TOWARD WHAT ENDS?

Bouncing Back in Boise

Beyond being unprepared

BY BEN KUZMA

Shortly after my arrival in Idaho at Boise Co-op in June 2011, Whole Foods announced that they would open a new store at a busy intersection just 1.2 miles away from our tucked-away neighborhood store.

Despite knowing about plans to build at that site four years earlier (the project was delayed), Boise Co-op found itself unprepared for the new competition. Within an eight-month period, three new competitors would enter Boise Co-op's changing marketplace. It was my welcome to a mid-sized city (in a greater metro area with over half a million population) with a food co-op seeing direct competition enter its marketplace for the first time.

Boise Co-op, with 25,000 retail square feet and some 25,000 members, had grown to $26 million in annual sales. But the good old days were over.

When a direct competitor opens a store nearby, and overnight generates the same volume it took your co-op 40 years to achieve, you know your market was underserved.

The way we were

The co-op relocated in 1995 to its present site, a small neighborhood mall in a prime walkable neighborhood just north of downtown and four blocks from the Idaho State Capitol. When a shop in the mall became vacant in 2007, the co-op opened a 5,000-square-foot wine shop that is now considered to be one of the best shops in the Northwest, carrying a selection of over 3,500 wines priced from $6.99 up to $4,000. In 2012, we converted space formerly used for wine backstock into a 1,300-square-foot specialty pet food/supply shop and a 500-square-foot meeting room.

Fast-track changes

In preparing for competition, with so much work to do in such a short timeframe, it was difficult to know where to begin. But it became obvious that several "housecleaning" issues needed immediate attention.

First, we held a membership vote to change our cooperative bylaws and articles of incorporation so that we could begin issuing patronage dividends to our member-owners. Next, we joined National Cooperative Grocers Association (NCGA) to access training programs and other benefits that would allow us to become more competitive. Having little time to prepare for what ultimately turned out to be an $800,000 remodel (mostly in deli), we contracted with NCGA's Development Corporation to help fast-track a remodel project to completion before Whole Foods opened for business.

With all these major changes, a year or two of careful preparation was not available. We planned and completed the majority of the store remodel over a six-month period and have continuously made improvements since then. We are pleased with the results, but I wouldn't recommend our fast-track method unless it is absolutely necessary. For any food co-ops not already engaged in direct competition, it would be wise to prepare your organization as though a buffed-up-evil-twin version of your co-op were strategically placed to compete with your store.

Concurrent with the remodel project, we developed and implemented a pricing strategy. We applied variable margins to product categories and subcategories to remain competitive in areas suggested by our price-comparison surveys. With about $2M of inventory on hand (nearly half of it in wine), we reduced our inventory levels to help fund a large portion of the remodel costs off the balance sheet.

Finally, to alleviate concerns about how little time remained on our store's lease, we signed a long-term replacement lease, which now allows us to focus on finding a location for a second store.

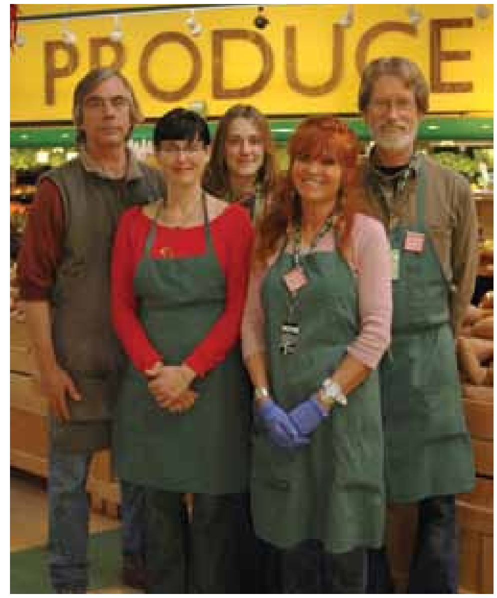
Controlling expenses and retaining loyalty

Although our sales took a hit and are still below their 2011–2012 level, five quarters after the Whole Foods opening, we are once again on a growth track—about 3 percent over last year's sales. We remained profitable in all five quarters by proactively controlling our expenses. For example, early on, we temporarily froze wage increases except for promotions—but quickly restored them once it was clear that we were out of danger. Our achieved gross margins have improved, but our basket size decreased slightly. Our customer count has risen a strong 4.6 percent compared to last year. With over 23,000 active member-owners on record, customer loyalty to the co-op has proven to be a significant factor in limiting sales losses to our new competitors, and the member equity total has grown each year.

