## Case Study: The Landwege Cooperative, Lübeck

Interviewees: Klaus Lorenzen, Tina Andres, Landwege board members
updated 2019

**Summary and Overview**
The Landwege Cooperative in Lübeck is a successful 30-year old producer-consumer cooperative. It operates five organic supermarkets an organic bakery in and around Lübeck.

Strengths:

* From the very beginning, priority was placed on farmers, consumers, and employees working intensively together on an equal level. Significant importance was placed on meetings and mutual understanding.
* No work is outsourced. They operate the markets, meat processing, and bakery within the structure of the cooperative, so, that they can embody and convey their philosophy.
* They have a good connection with the Landroads Association, which undertakes intensive educational activities.
* Exceptionally versatile and high-quality farms in the Lübeck produce and supply them with almost everything they need from the region. Cooperating with the farms has shaped the work of the cooperative since the very beginning.
* The employees are highly trained and committed. They represent the idea of regionality with great conviction and transport it to the customers. Particularly worthy of mention are the two board members, who successfully manage the company with a high degree of professionalism and quality awareness, as well as, with a special human warmth. **This shapes the company culture.**
* Customers feel like, and talk about, the Landwege Cooperative is “their cooperative.” The organisation has successfully anchored the concept of the cooperative within their customers.

**Facts about the Cooperative**

Overview:

The Landroads club was the first organization founded, in 1987. Its focus was environmental education. In addition to organizing extensive events, it operates its own organic farm, which is leased from the city as a city estate, and partly subleased to an organic farmer. The farm has a kindergarten on-site and an additional approximately 5000 students per year receive 1-2 days of training and experience in animal husbandry and cultivation. Several people run this publicly financed project.

In 2010, a Landwege Foundation was established with the goal to supplement thrid-party financing of the organisation.

The Landwege Cooperative was founded in 1988 as an unregistered association with the goal of regional marketing of organic products. In 1999, it was renamed as a cooperative, which alleviated high risk exposure of the board members and allowed for further organisational development. .

Number of participants

Consumers:
Approximately 1,000 consumers are members of the cooperative. The basic member fee is 50 euros. The member with the largest amount of shares, has shares worth approximately 80,000 euros. All members receive a divident of approximately 3%, but some choose to donate this to the association (approximately 800 euros per year goes to the association in this way). In addition, the consumer members can make purchases one day a month with a 10% discount.

No individual member may own more than 20% of the total shares of the cooperative. Consumers can and should (and are) represented on the supervisory board, as stated in the articles of incorporation. Approximately 70% of the total 2.1 million cooperative shares are in the hands of consumers. If consumers wish to acquire a larger number of shares, the board members hold discussions with them beforehand about their intentions. "We find that even with the "big players" the earnings are not the decisive factor, they are more concerned with a sensible investment of money."

The 12-month termination period (i.e., 12 to almost 24 months at any given time) acts as a deterrent to investors with a purely monetary interest.

Producers:

Approximately 30 farms are members of the cooperative, "we only accept those whose products we can market." The farmers' meeting (enshrined in the statutes) deliberates on the admission of new producers and the board of directors decides. 33% of total turnover is made from member farms’ products, which is approximately 35% of the total food turnover. The highest regional shares are: bread 90%, eggs 90%, meat 80%, apples 80%, vegetables almost 50%, cheese from the association’s dairy farm 30%.

Farms and manufacturing companies hold about 20% of the cooperative shares.

Processors:

Processors, in particular, bakers are also members. Bread is purchased almost exclusively from member companies, which buy their grain regionally. Because the participating bakers keep to this ethos, there are, so far, no formal regulations regarding minimum regional grain percentages. There are additionally 2 bakers, plus 2 farm bakers (so 4 total) who are partners in the baked goods area.

Butchers are not members themselves, they only do the contract slaughtering for the member farms. The farms then deliver the mostly whole, slaughtered, ready-cut animals to the stores themselves with their refrigerated vehicles. If more contract butchers are close, it could make sense for the cooperative to build its own processing plant.

Employees:

Approximately 140 employees and 15 trainees are members, this is approximately 10% of theh total membership.

There is a sales-related bonus model for the store managers and store managers are heavily involved in entrepreneurial decisions, "they should fully support our philosophy."

Activities, which jobs are integrated?

Retail trade: They operate 5 of their own organic markets, which have restaurants, and sell and utilize predominentally regionally sourced vegetables, fruit, bread, meat, sausage, cheese and some packaged cereals.

For vegetables, for example, two planning meetings are held with the farmers, a cultivation meeting and a follow-up meeting. In this meeting, tttendees agree which farm will supply which store. The attendees are the growers, the vegetable purchasers (department managers of the stores), and the vegetable division manager.

For slaughter animals there is a slaughter and delivery plan. Especially for beef, there is more supply than can be sold, so the division manager distributes the quotas as fairly as possible.

