Journal of Cooperatives

Volume 37 ***2024*** ***Page 62-80***

The Rise and Fall of the Oklahoma Food Cooperative (2003-2018): Lessons for New and Future Food Hubs

Phil Kenkel and Rodney B. Holcomb

Contact:

Phil Kenkel, *(Regents Professor Oklahoma State University) for comments and suggestions.*

The Rise and Fall of the Oklahoma Food Cooperative (2003-2018): Lessons for New and Future Food Hubs

Phil Kenkel and Rodney Holcomb

Introduction

Local food hubs and local food promotion programs have propagated in recent years, due in part to interest from both consumers and producers but also the development of state and federal policies promoting these efforts. USDA has developed publications to help with food hub business operations (e.g., Matson, Thayer, and Shaw, 2015) and even to identify general reasons for food hub failures (Feldstein and Barham, 2017). However, these efforts do not adequately contrast the successful and unsuccessful result of specific efforts. With post-COVID efforts to develop local food distribution systems and anticipated program emphasis in the next farm bill, it is beneficial to look back at earlier efforts and learn from both their successes and their failures. For this reason, an assessment of the rise and fall of the Oklahoma Food Cooperative has been conducted.

The Oklahoma Food Cooperative (OFC) began in 2003 as a volunteer operation in an Oklahoma City church basement and expanded to eventually have more than 5,000 members by 2013. Hailed as one of the first successful food cooperatives in the US, the OFC was often pointed to as the model for developing a food hub. USDA's Agricultural Marketing Service even published an article on the OFC (Diamond, 2010), at that time stating: "As OFC demonstrates, aggregation, distribution and coordination really is the backbone of building strong relationships between producers and consumers. It's also the essence of a successful food hub." (Diamond, 2010). In 2011 the OFC was part of a Washington D.C. panel identifying critical issues facing cooperatives (Kenkel and Park, 2011). During that event the OFC was recognized for their success in involving women on the board of directors and management, However, even as the OFC was serving as the poster child for food cooperative/food hub development it was struggling to meet the divergent needs of its members. The OFC was structured as a multiple stakeholder cooperative (MSC) with more than 5,000 customer-members and approximately 150 producer/supplier-members at its peak. Using volunteer labor and cash reserves generated from the large number of customer-members ($50 per share and $1.75 processing fee), the OFC for some time remained solvent. Yet the challenges of leadership issues, distribution logistics, supply/demand leakages, competition, and the seasonality of product availability combined to strain the OFC's resources and eventually drove the cooperative to close its doors in 2018.

The purpose of this case study is to identify factors that both helped the OFC grow and contributed to the OFC's eventual failure and to suggest ways that new or future food cooperatives and food hubs can address these issues, which they will inevitably face. Specifically, the case analysis will focus on four areas: the OFC's value package, cooperative operational structure (connecting buyers and suppliers), distribution logistics, and responses to competitive forces.

OFC Membership Structure and Value Package

<u>Membership Structure</u>

The OFC was envisioned as a cooperative solution to meet the needs of both producers/suppliers and customers/consumers, thus the choice of a MSC structure for the cooperative business entity. Multiple-stakeholder cooperatives are sometimes referred to as "solidarity cooperatives," as the seemingly divergent goals of the different member groups align under one socio-economic goal – in this case, the goal was to create a market interface for Oklahoma-grown foods and Oklahoma-made items. However, as Kenkel (2019) and others point out, the different incentives of the various stakeholder groups make the structuring more complex and creates more potential for conflicts. Levitin-Reid and Fairbairn (2011) argue that while previous literature suggests these issues eventually lead most MSCs to failure, the sustainability of any one MSC really depends on external and internal factors, e.g., the economic environment, processes/strategies used to achieve consensus, and the membership's commitment to the cooperative.

As per its articles of incorporation and bylaws, the OFC's officers consisted of a President, Vice President for Producers, Vice President for Customers, Secretary, Treasurer, and Chief Information Officer (CIO). The board of directors consisted of these officers, one representative of the OFC employees, and "five or six members elected at large by the membership." The at-large members were not defined as a set number of producers/suppliers or customers because many of the producers were also customers purchasing products through the cooperative. The OFC hired part-time managers and eventually a full-time general manager who also became a board member.

