead of the seller's point of view. The feature listed 15 practices that characterized SCAN. Long-time members saw this as a return to the Cooperative's early SCAN image.

The direction that SCAN should go was not entirely clear to the Board. At mid-year, Board and management struggled with a choice between maximizing profits by easing the gross margin up to 44 percent and introducing some lower priced furniture as a mix with SCAN's traditional lines, or emphasizing the earlier image of high quality and lower margins.

GCI was at this time managing two SCAN stores in Chicago owned by the Hyde Park Cooperative; the stores were losing money and the Chicago Board indicated a willingness to sell them. Rather than have the SCAN outpost go to some outside business, and because GCI had a good feel for the business after having managed it for some time, the Board decided by a split vote in September to buy the operation for $258,000, and incorporate it as a wholly owned subsidiary. The forecast for the Chicago operation was a loss of $145,000 in the first year, but a net profit of $50,000 in the second year. These hopes turned into a disappointment.

In Washington, meanwhile, the landlord of the Van Ness building wanted SCAN out so he could remodel for professional rather than commercial tenants. He offered $90,000 to buy back the remainder of the GCI lease, and the Board agreed, closing the store there in September 1983.

The bad news for the furniture division was more competition. A firm based in Boston, Scandinavian Design, was planning to open four or more furniture stores in the Washington area in an attempt to pick off some of SCAN's market. Satake told the Board that at best the new competition would force GCI to operate more efficiently, but at worst it could put SCAN into a loss position which would be ruinous for the Cooperative. GCI had already seen the effects competition could wreak in the supermarket division.

SCAN's warehousing space had once again gotten too small to serve the expanding organization, and temporary overflow space was being rented. A study of the warehouse operations and ways to improve efficiency carried a price tag was $32,000, and implementing the recommended changes cost $93,000.

Additionally, a contentious SCAN employee/management relations dispute, which resulted in a lawsuit and counter suit, took up much of the Board's time in 1983, without ever really resolving anything.

The Board had several studies underway throughout the year. A $12,250 membership survey turned up some interesting information. A questionnaire was mailed to every 26th family on the membership list in order to yield a profile of the Cooperative's members and show the extent to which they were using GCI facilities and member benefit programs. A total of 2,100 questionnaires were sent. There was a surprising 79 percent return, due largely to follow up by the member education department and Congress volunteers.

Here are some of the findings:

Sex and marital status- 55 percent women and 45 percent men. 67 percent married vs. 51 percent married in the general population.

Race- 88 percent white, 5 percent black, 7 percent other. (This was way out of line with area racial figures.)

Education- 70 percent of the Co-op members had college education vs. 33 percent in the general population.

Income- 80 percent of members had income over $25,000, while 56 percent of the general population had this level of income.

When asked why the member had joined the Cooperative, most newer members replied "a store employee asked me and it was only $1." Older members said they joined for patronage refunds or member benefits. Very few mentioned the idealistic reasons that had motivated most of the pioneer leaders of the original Greenbelt Co-op.

Sixty-six percent of those surveyed had made a purchase from SCAN, 28 percent within the previous year. Forty-five percent said they shopped the Co-op supermarkets occasionally, 17 percent regularly. Many more replied that they had shopped the supermarkets in the past before they closed. Co-op service stations were patronized by 18 percent of respondents. Lack of a station close to home or work was the main reason for not using one.

Only 15 percent had voted in a GCI election, and a mere 3 percent had ever attended a meeting. The GREENBELT COOPERATOR was read by 76 percent of the members; most popular articles were features on travel and food; least popular were articles on GCI operations, financial reports, and the calendar of events. Only 38 percent had ever taken advantage of a promotion or sale as a result of seeing an advertisement in the newsletter. Of member benefits, only 8 percent used the travel program, and 85 percent had never used any member benefit. **Very sobering findings!**

Another study authorized by the Board was a management survey by Peat, Marwick, Mitchell & Company. The price tag on this report was $90,000. In essence it recommended that GCI close down its loss operations. This was advice that had been heard before. Board members, expecting more options to have been explored in the survey, were understandably unhappy with this rather grim picture.

Finally, on December 17, 1983, the Board made a monumental decision: the Cooperative would divest itself of its remaining food stores and service station operations.

CHAPTER 18

Finishing 50 Years (1984-1989)

The decision to take GCI out of the food and service station operations marked the end of an era. It was a traumatic action for the Board and devastating for many members. Looking back, it can be seen as the inevitable end to a trend in decreasing member participation and increasing management problems going back a dozen years.

The vote on December 17, 1983 was unanimous, taken after an agonized and unsuccessful search for alternatives. The Board determined that the announcement would be made January 3, but with no implementation of the closures before March 31. It was further ordered that, where possible, the facilities should be sold to other cooperatives or to community, member, or employee groups.

Reaction to the announced divestiture came quickly and in some cases it was bitter. Protests came mainly from members who lived in the vicinity of the remaining food stores. In Greenbelt, a petition with more than 1,000 signatures asked the Board to reverse its decision or at least postpone closing for 6 months. A "Save Our Stores" group sprang up to try and delay the closing, or to form a local cooperative to buy it. Jim Cassells was chairman of this group. The Greenbelt City Council, the board of Greenbelt Homes, Inc., and the Greenbelt Area Council of GCI, headed by John Webb, all took an active interest in finding an alternative to losing the anchor business and only supermarket in the community's shopping center.

There were some members who felt like Albert K. Herling, former GCS director, that "Little if any consideration was given to the role of the Co-op in the social and economic fabric of the community....We are all made to feel like pieces on a chess board to be moved around, discarded or surrendered at someone else's decision — a far cry from our cooperative democracy concept.... We thought we had our own enterprise — and now it is suggested that we may be able to buy back what we believed we already owned...."

Others, especially members in the Peninsula area of Virginia who had lost their food stores several years earlier, believed that the sales would increase the possibilities for repurchasing shares of stock by improving cash flow.

Four main groups sprang up to negotiate for the facilities to be divested. One of these incorporated in Maryland as Consumer Services Cooperative. They sought to buy the four service stations that would be spun off, but they could not raise enough cash for the asking price. This group reopened the Falls Church service station 2 weeks after GCI gave it up on expiration of the lease. The single station was not viable just on its own, and the group gave it up after about 6 months.

Disposal of the Kensington store was the most difficult part of the divestiture. Members of the Wheaton Area Council formed a New Consumer Co-op. In bidding for the store they found themselves in competition with three grocery firms. And all four bidders found themselves at odds with the landlord who preferred to have a drug store as a replacement on the lease. Extensions of time were given to the co-op group but it was not able to come within 10 percent of the top bid, which was the requirement set by Satake with approval of the Board. Wheaton members who had organized this new co-op were left bitter at not getting the store.

Former GCS Director Wilbur Wright led the Westminster Area Council in a successful drive to sign up members and raise enough capital to purchase that store — including assumption of the lease. Agreement with GCI was reached on March 30, and once again cooperators in this Howard County community were on their own. By June they had 2,500 members and $80,000. Most of the cash was in transfers of member equity from GCI. The owner of the shopping center bought the service station. Many members switched to a nearby station operated by Southern States Cooperative.

The Greenbelt Consumer Cooperative, Inc., formed to purchase the supermarket and pharmacy in the city where it all started. Members of this new organization raised $80,000 by June and closed a deal with GCI. The arrangement provided that the new cooperative would lease the building from GCI, pay $250,000 for store improvements and equipment, and another $250,000 for inventory. The required cash came mostly from three loans: 80 percent jointly from the National Consumer Cooperative Bank and Consumers United Insurance Company and 10 percent from an equity loan from the National Consumer Cooperative Development Corporation. The remaining 10 percent came from members. Most of the 4,500 GCI members in Greenbelt switched membership and equity to the new cooperative. In an interesting return to early cooperative principles, the bylaws of Greenbelt Consumer Cooperative, Inc., specify that the cooperative cannot expand outside the city limits of Greenbelt.

The last months for the supermarkets and service stations were painful for GCI. The personnel department arranged for terminal leave, severance pay, closeout of employee records, and in cooperation with the union found new positions for the men and women whose jobs were disappearing. At the stores and stations, operations worsened each day as key employees left for replacement jobs and inventory was purposely depleted. Not all the depletion was intentional. "Leakage" (stealing of merchandise and failure to ring up sales for friends) cut into gross margins toward the end.

Costs for closing the stores and stations was estimated at about $240,000, but receipts from the sale of the facilities totaled $566,000 included $200,000 for the Greenbelt service station in October, the $250,000 for Kensington, and $116,000 for the other units. Management and the Board figured there was enough net gain to put $150,000 into repurchase of stock from members and former members on the waiting list.

