

# HOW TO START

## And Run a Co-operative Store on the Rochdale Plan

Compiled by the Co-operative League of America  
from the Experiences of the successful European  
and American Co-operative stores



Ten Cents

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# How to Start and Run a Co-operative Store on the Rochdale Plan

Compiled by the Co-operative League of America

## STARTING RIGHT—FIRST STEPS IN ORGANIZATION

The most effective group with which to begin organizing a co-operative society is one in which the members have an intimate personal acquaintance with each other. It is best that members should be neighbors, or be bound by some fraternal tie, or be members of the same labor union, community centre, or other organization which already gives a sense of kinship and solidarity.

Before organizing a store the group should meet regularly once a week, with or without a speaker, for the purpose of studying and discussing the history, the methods and the aims of Co-operation. Literature on Co-operation should be distributed. Some members of the group should read the books on the subject. This preliminary education is most important.

Societies are not on a sound basis that are organized only to meet an emergency such as the "high cost of living" and whose members are not familiar with the principles and aims of Co-operation, but who are merely interested in Co-operation for the immediate personal advantage they hope to obtain. The society must be composed of active members, not be a mere store run by one man. A Co-operative society cannot succeed without real co-operators, men and women who seek to bring about a fundamental change in the methods of production and distribution—for service, not for private profit.

Experience in the United States and Europe teaches that there is a right and wrong way to begin Co-operative enterprises. Impatience with the slow but sure Rochdale method of starting individual societies has tended toward the recent move to start central co-operative organizations first, operating chain stores over wide areas. The capital subscribed by newly organized stores is paid into a central office which administers all the

finances. Centralized business management may bring quicker results, but these may be purchased at a great cost. Experienced co-operators are opposed to delegating all power to central authorities. They believe in retaining the directing power among the rank and file, who should hold the purse strings. Another objection is that paid organizers who are employed to launch these enterprises not only are an unnecessary expense but may take the place of a self-educated, self-directed group of members. The tendency of this central organization plan is to create stores prematurely before the people are real co-operators.

It is preferable for societies to create a central organization for collective buying and wholesaling after they themselves have soundly established their own stores on the Rochdale plan.

### NUMBER NECESSARY TO START

Opinions differ as to the number of members and amount of capital necessary to start a store.

Some co-operators believe that in a village when one hundred interested, determined families start a store with \$2,500 capital, if they are thoroughly familiar with the objects and methods of Co-operation, and if they stick together through the uphill battle of the first years, they ultimately succeed.

Other co-operators, however, object to a small membership—**anything less than 200 members** and **\$10,000 capital** in the beginning—for the reason that the necessity of buying with small funds is apt to handicap the society, and a small membership does not create sufficient trade.

So important is the constant trade to the success of the society that the policy of not allowing non-purchasing members any vote is worth considering. Each and every one should agree to trade at his store and there only. Unless they do, the store cannot prosper.

### PRELIMINARY WORK

As soon as enough intelligent interest and enthusiasm have been created the organization of the Co-operative society should begin. A preliminary committee should be appointed. Its duty should consist in securing all available information on the details of organization from the Co-operative League of America and from the nearby stores, if the latter are truly co-operative. They should consider the qualities and capabilities of their members with a view to making nominations for the Board

of Directors and the Educational Committee at the organization meeting. It is advisable also during the preliminary period for the committee to give thought to the question of a manager for the store.

### **FIRST ORGANIZATION MEETING**

When this preliminary work has been done, when sufficient capital and an adequate number of members, pledged to trade at the store, are assured, an organization meeting should be called, but not until then.

The business to be transacted at the meeting may include:

1. Adoption of Constitution and By-Laws.
2. Election of President, Secretary and Treasurer.
3. Election of Board of Directors.
4. Election of Committee on Education.
5. Election of Control Committee.
6. Selection of a Store.

### **CONSTITUTION AND BY-LAWS**

Before the society begins business it should adopt a set of by-laws. A typical constitution and by-laws may be secured from the Co-operative League of America, or from any of the stores now operating. This may serve as a basis, but should be modified to fit the specific local needs and the state law. A copy should be given to each member so that he may understand his duties and privilege in his society.

Rochdale principles and methods should be incorporated in the by-laws and adhered to in the administration of the society. To depart from these principles is to invite failure. To use other methods is inadvisable.

### **ROCHDALE PRINCIPLES**

1. One vote only for each member, regardless of number of shares held.
2. Capital to receive interest (if any is declared) **fixed** at not more than the legal rate.
3. Surplus-savings (or "profits") to be returned as savings-returns (or "dividends") in proportion to the patronage of each individual, or to remain in the society's treasury as loan capital credited to the members' accounts, or to be used collectively for the general social good of the members, or to remain temporarily undivided.

