

Solutions

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Be Ready to Enter the Rapids: Strategic Market Growth

BY PATRICIA CUMBIE

You've been canoeing peacefully down a river, stopping at certain intervals to take scenery breaks. What do you do when the river descends to some rapids and you're suddenly paddling for all its worth? No amount of umbrage you feel toward the river's pace will help you. You have to be able to accept your current reality and plan to get through it. If you expected ahead of time that being in the wilderness might bring on such challenges, what sorts of strategies would you have employed ahead of time that might have made it easier?

Of the top 500 businesses in America 30 years ago, only 70 of them are still doing business. The cycle of growth and collapse is part of our economic reality. Those that have made it did so because the leadership, vision, tenacity, and proactive strategic planning aligned at opportune moments.

Is this one of those make-or-break moments for food cooperatives? The combined efforts of food cooperators to create and benefit from the alliances that give them leverage is now occurring on multiple platforms: Common Cooperative Financials (CoCoFiSt), the development of Food Co-op 500, and the National Cooperative Grocer Association. If ever there was a time to move individual food co-op market development and marketing

execution to the front burner, this is it.

"Times are different," said Pete Davis, location and market research consultant, about current market realities. Co-op shoppers

today are more likely to shop around. This has been shown in places where co-ops take a hit when a strong competitor like Whole Foods or WalMart expands in their area.

Those co-ops that are prepared with a strategic marketing plan that's well executed are those that will attain growth and also position their businesses to meet their social and economic

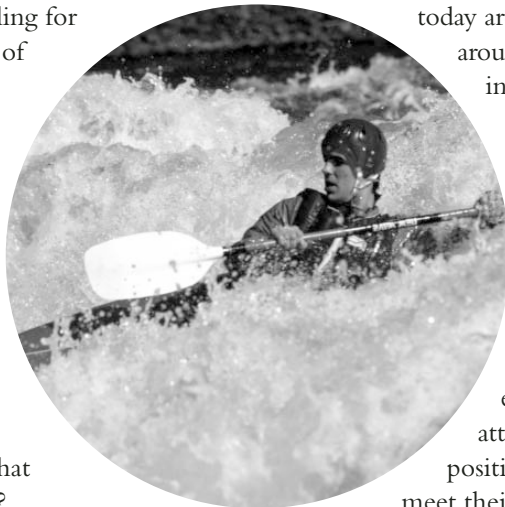
goals into the future. Successful

co-ops that are proactive in terms of strategic market planning share a number of common denominators, according to Davis.

- They are creative in the ways of enhancing the customer experience.
- They are proactive, rather than reactive, in competitive markets.
- They continually improve operations.
- They spend their marketing funds effectively.
- They continually engage in research oriented toward understanding their trade areas.

From Davis' perspective, if you don't know your current trade area, you really don't have the proper tools to understand your market's

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Embracing Change

Where I live in the Twin Cities there is a natural food co-op and four conventional grocers located within one square mile. Earlier this week one of the conventional markets had closed, and another had recently unveiled its complete remodel. The one that closed didn't make any improvements, never amped up its service, and kept the same product line during a time of changing tastes.

The one that remodeled is suddenly formidable competition—out went the garish orange walls and the 25¢ boxes of macaroni and cheese up front. In came fresh foods, a chic sage and taupe color scheme. I was greeted numerous times as I snooped around. Lo and behold...they had service. Hey, wait, that's the co-op's niche! I left that store feeling bummed because I knew a lot of people would love it.

People love the co-op too, thank goodness. But you know, every single person I interviewed for this issue's feature story expressed urgency and concern about what I'd experienced so close to home. If you don't embrace change, you're done. We know in our hearts that cooperatives can offer so much more hope in communities than national chains and big box retail. Now it's time to prove it.

These late autumnal days also cause me to reflect on Paul Wellstone, the great Minnesota senator who died three years ago. Wellstone used to drive a green jalopy school bus as he toured the country with his populist messages. One of the things he said about why he was doing it still resonates: "This is no time for timidity."