The OFC's basic business model was for consumer-members to make on-line purchases from the catalog of products offered by the producer-members. Then, at designated points in time, the producers delivered the required product to the distribution site where volunteers packaged the orders to be picked up by the consumer-members. Although the OFC began as a single distribution point in Oklahoma City for monthly purchases, the rapid growth in membership resulted in significant changes to its operations between 2003 and 2010. Members pushed for more localized pickup points, so eventually the Oklahoma City warehouse became a centralized order fulfillment center and drop-off points were established throughout the state. By the end of 2010, the OFC was processing orders at the Oklahoma City warehouse and delivering those orders to more than 40 drop-off locations. Almost all of these locations were within a 160-mile radius of Oklahoma City. However, the logistics of handling this expanded operation convinced the OFC board to hire a salaried general manager to coordinate with the 50-plus volunteers who processed members' orders each month and often served as the delivery agents for the cooperative.

Capital to support the OFC was originally provided by the $51.75 share price paid by members and two grants used to purchase trailers and develop the online ordering/payment platform. A 10,000-square-foot warehouse in Oklahoma City was leased for $250/month, but it required approximately $35,000 in roof repairs and electrical work to be of use. The OFC financed these improvements via a "capital campaign" where T-shirts and posters were sold (Wallace Center, 2009). Annual operating funds were generated from the delivery fees and percentage fees buyers paid for ordering through the OFC, although in early years the cooperative covered its short-term expenses with the incoming membership payments.

Financial management of the OFC was challenging throughout its existence. Even with the capital gained from memberships and fee charges for each online order and home delivery, the capital reserves and revenue generated by the venture never matched the outlays required to pay staff and cover the incentives paid to delivery agents. The high number of members and the perishability of food products meant the OFC needed to process orders in a short timeframe once products reach the warehouse, thus the need for a high number of volunteers. To keep these volunteers engaged, incentives were offered – i.e., a $7/hour credit to be used for volunteers' own purchases, $0.36/mile for drivers carrying products from OFC's warehouse to drop-off locations, and a $7.50 cash payment for home deliveries ($5 for elderly, disabled, or homebound members). However, salaries and incentives required a threshold of monthly orders that could not be sustained by the cooperative. Inevitably, the cash resources of the OFC dwindled as new memberships declined and monthly order numbers began to lag.

In addition to logistical and financial issues, the OFC was faced with regulatory compliance issues that hindered opportunities for growth and new product offerings. Regulations prevented OFC producer-members from marketing further processed food items (meats and non-meats) via the OFC without inspection. While certain direct-to-consumer sales of fresh produce, grains, and honey were exempt from food safety inspection, other items (e.g., processed/cooked meat items, meal solutions, and cut/packaged produce) required inspection from the appropriate state or federal agency. These perishable food items must be handled as appropriate for Time/Temperature Control for Safety (TCS) foods, something the OFC was not equipped to verify for its producer-members or an inspector. Furthermore, some board members were opposed to the addition of "further processed" food items using non-Oklahoma ingredients, viewing that as a move away from their original "locally grown" image.

Eventually, the OFC did agree to include further processed food products as long as the value-added processing took place in Oklahoma. As examples, locally roasted coffee was allowed, bakery items were included, and even items such as casseroles were added to the monthly product offerings. However, a casserole with (for example) sausage would have to use an Oklahoma-processed sausage made from meats that were not sources from a concentrated animal feeding operation (CAFO).

At the time, Oklahoma did not have a cottage food law that would support the marketing of non-inspected processed foods such as jams, jellies, pickles, and dried foods. It is not known if changes in the regulatory environment, such as the passing of the Oklahoma Homemade Food Freedom Act of 2021, would have helped or hindered the OFC's sales during its tenure.

<u>Value Package for Different Stakeholders</u>

The original value message of the OFC, as determined by founder Bob Waldrop, was to basically have multiple retail establishments owned by both producers and consumers where only Oklahoma-grown products would be sold. The products would be "stocked in the cooperative by the farmers/ranchers on consignment, and the cooperative will receive a commission on the sale of the products" (Galor, 2018). In Waldrop's words, this series of retail food cooperatives would be like “a farmers market, only open 7 days a week, 12 hours a day” (Galor, 2018).

