

# UC Santa Cruz

## Innovative Business Models Case Study Series

### Title

Case Study No. 1: Alvarado Street Bakery

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## ALVARADO STREET BAKERY

Petaluma, California

### MISSION

Alvarado Street Bakery's mission is to give superior service in providing the finest quality baked goods to its valued customers nationwide by using a worker owned and managed cooperative business structure, and to strive to use whole grain and organic ingredients, wherever possible, to support sustainable agricultural practices and healthy living. Their motto is "We are changing the way the world eats—one slice at a time."

### HISTORY

Alvarado Street Bakery started producing whole grain organic baked goods for their local community of Santa Rosa over 30 years ago. Their roots can be traced to the "Food for People, Not for Profit" movement that resonated around the San Francisco Bay Area in the 1970s. Originally part of a non-profit organization called Red Clover Worker's Brigade, the bakery was a part of a family of worker-owned businesses that included a retail store (Santa Rosa Community Market), a trucking company, and a wholesale warehouse.

In 1980 five Clover Brigade members formed a worker cooperative to acquire the bakery and manage it as a separate business. Using \$5,000 of their own funds, they purchased the bakery and formed the Semper Virens Bakery Food Cooperative. One of the workers gave it the name that stuck: Alvarado Street Bakery, a nod to a Los Angeles street sign that perched atop the bakery's flour bags. The sign still hangs over the bakery's ovens as a good luck charm and a reminder of its roots. The cat featured in Alvarado Street's logo is also a relic of the early years: Greta was a key part of their initial pest control program, which has since evolved to meet the latest food safety protocols.

Today Alvarado Street Bakery is a \$25 million dollar business with over 100 worker-owners, making it the largest cooperative bakery in the U.S. It was recently featured in *Capitalism: A Love Story* (Michael Moore's latest documentary) as a



Alvarado Street staff members celebrate the grand opening of their new plant in Petaluma, California, on Labor Day, 2007.

model economic organization that is not motivated by profit alone.

### GEOGRAPHY/SCOPE

In the years since its founding, Alvarado Street has expanded its customer base well beyond the San Francisco Bay Area and now refers to itself as "a global supplier." They currently distribute fresh bread and other products via 24 direct distribution routes around Northern California and work with national distributors to send frozen bread to all 50 states and to several other countries.

Instead of building bakeries around the country to produce and distribute fresh bread, they

#### The Innovative Business Models Case Study Series

Developed by the UCSC Center for Agroecology & Sustainable Food Systems, this series of case studies focuses on the social and environmental efforts of innovative U.S. food system businesses across different geographies, scales, legal structures, and points along the food supply chain. While these represent only a handful of the thousands of socially and environmentally responsible food businesses across the nation, they have many features that others can learn from in developing sustainable businesses that incorporate the triple bottom line of people, planet, and profits.

found that their sprouted bread freezes well and that it made more economic sense for them to have one large facility that can ship frozen bread around the nation and internationally. This decision kept jobs in Sonoma County, where the bakery has always operated.

Alvarado Street also works with some retailers to “private label” their breads (meaning they put Alvarado Street baked goods in bags under different brands), although they cannot disclose the brands due to legal agreements. Private labeling has helped expand their reach into many conventional chain stores and a mass market.

To the extent possible, Alvarado Street uses local ingredients in their products. However, little organic wheat—which makes up 80–90% of their recipes—is grown in California. Most of the wheat is sourced from Utah and Montana, with a small amount coming from Southern California. They also buy organic dates, grapes, raisins, etc., domestically when possible or from other regions of the world such as South America.

**Their motto is  
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## PRODUCTS/SERVICES

Alvarado Street Bakery’s line of flourless, sprouted grain baked goods includes over 30 different items, with over 15 kinds of breads, as well as bagels, pizza bread, rolls, buns, and tortillas. Unlike most baked goods that use dry flour, the bakery uses primarily whole, sprouted grains, which make a soft, moist, easy-to-digest bread that also freezes well. Most of the ingredients are certified organic and no oils, refined sugars, or preservatives are used.

## FINANCING

The bakery was originally purchased with pooled personal funds of just \$5,000. Operating capital was hard to come by in the early years, but the co-op model created flexibility such that worker-owners would agree to a lower common wage in exchange for sweat equity in the business. This kept costs down and generated the operating capital the business needed to continue. Another important source of operating capital in the bakery’s early years were the funds put up by members. As CEO Joseph Tuck explains, when elected to the membership a worker has to purchase a share of voting stock (currently around \$1,500). They also have to have taken three classes on cooperatives and finances and have passed a test given after the presentations.

Debt financing was initially obtained, ironically, from Bank of America, which at the time was embroiled in scandal over their involvement with South Africa during the apartheid era. After establishing a good credit record with Bank of America,



**The tunnel oven at Alvarado Street’s bakery in Petaluma represents a major investment in the new facility.**

the bakery was able to obtain a loan from a Washington, D.C.-based co-op bank.