It was probably not too surprising that following the notice of the divestiture, there were nine candidates for the three Board positions in the 1984 elections. Two relatively new faces won places as directors. An examination of the minutes of Board meetings indicate that these new directors shook things up a bit for a short time.

Early in the year Satake presented the Board with three alternative plans for management's long-range organizational structure. He echoed a concern the Board had often voiced, about assurance that the CEO could be replaced in event of an emergency. He expressed confidence that there would be in place shortly a management team that would be "a good, cohesive unit working together...a group that could continue to run the organization." He proposed to bring in a highly qualified marketing specialist within the following 2 years, and he affirmed that a good furniture division manager would emerge from within the current staff. Nearly an entire Board meeting was occupied with exploration of an optimum organization and staffing pattern.

Improvements in inventory control, deliveries, and billings took effect as new data processing equipment and software came into use. The Board had approved a Univac 9030 system with a price tag of $438,154 for the complete installation.

An additional 25,424 square feet of warehouse space adjacent to the one already "bursting at the seams" was leased at $18,000 for the last third of the year. This had not been in the annual budget. Another cost increase outside the budget was about $106,000 annually in wage increases coming out of negotiations with the union. Legal fees (which had mounted to $270,000 in 1983) and payments for consultants and special reports continued to increase expenses as well.

High interest rates on GCI borrowings added difficulties in attaining net margins. A financial report in the spring showed a zero cash balance. Management had borrowed $500,000 at 11 percent to finance inventory purchases and was using a long-term loan amounting to $1,850,000 at 12.5 percent interest from the National Consumer Cooperative Bank. A short-term loan of from $300,000 to $500,000 was anticipated.

Satake informed the Board early in 1984 that using the currency futures market was expected to yield enough gain to offset operational losses. Later in the year when the matter of currency exchange rates was again discussed, Mohn observed that SCAN should be either losing or making net earnings based upon business performance and not upon vagaries of the money market.

Another SCAN was opened in February 1984 in the Galleria shopping center in Towson, Maryland. This location just north of Baltimore was selected after a lengthy market survey. Satake's presentation to the Board emphasized that this new shopping center had easy access to I-695 (Baltimore Beltway) and was in an area of young, upscale families. With more than 15,000 square feet of floor space, this 13th SCAN was the largest one yet. The capital budget provided $263,159 with a 10 percent contingency. At the pre-opening, the Danish ambassador was the guest of honor.

The two Chicago SCAN came up for frequent discussion. They were operated as a profit corporation with a Delaware charter, but it was not until October 1984 that the mechanics of the relationship were settled. In discussions with management, the Board resolved that 80 percent of any profits would be plowed back into the Chicago operation and that 20 percent would go to GCI. The CEO proposed that two of the three directors on the Chicago board would be from management and one from the GCI Board, with the CEO controlling the stock. The Board reversed this, so that control remained within the GCI Board.

After such a traumatic year, the financial report had some bright spots. Sales for continuing operations (SCAN, that is), had climbed to $39,442,000 for 1984. Net income at a healthy $618,000 allowed for a 1.6 percent patronage refund, but there was no dividend. The Board gave the repurchase of shares of stock more priority than a dividend and authorized $250,000 toward reducing the backlog of requests. With $2,066,000 in shares outstanding, requests for redemption stood at $634,000. The book value of each share was up to an all-time record of $16.83, but that was no comfort to those waiting stockholders who could not even recover the $10 par value.

Computer data showed that more than 50 percent of sales were to members, a compliance goal for the Cooperative's loan from the National Consumer Cooperative Bank and for making patronage refunds within IRS rulings.

All through these years, directors worried about the amount of debt the Cooperative carried; the question of total indebtedness and debt-to-equity ratio received much discussion.

The vice president for finance explored with the directors the more exotic internal hurdle rate. He explained that this is determined by taking the profit before interest and after taxes and dividing that by the amount of capitalization. He recommended an internal threshold hurdle rate of 19.1 percent to be used as a benchmark against which investments should be measured. It would also be used as a measure for deciding on new investments and opportunities.

In March of 1985 a new SCAN was opened in Herndon, Virginia. Satake described the store as "the beginning of an aggressive growth plan in the Baltimore-Washington area. Not only are the areas around our existing and potential sites exploding with new development, but we have an opportunity to capture new customers daily because of the transience of the area." The new store boasted 16,000 square feet of floor space with 50 room settings.

There was a change of leadership in 1985. Donald K. Hanes replaced Paul O. Mohn as chairman of the Board. Mohn had served as chairman 11 years, longer than anyone else in the Cooperative's 50 years.

The Board's budget for 1985 was set at $90,000, with some allowances for additional items. Approximately one third of this represented payments to CLUSA, other cooperatives, and consumer groups. The Board voted to drop membership in four of these, but during the year requests came in for $2,000 annually to train leaders in new co-ops, $1,000 for a testimonial dinner, $5,000 toward a reception to help pass a model consumer cooperative bill at Annapolis, and representation at several $100-a-plate dinners. "All good causes," one director observed. Travel by directors and members of the Congress and committees was criticized by several directors from time to time, but the number and cost of trips continued. The entire Board went to Denmark to familiarize the directors with the manufacture of SCAN's furniture and the people who were making it. On the other hand, compensation for a director had not been increased for several years, so there was some feeling that there was a monetary penalty for serving on the Board.

There must have been a ferment in the air, because in the latter part of 1985, GCI went through months of special task force studies, a complete rewrite of the bylaws, and critical structural changes.

Following 6 months of exploration and drafting by the Bylaws Committee, considerable Board discussion and an open hearing, Chairman of the Board Hanes appointed a Bylaws Finalization Committee chaired by Vice Chairman of the Board Carolyn Hillier. This committee labored through the first half of 1986 and finished its job with a stack of drafts, memoranda, and meeting records 6 inches thick.

The final draft was recommended by the Board for a special membership meeting on January 5, 1987. The vote (proxies counted and announced at the meeting attended by 34 members of the Congress) was 10,357 in favor and 1,278 against. While several of those opposed to the changes angrily charged that the entire re-write process was a railroading action to take the Cooperative away from the members, it is probably closer to the truth to say that an unfortunately miniscule portion of the membership paid any attention to what was happening.

Here are some of the changes brought about by the new bylaws:

• Three levels of association with GCI. (1) Pre-member, designated as a "subscriber", pays $1 and fills in an application form; is entitled to the newsletter for 1 year, participation in any patronage refund, use of member services; may not vote or hold office; will be dropped if has not become a voting member in 3 years. (2) Voting member must have built an equity account of at least $25; is entitled to vote, hold office, participate in all member benefits; will be dropped if no participation of any kind in 3-year period. (3) Fair-share member must have built an equity account of at least $100; is entitled to all member benefits for life and will receive 100 percent of any patronage refund in cash plus participation in special programs to be developed.

The need for some mechanism to relate membership to financial support through the building of equity as a demonstration of meaningful share of ownership was evident in a tabulation of how much each of the Cooperative's leaders had invested. Of nine directors, three had member ownership accounts of at least $100, qualifying them as "fair share" members. Five had between $25 and $99, and one had less than $10. Of 119 delegates and alternates in the Congress, 65 had less than the $25 required for full membership. Sixteen qualified as "fair share" members.

• Delegate Assembly will replace Congress and "shall represent and act on behalf of the membership...and shall elect the Board of Directors."

• The present area councils will be replaced by larger districts; number and boundaries would be proposed from time to time by the Delegate Assembly and approved by the Board of Directors. Districts were created for Western Maryland, Central Maryland, Southern Maryland, Federal (D.C.), Northern Virginia, and Southern Virginia.

• "Members in each District shall each year elect Delegates and Alternates who will comprise the District Council and who will represent the District Membership in the Delegate Assembly. Each District shall be entitled to have a number of Delegates in proportion of its membership to the total membership from all Districts, except that each District is entitled to a minimum of three Delegates."

• "To be a functioning representative body, a District Council must have a total of at least eight members...." and meet "at least quarterly".

• Bylaws amendments or new bylaws required "a two-thirds vote of those present and voting provided two-thirds of the Delegates are present" at the Assembly meeting. Excepted were certain Articles reserved for amendment only by "an affirmative vote of the Directors."

Note that members of GCI no longer voted for directors or on changes in the bylaws. Other changes provided for indemnification of directors, officers, employees, and agents of GCI. A Compensation Committee was specified to determine what payment should be made for directors and officers of the Board and Delegate Assembly.