However, the logistical and regulatory realities of having stores open 12 hours a day, every day, and each producer complying with the regulatory requirements of retail suppliers were too burdensome to support this structure. Operating a physical storefront would require retail food store application and licensing fees,

Even though the value package concept of multiple retail storefronts would never materialize, the OFC founders still intended to fulfill the goal of being a marketplace in which consumers and producers could transact business for Oklahoma-based products. In the end, the operational model became a web-based order facilitation concept with orders being taken over a period of weeks but physical transactions taking place only one day per month. The upside of this model was the ability for producers to know with certainty the quantity of products to be distributed on a given day. The downside, however, was the stifled potential to market larger quantities of perishable products (e.g., fresh fruits and vegetables) in peak harvest seasons due to the limited once-per-month delivery period. The result was a marketplace that had occasional availability of highly perishable items and a greater emphasis on items with longer shelf lives (refrigerated or not) and more year-round availability. The most commonly purchased food items eventually became refrigerated/frozen meat products and eggs.

For producers (supplier-members), the OFC’s value package was based on the ability to reach a large number of potential customers and expand their marketing options by co-marketing with shared-interest businesses. For consumers (customer-members), the value package centered on the opportunity to purchase a bundle of locally-sourced food and non-food items without the transaction costs associated with finding and visiting multiple local food market channels. For both supplier-members and customer-members, additional incentives such as account credits for volunteer labor on delivery day enhanced the value proposition of cooperative participation. However, the OFC finally reached a point where even added incentives such as cash payments for home deliveries could not ensure continued volunteer participation in the distribution network.

Market Factors and Competitive Forces

In many ways, the OFC became a victim of its success. By promoting "local food" before the state had adopted the concept, the OFC was a true innovator in its state-level marketing strategy. However, the operational structure and distribution network of the cooperative lacked efficiency and a focus on customer tastes/preferences necessary to support sustained operations. While the online ordering system was an early precursor to today's commonly used online grocery systems, the once-per-month delivery concept was not sufficient for consumers of the OFC's highly perishable food items. As a result, the rise of alternative marketing channels led to leakages in both demand and supply for OFC members.

As consumers and USDA programs promoted greater local food marketing efforts, the OFC began to lose sales to weekly farmers markets. When the OFC was formed, there were few farmers markets in Oklahoma and even fewer farmers markets focusing on Oklahoma-grown produce and other food items. Nationally, however, the number of farmers markets was on an upward trend starting in 1994 and leveling off in 2017-2019 (Figure 1). For Oklahoma, the number of certified "Oklahoma Grown" farmers markets (only Oklahoma-grown products allowed) rose from 17 in 2000 to 64 by the OFC's 10th year of operations. There were 79 Oklahoma farmers markets as of 2024 (shapeyourfutureok.com, 2022). These farmers markets gave OFC's supplier-members and consumer-members a regular (or seasonal) weekly/bi-weekly platform for business transactions outside of the OFC itself, eroding the volume of monthly OFC transactions.

Farmers markets were not the only sources of growing competition for the OFC. Retail supermarkets emphasizing locally-sourced, organic, and other source/process-certified product lines began to rise up in the primary metropolitan areas of Oklahoma City and Tulsa. Some of these supermarket chains were Wild Oats Marketplace, Whole Foods (which bought Wild Oats), and Sprouts Farmers Market stores. The OFC board did not consider these outlets to be "true" local food stores. However, they did offer everyday shopping opportunities for existing and potential OFC customer-members in Oklahoma City and Tulsa. Ironically, the everyday product availability offered by these supermarkets in a brick-and-mortar format is what the OFC's founders had originally envisioned.

The OFC was not capable of matching the variety of product offerings, timeliness/accessibility, and in many cases even the prices of farmers markets and specialty supermarkets. As the number of monthly orders declined, the OFC board commissioned researchers from Oklahoma State University to survey OFC members and find out where they were purchasing their food products. Table 1 illustrates the percentages of customer-members using non-OFC market channels to meet their demands for local, organic, or other certified food products.