## ROCHDALE METHODS

1. Business to be done for **cash**.
2. Goods to be sold at **current market price**—not at cost.
3. Education in the achievements and objects of Co-operation.
4. Efficient bookkeeping and accounting, with regular reports to members.
5. Federation as soon as possible with the nearest Co-operative societies with the ultimate aim of state, national and world Co-operation.

## OFFICERS

Up until the organization meeting the meetings should be informal and presided over by a temporary chairman.

**The President** should be chosen, not because of his popularity or eloquence but because of sound judgment, executive ability, honesty, knowledge of Co-operation and devotion to its cause. He should not be autocratic. He should preside at all meetings, carry out the will of the members and zealously watch over all of the affairs of the society.

**The Secretary and Treasurer**, in the early years of a society, may be the same person, except in states where the law provides that one person shall hold but one position. He is usually elected by the members and his services are gratuitous. He serves as secretary both at the meetings of the Directors and at members' meetings. In small societies his duties are to keep the minutes and records, attend to all correspondence, and keep watch over the bookkeeping and accounts. The election to this office of men who are honest but who are deficient in knowledge of accounts and business procedure is unwise.

The accounts should be correctly balanced by the Treasurer, who should pay all bills. The checks should be countersigned by the President. The Board of Directors should fully inform themselves from week to week exactly how the society stands in its finances.

The manager should enter in the accounting records at the close of each day's business the day's receipts and disbursements and other details and records of the business for that day.\*

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\*"Co-operative Accounting" (with sample sheets for store records and accounts). Co-operative League of America, 1920.

**The Board of Directors** generally consists of nine members elected by ballot on the nomination of the provisional committee by open vote. It is advisable for them to be elected to serve for different periods: three for one year; three for two years; three for three years. A small board of three or five elected for short but continuous service can often act quicker and to better advantage, but the larger board serves to hold the interest of more members. Their judgment is of value regarding the needs of the store, its arrangement and service. The president and secretary-treasurer should be members ex-officio of the Board of Directors.

The board should meet once a week. They should always bear in mind that they are acting for the society and responsible to them for the loyal performance of the following duties:

1. To engage a staff to undertake the work of the society, with suitable heads of departments, or a manager over all, and to determine the duties and salaries of each.

2. To provide suitable accommodations, machinery and plant to conduct the society's business.

3. To insure the business is carried on in accordance with the by-laws.

4. To control all investments, whether in shares and loans or in land, property and fixtures.

5. To administer the business of distributive accounting, such as for interest, reserve and educational funds.

6. To consider and defray the administrative expenses, such as wages, rent, repairs, telephone, light, heat, delivery, insurance, taxes, etc. The manager should not be burdened with the administration of these items.

7. To provide the best conditions and wages for labor in the society's service; to demand and secure equivalent results in superior service, faithfulness and diligence.

8. To maintain a direct and vital connection with other Co-operative organizations both in this country and abroad.

9. To foster a spirit of enthusiasm for Co-operative work both of the staff and the members of the society, and to identify themselves with every good feature of Co-operative activities.

Much thought must be given to the election of this board, on whom rests such heavy responsibility. They must be people of thought, level-headed and shrewd, with administrative ability, who are governed by principles which enable them to under-

stand that true happiness consists not so much in advancing oneself as in trying to advance the welfare of all their fellow men.

In order to effect this they must be able to work together harmoniously with their fellow co-operators and be willing, if need be, to sacrifice themselves for the good of the Co-operative Idea.

Directors should not be so engrossed in the commercial aspect of Co-operation that they have no time or interest to create a Co-operative atmosphere within their immediate circle. They have a great opportunity to develop interest and enthusiasm in the whole Co-operative Movement, not only among the members but also among the employees.

### NO FEES FOR SERVICE

It is not customary for paid employees to serve on the Board of Directors. No members of the Board should receive pay for their work, except in very large societies requiring full-time service from the Board. By voluntary service members can prove their loyalty to the undertaking. This also eliminates the possibility of anyone serving in order to further his own ends rather than the best interests of the society.

### COMMITTEE ON EDUCATION

The importance of the Committee on Education is so great that it is best to have it **elected directly by the membership**. Success depends on two things: efficiency and loyalty. Loyalty depends on members who thoroughly understand Co-operation.

To apportion responsibility, it is well to divide the Committee of Education into the following sub-committees:

**Membership Committee**—Its duty should be to bring in new members and to hold and educate the old members.

**Program and Entertainment Committee**—They should arrange the program for the members' meetings, provide for debates, entertainments, speakers, picnics, suppers and other social pleasures, as well as conduct more serious study courses for members and courses for managers.

**The Junior Committee**—They should develop interest and loyalty among the children and young people. Literature and books suitable for them should be read aloud and discussed. Outings, entertainments and other young people's parties and educational meetings should be arranged for.

**The Library and Literature Committee**—They should keep on hand in a suitable place in the store all up-to-date magazines, literature and books for distribution. They should conduct a library and reading room. They should see that every member subscribes or regularly receives the monthly magazine CO-OPERATION or some current periodicals bringing to each home the news and ideals of the Co-operative Movement.

