

Computer pre-order food co-ops offer savings in return for time and labor

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Within the past decade, food-buying clubs have captured the interest of many California consumers concerned with rising prices. Members of a buying club get together and place orders for the food items they wish to purchase. When several clubs affiliate to send in joint orders, they are considered a pre-order cooperative. Combined orders from the buying clubs are then sent to various wholesalers, who ship to a central distribution point where members pick up and pay for the food ordered.

Although this process does not seem complex, accounting and organization can become tedious and time-consuming. The

selection of goods may also be limited, because many suppliers will not deal with small orders. However, some buying clubs in northern California have found a way to reduce many of these problems by using a computer network.

Four pre-order co-ops

Reversing the usual trend of a buying club that expands and turns into a storefront co-op, the Sacramento Consumers Co-op started out with a store in 1961 but changed into a pre-order co-op in 1969. Use of a computer for ordering and billing allowed rapid membership expansion, and by 1978 the co-op

maintained three warehouses—two in Sacramento and one in Woodland. Eventually the members served by the Woodland warehouse incorporated as Yolo Consumers Co-op and the two Sacramento warehouses were consolidated into one.

In Spring 1980, a group of people from Napa became interested in starting their own pre-order co-op. They first formed a number of local buying groups and joined Yolo Co-op for several months. By October 1980, the Napa group had enough capital, experience, and members to incorporate as the Wine Country Co-op with their own warehouse in Napa. In January 1981, the Monterey Bay

Buying clubs use outside computer services to order food and merchandise from wholesalers.

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Use of computer for ordering, billing, and record-keeping has been responsible for expansion of pre-order consumer co-ops.

Co-op also decided to rent a warehouse and join the computerized pre-order co-op network. In April 1981, the four pre-order co-ops sent in orders from 1,500 member households for a monthly volume of \$188,500.

Although these co-ops have electronic access to the large distribution network, they maintain the social and economic advantages of grassroots organizations. Buying groups are small, usually consisting of 10 to 20 households. Many of the buying groups are in rural areas. The Yolo Consumers' Co-op, for example, has groups in Williams, Esparto, Winters, and Dixon, as well as in Davis and Woodland.

How the Co-ops use computers

These four pre-order co-ops use the services of two computer firms that exchange information and tapes. One of the firms, serving the Yolo Consumers' Co-op, is near downtown Sacramento and has its own mini-computer, a printer, and a number of video terminals. Wholesale prices are sent to the firm via computer tape from Associated Cooperatives, a food and merchandise wholesaler for West Coast cooperatives. Wholesale prices from other suppliers must be independently entered into the computer files. A variable percentage markup is added to these prices, which are stored in the computer memory.

The computer prints out a catalog of over 8,000 food items that pre-order co-ops

distribute to members. Buying groups order in case lots by filling out individual household orders, which are sent to the computer service for keypunching. The computer consolidates these orders into a total co-op order, which is then separated into lists by supplier.

Suppliers deliver to the warehouse, where members divide the total order into group orders using lists and labels printed by the computer service. Several members of each buying group pick up the groceries from the warehouse and deliver them to a local distribution point—usually a group member's home. The buying-group order is then divided into household orders. Members of each household in the buying group then pick up and pay for their groceries, receiving an itemized bill prepared by the computer service. The computer service also maintains membership lists and provides summary information useful for management decisions.

Price savings

Since most members join buying clubs to save money, the Center for Consumer Research was interested in determining whether these hopes were being realized. The price structure in pre-order co-ops is specifically designed to achieve a break-even point, generating just enough income to cover operation expenses. Yet it was important to know whether the low overhead, use of volunteer labor, and consolidation of orders would be sufficient to match the economies

of scale available in the commercial food marketing system. We therefore conducted an item-by-item comparison of prices charged by these buying clubs with prices for the same items from supermarkets in the same cities.

Price comparisons were made with two different product lists, one of 93 items used in food surveys by the U.S. Department of Labor (USDL), and the other of 32 items commonly stocked by small food co-ops. Three separate pricing systems were used for each item. The first, based on the least expensive item, was modeled after a consumer with a "bargain hunter's strategy," who seeks the lowest price of an item regardless of label or brand. The second system compared household prices for each item under the co-op label and the particular supermarket label, such as Lady Lee at Lucky, Scotch Brand at Safeway. The third method compared prices of national name brand items. Researchers designated a national brand for every appropriate item on the USDL list, such as a 24-ounce jar of Wesson cooking oil, a package of 48 Lipton tea bags, a 13-ounce can of Carnation Evaporated Milk. The brands were chosen for their prominence in sales volume. The same name brands were used for all comparisons.