The results shown in Table 1 are not surprising. In fact, they coincide with recent findings from a Mintel® study showing that the average consumer wants a wide array of product offerings and the convenience of time and place to purchase those products. The findings illustrate the fact that consumers consider all options to meet their tastes, preferences, and timeliness of acquisition for food products. Figure 2 shows the breakdown of where consumers in 2023 shopped for groceries – both instore and online – by generational age group.

The OFC's member utilization concerns were not solely related to customer-members using alternative market channels for their local food needs. Understandably, supplier-members also could not afford to be limited to the OFC as their only market channel. The survey of members also found that a majority of supplier-members were selling their food items through multiple channels to bolster their revenues and move perishable products in season. As Table 2 shows, more than half of the OFC's supplier-members were also selling their products via direct competitors of the OFC: farmers markets and stores specializing in organic, natural, and/or locally grown products.

Supply and demand leakages significantly impacted the OFC's ability to justify its continued operations. Even as far back as 2010, the OFC board recognized the drastic decline in monthly member orders – both number of orders and dollar volume of orders. According to Holcomb, Kenkel and Brown (2013), less than 20% of the OFC customer-members made purchases in any given month and 34.3% of the producer-members were generating less than $100 per month in sales through the OFC. Furthermore, the authors found that customer-members tended to serve as "second-class members of the cooperative," with producer-members serving as a majority of the board members and setting the direction for the cooperative. That was perhaps not surprising since the OFC was an integral aspect of the producer-members' farming operations but only a small component of most of the consumer-members' food purchases. One by-product of the misbalance was that the catalog of offerings continued to be driven by what the producers were most interested in producing rather than what the consumers were most interested in purchasing. As customer-member support waned and distribution inefficiencies continued to plague the cooperative, the market presence of the OFC declined and the disparities between the two stakeholder groups in the MSC grew.

Discussions of MSC often include the possibility of conflict between the stakeholder groups. In the case of OFC there was undoubtably differences in opinion as to the catalog of product offerings. The producer-members had little interest in changing or expanding product offering since their existing products fit their farming operations. The consumer-members desired a much more diverse and constantly available source of local foods to fit their food shopping patterns. As mentioned, the consumer-members were much less engaged in governance with few seeking to serve on the board of directors. Members in a cooperative have multiple avenues to influence the cooperative's direction. They can express their opinions to the board and manager, they can vote for a board member candidate that represents their views or they can petition for a membership vote. A final avenue for member control, and one not often discussed in the context of MSC, is that a stakeholder group can simply vote with their feet and exit the cooperative. That appears to have been the case with the OFC. The consumer-members made no organized effort to influence the catalog of offerings. They simply stopped using the cooperative.

The OFC was never able to overcome its inherent distribution inefficiencies and provide the time, place, and form utilities for products as demanded by its customer-members. The differing objectives of the two stakeholder groups in the cooperative contributed to the operational and decision-making challenges of the association. In turn, this impacted the OFC's ability to adapt to changing market environments and continue to offer a viable value package to both customer-members and producer-members. As discussed by Leviten-Reid and Fairbairn (2011), this is a commonly observed but rarely researched characteristics of MSC entities.

Summary and Conclusions – The Takeaway

The OFC was a pioneer in the development of a local food hub. In many ways it embodied the adage "Don't let perfection be the enemy of the possible!" The cooperative created a system to bring local food producers together with local food consumers with minimal infrastructure investment. The OFC was also a pioneer in what is now referred to as the MSC model, involving two stakeholder groups with very different characteristics and very different relationships with the cooperative. Among agricultural cooperatives, the OFC was a pioneer in gender diversity. As the local food market developed, the imperfections in the OFC's value package became apparent. The development of alternative local food marketing channels led to defections among both producer and consumer-members. The divergence of desires for the food catalog across the two stakeholder groups manifested itself not in organized governance battles but rather in the consumer stakeholders exiting the cooperative, The OFC innovative structure with on-line ordering and once-per-month delivery system was critical to its initial success. Unfortunately, those structures prevented the cooperative from adapting to changing consumer expectations for locally based foods.

References

_____. "Farmers Market Locations." Available online at https://shapeyourfutureok.com/eat-better/farmers-market/farmers-market-locations/. Accessed January 23, 2024.