The whole committee should strive to keep the society closely related to the organized Co-operative Movement, not only in the state but in the nation and the world.

### **CONTROL COMMITTEE**

The Control Committee should be elected from the membership at a general meeting. Its duty is to take the semi-annual inventory, assist in auditing, certify invoices, approve changes of prices and check up the manager's records (which should show the amount of goods ordered, goods received, goods damaged or destroyed, total sales, amount of merchandise on hand and other details). The committee should avoid all guess work and ascertain in proper time the leaks and losses. A summary of the information should be made weekly by the Control Committee and regularly presented to the Board of Directors for their consideration. With the employment of the system of store records and accounts published by the Co-operative League of America about thirty minutes daily of the manager's time is required to fill out the records and about two hours weekly are required by the Control Committee to check up the manager's records. Through this service it happens that as the personnel of the committee changes from time to time many members of the society have an opportunity to develop experience and knowledge of the business procedure of the Co-operative. A society with an efficient active Control Committee is building up the new system of democratic administration of the people's money.

### **BEGINNING OF OPERATIONS**

The society having been organized, the future possibilities of the town or neighborhood and the chances for permanent expansion and growth of the society must be considered. Two important factors of success must be discussed and determined in advance:

First—The average amount of monthly sales as a whole, and to each member.

Second—The cost of operating the society.

These two questions should always be thoroughly considered, whether the society be large or small (and plans made accordingly). Conditions vary according to localities and according to market conditions. The following generalizations apply at present to stores running independently outside the large cities. Stores that are affiliated with a Co-operative wholesale should run on a more economical basis. With \$10,000 capital, \$8,000 may be used for merchandise and reserve and not more than \$2,000 for equipment. This amount will equip and run an average independent modern grocery with the best goods and up-to-date labor-saving devices, cash register, electric mill, etc.

For a grocery store, the **monthly sales** should equal the capital invested in merchandise—that is, a society with a capital of \$8,000 should do a business of at least \$8,000 a month. A membership of 200 should guarantee an average trade of **at least** \$40 a month per member. No society, however small, should run on a turnover of less than 12 times a year. The profits of the society are largely dependent on the rapidity with which the stock is turned over as well as the efficiency of the administration. Some chain stores and some successful Co-operative stores have a yearly turnover 40 times their capital. That is, with a capital of \$8,000 they do a business of \$320,000.

The **percentage of operating expenses to sales** varies according to localities and according to the volume of business. As the amount of business increases the percentage of expenses should be reduced. It should be considered in advance and made to conform as nearly as possible to the following, which is figured on a basis of \$8,000 monthly business.

Total expenses, 10% to 13%, divided as follows:

Salaries . . . . .	5% to 6%	or \$400 to \$480
Rent . . . . .	2% to 3%	or \$160 to \$240
Fixed charges, such as heat, light, telephone, wrapping, interest, taxes, insurance, repairs, depreciation, leak- age . . . . .	3% to 4%	or \$240 to \$320
	<hr/>	<hr/>
	10% to 13%	or \$800 to \$1,040

If delivery is undertaken the cost must be figured additionally, ranging from 2% to 4% of the business done.

The sales made by each employee should average at least \$55 per day on poor days, about \$1,500 a month, \$18,000 a year.

Average sales per employee in small grocery stores in 1918 were \$15,800 a year. The highest figure recorded was \$43,000 per person. The chain store average is \$30,000. A society doing a business of \$8,000 a month, therefore, should have not more than five employees on its working force, preferably less. A high volume of sales per employee is obtained through the economical arrangement of goods, the layout of the store and other labor-saving policies.

## METHODS OF RAISING CAPITAL

The initial capital is best secured by voluntary subscriptions. The members may also add to their number and capital by going from house to house, telling of the plan and getting subscriptions. It is not only the capital that is needed but the assurance that those who buy shares will purchase goods also. A membership of consumers is the main thing.

## PRICE OF SHARES

The price of a share in the store should range from \$10 to \$200. Fifty per cent. of the amount subscribed should be paid in at the time the organization of the store is completed. Members are allowed to pay for the unsubscribed portion of their shares in installments. They may use their quarterly savings-returns for this purpose. Cash savings-returns, interest on stock and voting privileges are usually withheld until the share is fully paid up.

## AMOUNT OF CAPITAL NECESSARY

One hundred members, each subscribing for one share at \$25, would give an initial capital of \$2,500. This is the minimum amount advocated. **There is a decided advantage in beginning with 200 members, each subscribing \$50. This provides a capital of \$10,000.** A store with such a capital may buy to a better advantage than one with a smaller capital and in many ways work more effectively. If more than the necessary capital is subscribed, it is a wise policy to set it aside as the beginning of a Reserve Fund which may be added to later from a portion of the surplus-savings.