The bakery business is capital intensive, involving expensive machinery, a fleet of delivery trucks, and ongoing building and equipment upgrades. Tuck estimates that Alvarado Street spends close to \$500,000 annually on capital expenditures. Alvarado’s expansion during the 1990s along with good management dramatically improved cash flow such that they have now been debt-free for over a decade. After approximately 13 years of self-financing operations and capital expenditures, the bakery two years ago used industrial development bond financing<sup>1</sup> to fund the purchase of a new plant in Petaluma (near Santa Rosa).

Although worker cooperatives fail for a variety of reasons, Tuck believes that one of the most pivotal issues is the difficulty cooperatives have in raising capital. Many banks are hesitant to offer debt-financing to cooperatives and the legal structure of co-ops does not allow for outside investors, nor are there guarantors who put up collateral. This is changing to some degree as some states are beginning to recognize new cooperative forms that allow for some non-voting outside investors. The other reason Tuck believes co-ops fail, although not explicitly financial, is that they emphasize process and other internal issues over the quality of products or services they are selling.

## MANAGEMENT/BUSINESS STRUCTURE

Alvarado Street started as a collective, with a small group of worker owners and used primarily consensus process for decision making. As the company grew, it became impractical to involve all of the group in every decision, and today the cooperative of 117 worker-owners uses components of hierarchical governance and representative democracy, with each worker-owner entitled to a vote.

As part of their governance structure, the worker-owners elect a board of directors made up of fellow worker-owners. That board hires the CEO, who hires other managers and new employees; they then go on to become worker-owners.

<sup>1</sup>The state of California, in concert with local municipalities, generates industrial bonds to finance projects for qualified businesses; by using bonds the actual cost of the money is significantly less than debt financing (<http://www.treasurer.ca.gov/cidfac/idb.asp>).

Joseph Tuck has served as Alvarado Street’s CEO for over 20 years. He also has another, internal title—“General Coordinator”—that reflects his role as the position responsible for coordinating the interdepartmental activities of the business. Although they still tackle some large issues, such as annual budgets, as a group, most day-to-day decisions are made by departmental coordinators after getting input from affected workers.

In 1992, when Tuck became CEO, Alvarado Street decided to overhaul its salary structure to encourage those with the right blend of skills to stay with the organization. At the time the bakery was experiencing tremendous turn-over: nearly all the workers were receiving less competitive wages than other businesses were offering, prompting the skilled workers to leave for better-paying opportunities. Tuck credits the decision to change the salary structure with helping the cooperative grow and prosper, but doing so required an intense cultural change that he likens to a “sea-change.”

Although perhaps counterintuitive, creating a more hierarchical salary structure for management has not only contributed to the company’s success but has increased remuneration and the standard of living for all of Alvarado Street’s worker-owners. Average pay this year for bakery workers was \$30/hour, over twice the industry norm (2008 mean hourly wage for bakers in the U.S. was \$12.03/hour<sup>2</sup>).

In addition to changing its salary structure, Alvarado Street also started hiring experts in various fields, such as marketing, and moving the day-to-day decision making from the whole group to specialists. Many cooperatives of the same era had to make similar “business-like” decisions in order to survive; Alvarado Street was one of the few to make the transition successfully. These decisions, however, did not move Alvarado Street away from its core principles of providing a good quality of life for its worker-owners and healthy organic food to a wide audience.

## LABOR PRACTICES

Alvarado Street Bakery has very little employee turnover now, but they expect and demand a lot from their worker-owners. As Joseph Tuck describes, bread is a cruel mistress and is not for everyone, especially those that aren’t “morning people.” Bread-baking and the logistics of its distribution for a \$25 million dollar business require a committed, on-time, and hard-working workforce. Alvarado Street pays well for this dedication, in addition to providing a low-deductible health insurance plan for workers and their children (spouses pay half the cost), monthly retirement contributions, and the annual patronage dividend<sup>3</sup> for which co-ops are known. The oldest patronage is redeemed first. Tuck explains that this is not an overly generous business cost—it is what they are deciding to give *themselves*, a dividing of the common resources.

<sup>2</sup>U.S. Bureau of Labor statistics

<sup>3</sup>Any net profits are generated as patronage dividends, with a worker member receiving the percent of what their respective amount of hours served in the cooperative represents in relation to all hours worked during the year.

When asked if all the worker-owners are as dedicated to the mission and values of the company as they were when it started, Tuck mentioned that people are less familiar with the concept of “sweat equity” (building equity in a business through your own hard work and not a financial outlay). However, he did go on to describe how most of the worker-owners were in agreement to move forward on a large installation of solar panels, a purchase that would pay for itself in the long run but may require an initial decrease in the annual patronage refunds that workers receive.