Diamond, A. (2006, December 16). USDA Blog: "Oklahoma Food Co-op: From Buying Club to Food Hub." Available at http://blogs.usda.gov/2010/12/16/oklahoma-food-co-op-from-buying-club-to-food-hub/. [Retrieved December 16, 2010].

Feldstein, S., and J. Barham. (2017). *Running a Food Hub: Learning from Food Hub Closures.* USDA Rural Development, Service Report 77, Volume IV.

Galor, Z. (2003). "How to Establish a Cooperative: A Case Study of the Oklahoma Food Cooperative." Internet publication from Zvi Galor. Available at http://www.coopgalor.com/doc/OklahomaFoodCoop.doc. [Retrieved August 9, 2010].

Holcomb, R.B., P. Kenkel, and L. Brown. "Factors Impacting Participation In and Purchases Made by Members of the Oklahoma Food Cooperative." *Journal of Cooperatives* 26(2012):40-57. Available online at http://accc.k-state.edu/ncera210/jocpdfs/v26/Holcomb.pdf.

Kenkel, P. and J. Park "Theme Overview: Critical Issues for Agricultural Cooperatives" Choices, Vol. 26 (3) October 2011, http://www.choicesmagazine.org/choices-magazine/theme-articles/critical-issues-for-agricultural-cooperatives/theme-overview-critical-issues-for-agricultural-cooperatives

Leviten-Reid, C., and B. Fairbairn. (2011). "Multi-Stakeholder Governance in Cooperative Organizations: Toward a New Framework for Research?" *Canadian Journal of Nonprofit and Social Economy Research* 2,2:25-36.

Matson, J., J. Thayer, and J. Shaw. (2015). *Running a Food Hub: A Business Operations Guide.* USDA Rural Development, Service Report 77, Volume II.

Osburn, M. R.B. Holcomb, C. Willoughby, C. Bir, and N. Dethloff. "Food Business License and Permit Costs in Oklahoma: The Good, The Bad and The Mundane (updated August 2022)." Oklahoma Cooperative Extension Service Fact Sheet FAPC-185. Available online at https://extension.okstate.edu/fact-sheets/food-business-license-and-permit-costs-in-oklahoma-the-good-the-bad-and-the-mundane.html.

Wallace Center at Winrock International. (2009). *Community Food Enterprise: Local Success in a Global Marketplace.* Arlington, VA: Wallace Center at Winrock International. Available at http://www.communityfoodenterprise.org/case-studies/u.s.-based/oklahoma-food-cooperative. [Retrieved November 1, 2010].