For covering the expenses of preliminary organization and for educational literature and meetings, each subscriber to stock should be required to pay a small membership or organization fee. This should be from fifty cents to \$3.00. Most societies

charge \$1.00. This obviates using share capital for organization expenses.

If the capital cannot be raised at the outset it is wiser to postpone starting until it can. "To fail to raise capital is much better than later to fail for the want of it."

### **LOAN CAPITAL**

Additional capital may be secured by the members allowing their dividends and interest to remain on deposit with the society. Capital may be borrowed from members and non-members. Interest is paid to members and non-members on loans amounting to \$10 or over at the current legal rate.

### **AMOUNT OF SINGLE HOLDING**

The amount of share capital that any person may hold is limited usually to \$1,000, but the loan capital may be extended above that amount indefinitely.

### **NUMBER OF SHARES ISSUED**

The number of shares issued is **unlimited**. They are always allowable at par. This prevents both speculative traffic in shares and prevents them from going at a premium.

### **WITHDRAWALS**

Withdrawal of share capital should not be allowed unless it can be withdrawn without injury to the society. The Board of Directors may allow a member leaving the community, or those in distress, to **transfer** their shares to another member or to a person satisfactory to the society, or the Board may purchase same out of the surplus funds of the society. Unless there is a rule against unrestricted withdrawals anyone can furnish a pretext for withdrawing. That permits enemies or misled friends or dissatisfied members to spread false or discouraging reports and start a run on the society, possibly wrecking it by withdrawing their capital.

### **INTEREST ON CAPITAL**

At the time of starting the society, the rate of interest on capital stock should be decided upon. It should never vary with the profits. The most that is paid is the legal rate. Some societies pay nothing on amounts less than \$100. Some pay no interest at all.

## MEMBERSHIP UNRESTRICTED

Unlike associations of producers, trusts or monopolies, Co-operative societies are always anxious to **increase** their membership. In Co-operation new members and more shares not only add to the prosperity of the group, but new members keep the association from being an exclusive and closed corporation run in the interest of a few. Open membership at all times keeps the society alive. Business success depends on volume of trade.

The store may sell to non-members. However, every inducement should be offered them to become members. The growth of the ideal of Co-operation depends on the policy of "membership open to all irrespective of creed, race, sex or station."

## VOTING POWER

Equal representation must be insured by limiting each member to one vote irrespective of his ownership of share capital. This prevents privilege, insures democracy and provides that membership shall forever remain open to newcomers on equal terms with the founders of the society.

## INCORPORATION

Societies should write for a copy of the incorporation law for Co-operative societies to the Secretary of State at the State Capital. If the State has no Co-operative law, then a copy of the law for membership societies or for corporations should be asked for. Incorporation is advised because it protects the individual members from liability, even though in many states the law under which societies must incorporate is bad. In states in which the law requires that each share of stock shall have one vote, the by-laws of a Co-operative society should provide that each member may only hold **one** share. The value of the share should be sufficiently large to furnish the necessary capital. In those states where at present the law requires profits to be distributed in the form of dividends on stock holdings rather than dividends on purchases, the law may be met by having the by-laws of the society provide for selling without any profits at "cost-plus"—the amount charged should be a sufficient sum to cover overhead charges and an ample reserve fund. This latter fund may be held, pending a revision of the State law, or be used for expansion for new departments, new buildings, etc., or for social purposes, or be set aside for the starting of a bank later. Before incorporating in any State we advise societies to

take counsel of a capable attorney who can be trusted and secure advice from the Co-operative League of America.

### **SURPLUS-SAVINGS**

A Co-operative store should accumulate surplus-savings, or "profits" as they are called in Europe. In a non-Co-operative store this surplus goes into the pockets of the private tradesman or investors.

In a Co-operative store it cannot rightly be called "profits." It is the money that accumulates from the difference between the buying and selling price of the articles purchased by the members from day to day. The members, instead of buying at cost, advance the amount of this difference to the whole society to form a collective fund. It is essentially a loan.

This collective surplus-saving is the essence of the Co-operative Movement. It is of extraordinary power and has produced most significant economic and social results. The use of this surplus-saving makes the difference between the Co-operative and competitive systems.

### **SAVINGS-RETURNS**

After interest, expenses, reserve and educational funds have been deducted, the balance of the surplus-savings may be given to the members as savings-returns (or "dividends on purchases" as they are called in Europe, the Rochdale method). They are usually paid quarterly to the members, based on the amount of their purchases, not on their investments as in profit-making business.

The percentage of savings-returns or dividends should be calculated on the actual sales, not according to the accounts of purchases turned in by members. (The members may be delinquent in turning in their checks or books. The members' account would undoubtedly show a lesser amount than the actual sales.) Members frequently allow their savings-returns to remain and be "banked" in the society's treasury.