Wine: is partially ordered directly from a few winegrowers, some of whom are also members.

Wholesale:

There is no in-house, central, wholesale ordering. All stores order directly from farmers, bakers and out-of-the-region goods from organic wholesalers. Invoices are then issued to the stores and taken over by the head office, but the store managers run their stores more like an independent store. The respective department managers of the stores order vegetables, bread, meat/sausage/cheese, cosmetics from the GH. The department managers are hierarchically superior to the department managers for the products (vegetables, dry goods, etc.). This creates a certain amount of tension, but is overcome by a good culture of discussion.

Processed goods:

Baked goods:

 In 2019, an organic bakery that was already a major supplier was purchased and has since been managed within the cooperative.

Meat/sausage:

Three branches cut and package meat themselves, including sausage. Sausage comes mainly from the member farms' farm butchers and from their contract processors.

One of the branches operates a kitchen for making lunch dishes for the bistros and spreads for the refrigerated sections. This is a wonderful way to be able to take whole animals and process them completely. Approximately 100 cattle and 200 pigs are processed each year.

In the meat and sausage area, there is an almost complete assortment of their own meat and sausage products from the member farms. Only turkey and some sausages are purchased from outside the member companies.

Sales figures as far as they are provided

2019: approx. 15.5 million sales, with 8% growth, although one store was closed for several weeks for renovation. By comparison: 2011 sales were only 7.5 million, from 3 stores.

Investments, outside loans, and member loans:

2019: approx. 8 million Total assets.

In 2016, Landwege was able to purchase one of the stores along with the administration building, so since then, the balance sheet total has been significantly higher. The purchase was made entirely with borrowed capital, so the cooperative has fallen from a 55% equity ratio to about 40%. The store on Kanalstrasse was bought a few years ago for 800,000 euros.

In the kitchen of the newly acquired store, several hundred thousand euros was invested in the kitchen alone. The meat processing system also had to be completely rebuilt.

**Organisation and Decision Structure**

Organization Chart

The organizational chart has a typ of matrix structure. The Meat Department Manager reports to the respective Meat Department Managers of the stores. However, the store managers, as superiors of the division managers, are higher-ranking than the division/department managers.

Such matrix structures are considered to be very conflict-prone. At Landwege, however, it works quite well. This is certainly due to the fact that intensive work has been done with the GAB procedure for quality assurance, and because the employees are trained to work through tensions in a moderated process and to find good solutions.

Management Structure

* General Assembly: once a year, there are always around 50 members who meet
* 9 supervisory board members, 3 of whom are farmers, 3 consumers, and 3 employees. The statutes do not specify exactly, they just recommend at least one from each of the three areas.
* 2 Boards
* Farmers' meeting is anchored in the statutes, meets 1-2 times a year
* The store managers' meeting (without area managers) is held every 14 days. The 5 store managers are the most important people after the board members. They also work together on issues relating to the future, e.g. every few years in a future conference.
* Division Manager Meeting
* Department Head Meeting

Regular quality circles are held according to the GAB method. This is a tried and tested method of dealing with tensions in a solution-oriented manner. This has been tested a lot and is now widely implemented. In some cases, the branch managers moderate this themselves, or in difficult cases, the manager does it. This work has improved the quality of cooperation. Currently, the process is carried out less explicitly because the methodology is well established.

Representation in decision-making processes and co-determination possibilities for the various organisation divisions and member groups

Little is specified about this, and it works well despite or because of this. The various groupings are in good communication with each other. The board can decide many things itself, but consults well with its committees. Producers can participate through the farmers' assembly and their elected supervisory boards, consumers through their purchasing behavior, through feedback in the general assembly, and through their elected supervisory board. Producers are relatively poorly represented in the cooperative, as are employees, but they are well involved in decision-making through flat hierarchies.

Pricing

There are no committees or defined processes for this. Pricing is based on wholesale prices. Many farms also deliver to other customers and have their own store and market stalls etc.. So they know well what the going rate is. "We pay wholesale prices to farmers, with room for a range of profit margins.”

So producer prices are about 15-20% higher than what they would get if they delivered to wholesalers. But for that, they have to drive to the stores themselves.

"For regional products, we are often more expensive. Compared to the private labels of Alnatura and Dennree, we are much more expensive than these other organic markets." But the prices, because regional, are nevertheless paid without major grumbling, which was not the case in the past.

With the meat prices for whole animals, the transparent wholesale prices do not exist in this way. These prices are negotiated by the division manager.

Profits
How are profits distributed and what are they used for? The Supervisory Board and the Board of Management make proposals on the distribution of profits, but ultimately it is the General Meeting that decides. For several years, around 3% returns have been paid out to the members. There are always voices calling for a higher return, but then it quickly becomes clear that the majority of members find this nonsensical. There is more of a willingness to lower the return to 2%.

Good producer prices, salary increases for the employees and, of course, investments have so far taken precedence over an increase in the rate of return to members.