Sales were down in 1986, and operations showed a net loss of $441,000. Satake explained the setback as the result of "a weakened economy prompting consumer reluctance to purchase large items such as furniture which prompted higher advertising costs." There was no patronage refund, no dividend on outstanding shares of stock, and no cash for further repurchase of shares from members anxious to unload at $10 par value shares that had a book value of $20.94 the previous year.

GCI was financially overextended, and a new SCAN just outside of Annapolis which had opened in December 1986 at a cost of $350,000, didn't help matters. As 1987 unfolded, GCI was in the midst of reorganizing its structure to fit the new bylaws, the U.S. dollar exchange rate was unfavorable and worsening, competition in the furniture business loomed as as a very real threat, and management was trying to trim expenses.

In this bleak financial climate, GCI ran into labor problems in May, when the existing contract with unionized SCAN employees ran out. The day after their contract expired, Local 400 of the United Food and Commercial Workers Union were picketing the SCAN stores, warehouse, and office building.

The strike lasted more than 7 months. Because Greenbelt Cooperative was so well known, the labor dispute hit the headlines in the Washington and Baltimore newspapers and even the WALL STREET JOURNAL. Labor and cooperative periodicals also followed the story as it developed.

A letter from Local 400's President Thomas R. McNutt set forth the Union's position just before the strike:

"Over the years Local 400 and the Cooperative, for the most part, have conducted contract negotiations with an eye toward fairness and stability. When the Cooperative Grocery Stores encountered economic difficulties, Local 400, at the request of the Cooperative, negotiated several concessionary labor agreements in an attempt to address those problems. Recently the membership of the Local, at the request of [GCI] management, voluntarily approved a four 10-hour day scheduling system at SCAN warehouse in an effort to reduce the Cooperative's costs, even though in some instances this resulted in a loss of income to some union members.

"While the Local and its members have continued this relationship, the Cooperative has resorted to using union-busting tactics. Recent developments in contract negotiations include...a 2-year wage freeze, underfunding essential benefits...reductions in seniority rights...elimination of daily overtime provisions and other union-busting proposals.

"The current atmosphere can only result in...a work stoppage....Any effort you might take to return normalcy to the relationship between the parties would be greatly appreciated."

In a letter to GCI leaders, Board Chairman Hanes outlined some of management's views on the strike situation:

"Sales Commission. SCAN has operated on a flat hourly rate, which ranges from $9.00 to $10.58 per hour for full-time, and $6.00 to $10.58 per hour for part-time, plus a 3 percent commission pool...shared equally in proportion to the number of hours worked by each salesperson." This caused "loss of high volume salespeople as they do not see a direct relationship between reward and performance [and] feel their own performance must carry low sales performers." Also "difficulty in staffing the stores with the senior and most experienced salespersons during peak business hours and on Sundays as their compensation is based on the number of hours worked rather than on their sales volume. Therefore, we have the most experienced salespersons working when business is lowest and the least experienced working when business is at the highest."

Satake proposed scrapping the pooled commissions and paying individual commissions on each sale made. "Under our proposal, a full-time salesperson working 40 hours, without any overtime, and selling an average of $9,600 per week, which is conservative, will earn $32,656 per year. With higher sales or overtime the average will be approximately $35,000, which is what it is currently. We are not proposing to pay less."

The health and welfare issue was complicated. "Management and employees not covered by the collective bargaining agreement pay 30 percent of the [medical insurance] premium and GCI pays the balance or 70 percent. Employees who are covered under the collective bargaining agreement participate in one of four different [union] plans....the Cooperative pays 100 percent of the premium...even though a number of employees are fully covered under their spouse's or parent's insurance. Under the [new plan] proposed by the Union, the cost to the Cooperative would increase from $162,821 in 1986 to $351,585 in 1989, a 115 percent increase or $1.67 per hour per employee....we were told that [this] was a non-negotiable issue."

Daily overtime was an issue in the warehouse operations. The Hanes memo said that a number of employees were working 4 days with overtime and then not showing up for the rest of the week. The CEO proposed that overtime be paid on a 40-hour weekly basis instead of on each individual day.

GCI management hired personnel to replace the strikers and even brought in people from Denmark to train the new workers how to assemble the furniture. The union responded by picketing the Danish Embassy in Washington, as well as the entrance to the building on 14th Street where the GCI Board held a meeting in the offices of the National Cooperative Business Association. Pickets also appeared at the Chicago SCAN stores where union employees already had signed a contract with that GCI subsidiary.

The controversy took a turn for the worse at GCI's annual meeting in June when hundreds of union members showed up to voice their complaints. No one challenged their right to attend the meeting, as all those within the room had presumedly paid their $1 membership fee; and many supported their cause. The problem arose from the continuous chanting by the union members which prevented the meeting from getting under way. Police were called and three of the union group were arrested for disturbing the peace. Following this brouhaha, the union filed suit for $5 million for false arrest against Satake, the GCI Board of Directors, the acting county police chief, two arresting officers, and the county solicitor.

The strike and suit were finally settled, with both Satake and Local 400 claiming victory; the terms were close to what GCI management had offered at the end of April 1987. Unfortunately, while all this had been going on, the more pressing problems of running the Cooperative were given short-shrift.

Following the strike settlement, Satake contracted the consulting firm of Morris Anderson and Associates to implement a recovery plan. The immediate priority was to obtain loan funds to alleviate the need for operating cash and pressure from creditors. The fee was estimated at between $35,000 and $50,000 plus 2 percent of loan funds obtained, less any payment of the base amount already paid.

A month later, Morris Anderson's Michael Starshak presented a plan for cash flow enhancement involving deferral of debt repayment to vendors and the National Consumer Cooperative Bank, plus selling off inventory. Directors were not all convinced that the proposals would work, but agreed there was little choice.

At the February 1988 meeting the Board directed Satake to close the Chicago warehouse when its lease expired at end of March and to sell the two Chicago SCAN stores as soon as possible. There seemed little hope of lifting operations in that city out of the red.

In March the Board unanimously agreed to establish a credit agreement with J. E. Ekornes A/S (a Norwegian corporation) and give a promissory note to Ekornes, as a means to avoid litigation with the Cooperative's foreign trade creditors. The note was in the amount of $810,049, at 10 percent interest. The Board also authorized termination of the foreign exchange line of credit with the First National Bank of Maryland in the aggregate amount of $6,500,000.

At the April 23 meeting, the Board acknowledged that fiscal year 1987 expenditures exceeded earnings and that there would be no dividends paid nor patronage refunds for that year's operations.

The Board gave a green light to three member benefit programs at this same April meeting: dental care, vision services, and home repairs through the American Homeservices Association.

Jeff Almen was elected Chairman of the Board at a very low key annual meeting in June. Soon afterwards, the reorganized Board had to grapple with the disintegrating financial situation. Inventories were low, insufficient cash was on hand for current operations, and creditors were pressing for payment. From mid-June to mid-October, the Board faced a crisis scenario that worsened week by week.

The Board authorized Satake and D. Harris, of Morris Anderson and Associates, to examine possible courses of action and report back as quickly as possible. A priority move was an attempt to extend the termination date set by the First National Bank of Maryland on its loan to GCI and to transfer maximum funds available to that Bank. On June 15, the Board unanimously voted to have Satake prepare a petition for Chapter 11 protection. He and Harris were also directed to explore other options: maintain the cooperative on a scaled-down version; trade a controlling share of equity for debt; equity infusion from Danish trade creditors; sell the business outright; or liquidate the company.

On July 8, after getting a 45-day extension on the First National Bank of Maryland loan, the Board engaged Robert Riesner to advise on "analysis of GCI's debt and capitalization restructuring." Riesner's firms known collectively as PBR were well known to the First National Bank of Maryland and had done work for it.

Liquidation of SCAN Chicago assets was ratified. The Cooperative Bank agreed to defer principal repayments under its loans for a period of 1 year, which provided some cash flow relief.

There seemed to be recognition that the end was near. Robert Satake resigned on July 29; John Gauci, vice president for membership, resigned on August 9.

The following weeks were occupied with the search for a replacement CEO, finding legal counsel for entering the Chapter 11 reorganization case, working out acceptable arrangements with creditors, fulfilling legal obligations, and keeping the SCAN operations together. Some furniture imports were continued on a tightly controlled basis from foreign vendors participating under Danish government guarantee programs.

At its August 27 meeting, the Board authorized continued retention of Morris Anderson and Associates as consultants, with Michael Starshak as temporary CEO, at $1,368 per diem. It also authorized closing six SCAN stores and the warehouse "with intention of paying $1.6 million over a period of 16 weeks to reduce the first secured debt and preserve the remaining value of the assets of the ongoing business of the company for the benefit of those other creditors, members and stockholders." It also authorized a filing for Chapter 11 bankruptcy protection.