### **OTHER USES FOR SURPLUS-SAVINGS**

In Belgium all of the surplus-savings, after meeting interest, expenses, reserve, etc., are used for social purposes. It remains with the membership to determine which plan shall be adopted. **The first plan consists in returning** to the individual member quarterly **the savings-returns in the form of cash.** **The second**

**plan uses this money collectively** for education, recreation, music, literature, art, life insurance, unemployment insurance, sick benefits, mothers' subsidies, old age pensions, medical and nursing care, hospitals, etc. The more socially minded the group are, the more understanding of the destiny and possibilities of the Co-operative Movement they possess, the more will they incline toward the second plan.

As a practical matter it may be best in the United States to begin with the Rochdale plan and gradually adopt portions of the Belgian plan as the success of the society becomes assured.

### **RESERVE FUND**

It is customary in all societies, whether they follow the first or the second plan, to allot a certain amount of the surplus (20%) for a reserve fund for depreciation and for expansion to build up and extend the business of the Co-operative Movement. In the beginnings of the Society a substantial reserve fund should be set aside before any dividend is paid. The Co-operative law of some states requires 30% paid up capital to be provided as a reserve fund. An additional amount for Co-operative educational purposes (not less than 5%) should be regularly provided.

### **SAVINGS-RETURNS TO NON-MEMBERS**

There is a difference of opinion concerning the practice of giving half-rate savings-returns, or purchase dividends to customers who are not members. If, at the end of a quarter, the members vote to distribute savings-returns on a basis of 10% on the amount of their purchases, non-members would receive 5%. A good practice in some societies consists in inducing non-members to permit their savings-returns to remain and to be applied toward the payment of shares. Thus the non-member ultimately becomes a member by means of his savings.

### **RECORD OF PURCHASES**

The practice of giving savings-returns on purchases necessitates the introduction of some system whereby the store may determine the trade done by each member at the close of each quarter in order to apportion to him his savings. The most common method in use in this country is by means of triplicate slips. One is given to the member, one to the manager and one is kept for the Treasurer or Control Committee.

A useful method is by means of 10-cent stamps issued to members at time of purchase. Paper-covered books are furnished in which the stamps are pasted. Each book when filled contains a record of \$100 worth of purchases.

Another method is by means of a cash register, which has an attachment for a carbon copy which is retained at the store.

A fourth method is by means of a numbered member's pass-book, in which entries can be made by the clerk or manager with **indelible pencil**. The cash register slip is numbered then and there with the member's number, and retained to keep a record of the member's purchases. These are totalled and compared with the member's books at the end of the quarter.

In every case the following safeguards must be insured:

The method must be an efficient check on cash received by salesmen.

It must correctly duplicate the amounts of purchases so that members' claims may be accurately ascertained by both parties.

It must be simple and economical.

## STORE MANAGER

The ideal store manager is one who combines knowledge and devotion to the ideals of Co-operation, with skill and experience in the buying and selling of goods as well as in the keeping of store records and accounts. He must be appointed and governed in his policy entirely by the Board of Directors. But the right of appeal from the Board's rulings to the membership should be given the manager as a check against too hasty action by the Board.

## QUALITIES NECESSARY IN A MANAGER

He should maintain discipline, punctuality, cleanliness and order in the store. Above all he should be a man of tact and broad sympathies, for successful Co-operative storekeeping depends greatly upon the good relation between the members and employees.

Next in importance to character and efficiency in a manager is the need of initiative. He should not only possess initiative himself, but he should encourage and develop resourcefulness in other employees.

A spirit of enthusiasm should always be present in the store. It should impress people with the openness of the business, the spirit of honesty and service there, and the promptness and accuracy with which the work is done.

## **DUTIES OF MANAGER**

The manager should engage and dismiss all employees under his control after reporting contemplated changes to the Board of Directors, who have the power to veto any proposed change.

Complaints concerning the store from employees or members of the society should be presented to the Board of Directors through the manager. An appeal to the Board, however, may be made by them directly in writing.

The manager should purchase all goods for the society.

Whenever possible goods should be bought from a Co-operative Wholesale or Co-operative Farmers' or Producers' Organization. The Board and the Control Committee should advise but not interfere with the details of buying or selling.

He should fix the retail prices of all goods after consultation with the Control Committee. The methods of price fixing so as to operate on Rochdale lines can be found in "Co-operative Accounting and Store Records."

He should require that employees, when making purchases for themselves in the store, shall not wait on themselves but shall be served by some other employee.

He should devote time and attention to preventing losses and depreciation of goods.

He should consult with the sub-committees and co-operate with them in carrying out their recommendations.

At the weekly meetings of the Board of Directors he should present a written report for discussion.

## **WAGES, HOURS, UNIONS**

The Co-operative manager's merit must be recognized by an adequate salary. Salaries can be too high, though they are usually too low. Commissions and bonuses are not advisable.