The supervisory board meets 6-7 times. The supervisory boards decide jointly on all major investments, "otherwise we board members have a lot of freedom to decide."

**The Background of establishing the cooperative**

What was the process for founding this cooperative?

After Chernobyl there was an initial meeting in 1986, in 1987 the present association was founded, and it continues today as association for educational work.

In 1988, the Producer-Consumer Association was founded (as an unregistered association), and several towns participated and ordered together. At first, the exchange of products took place in garages. Then the desire for free sale arose, so in 1990 the first members' store was opened, only members were allowed to buy and other shoppers were turned away. In 1992 the first real store was established with opening to non-members, soon the two-price system was introduced (one for members and one for non-members). This was abolished again shortly before the changeover to the Euro in 1999, when the cooperative was founded.

The marking of 4 prices (for members, non-members, each in DM and €) was felt to be technically too difficult and many felt that there was too much talk about prices instead of relationships between each other. In 2001, in addition to the older small store (a couple of market stalls were operated in parallel, but this was then discontinued), a 300 m2 market, huge by the standards of the time, was opened. In 2007/2008 two new stores were opened and the previous small store was closed, in 2013 another 2 were opened.

Where did the impulse to establish the cooperative come from?

From the beginning, it was mainly consumers and farmers together. These two groups have remained the promoters of the initiatives to this day.

What was important at that time?

The cooperative started very small, first in one, later in several garages. From the very beginning, great importance was attached to education, and this has also remained until today. Today, for example, about 70 internal trainings are held per year, where employees are trained internally (e.g. from Taifun about gluten-free products, wine seminars, or on organic farming in general) or visit the farms in their working hours.

**Member pricing for consumers**

From the opening of the first real store until 1999, there was a two-price model. It was abolished "because we didn't want to talk only about prices, but about education and relationship".

**Regionality, Consumer education and engagement**

Definition of the region: Products should come from the immediate area around Lübeck, if possible. Most farms are within a radius of 40 km, some of 60 km.

In the case of wine, however, because it is not available regionally, we work in partnership with winegrowers from the nearby and Palatinate regions. New farms are only accepted if additional goods are needed, and only after consultation with the farmers' assembly.

Criteria for purchasing regional or national goods?

 The goods from members are preferred.

Criteria for out-of-the-region goods (e.g. preference for cooperative products)?

 There is a catalog of criteria for the purchase of out-of-the-region goods.

What is being done about consumer education?

The Landwege Association in particular is extremely active in this area. Kindergartens and schoolchildren from and around Lübeck are invited to the association's own farm and can experience organic farming there. Of the schoolchildren, almost no pupil from Lübeck or the surrounding area has not visited Landwege. In addition, farm tours are offered on about 6-7 dates per year, usually on Saturday afternoons, and with borrowed town cars. These tour are only for members and are free. The opportunity is not on display in the store for other shoppers.

There is an ongoing discussion about doing more in this area, “Possibly activities such as baking cookies together. We have also done cooking classes. Or an evening to wine and dine."

"A few years ago we thought that interest in farm tours was dropping off, but for the last 10 years it has been growing again, and for the last 5 years even more."

Discussion is also happening about what it might look like to involve customers in fianncing decisions.

What is the value of regionality?

As already seen above, regionality has played a key role from the very beginning. This has now been fully accepted by customers. Whereas in the past the question often came up, "Why are regional vegetables more expensive?", this is no longer the case today.

Ideas for further development:

"We have always thought about outsourcing certain activities. But we've always come back to the point: no, we won't do that. Because then the philosophy can no longer be transported. We prefer to do everything ourselves."

"The cooperation of all, farmers, customers and employees, is already good, but could be even better".

"Being a contact point for refugees, for example, could also be even better, as customers approach us. Standing up for each other, all that may become even stronger."

"Furthermore, there is the longing of many people away from a faster and more impersonal development to direct experience and direct contact."

"It would also be good if we get new farms in the medium term, and smaller farms with processed products."

**Success Factors and Plans for Further Development**

What was of most overall importance that made this cooperative work?

"What was important from the beginning was the quality of the relationship between everyone involved. The conversation in equal standing, the approachability, is the reason it worked in the long term. So is the honesty in dealing with each other."

"Also the happy personnel arrangements from the beginning, the community thinking of everyone involved, seeing themselves as part of the community was very important."

What is your greatest strength?

"...especially the great farms and great people there. For example, our chairman of the supervisory board, he has particularly shaped the togetherness culture. “

"We do very intensive training for the employees, have an almost incomprehensibly good training program, that is a real asset."

What were the main hurdles?

"We operated and continue to operate a tremendous communication effort to consumers, to growers, and to each other."

What are currently the biggest problems?

 "Our soft side. When it comes to stricter guidelines for processes, we rely heavily on people thinking alike."

"Finding and keeping good staff, some employees can't handle having a lot of freedom."