—Patricia Cumbie

Our Mission

CDS is dedicated to building and strengthening cooperative businesses by providing consulting, training and development services.

CDS includes a network of independent consulting professionals experienced in all aspects of developing food cooperatives. CDS consultants have worked on over 500 projects and will tailor their services to fit your needs and deliver results.

Expansion and Growth of Cooperatives

CDS provides a full range of services to assist your cooperative in growing your business and in the planning and implementation of expansion/relocation projects.

Leadership Development

CDS works to support and strengthen the leadership team—governance and management. Our work builds organizational alignment and enhances the working relationship between board and management.

Improving Performance

CDS identifies areas for improvement and develops strategies for results in organizational and business improvements.

Strengthening the Cooperative Advantage

CDS believes that the cooperative difference is your competitive advantage. We help co-ops build member investment and loyalty. We contribute to co-ops benefiting from collaborative networks while retaining local ownership and control.

Strategic Market Growth *continued from page 1*

potential, and likewise the co-op's future. "You're probably missing opportunities for additional growth," Davis said. A survey as simple as the Customer Address and Transaction (CAT) can help cooperators with understanding their market share and how to best use their resources to defend it or capture more. (*See sidebar on page 3 for more information about the CAT survey.*) Not only that, the CAT survey helps identify weak areas that could be worthwhile to improve.

For example, Community Mercantile in Lawrence, Kan. had done a CAT survey before their relocation and expansion. They recently did another as a follow up to see if they were on target with their projected market share goals post-expansion. What they learned was eye opening: two trade area sectors they'd expected to draw from were not up to projections. HyVee, a conventional grocer, with a store in each of these two sectors, had put in natural food sections since their expansion.

Not only is the CAT survey a good indicator of one's market share, but Davis pointed out it's also very useful information for marketing directors. "It's an important part of marketing planning to have the marketing person involved in understanding the CAT data."

Jeanie Wells, the co-op's general manager, said, "It's been really useful information because our marketing person is able to target those areas most likely to bring in customers."

Davis also said that issues of membership loyalty are increasingly a part of the trade area equation and a necessary component of strategic market planning. The consumers attracted to the co-op through its appealing storefront come to learn that the staff not only knows the products, but that they walk the talk. "By making stores service friendly, it helps people feel part of the community," he said.

Robynn Shrader, marketing director for the NCGA, concurs. The NCGA has been working with its member cooperatives on both fronts. They've been working on co-op market share expansion by collaborating with the National Co-op Bank and CDS in the Food Co-op 500 program. The NCGA has

also developed an in-store Cooperative Advantage branding program to help improve store presentation. These activities have a synergy in existing retails by improving market share through better marketing and promotions. "By being better operators, they are attracting more people, and that furthers the values and ideals of cooperation," she said.

"Co-ops have a really strong community appeal. They have built on their reputation as ethical operators that focus on community interests, fulfilling both bottom lines," she added. Shrader pointed out that when it comes to new food co-op development this loyalty is often expressed in the support and excitement they are able to engender when it comes to raising capital for co-op projects.

Walden Swanson, CoCoFiSt consultant, said that there's a need for strategic thinking in order to meet community goals. Just because

co-ops may be seeking to achieve philosophical outcomes doesn't mean they are exempt from the forces of competition. "From a strategic perspective, growth is important for the whole food co-op movement to maintain market share. It's a classic strategic issue for any industry," he said. "There's also a philosophical argument for why to grow; it's because our social bottom line is also very important."

Swanson also believes the opportunities for food co-ops to grow market share will shrink as time goes on. "The time is now," said Swanson. "In seven to 10 years it could all be different." There are good indications that collaborative efforts now may pay off later. "CoCoFiSt data does tell us that as a group we have very strong balance sheets and liquidity to support rapid growth. We need to figure out how to use this to benefit each other."