On September 2, Kevin McGuinness was appointed president and CEO "until the transaction with master lien participants is consummated." One of his first actions was to fax to Holger Overgaard in Denmark an update on the condition of SCAN: "Now it is an organization in crisis." While stressing the need for immediate cash, the message gave recognition to the preferability of continuing to operate the profitable stores rather than closing them to raise cash.

The Chapter 11 bankruptcy filing was a process that would take weeks to prepare. Lawrence D. Coppel, of the firm of Gordon, Feinblatt, Rothman, Hoffberger and Hollander, served as legal counsel for the Chapter 11 proceedings. Daniel Nachtigal, of Sonnenschein, Carlin, Nath, and Rosenthal, continued as counsel for GCI. The Chapter 11 case commenced on November 4, 1988.

Operating figures for fiscal year 1988 arrived in August 1989. Assets had dropped from \$12,135,000 to \$6,568,000, while liabilities went from \$12,128,000 to \$11,350,000, leaving an equity deficit of \$4,782,000 at the end of the year. Net sales were \$31,442,000 for 1988 compared with \$34,510,000 in 1987, with gross margin at \$8,199,000 compared with \$10,370,000. Net loss for 1988 was \$4,744,000, slightly above the previous year, and the accumulated deficit as of January 28, 1989 stood at \$7,672,000.

With a limit of \$25,000 placed on membership activities it was not possible to send any communication to the approximately 125,000 members. The Delegate Assembly, however, continued to meet, and the Board did its best to keep the delegates informed about what was happening to GCI and the remaining eight SCAN stores.

In February, the Board contracted with the National Cooperative Business Association to keep the membership and stock records, send out notices for the Delegate Assembly, and handle what was left of the member benefits programs. John Gauci, who was now on the staff of the National Cooperative Business Association, picked up coordination and clearing house responsibilities at NCBA for the Cooperative.

How to handle the annual meeting and elections was an unusual problem. The bylaws required that these be held, but no money was available for the postage and notices. GCI Attorney Nachtigal advised that "there is some support for not allowing shareholders to elect new directors when the company is clearly insolvent....Thus, if the Board wishes to postpone the election, there is a legal basis for doing so....Don't say you are suspending the elections; say they will be held as soon as possible." Both CEO Riesner and Lawrence D. Coppel, attorney for the SCAN bankruptcy case, cautioned that a change of directors at this stage in the Chapter 11 proceedings could have a negative effect on the attitude of the Credit Committee which had to approve the settlement plan. The Board, therefore, filled the two vacancies and simply let the annual meeting and election slide. Since there was really no alternative, this action won the approval of the Delegate Assembly.

By April, the directors were able to get some feel for the identity of the creditors and their objectives and the kind of settlement plan that might emerge from the negotiations. Quoting from the minutes of April 4: "In the Danish groups there are both secured and unsecured creditors, with differing concerns and objectives. Many of the domestic creditors accept bankruptcy proceedings as a normal part of doing business and would prefer to settle for as much cash as possible as soon as possible. Danish creditors aim to be fully repaid even if that requires a long period of years, and some are willing to trade debt for equity. Riesner is trying to create a buffer between the several groups of creditors, in realization that there has to be a consensual plan in the end. The plan submitted must be an intelligent one and have feasibility for the court and debtors to agree....GCI's membership is at the bottom of the heap."

Chairman Almen emphasized that the Board must agree on a settlement decision which would fulfill its fiduciary responsibility.

The Equitable Bank in Baltimore agreed to a line of credit up to $1,250,000 at prime rate plus 2.5 percent, provided its repayment was top priority, and this was acceptable to the other creditors.

However, the bank required that SCAN, Inc., as a subsidiary of GCI must have a set of bylaws. Riesner and Coppel brought in a draft which the Board accepted after some debate. Adoption of these bylaws was a formality inasmuch as SCAN, Inc., would go out of existence in a few months.

The first hard information the directors received about the identity of creditors, the amount owed to each, and what settlement terms might be expected was brought before the Board on April 17. The total owed was more than $10 million, mostly to the Danish Export Credit Council and foreign suppliers. The preliminary settlement plan proposed a spinoff of the entire SCAN operation to NEWCO, a new corporation with a board of seven directors giving control to the Danes but with GCI having representation and a minority interest. Other creditors would have to settle for a small percentage of what was owed them.

It was recognized that there was no possibility of any repayment to stockholders or members of Greenbelt Cooperative, as there was a negative equity of millions of dollars. But the Board had Nachtigal work out a proposal which would permit equity holders to write off their losses as income tax deduction and accept a $5 membership and equity in GCI. This was adopted by unanimous vote in a meeting on August 31, but there was no way to inform stockholders and members.

The final draft of the Plan for Reorganization, accepted by all the creditors, enabled the remaining eight SCAN stores, inventory and all remaining assets to be assumed by SCAN International, Inc. with the Danish Export Credit Council and major Scandinavian creditors in control. GCI was allowed two seats on the board, given a 28 percent share in the business, a small operating budget, and a partial buy-back provision after 10 years if certain obligations would be met.

On October 2 the U.S. bankruptcy court's judge approved the proposed Plan of Reorganization, and the Plan was sent to all creditors for acceptance or rejection. It was accepted; and on December 1, 1989, the bankruptcy court hearing in Baltimore activated the Plan.

In 1991 the Board of Greenbelt Cooperative, Inc., dissolved the corporation and relinquished its charter.

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ACKNOWLEDGEMENT

Tugwell Room, Greenbelt Library, Crescent Road, Greenbelt, Maryland 20770.

THE GREENBELT COOPERATOR (now NEWS-REVIEW), Greenbelt, Maryland 20770. Published weekly by the Greenbelt Cooperative Publishing Association, Inc., for more than 50 years without missing an issue.

List of Directors on GCS/GCI Board of Directors

Directors	Elected or Appointed	From	To
Howard C. Custer	E	1-2-40	10-9-41
Sherrod East	E	1-2-40	5-21-40
Carnie Harper	E	1-3-40	8-6-41
	E	8-23-44	3-7-51
Joseph Loftus	E	1-2-40	8-7-40
Bertha Maryn	E	1-2-40	8-7-40
	A	8-3-45	6-14-46
Joe W. Still	E	1-2-40	10-9-40
Earl J. Swailes	E	1-2-40	8-7-40
Walter R. Volckhausen	E	1-2-40	8-12-40
	E	12-24-43	11-8-46
Fred L. Wilde	E	1-2-40	2-5-41
Donald H. Wagstaff	A	5-21-40	2-5-41
Lindsey Thomas	E	8-7-40	2-5-41
Denzil Wood	E	8-7-40	8-5-42
George Treiman	E	8-7-40	8-6-41
Milton Thurber	A	11-20-40	2-5-41
Charles Fitch	E	2-5-41	8-12-41
Ella Roller	E	2-5-41	2-4-42
Lloyd MacEwen	E	2-5-41	2-4-42
G. Edward Timmons	A	2-27-41	8-6-41
Clifford A. Moyer	E	8-6-41	6-3-43
Charles W. Adams	E	8-6-41	10-9-41
Francis J. Lastner	E	8-6-41	11-24-43
	E	2-27-46	9-23-49
W. Earl Thomas	A	8-12-41	2-4-42
Tessim Zorach	A	8-12-41	

Directors	Elected or Appointed	From	To
	E	2-4-41	12-3-42
Harry B. Hyman	A	10-9-41	8-5-42
Lincoln H. Clark	A	10-9-41	
	E	2-4-42	2-3-43
Fred A. DeJaeger	E	2-4-42	2-3-43
Carl W. Hintz	E	2-4-42	2-16-44
Mary M. Dodson	E	2-4-42	2-16-44
Paul Dunbard	E	8-5-42	8-23-44
Dayton W. Hull	E	8-5-42	11-24-43
	E	2-28-45	1-9-48
Paul Barnhart	A	12-4-42	
	E	2-3-43	2-16-44
John Dombeck	E	2-3-43	2-16-44
Benjamin Goldfadden	A	6-10-43	11-24-43
Donald H. Cooper	E	11-24-43	9-26-45
	E	6-3-58	5-17-68
George M. Eshbaugh	E	11-24-43	9-27-46
Allen A. Bryan	E	2-16-48	2-28-45
James A. Flynn	E	2-16-45	2-28-45
Clarke M. George	E	2-16-44	9-30-44
Yates F. Smith	E	2-16-44	2-28-45
Allen D. Morrison	A	10-13-44	
	E	2-28-45	2-27-46
Herman Ramrus	E	2-28-45	9-13-46
Maj. Adelbert C. Long	E	2-28-45	7-17-45
Edward C. Kaign	E	2-28-45	2-27-46
Thomas B. Ritchie	E	2-28-45	6-22-45
	E	12-2-46	9-15-48
Frank E. Watson	A	7-13-45	9-21-45
Fordyce H. Merian	E	9-26-45	9-18-46
William Nicholas	A	9-21-45	2-27-46
	A	6-28-46	2-26-47
	E	8-27-47	9-15-48
Phillips M. Taylor	E	2-27-46	2-26-47
Bruce Bowman	A	9-27-46	7-1-47
	E	6-1-74	6-13-85
David Granahan	A	11-8-46	
	E	12-2-46	10-10-47
James Walsh	A	11-8-46	12-2-46