According to Tuck, worker-owners don’t all want to know the nuances of the business, including details of management or financial decisions, as they did 30 years ago. Part of this may be an effect of the size of the company and the increasing complexity that poses. It also may be the changing demographics of this bakery business, with almost 50% of their workforce now comprised of workers for whom English is their second language. They understand the basic tenets of the cooperative structure (possibly coming from cooperative associations in their home towns), but don’t necessarily want to talk financial statements or solar panels.

The cooperative, despite its size, still has a feeling of one large, extended family. After spending time with some bakery employees at the premier of Michael Moore’s recent film, writer Dean Walker remarked “I got the impression that this was more than just a group of people that worked together. Rather, this is a vibrant community where members legitimately are interested in and care for the well being of its members.”

## SOCIAL/COMMUNITY INITIATIVES

One thing that Alvarado Street Bakery has successfully accomplished is getting healthy, organic food into the mouths of mainstream, middle class America. Their bread prices are quite competitive with whole grain conventional breads, and the Alvarado bread is arguably a healthier bread than most other brands (you can buy a 24 oz. loaf of their organic bread on-line for only \$2.29 whereas a 20 oz. loaf of conventional Sara Lee Whole Grain bread at Costco cost \$3.20).



**Alvarado Street’s bakery operation produces organic bread that is competitively priced with conventional products.**



Alvarado Street Bakery's breads are low in sugar, salt, and fat, and are nutritionally dense. They even have a new low-glycemic bread for diabetics. As CEO Tuck describes, their whole idea was trying to get organics into the mouths of customers beyond their own populace in Northern California and to provide a good life for their workers-owners. If customers can get past the word "sprouted" without getting scared or perplexed, Alvarado Street baked goods are accessible to all who have a variety of grocery stores nearby. Their national reach is impressive, from local health foods store to Safeway and Costco.

Alvarado Street tries to create fair and transparent relationships with their ingredient suppliers, an extension of their cooperative nature. They once had a situation in which they had to break their contract with their wheat supplier because sticking to the contracted price would have forced the supplier out of business. Alvarado Street worked with the supplier, asking to see their books and come up with a solution that would work for both parties. As a result, the wheat supplier is still in business.

The cooperative takes a fairly non-political stance on most issues, calling themselves a "lunch-bucket" kind of co-op. Their concern is primarily around creating great jobs for workers in the community and caring for their members. They are members of the Organic Trade Association and strongly promote organic in their marketing materials.

From the beginning, Alvarado Street Bakery has made it a priority to donate all of their day-old bread to charities such as food banks and soup kitchens. They also sponsor many social justice and environmental events with donations of baked goods.

## ENVIRONMENTAL INITIATIVES

Alvarado Street Bakery incorporates a variety of environmental initiatives, from eliminating waste by donating day-old bread to rethinking their carbon footprint and energy use. As mentioned above, Alvarado Street Bakery purchases only organic ingredients, and uses locally-grown products whenever possible. Although they run a fleet of gas-powered trucks to deliver their breads all over Northern California, they are looking seriously into alternative fuels. They recently installed catalytic oxidizers in their oven that reduce emissions significantly.

A new project they are evaluating is a large solar panel array on their bakery facility in Petaluma. This is the sort of project that takes serious buy-in by the worker-owners because it will require some belt-tightening to finance. Help from state and federal rebates and a new Sonoma County renewable energy bond program may enable them to move forward with the project without a significant up-front cash payment.

While some businesses prioritize the environment over people, Alvarado Street Bakery chooses to balance their environmental efforts with that of taking good care of their worker-owners.

## KEY CHALLENGES

Like every business in America, Alvarado Street Bakery suffers under the weight of expensive health-care and workers' compensation insurance. This is a enormous cost for them and limits what they can do in other areas, such as providing better patronage refunds to their worker-owners or tackling more significant environmental initiatives in the business.

Although the global economic challenges of the last year have led to the failure of many businesses, bread tends to be fairly inelastic, with demand continuing even when money is tight. As more people are eating at home, Alvarado Street Bakery is selling more baked goods than ever. But their key challenge is to maintain their market share as more competitors enter the market, such as the many local, artisanal bakeries that are sprouting up all over. They are also concerned about things they have little or no control over, such as climate change.

## CONCLUSIONS

Alvarado Street Bakery demonstrates that the cooperative model is more viable than ever. Workers who are also owners are much more committed to riding out the bad times than those in organizations where they are not valued or have no equity stake. Although cooperatives do present challenges in garnering adequate financing, they also have the advantage of many small investors and the option of sweat equity that you won't find in any C-Corp business model.

Alvarado Street Bakery's commitment to their family of worker-owners, to producing quality, healthy food products with an affordable price tag, and to growing the market share of organics is a model that can indeed change the world, one slice at a time.

## FOR MORE INFORMATION

on the Innovative Business Models Case Study Series, please contact the UC Santa Cruz Center for Agroecology & Sustainable Food Systems (CASFS) at 831.459-3240, or send email to [casfs@ucsc.edu](mailto:casfs@ucsc.edu). You can learn more about CASFS at <http://casfs.ucsc.edu>

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