Appendix

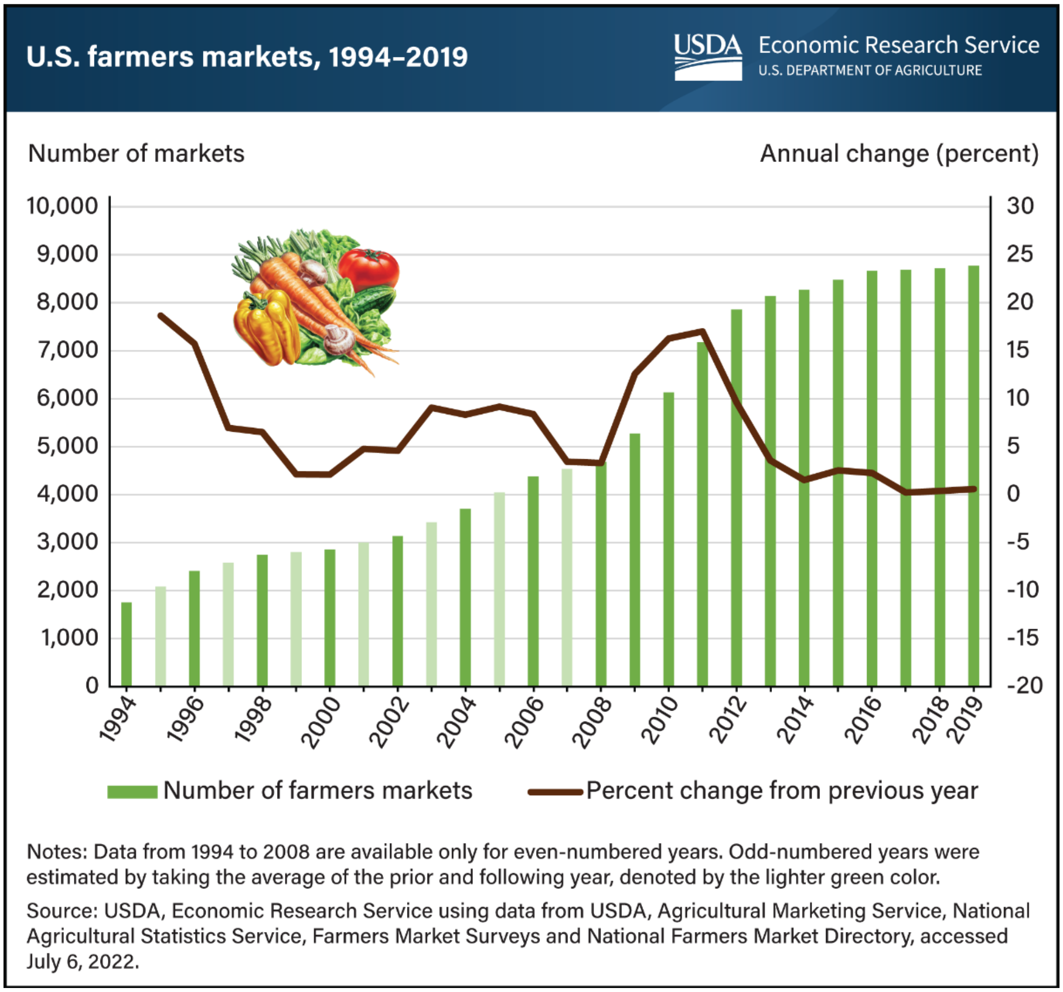

Figure 1: Growth Trends in US Farmers Markets, 1994-2019. (source: USDA ERS)

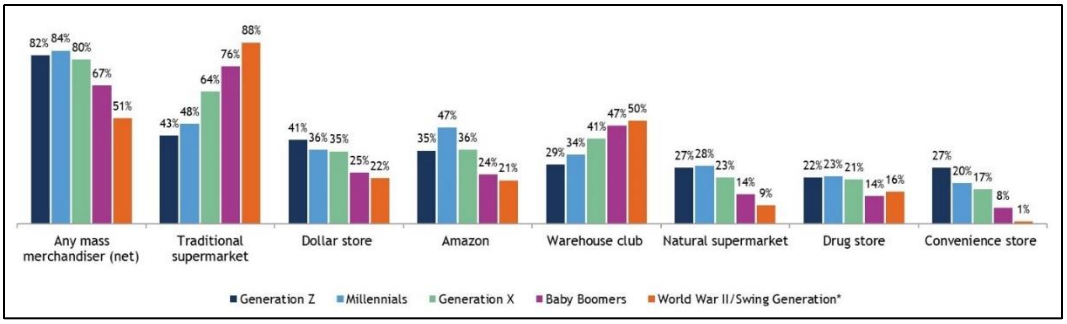

Figure 2: Grocery Shopping Channels, Instore and Online, of US Consumers by Generation over the Past 12 Months, Ending February 2023. (n=1,946; source: Mintel)

Table 1: Other Food Purchasing Options used by OFC Customer-Members. N=331 (source: Holcomb, Kenkel, and Brown, 2013)

Market Channel Options	**Response Percent**
Supermarket(s)	97.9%
Store(s) specializing in organic, natural, and/or locally grown products	71.3%
Farmers market(s)	66.5%
Community Supported Agriculture (CSA) effort	26.0%
Other	27.8%

Table 2: Competing Market Channels where Oklahoma Food Cooperative Supplier Members Sold Products. N=31 (source: Holcomb, Kenkel, and Brown 2013)

Market Channels Used by Suppliers	**Response Percent**
Retail grocery/Supermarket(s)	29.0%
Store(s) specializing in organic, natural, and/or locally grown products	51.6%
Farmers market(s)	67.7%
Other food cooperative(s)	35.5%
Community Supported Agriculture (CSA) effort(s)	29.0%
Other outlets	90.3%