Directors	Elected or Appointed	From	To
Robert F. Dove	E	12-2-46	8-27-47
Elisa East	E	2-26-47	11-28-47
Cyrilla O'Conner	E	2-26-47	2-25-48
Delbert Mesner	A	7-25-47	
	E	2-25-48	10-1-48
William A. Moore	A	11-14-47	2-15-48
Paul R. Kasco	A	1—48	2-25-48
	A	2-27-48	
	E	9-15-48	12-1-50
Benjamin Rosenzweig	A	1-9-48	
	E	2-25-48	2-15-50
	A	9-22-50	3-7-51
	E	4-1-53	6-3-58
	E	l6-24-60	5-28-69
	E	9-7-72	6-7-75
Walter J. Bierwagen	E	2-25-48	5-4-58
Richard W. Cooper	E	2-25-48	8-27-48
James N. Wolfe	E	9-15-48	2-23-49
Henry R. Walter	E	9-15-48	4-1-53
T. George Davidson	A	10-1-48	
	E	2-23-49	6-12-57
Chester H. Tucker	A	10-8-48	2-23-49
	A	7-22-49	10-14-49
Charlotte M. Walsh	E	2-23-49	7-22-49
Edward W. Meredith	E	2-23-49	6-10-49
Robert T. Mitchell	A	9-23-49	
	E	11-2-49	3-5-52
Carolyn R. Miller	A	10-14-49	
	E	11-2-49	3-7-51
	E	5-26-55	6-19-59
John W. S. Littleton	E	11-2-49	9-22-50
Eleanor H. Ritchie	E	2-15-50	3-5-52
	A	6-6-52	7-18-52
Martin Bickford	A	12-1-50	3-5-52
Milton Kramer	E	3-7-51	3-5-52
Calman R. Winegarten	E	3-7-51	4-1-53
Opie Stage	E	3-7-51	3-5-52
Morris J. Solomon	E	3-5-52	4-1-53
William C. Arntz	E	3-5-52	4-1-53

Directors	Elected or Appointed	From	To
	E	5-26-55	6-14-62
Harry Zubkoff	E	3-5-52	4-14-54
Sam Schwimer	E	3-5-52	5-26-55
Charles A. Bicking	E	3-5-52	6-6-52
Frank W. Lewis	A	8-14-52	
	E	4-1-53	5-26-55
	E	6-20-65	1-1-70
Bryan K. Gamble	E	4-1-53	4-14-54
Max F. Fisher	E	4-1-53	4-14-54
Larry Oosterhous	E	4-1-53	6-24-60
Robert T. Bonham	E	4-14-54	4-7-62
Robert C. Hull	E	4-14-54	6-24-60
Jack T. Jennings	E	5-12-54	5-26-55
Al Herling	E	5-26-55	6-12-57
Richard W. Barrett	E	6-12-57	1-26-62
Ruth R. Rinehart	E	6-12-57	10-10-58
Edward Wineberg	E	6-3-58	4-7-62
Solomon L. Hoke	A	10-24-58	
	E	6-19-59	6-21-61
	A	4-7-62	
	E	6-14-62	5-26-71
W. Gifford Hoag	E	6-19-59	6-21-61
	A	4-7-62	
	E	6-14-62	5-26-71
	E	6-6-81	6-9-84
George Weber	E	6-24-60	6-21-64
Aileen Newman	E	6021-61	6-20-65
Henry Redkey	E	6-21-61	6-12-63
Jack Besansky	A	4-7-62	
	E	6-14-62	6-21-64
Rev. James C. Fahl	A	7-7-62	6-20-65
Robert J. Dressel	E	6-12-63	10-11-73
Dorothy S. Wheeler	E	6-21-64	6-1-74
David H. Scull	E	6-21-64	6-12-66
John Staehle	E	6-20-65	10-11-73
Darwin E. Bremer	E	6-12-66	1-1-67
Robert W. Norton	A	3-17-67	
	E	5-25-67	9-7-72
Oscar Meier	E	5-17-68	9-7-72

Directors	Elected or Appointed	From	To
Lewis F. Norwood	E	5-28-69	3-18-72
Stanley Yarkin	A	2-13-70	5-27-70
	E	5-26-71	6-1-74
	E	6-7-75	6-3-78
	A	1-3-79	
	E	6-2-79	6-6-81
Doris Behre	E	5-27-70	6-12-76
Paul O. Mohn	E	5-26-71	6-10-86
Leonard C. Lineberry	A	4-3-72	
	E	6-9-72	8-17-79
Joseph Brown	E	9-7-72	6-7-75
J. Gordon Steele	E	10-11-73	6-2-79
Wilbur Wright	E	10-11-73	4-1-77
Bruce Patner	E	6-1-74	6-4-77
Dorothy Jacobson	E	6-7-75	6-6-81
L. Glen Whipple	E	6-12-76	6-13-85
Tom Martin	A	4-16-77	
	E	6-4-77	12-11-82
Eben Jenkins	E	6-4-77	6-7-80
Earl D. Beard	E	6-3-78	1-3-79
Anne Rollin	E	6-2-79	6-13-85
Malcomb Maclay	A	8-17-79	
	E	6-7-80	6-9-84
Donald K. Hanes	E	6-7-80	6-?-87
	A	4-4-89	10-23-89
Eleanor Thompson	E	6-6-81	6-9-84
David S. Cohen	E	6-11-83	6-10-86
Lovena W. Cooper	E	6-11-83	6-10-86
David Freed	E	6-9-84	6-6-87
Carolyn Hillier	E	6-9-84	6-6-87
Martin Block	E	6-13-85	6-4-88
Arthur Danforth	E	6-13-85	5-7-87
Shekar Narasimhan	E	6-13-85	6-4-88
Floyd Agonstinelli	E	6-10-86	8-20-88
Jeff Almen	E	6-10-86	
Fred Schmidt	E	6-10-86	
Mariana Burt	E	6-6-87	6-4-88
Nathaniel K. Smith	E	6-6-87	
Joseph Cohn	E	6-6-87	

Elected or Directors	Appointed	From	To
Charles Hix	E	6-4-88	
Gene Ingalsbe	E	6-4-88	
Carol James	E	6-4-88	11-20-89
John M. Wetmore	A	4-4-89	11-30-89

Some Accomplishments in 50 Years

Greenbelt Consumer Serices, Inc. / Greenbelt Cooperative, Inc. survived and served and grew for 50 years, during which it:

Operated 23 supermarkets
13 SCAN furniture stores
10 auto service stations
7 pharmacies
2 drugstores
2 fresh produce stores
variety store
motion picture theater (only co-op one in the U.S.)
garage
valet shop
shoe store
barber shop
beauty parlor
bakery (Ladiesburg, MD)
radio and appliance repair shop
food warehouse
furniture warehouse
bus line
vacation apartments at Merritt Island, Florida
mail order, non-profit, direct-drug service with support from Farmers Union and National Council of Senior Citizens.

Provided travel service and charter flights which saved $100,000 for 8,000 members in reduced air fares in first 10 years.

Paid patronage refunds totalling $823,000 on purchases in first 20 years.

Paid 5% dividend on shares of stock for 30 years uninterrupted.

Built membership up to 137,000.

Employed a staff of 1,060 at one point.

Pioneered as first food store in area to sign a union contract.

Pioneered in race relations by hiring a Japanese-American in the Greenbelt food store during World War II and by breaking hotel segregation against Afro-Americans in Frederick, MD.

Introduced see-through, prepackaged meat, and glass window meat cutting room in this area.

Introduced unit pricing in this area (Giant and Safeway followed 6 months later).

Introduced Cornell formula bread (only supplier in this area).