Encouragement should be given all employees to join their respective unions. If none is accessible they should be urged to organize one. Wages, hours and conditions of work should always be as good, if not better, than the standards in the same positions in competitive business.

## **BOOK-KEEPER**

As the store grows larger it is advisable to employ a book-keeper. The practice of putting the responsibility of the book-

keeping entirely in the hands of the manager, even though it is sometimes advocated as being successful and sound by substantial societies, cannot too strongly be condemned. Dual office holding is a mistake. It puts too much responsibility in the hands of one man.

## **AUDITORS**

A public accountant is sometimes engaged to audit the accounts of a large society. He works with the assistance of the lay auditors elected by the society, or with a Control committee. The office of auditor is extremely responsible and should never be entrusted to incompetent persons. The accounts should be audited either quarterly or half yearly. The report should be printed and sent to each member. With frequent and searching auditing it is difficult for societies to go wrong.

## **INVENTORY**

An inventory should be taken at least semi-annually by both the manager and the Control Committee or by the manager and a committee specially elected for the purpose. This double inventory is necessary to insure accuracy. The inventory should be figured at billed cost, with a deduction for any decline in market prices after goods are purchased. Overvaluation of stock should be carefully avoided. If for convenience the inventory is taken on the selling price, it should finally be compared with the cost price. Figuring an inventory on current market prices on a rising market is not considered sound. It shows paper profits which have not been earned. It is unsafe to assume that unsold stock on the shelves is worth more than was paid for it.

Depreciation should be figured in the inventory. Depreciation on fixtures should be figured at 10%; on automobiles, 20 to 40%.

## **METHODS OF BOOK-KEEPING**

It is impossible to exaggerate the importance of accuracy in the bookkeeping of a Co-operative store. Under present conditions competition is so strong and there are so many opportunities for unseen leaks and losses from waste, spoilage, etc., that the society that does not keep careful records of its income and outgo is fortunate if it avoids failure. The double entry system affords a complete check. Simpler systems of bookkeeping,

however, have been worked out and used by different societies. A complete system of store records and accounts which furnishes a full, up-to-the-minute control of all business transactions can be secured from the Co-operative League of America.

Whatever methods are adopted an account of all money handled should be kept **according to departments**. In addition to the main departments there should be detailed allotments **within** the departments of all income and outgo. For instance, if a store runs several departments, such as butcher shop, dry goods, grocery, etc., each department should maintain separate accounts, and in each department's account the records of purchases, operating expenses and sales should be carefully and distinctly kept. Do not support the losses of one department by the gains of another. If a department is not paying, cut expenses at once to scale. The financial reports should make clear to the members just where and how progress or loss is taking place. They can decide when it is best to develop, when to retrench.

At all times it should be possible for the members to ascertain where leakage or loss is occurring, and what is the amount of operating expenses in proportion to the business, and the percentage of trade to the investment. To use lax methods is to put a heavy burden on the society. Many a society with a thriving business has failed for no other reason than the carelessness and inefficiency of its bookkeeping. Figuring of **profit** on **cost** of goods and figuring **expenses** on **selling price** are incorrect. Both profits and expenses should be figured alike.

## CASH BUSINESS

All business of the society, both buying and selling, should be strictly for cash.

Credit trading is the most frequent cause of failure.

In time of distress some societies allow members credit to the amount of half their paid in share capital, with the proviso that such members must pay up the account before the end of the current quarter. Any members failing to do so shall have the amount, extended in credit, deducted from his share capital and not receive directly any savings-returns until his shares are again paid up. The savings-returns may be allowed to go toward the repayment on borrowed capital.

Such credit shall not be given without a special vote of the Board of Directors and ratified by vote at the next members' meeting.

No credit at all is the only sound policy. Where a temporary loan is needed it should be obtained from a Co-operative bank or loan association with which every member of the store society should be connected.

### **BONDS OR SECURITY GUARANTEES**

All persons handling the funds of the society should be bonded to the full amount of money or property handled. A security company bond premium ranges from \$4 to \$7 per \$1,000. It is superior to a personal bond. The society should assume the expense of bonds for officials and employees.

### **LEAKAGE**

It is customary to allow two-thirds per cent for leakage. It is the unavoidable amount of waste that occurs in weighing out orders, deterioration and shrinkage. A strict leakage account should be kept so it can be seen that this waste in distribution does not become excessive.

### **THE STORE**

The choice of a location of a store depends on two considerations: These are its convenience to members and its attractive conspicuousness to non-members—the passing trade. A small society depending entirely on its membership for its trade can start in an inexpensive location or even in a large light room connected with some club. A society hoping to attract outside trade in order to enlarge its membership is justified in selecting a prominent thoroughfare.

Co-operative stores usually do not expect much trade from outsiders. For this reason they should try to keep down their rent to 2% of the volume of trade.