Preparing for competition has sharpened our focus on serving our member-owners' needs. Including underserved customers in our expansion plans is a logical next step, now that we have endured the first wave of competitors. After taking time to assess various growth options that did not include a second store, the Boise Co-op board of directors recently passed a resolution to take appropriate interim steps toward opening a second store. A general survey of our staff, vendors, customers, and member-owners, taken just before my arrival in Boise, indicated strong support for opening a second store. We are currently conducting another survey that will provide useful information to help make informed decisions.

Co-ops and underserved markets

One thing is clear, however: the Boise marketplace has been underserved, even though our annual sales exceeded $26M. When a direct competitor opens a store nearby, and overnight generates the same volume it took your co-op



Boise Co-op had to fast-track its $800,000 remodel, with help from the NCGA Development Cooperative.

Shown at top right are Doug Yonkin, Shelley Spurlock, Hannah Bohl, Roben Lathan, and Peter Tanorikiho from the co-op's produce department.

PHOTOS COURTESY OF BOISE CO-OP

40 years to achieve, you know your market was underserved.

It's important to know if one's marketplace is underserved, so consideration can be given to filling the gap before another grocer steps in. Many food co-ops such as Boise Co-op have been successfully operating stores in downtown or neighborhood sites in medium-size cities without much direct competition. But opening a second store in a suburban location is another matter. If Boise Co-op is to become a nexus of community vibrancy, it must learn how to successfully operate in suburban locations as well. The key is to create a second community center like our North Boise store, but closer to where other people with a propensity to shop at a food co-op live, play, or work.

For decades, food co-ops have attracted customers from a select group made up mostly of educated people who, for various reasons, are inclined to shop at a food co-op. The composition of this group is in flux, but their numbers are growing. The capacity of food co-ops to meet their needs has largely not kept pace with demand. Many food co-ops would like to serve these newcomers but frequently are unable to open additional stores. Natural grocery stores, some of which can have the look of a food co-op, are now popping up at locations where real food co-ops could have successfully operated stores.

Co-ops 2.0: learning to fly

To a large degree, food co-ops have been responsible for changing the direction some of the grocery industry has taken. Over time, many of our competitors have come to behave more like food co-ops. They:

- provide membership
- sell higher-quality and organic foods
- take up environmental causes and become "green"
- donate a portion of their revenue to charity
- give money back to their customers that looks much like a patronage dividend
- open smaller-format stores that are more human-scale
- sell local products.

These are some of the traits that identify a typical food co-op and contribute to its fitness as a business—but they are becoming common traits of natural grocers as well. Food co-ops ▶

have successfully spread their "genes" to the extent that a natural grocer's DNA may look a lot like a food co-op's. Convergent evolution is at play here. If food co-ops somehow learned to fly, our competition would soon sprout wings.

But that's exactly what food co-ops need to do: learn how to fly. Most people don't understand food co-ops, and ironically this includes many food co-op owners. But over time, more people will not only understand food co-ops better, they will become loyal champions of the co-op's principles and values.

Food co-ops will learn to fly when they become useful tools provided for the community to set the standards for other businesses, and a patronage dividend (thanks, IRS) is seen as a tax shelter set up for citizens to take advantage of owning a community business.

> Food co-ops not already engaged in direct competition would be wise to prepare as though a buffed-up-evil-twin version of your co-op were strategically placed to compete with your store.

Flying is when food co-ops become an integral part of an owner's social investment portfolio, with an understanding that there are benefits to owning a business instead of renting one—food co-ops don't get bought out or sold or acquired.

Flying is when food co-ops can plow more resources back into their community, create decent jobs, and help incubate small businesses that have the potential to employ more people.

Flying also is when local government officials understand that a food co-op's values align with many of their constituents, who have their own triple bottom lines, and that sustainable development will be the main driver for economic changes during the decades ahead.

Food co-ops will continue to evolve, and businesses will continue to behave more like a food co-op. That would be a good thing for any community, as we welcome everyone to come fly with us. ■