Introduced bulk sale of dry products (beans, coffee, rice, etc.) outside of the health food stores.

Introduced gasohol to area during oil shortage years (first station in MD and D.C., second in northern Virginia).

Wrote and secured passage of MD meat inspection law to conform to USDA standards.

Wrote and secured passage of a MD incorporation law for consumer co-ops.

Secured passage of a MD law to put a cap on consumer credit interest charges.

Helped secure passage of a MD law to terminate so-called "Fair Trade" Act which set a monopoly minimum price on a wide variety of appliances and other goods.

Secured passage of a MD law to permit a pharmacy to operate under same roof with a food store.

Secured creation of the first consumer counsel office in MD and appointment of a friend to cooperatives to head it.

Some of our members, with financial support from the Co-op started the consumer advisory councils in MD, D.C. and Virginia (now a function of the county and D.C. government).

Helped organize and finance the Consumer Federation of America.

Helped passage of the Consumer Co-op Bank bill in Congress.

Helped adoption of milk standards for dairies in Prince Georges County.

Helped modify IATA rules against charter flights by affiliated membership groups.

Strongly supported promotion of CO-OP label products which were the first to have content labeling and grades—and supported nutritional labeling, more realistic (less fat) meat grading by USDA, labeling of watered hams, milk grading, etc.

Largely responsible for developing and maintaining the Potomac Cooperative Federation, which arranged joint purchasing and services, as well as a legislative voice, training programs, promotional activities, recreation, and a communications forum for all kinds of cooperatives in the area.

Largely responsible for the Cooperative Institute Association by providing staffing, funding, and planning of training programs for cooperatives in the northeastern states.

Created and developed the Congress system to govern the Greenbelt Cooperative (Greenbelt Consumer Services) widespread, multi-store organization (copied by Cooperative Services in Detroit, the Berkeley co-op and others).

Experimented with the idea of using a management firm (Checci & Co.) instead of one person as general manager (CEO).

APPENDIX D

Historical Highlights—
The Greenbelt Cooperative

Compiled by Donald H. Cooper

1937 Certificate of Incorporation issued September 1, in State of Maryland to Consumer Distribution Corp., a foundation funded by Edward A. Filene, Boston department store merchant and philanthropist.

1937 October 5. Temporary Co-op food store opened for business, with first-day sales of $11.45 to 24 shoppers.

1937 December 15. First Co-op food market opened in Greenbelt shopping center, with Robert E. Jacobsen as manager. An auto service station opened a few days earlier.

1938 April. Some of the first residents of Greenbelt had experience from cooperatives in the farm areas of the Midwest, from campus coops at universities, from self-help groups during the Great Depression, and from neighborhood buying clubs. They formed a Cooperative Organizing Committee, with the whole town voting for leaders in the drive to form a consumer cooperative.

1938 All stores in Greenbelt Shopping Center operated by C.D.C. for the Co-op: food store, service station/garage, dry cleaners, pharmacy, lunch counter, news/tobacco shop, hair dressers, barber shop, variety store, shoe repair, theater.

1938 November. Sale of stock began with the understanding that the Coop would take over the stores when half of the town's families became members. Initial capital was a loan of $50,000 from the Filene Foundation.

1939 March. Sulo Laakso became General Manager.

1940 January 2. First membership meeting of the new Cooperative was held, and first Board of Directors elected.

1940 February. Walter Volckhausen elected first President.

1940 February 15. First shares of stock were delivered to Greenbelt residents.

1940 September. George Hodsden became General Manager.

1941 August. Francis Lastner elected second President.

1941–1943 Additional "defense homes" were built in Greenbelt but no additional commercial facilities were opened except a house converted to a Co-op food store in north end of town.

1942 March. Thomas Ricker became General Manager.

1943 August. Carl W. Hertz elected President.

1944 February. Fred DeJager elected President.

1944 April. GCS supported creation of the Potomac Cooperative Federation.

1944 November. When it was learned that the General Manager was conducting substantial business interests outside of GCS, the Board terminated his services. Sam Ahselman was hired in November as General Manager.

1945 February. Dayton W. Hull elected President.

1945 April 18. The Co-op launched a stock drive to build a new supermarket in Greenbelt. As a result of raising $53,000, it was possible to buy out Consumer Distribution Corporation thereby becoming wholly owned by local residents as a consumer co-op.

1946 GCS purchased a bus and ran a local transportation service in Greenbelt for residents.

1947 GCS converted a bus into a traveling store to tour the courts in Greenbelt until a new supermarket could be built.

1948 January. Francis Lastner elected President again.

1948 A new modern supermarket was built with the first self-service meat department in the Washington area and a bakery in the store. The Co-op pharmacy was moved to the supermarket building.

1948 Summer. Eastern Cooperative Wholesale was decentralized and a warehouse was opened in Baltimore, MD to serve GCS, Rochdale Cooperative in northern Virginia, Peninsula Cooperative Association (Hampton, VA), and Westminster Cooperative (MD). Potomac Cooperators, Inc. was its identity but that later became the wholesale owned by GCS at Beltsville, MD.

1949 October. Walter Bierwagen elected President.

1951 August. GCS opened a new supermarket in Takoma Park, MD on north side of New Hampshire Ave. at Ethan Allen Ave., plus a combination variety/drug store, service station, and later a shoe store. Nationwide Insurance Co. helped get this Co-op Shopping Center started with a $100,000 loan, and opened an agent's office there.

1954 December. GCS opened an even larger Co-op Shopping Center on Georgia Ave. in Wheaton, MD for members and consumers in that area. New concept was to have produce, grocery, meats, non-food items, lunch counter, bakery, and pharmacy under one roof, with adjacent service station. Opening day drew largest crowd ever for a store opening in the Washington area as of that date, and sales were a record $127,000 opening week.

1955 January. Board created the GCS Co-op Congress to represent members in all store areas; an idea adopted from Swedish co-ops. Henry Redkey was first Speaker.

1956 September. The Co-op at Westminster, MD merged with GCS. Three years later this resulted in a whole new shopping center for Westminster, featuring Co-op as the community's largest modern supermarket, plus a service station.

1957 May. GCS opened a supermarket at Rockville, MD to serve members and customers in that area of Montgomery County.

1957 September. GCS opened a supermarket, pharmacy, and service station in a new Co-op Shopping Center in Piney Branch, MD.

1958 GCS bought controlling interest in Smith's Bakery, Ladiesburg, MD to secure Co-op label bread and other baked goods for its supermarkets.

1958 June. Robert Bonham elected President.

1959 February 1. Merger of GCS with Rochdale (VA) Cooperative with its food store in Fairlington and its supermarket and service station in Falls Church.

1959 August. New Co-op supermarket and service station opened in Westminster, MD.

1959 Fall. Beltsville, MD warehouse and office building opened at 10501 Rhode Island Ave. This new warehouse replaced an older one in Baltimore, MD and the office staff was transferred from Greenbelt.

1960 March. GCS opened Penn-mar supermarket in a new regional shopping center at Forestville, MD.

1960 May. GCS opened a new Co-op Shopping center in Penn Daw, south of Alexandria, VA, with supermarket, pharmacy, watch repair, service station, and first SCAN furniture outlet.

1960 Jack Besansky elected second Speaker of GCS Co-op Congress.

1960 August. The N&W independent supermarket at 2825 Old North Point Road, Dundalk, MD was sold to GCS. After one year of operation, it was converted by GCS to a Consumer (Co-op) Supermarket and became the base for a Baltimore delegation to the GCS Co-op Congress.

1960 September. GCS opened a new, large Takoma Park Shopping Center on the south side of New Hampshire Ave. with a supermarket, variety and SCAN furniture departments, pharmacy, watch repair, and Co-op service station. The older premises were subleased, in part to Group Health Association of DC with GCS operating its pharmacy.

1961 January. An auto club was formed for GCS members.

1961 June 24. The first charter flight for GCS members took off to Europe.

1962 February 5. Checchi and Company assumed management of GCS. Robert E. Morrow was appointed by Checchi as Acting Resident General Manager.

1962 April. The Greenbelt supermarket and pharmacy were gutted by fire during the night. Members were bussed to Takoma Park for Co-op shopping until a temporary basement store was opened.

1962 April. Benjamin Rosenzweig elected President. Robert J. Dressel elected third Speaker of the GCS Co-op Congress.

1962 April 18. The first separate SCAN furniture store opened in the Takoma Park Co-op Shopping Center.

1962 November 12. A completely rebuilt Co-op supermarket and pharmacy was opened in Greenbelt.

1963 February 19. The Fairlington store moved across the street to larger quarters with more parking space.

1963 John F. Staehle elected fourth Speaker of the GCS Co-op Congress.

1963 June. GCS opened its second SCAN furniture store on West Broad St. in Falls Church, VA in a new building. The smaller SCAN department in the Penn Daw supermarket closed.