Most people like to trade in a place that is bright, clean, orderly and cheerful, with a neat, efficient man behind the counter. Window-dressing and simple, convenient store fixtures are recommended. Goods should be displayed attractively so as to make buying easy. Co-operative stores should always be as well ordered as those of private traders.

### **BUYING OF STOCK**

The question of buying is one of the most difficult parts of store management. This article cannot go into the details of

how to buy, where to buy—from original sources, wholesalers or Co-operative central purchasing bureaus—what to buy, how to handle goods so as to avoid deterioration and waste, when to start new departments, and how not to overstock or overbuild—a frequent cause of failure.

However the quality and purity of the stock is one of the essential conditions of Co-operative shopkeeping, and the other is that wherever possible the goods shall be purchased from a Co-operative wholesale or Co-operative factories, Co-operative farmers' organizations organized for the purpose of serving the societies rather than exploiting them.

In buying out the stock of a private merchant investigate his liabilities so as not to assume unknown debts.

## DELIVERY AND TELEPHONE SERVICE

Today it is almost impossible to dispense with the convenience of telephoning orders into the store and having goods delivered. The expense of delivery is the largest item in the cost of the store except salaries.

Free delivery lacks in fairness and in economy. It is an injustice to the conscientious member who carries home his goods to have deducted from the quarterly surplus of the store the cost of maintaining a delivery system for other members less thoughtful than he.

On the other hand, it has been thought unfair to penalize some members because they happen to live a long distance from the store. Some societies deliver at any point within the territory on proper route days, merchandise of any value, if the weight is over 15 pounds.

Another method is to make a uniform charge of, say, 10 cents for delivery of goods anywhere within the regular delivery territory of the store, regardless of the amount of the order. This encourages larger and less frequent ordering, and reduces the cost of delivery service.

A third method of making the ones who use delivery meet the expense indirectly is by issuing colored check slips; pink slips for goods delivered, yellow for goods taken. At the end of the quarter members turn in their yellow or pink slips. The percentage of cost of delivery is deducted from the dividends of the members with pink slips **whose goods were delivered**. Thus, if the cost of delivering is 4%, when a dividend of 10% is declared, 10% is paid on the yellow slips, but only 6% is paid on

pink slips. This is found to avoid the annoyance of daily payment for delivery; everybody is satisfied, and the delivery system costs the society nothing.

In order to avoid credit trading in connection with delivery, members may deposit with the store the amount of their average weekly purchases in **advance**. A book of tickets may be issued with which they may pay for goods received. This also assures the store of a receipt for goods delivered.

## NO PRICE CUTTING

A fundamental principle of Co-operation is that goods should not be sold at cost or even at cost-plus. Nor should temporary underselling of surrounding stores be advocated, except to meet certain conditions. Co-operative stores that fall into this error do not succeed in the end.

Selling at cost is wrong for the following reasons: (1) It deprives the society of any surplus. (2) It makes savings-returns (dividends) impossible. (3) It prevents the accumulation of a reserve fund for development and expansion. As the society grows, new departments, new buildings, etc., become necessary. A society cannot develop if it sells at cost. (4) It prevents social, recreational and educational work. (5) It provides no surplus for developing banking or insurance departments, etc., which a live, progressive society will some time want. Co-operation cannot stand still. It must always think of expansion. Its field is without limit. (6) Selling at cost also increases the hostility of the private merchants, and they may make much trouble for the store.

## MEETINGS

It is customary to hold general meetings of the stockholders monthly.

The **business transacted** at these meetings usually consists of admission of new members, election of committees and officers, consideration of reports of the secretary, of the Board of Directors and other committees, the consideration of any appeals of members and employees from the decision of the Directors, and the transaction of any other general business that should rightly come before the whole society.

At these meetings the members should work out the Co-operative principles and method by which the store should be run.

Following the business session it is always a good idea to have a meeting in which the educational side of the movement is brought out. Discussion of the history and the recent developments in Co-operation is stimulating. Let the members feel that this is their social centre. Occasional entertainments, following the business meeting, with music, dancing, movies and light refreshments may wisely be provided.

“Success in Co-operation requires the greatest patience. Men must learn to bear and forbear, persevere and learn wisdom together by their mistakes. Courage to hold on through the first year or two of blundering and adversity is the price of permanent success.”

### **EFFICIENT BUSINESS METHODS**

The vital points in the financial success of a Co-operative society are:

1. To keep accurate accounts, taking an inventory semi-annually.
2. To secure a high stock turnover, avoiding overbuying and confining purchases to goods for which there is a ready demand from customers.
3. To obtain a large volume of sales per salesman.
4. To maintain the steady trade of members by courtesy, promptness and efficiency in the store.
5. To arrange merchandise and fixtures in such a way as to facilitate rapid service.
6. To avoid losses from credit.