An item had to be available to co-op members and at least one of the comparison supermarkets for it to be included in the survey. If it was sold to co-op members but not at a supermarket, or vice versa, no comparison was made in that category.

USDL list

The lowest price could be compared for 183 items on the USDL list that were available both to buying club members (four co-ops combined) and at supermarkets. Of this number, the co-op price was lower 137 times, the supermarket price was lower 41 times, and the two prices were equal 5 times. The total price of all 183 items at the four buying clubs was \$155.70 and at the supermarkets, \$173.32, a price difference of 10.2 percent.

In 61 instances, prices of a co-op label and a supermarket brand could be compared. The co-op label was priced lower 43 times, the supermarket house label was lower 16 times, and there was no difference in 2 cases. The total price for the co-op label items was \$54.70 compared with \$57.31 at the supermarkets, representing a 4.6 percent lower price for the co-op customer.

There were 87 name brand items in both types of outlets. The co-op price was lower on 64 items, the supermarket price was lower on 18 and on 5 the prices were equal. Total

price for these items was \$82.99 at the co-op and \$88.66 at the supermarkets, a 6.4 percent difference.

Co-op list

The smaller co-op food stores that we had studied in previous research tended to stock a restricted range of items. They carried little or no meat and a minimum of processed foods. This made it difficult to compare prices using the USDL list, which consisted primarily of meats and processed foods. We therefore compiled a list of 32 items commonly found at smaller co-op stores. The list consisted of 8 items in each of four categories—fresh produce, cereals and grains, dairy products, and name brand cereals. Even though the pre-orders stocked a wide range of products, we wanted to see how well they would do on the types of items commonly purchased by members of the smaller storefront co-ops. Many of these were bulk items, where savings from volunteer labor would be most apparent.

Using the Co-op list, a comparison could be made by the least expensive item approach in 106 instances. The co-op price was lower 99 times, the supermarket price lower 6 times, and the prices equal 1 time. The total cost of these items at the co-op was \$89.57, compared with \$112.98 at the supermarket, representing a potential saving of 20.7 percent to co-op members.

Since many of the items on the co-op list are produce, cereals, and grains, there were only 16 cases where house labels could be compared. Of these 16, the co-op price was lower 12 times, the supermarket lower twice, and the prices equal twice. The total cost of these items at the co-op was \$14.82, compared with \$20.67 at the supermarkets, representing a 28.3 percent potential saving for the co-op shopper. However, the relatively small number of house brand items on the co-op list requires some caution in interpreting this result.

On 35 occasions, a national brand item on the co-op list was found at both a co-op and



Buying-club members pick up groceries from warehouse for delivery to local distribution point (usually a member's home), where they are divided into household orders.

the supermarkets. The co-op price was lower 32 times, the supermarket price lower twice, and the prices equal once. The total price of the national brand items at the co-op was \$43.22, compared with \$49.68 at the supermarkets, for a potential saving of 13 percent to the co-op shopper.

The potential for lower prices in pre-order co-ops has been attributed to the use of volunteer labor, the minimal needs for a physical plant inventory, and reduced waste and spoilage. Pre-ordering allows the co-op to purchase exactly the amounts needed, minimizing the accumulation of unsold items. These four pre-order co-ops are able to offer their members potential savings of 10 to 25 percent, depending on the type of food ordered. Generally the members do best in purchasing bulk grains, dry beans, fresh fruits and vegetables, and cheeses, where the use of volunteer labor

can be used most effectively, and least well on processed and name brand items, where economies of

scale give large supermarket chains a competitive advantage.

The critical issue for the consumer considering whether or not to join a buying club is whether the potential savings justify the time and effort involved. From an economic standpoint, a buying club gives its members a chance to trade off a certain amount of extra time for potential price savings. The typical member may work about two to three hours every three months on specific jobs, plus ordering and picking up his or her own groceries. This must be compared with the time that would be devoted to shopping for these same items in the supermarket. Members work at the warehouse only once every three or four months. Most grocery pickups are done in the neighborhood. But time and price savings are not the only concerns of the members. Participation in the co-ops helps members acquire business skills, increases feelings of control over personal food supply, and provides contact with neighbors.

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