1963 July. Penn Daw Co-op supermarket converted to "Consumer Discount" supermarket. In November, the remaining seven supermarkets were converted to this identity.

1964 September. GCS opened its 12th supermarket, in Glen Burnie, MD. The store was formerly operated by Safeway.

1964 October. The third SCAN store opened on Connecticut Ave. in Washington, DC.

1965 March. GCS opened a mail order direct drug service, jointly sponsored by Farmers Union and a retired citizens group.

1965 Spring. A fourth SCAN store opened in Baltimore at 404 Reistertown Road, Pikesville, MD.

1965 Irving J. Rotkin elected fifth Speaker of the Congress.

1965 Summer. GCS opened its largest pharmacy to date at 3012 Annandale Road, Falls Church, VA.

1966 May. A group of "street people" attempted a takeover of GCS. They were defeated by a vote of more than 9,000 to 17.

1966 Summer. SCAN opened a new warehouse-office building at 11310 Frederick Ave.., Beltsville, MD.

1966 December. GCS opened its eighth service station, on King St. in Fairlington, VA.

1967 May 1. Kroger Company sold its Washington division to GCS. Nine new stores were added, giving the Co-op a total of 21 supermarkets.

1967 Paul O. Mohn elected the sixth Speaker of the Congress.

1967 October. Another pharmacy was opened in Oxon Hill, MD.

1967 Winter. GCS acquired an Acme supermarket in Arlandria, VA.

1968 February. Peninsula Cooperative Association, Inc. affiliated with GCS. Peninsula operated Hampton and Newport News supermarkets, a Scandia furniture store, and a book store in Newport News, VA.

1968 March. Largest SCAN to date opened in Van Ness Center on Connecticut Ave., Washington, DC.

1968 June. Robert J. Dressel elected President.

1968 December. GCS sold its Beltsville grocery warehouse and moved its offices to Piney Branch shopping center.

1968 Closed one supermarket in Fairfax, VA acquired from Kroger. Closed Oxon Hill, Wheaton, and Piney Branch pharmacies. (Leaving 22 supermarkets, 6 SCAN stores, 8 service stations, 6 pharmacies).

1969 April. GCS acquired Skinker Tires, including a Sinclair station near Van Ness SCAN, in Washington, DC, and a headquarters and warehouse on Butler Road in Bethesda, MD.

1970 Spring. Opening of Suitland (MD) Gasoline Center, 4626 Silver Hill Road as 10th GCS service station.

1970 Spring. Canal Square SCAN opened in Georgetown, 1054 31st St. NW, Washington, DC.

1970 Spring. Robert E. Morrow, President of GCS, left to become Senior Vice President of Checchi and Co. Paul C.. Nelson, assistant to Morrow, was prompted by Checchi to become Acting Chief Executive Officer of the Co-op.

1970 Fall. Lowemann's Plaza SCAN opened on Arlington Boulevard, Falls Church, VA, replacing the store on Broad Street.

1970 August. GCS introduced unit pricing to the Washington area.

1970 December. The GCS Board determined not to renew the Checchi & Co. management contract and hired Eric Waldbaum as President and CEO. (22 supermarkets, 10 service stations, 5 pharmacies, 1 direct drug service, and 7 SCAN furniture stores at this point).

1971 Bernard Easterson elected seventh Speaker of the Congress.

1971 June. Doris Behre elected Chairman of the Board.

1971 June 9. Board suspended sale of GCS stock as a result of operating losses.

1971 August. A SCAN store was opened in Columbia, MD.

1971 November. Annandale (VA) supermarket on Little River Turnpike closed.

1972 June. Arlandria (VA) supermarket was flooded by Hurricane Agnes, resulting in loss of virtually all merchandise and equipment. Closed.

1972 June. Dundalk and Glen Burnie supermarkets near Baltimore closed. Piney Branch closed in July.

1972 September. Fred Schmidt, Deputy Speaker, assumed office as the eighth Congress Speaker due to the untimely death of Speaker Bernard Easterson.

1972 October. Penn Daw (VA) supermarket closed, as was the pharmacy a month later.

1973 April. Wheaton (MD) supermarket closed.

1973 May. Wilbur Wright, Deputy Speaker, assumed office as ninth Congress Speaker due to resignation of speaker Fred Schmidt.

1973 June. Penn-mar supermarket and Suitland service station (both in MD) closed.

1973 June. Thomas J. Martin elected the 10th Speaker of the Congress.

1973 July. Falls Church (VA) supermarket closed.

1973 August. Fairlington (VA) and Connecticut Ave. (DC) service stations closed.

1973 Arlington Boulevard (VA) supermarket closed. (Leaving 12 supermarkets, 7 service stations, 4 pharmacies, 1 direct drug service, 8 SCAN furniture stores).

1974 June. Paul O. Mohn elected Chairman of the Board.

1974 November. GCS opens Straight from the Crate, a perishables food store, at Penn Daw (VA) shopping center.

1975 April. Falls Church (VA) pharmacy and Takoma Park (MD) clinic closed.

1975 October. Co-op Federal Credit Union (formerly Wheaton) merged with Greenbelt Credit Union to provide service to all GCS employees and members.

1975 November. Janas SCAN opened in Norfolk, VA.

1976 February. Capital Plaza supermarket (MD) closed.

1976 March 16. Board appointed Rowland Burnstan CEO, replacing Eric Waldbaum who had served as CEO from January 1971.

1976 May. Sherwood supermarket, Newport News, VA, closed.

1976 July. Southampton supermarket, Hampton, VA, closed.

1976 July. Aspen Hill supermarket (MD) closed to remodel for SCAN furniture store which opened in November.

1976 August. Pimmit Hills supermarket, Falls Church, VA, closed.

1976 November. Roy L. Bryant replaced Rowland Burnstan as CEO.

1977 Eleanor Thompson elected 11th Speaker of Congress.

1977 Spring. Legal services added as benefit for GCS members.

1977 April. GCS leased three apartments in Merritt Island, FL. from Cooperative Services, Inc. of Detroit for rental to members and employees.

1977 May. GCS contracted to manage Hyde Park Cooperative's furniture stores in Chicago. These two SCAN stores were later purchased by GCS.

1977 August 15. GCS consolidated its corporate office, SCAN office and two SCAN warehouses into a new warehouse facility in the Corridor Industrial Park at Savage, MD.

1977 August. Co-op Green Grocer, a second convenience and perishables store, opened in Penn-mar shopping center, Forestville, MD.

1978 February. Another new SCAN opened in Newmarket North mall, Hampton, VA.

1978 April. Eastover supermarket, just southeast of Washington, DC, closed.

1978 The Co-op's two convenience/produce stores, Straight from the Crate and Green Grocer, closed.

1979 January. GCS membership reached 40,000.

1979 April. GCS introduced gasohol at the Falls Church (VA) station as an innovation in energy conservation. A month later Wheaton was first station in Maryland to retail gasohol.

1979 June 2. At annual membership meeting, members voted amendments to certificate of incorporation and bylaws converting Greenbelt Consumer Services, Inc. to Greenbelt Cooperative, Inc., with membership no longer based on stock purchase. Largest vote in Co-op's history.

1979 June. Tenth SCAN furniture store opened in Lakeforest Mall, Gaithersburg, MD.

1979 October. Takoma park (MD) supermarket closed.

1979 December. At end of 6-month option period, 9,000 members converted their "A" share of stock to a membership, in accord with the June reorganization.

1980 March. Robert F. Satake, Assistant CEO since May 1978, appointed by Board to be President and CEO.

1980 June. Board declared 8 percent dividend on stock ("B" shares) and authorized repurchase of $50,000 worth of shares in the order that requests for repurchase were received. Due to financial problems this was first dividend and repurchase of shares since June 1971.

1980 August. Complete Renovation of Greenbelt, MD supermarket.

1980 December. GCI opened supermarket in Severna Park, MD.

1981 March. Special membership meeting approved bylaws change giving Board authority to reduce membership fee (which was then set at $1). Intensive membership drive followed, with total reaching 25,000 by August.