Swanson also pointed out that about half of the NCGA's member stores are engaged in some sort of expansion, relocation or second store project. Another encouraging sign that "co-ops are making strategic choices for growth," said Swanson. "Now we've got to look at going to areas where co-ops are not there yet."

"Growth is important for the whole food co-op movement to maintain market share... [and] because our social bottom line is also very important."

—Walden Swanson

CASE STUDY

Strategic Growth by Acquisition

You don't have to travel far on the sun-baked streets of Albuquerque, New Mexico, to find a natural food store with a juice bar to help quench your thirst. That's exactly why LaMontañita Co-op Food Market is aggressively adding new locations outside of Albuquerque. They want to be the ones doing the juicing to avoid getting squeezed.

LaMontañita's current strategies for growth invite an examination into how cooperation can be successfully introduced to more communities through acquiring existing retail venues.

According to C.E. Pugh, LaMontañita's general manager, their approach to growth originates with the board's desire to see the co-op increase the number of people it serves through cooperative enterprise. "There's a recognition and value placed on growth by the board because of that," Pugh said. There's also the blunt reality of the competitive pressures in Albuquerque—where Wild Oats, Whole Foods, Trader Joe's and many independents set up stores. Pugh said they feel pressure on margin that goes hand-in-hand with the certainty that expenses will go up every year.

In the last year alone, the co-op has added the Gallup and Santa Fe locations to their operations. The Gallup location was a struggling food co-op that was taken in by LaMontañita. LaMontañita bought the Santa Fe location when that store's independent owner was looking to retire. Both acquisitions came about through relationships that had been cultivated over the years.

Pugh sees many benefits to acquiring more locations. These stores come with an established clientele, staff, and already-functioning business practices. Pugh said it's easier to integrate operations and invite the current shoppers to join, than it is to build an additional location from the ground up. He also said once you've jumped the hurdle of going



LaMontañita Co-op Food Market

Founded: 1976
Members: 12,000
Number of Locations: 4
(Albuquerque, Gallup, Santa Fe)
Number of Staff: 200

from one to two locations, adding more is much easier.

"By the time you have two stores you've developed the systems that are scaleable to more locations. What can shock people is going from one to two locations and what it takes to develop that," Pugh said.

LaMontañita is also care-

fully vetting every growth opportunity.

"Growth does not come without risk. We need to mitigate that risk on behalf of the current membership."

With every acquisition, the co-op has taken a number of steps to assure that the potential opportunities are worth the risk. Pugh said they do a professional market study for each project. They also look at their cash flow and balance sheets, forecasting very conservatively. "It scares me if every contingency has to go right for it to work," he said. Pugh also engages a third-party to run an analysis on the projections of the business. "It's hard to take a detached view of your own business." Perhaps most important, they need to ask: If this project goes bad will it take down the whole co-op? They have to feel confident it won't before moving forward.

Pugh, and many others in the natural food industry, believe that the window of opportunity for rapid growth will close in less than a decade. "We need to grasp these opportunities for growth or someone else is going to. A large base allows you to bring in more resources to work on your second bottom line, so you can have a greater impact in your community."

KNOW YOUR MARKET

CAT Survey Assessment Tool

The Customer Address and Transaction (CAT) survey is one of the most useful tools for determining your trade area and market penetration. How the data is collected is quite simple: customers are asked where they live and how much they spent. Once the interviews have been conducted you can:

- Verify how much business you draw from your trade area
- Determine your sales penetration rates for each sector in your trade area
- Identify areas where the store is weak and strong

Location and market research consultant Pete Davis has administered thousands of CAT surveys. Davis said the data is useful for those wishing to "take a temperature," of their trade area, to find out how effective they are against competition, or especially important, if you're looking at adding a second location, "so you can calculate the potential cannibalization on the first store," he added.

A CAT survey is an important tool for any businesses engaged in a strategic market planning process. To find out more about the benefits of a CAT survey, contact:

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