### **GENERAL PRINCIPLES**

Groups starting co-operative societies should beware of outside organizers who are interested in taking their money. Societies also should thoroughly investigate any organization, claiming to be a co-operative wholesale, which asks them to join it. No country has ever had so many fraudulent and dangerous schemes, masquerading as co-operative, as the United States. The great need is that societies in the same districts, which know one another, should federate to form their district unions and purchasing agencies and district wholesales.

Societies which keep themselves isolated from their fellow societies never succeed well in a Co-operative, nor in a commercial sense. Co-operation among societies is quite as essential as Co-operation among individuals.

Local, state and national conventions should be planned and members urged to attend them. Nothing is more conducive to the progress of the whole Movement than the interchange of experiences and the sense of solidarity engendered at these conferences.

Co-operators must remember that Co-operation is not a business. It is something infinitely more than that. "It is nothing less than an experiment in a new kind of civilization. It should be approached by members and the management in that spirit."

The Co-operative League of America stands in the position of a central clearing house for the United States Co-operative Movement. It gives counsel. It seeks to bind together through its educational work all the societies in a common policy. It aims to federate the existing societies in the United States for educational work and thus to put the American Movement on a solid basis. With solidarity and with right guidance the American people should develop in future years a great Co-operative Movement.



## REFERENCE BIBLIOGRAPHY ON STORE MANAGEMENT

Co-operative Managers' Text Book, The Co-operative Union, Manchester, England, R. J. Wilson.....	\$1.50
The History of Co-operation, George J. Holyoake, 2 Vols.....	2.00
Co-operation: The Hope of the Consumer, Emerson P. Harris. Co-operative League, 2 W. 13th St., N. Y.....	.60
Industrial Co-operation, C. Webb. Co-operative Union, Manchester, England .....	1.50
Business Practice and Accounts for Co-operative Stores. Bulletin No. 381, U. S. Dept. of Agriculture. Jo. Bexell & W. H. Kerr.....	.10
Co-operative Organization and Business Methods. Bulletin No. 178, U. S. Dept. of Agriculture. W. H. Kerr & Geo. Nahstoll.....	.10
(Order direct from Washington, D. C.)	
Management Problems in Retail Grocery Stores.....	1.00
"Co-operative Store Records, Accounts and Bookkeeping." Co-operative League of America .....	.50
Greenwood's Approved Business Record, combining cash book, journal and ledger. The Greenwood Co., 712 Federal St., Chicago, Ill.....	5.00

## SAMPLE APPLICATION FOR SHARES

..... CO-OPERATIVE SOCIETY

of.....

Believing that Co-operation is a movement for the economic emancipation of the people by means of the production and distribution of the necessities of life by the people themselves, for service, not for profit, I hereby

subscribe for.....shares of CAPITAL STOCK of the

..... Co-operative Society at

\$.....each, and agree to pay for same.....

Name .....

Street .....

Town .....

Recommended by .....

---

## SAMPLE SUBSCRIPTION FOR LOAN CAPITAL

I hereby subscribe for.....shares of the LOAN CAPITAL

of the.....Society at

\$.....each, and agree to pay for same.....

It is understood that such loan capital shall bear fixed interest per year, and shall be withdrawable only in the event that its withdrawal is not prejudicial to the welfare of the society.

(This wording must vary in different states according to the state law.)

## FORM OF STOCK CERTIFICATE

STUB  Cert. No. ....  ..... shares.  Date .....  Issued to .....  Address .....  Received:  Date .....  Name .....	No..... Shares Incorporated under the Co-operative Act of the State of..... ..... CO-OPERATIVE ASSOCIATION Capital Stock \$..... <b>THIS IS TO CERTIFY, That.....</b> is the owner of..... shares of the Capital Stock of the..... Co-operative Association, transferable only on the books of the Company by the owner thereof in person or by duly authorized attorney, upon the surrender of this certificate properly endorsed; and only upon and under condi- tions provided for under the Act which said Asso- ciation is incorporated, the By-Laws of such Asso- ciation, and the agreement by and between the stockholders of such corporation.  Witness the Seal of the Company and the signatures of its duly authorized (SEAL) officers this.....day of..... 19...  ..... President  ..... Secretary  Shares, \$..... Each
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This form is usually printed in books like a check book.

NOTE:—It is possible to buy at any standard stationery store regular form stock certificates to which the society's name and any other details may be added.

**APPLICATION FOR MEMBERSHIP IN THE CO-OPERATIVE  
LEAGUE OF AMERICA**

Executive Office: Educational Building, 2 West 13th St., New York City

Membership \$1.00 per year.

Subscription to monthly magazine, CO-OPERATION, 75 cents extra.

Individuals, as well as Co-operative Societies, are admitted to membership.

The work undertaken by the League is limited only by its funds. Members who can are urged to contribute more.

The undersigned hereby applies for Membership and encloses \$.....

Name.....

Address.....

Date.....



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A C A D E M Y P R E S S  
112 Fourth Avenue  
New York City