1981 June Milton Johnson elected as 12th Congress Speaker.

1981 July. Greenway SCAN furniture store in Greenbelt, MD opens to replace the closed store in Takoma Park, MD.

1981 October. Georgetown Park SCAN furniture store opened, replacing Canal Square store, Washington, DC.

1981 Spring. Rockville, MD, supermarket closed. Piney Branch (MD) and Penn Daw (VA) service stations closed.

1982 October. SCAN furniture store opened in Springfield, VA.

1982 October. Preorder purchasing service (POPS) launched and ultimately served about 1,000 families with groceries.

1983 September. Van Ness SCAN furniture store in DC closed.

1983 September. Benjamin Rosenzweig selected as Congress Speaker.

1984 February. Another SCAN furniture store opened in Towsend, MD at Galleria shopping center.

1984 Spring. Remaining food stores and service stations closed. In following months, Co-op members in Greenbelt and in Westminster, MD organized their own local cooperatives and purchased the GCS supermarkets and service stations.

1984 December. GCS membership topped 100,000 (at $1 each), and 52 percent of SCAN purchases were made by these members.

1985 March. Herndon, VA, SCAN furniture store opened.

1985 June. Donald K. Hanes elected Chairman of the Board, replacing Paul Mohn, longest serving head of Board.

1985 June. George Jones elected Congress Speaker.

1986 GCI bylaws completely rewritten and approved in January 1987. Delegate Assembly replaced Congress; Districts replaced Area Councils; Assembly elects Board.

1986 December. A SCAN furniture store opened in Annapolis, MD.

1987 May. SCAN employees go on strike.

1987 June. Carolyn Hillier elected Chairperson of the Board.

1987 June. Basil McKinley elected Speaker of new Delegate Assembly.

1988 June. Jeff Almen elected Chairman of the Board.

1988 July. Robert F. Satake resigns as President and CEO.

1988 August 27. Board authorized filing of Chapter 11 bankruptcy.

1988 November 4. Chapter 11 case commenced.

1989 January. Robert Riesner appointed President and CEO

1989 December 1. Bankruptcy Court approved Plan of Reorganization which left GCI without assets except for a minority interest in a new corporation controlled by the Danish furniture makers and with a minority representation on the Board of the new corporation which took over the SCAN furniture stores.

1991 The Board of Greenbelt Cooperative, Inc. dissolved the corporation and relinquished its charter.

Excerpts From the Report of the Executive Committee of the Operating Management to the Joint Long-Range Planning Committee and the Board of Directors of Greenbelt Consumer Services, Inc., December 17, 1975

[An analysis of GCS supermarkets, prepared to assist the Board in determing whether the Co-op should continue in food marketing.]

Planning. "...Estimates of the investment required to support projected expansion [of supermarkets] were unrealistic and vague...While considering new ventures, the Co-op made no plans for, nor allocated funds to, remodeling or purchase of new equipment for supermarkets then operating.

Locations. "...Co-op facilities are, as a group, older and less attractive. The oldest was built in 1947. The newest in 1965...No first-class stores in first-class locations [at present].

<u>Membership Patronage:</u> "...those persons who became members in the 1940s to late-1950s became Co-op's most stalwart members...Members have aged. Some have moved to other sections of the Washington metropolitan area where there is no Co-op supermarket. [For] others...needs have changed...many are couples living alone. Their children married and moved away...The heritage of Co-op philosophy is not now reflected in membership...[Of the 10 present supermarkets] Takoma Park and Rockville are stores where the surrounding areas have changed based on upward mobility of original residents and neighborhood decline. Greenbelt, Westminster, Fairlington, and Pimmit Hills are stores where members are older now with different needs. Capital Plaza, Eastover, Kensington, and Aspen Hill were Kroger stores with no customer base/members to begin with.

"...there is a small group of believers who are still committed and still shop Co-op, but they are far fewer than the number of customers needed to keep the supermarkets viable. There appears to be less than 3,000 members purchasing less than $2,500,000 worth of goods annually.

"...disaffection of members began the last year in which patronage refunds were given...the elimination of dividends in 1971, the suspension of redemption of common stock in 1972, and the closing of key membership stores, like Wheaton were also critical.

Membership Investment: "...52 percent of the member accounts of the Co-op own only one share [$10]. In fact, 84 percent of total member accounts consist of less than 10 shares. Expenses have escalated, thus the costs of maintaining membership have become even more expensive.

Cash Limitations: "...Supermarkets suffered as a consequence of lack of funds stemming from diversion of assets, poor investments, and a failure/inability to cut losses...dividends were continuously declared and paid, despite the absence of earnings to support them...capital stock owned by members actually declined..l.less than 15 percent of proceeds from debentures paid to members at maturity has been reinvested in the current offering as of December 9, 1975...At the same time these ventures [supermarkets] were causing shortages of cash for the Co-op, SCAN was growing at a rapid rate — requiring large amounts of cash.

Physical Plant: "Store equipment is vintage...mean age of heating, ventilation, and air conditioning is some 15 years; refrigeration...12 years...breakdowns frequent, repairs expensive, parts often no longer available...The energy crisis and sky-rocketing utility rates have triggered substantial redesign of store equipment, which Co-op has not been able to replace.

Collective Bargaining: "Because of the diminutive size of its bargaining unit, compared with competitors', the Co-op has not been in a position to set policy or be a major influence on the industry or unions regarding wage scales or contract conditions...It has lacked the economic power to absorb higher wage rates, while, at the same time, lacking the bargaining power to negotiate lower rates...When a food store is operating at a high volume, for its size, people working in the store are more productive. The effect is to lower the cost of labor as a percentage of sales...Since the cost of store labor represents some two-thirds of the direct cost of operating a supermarket, small differences in labor costs have great impact on earnings (losses)...With long-term employees, higher labor costs stem from higher wage rates plus additional costs for vacations and other benefits. Full-time employee benefits are costlier than those of part-time employees. Co-op, as a result of store closings with employee retention based on seniority and other contractual reasons, has more full-time than part-time employees...Without expansion, supermarkets have not been hiring new people at the lower wage rates to give comparable average wage rates to competition.

Erratic Program Impact: "Because of many shifts in supermarket merchandising programs, members have frequently been turned off by Co-op stores...Sometimes the emphasis has been on unit-pricing, consumer information, member volunteerism, and pride in the concept of cooperation. Other times, the supermarkets have de-emphasized 'Co-op' private label, consumerism, member involvement, and pride in the concept of cooperation (even to the point of changing store names).

"...Inconsistent programming does not elicit vendor confidence...Vendors have received no review, sometimes for years; suddenly, management changes and there is tough insistence on standards of performance. The frequency of management changes clearly points out to vendors that there is no consistent way to deal with the Co-op...M. Loeb, Fox Grocery Company, and Richfoods have supplied Co-op in the 12 years since Co-op ceased its own warehousing.

"...Employees, too, have suffered from erratic programs. They have been barraged by pep talk after pep talk by successive management groups with different agenda...Supermarkets have been managed [in recent years] by people with little knowledge of cooperatives.

"...In the last decade, the Co-op has not had a training program.

Technological Shortcomings: Co-op has not been able to move to electronic cash registers because of lack of capital...Scanners to read the Universal Product Code symbols, which are anticipated to facilitate labor savings of up to 40 percent at the front end of the supermarket, will also be beyond reach...limited use of order entry devices which can shorten delivery lead time, lack of computer supported store ordering or shelf layout programs, etc.

Advertising: The cost of advertising for a small chain with wide geographic dispersion and low sales volume is prohibitively expensive as compared with major chains.

Lack of Vendor Confidence: Vendors have watched the comings and goings at eh Co-op, and many of them have simply stopped calling: insufficient volume to provide payback on their time; central warehousing purchasing outside the Washington market; poor follow-up on deals and promotions offered; lack of knowledge of who makes decisions; concern for credit risk, following substantial losses in 1970, 1971, and 1972.

Cost of Consumer Programs: "...an expense the Co-op cannot afford. While product information, recipes, consumer alerts, unit pricing, and shopping guides are important, they are not substitutes for basic shopping needs. Consumer programs are not cost-effective by themselves.

Profitability: "...Between 1971 and 1973, ten stores (half of the division) were closed. The underlying problem is best illustrated by the net loss for the remaining stores for those years, $706,654 in 1972 and $834,279 in 1973...$373,465 in 1974, $679,817 for 44 weeks ended November 29, 1975.

Member Disappointment: "...the organization does not fulfill their sense of what the Co-op should be. They want clean, beautiful supermarkets. Co-op has old stores with mediocre equipment. They want supermarkets close to where they live. Co-op has stores in areas where members lived 10-30 years ago. They want the supermarkets to make substantial savings, so they can receive patronage refunds. Co-op has a hard time keeping the stores operating at all, much less at a profit. This is hard for members to comprehend. Understandably they are angry."