Reaching the Co-op's Owners

BY PATRICIA CUMBIE

ood cooperatives have a special relationship with their owners and customers, but even the best relationships need to be continually nurtured and cultivated. In a rapidly changing marketplace, one in which skillful competitors can outstrip other grocers on price, convenience, and amenities, customer loyalty is king. And consumers these days are notoriously fickle. A generation ago, people shopped somewhere for life. Today, one-third of grocery store consumers have switched primary stores within the last five years.1

People also use more shopping channels (online, bricks-and-mortar, discount, niche) and are not as loyal to one store. Today's consumers shop more often, stock up less, and use more than one retailer to meet their

One of the philosophical underpinnings of the cooperative business model is that it is designed for user benefit. Given the research showing that shoppers have more options and are less loyal than they used to

be, this has important implications precisely because co-ops rely on owner patronage for their success.

More use = more impact

There are many important advantages to both the owner and the co-op that are realized explicitly through owner participation as patrons. The more that owners use their coop's goods and services, the more they influence multiple bottom lines: the profitability of their business, the co-op's ability to serve and give back to the community, and the strength of local economies. More patronage of co-ops delivers on other values such as high-quality jobs and environmental impact.

Ideally, co-op owners are also part of a patronage rebate system that returns to them a percent of their sales during profitable years, as well as invests profits back into the business in the form of retained patronage. This retained patronage helps provide a capital investment stream that supports a co-op's continual growth. Encouraging co-op owners to play a part in their co-op's success by shopping at the co-op is critical.

Clearly, it's important not to take customer loyalty for granted. Nonetheless, despite this marketplace pressure to pay attention to it, only 49 percent of companies in 2012 surveyed by Loyalty 360 could identify their dedicated customers.² It's not surprising, then, that in the same survey 57 percent of marketers planned to change or increase their customer retention programs. Part of their approach is tried-and-true-be-better-retailers stuff (excellent customer service, attractive merchandising, appealing food service). The flip side of executing that strategy is a solid understanding of where customers are coming from and what motivates them.

"I think one of the opportunities co-ops miss is to capture and overlay owner demographic information with this buying information to understand if they have an opportunity to serve different groups more effectively," said Kelly Smith, director of marketing and communications at National Co+op Grocers. "Also, shopper information can be used to increase communication with owners." Smith said that the impact could be higher sales and more loyalty and, in the long term, "more co-op economy."

For example, does your co-op know its average owner's total expenditures versus non-owner expenditures? Does it also know owner basket size versus non-owner basket size, along with owner shopping frequency and non-owner shopping frequency? Does it know the rate of owner equity renewals for those on payment plans? Does it know the degree of store segmentation (how many stores are shopped) among its owners, along with segmentation among its non-owners? In order to more strongly influence owners regarding the importance of their shopping at the co-op, the co-op needs to track this information.

The most sophisticated companies are using data, most of it already at their disposal through point-of-sale (POS) systems, phone numbers, and zip codes, and they use that information for better delivery, through targeted invitations, rewards, and loyalty programs, of what their customers most want. It could be easy to dismiss this approach as just more cor-

> porate overreach into people's lives. However, 85 percent of consumers say that more companies could have recognized and rewarded them for their business.3 People like convenience, access, and service, and they also like to be expressly thanked or rewarded for their patronage.

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Understanding owner shopping

For a certain group of customers, the co-op feels like the old corner store, a place they not only go to for groceries, but one they feel connected to. They are the lifers. Year after year, they buy thousands of dollars' worth of groceries. Are some of them taken for granted as

customers? Is there anything the co-op is doing to specifically recognize their contribution? What about those people who are owners but infrequent shoppers? What is their story? Analysts and marketers are starting to believe that part of the process of bringing more people into the fold is through better use of data, primarily by taking a strategic look at sales data as well as customer survey data.

Glenn Bergman, general manager at Weavers Way Co-op in Philadelphia, has found such analysis invaluable to its operation. Steven Garfinkel, the consultant who provides financial analysis for Weavers Way, has conducted data analysis for the co-op the last four years. Based on his research, he has concluded that the cooperative does a good job of enlisting owners to support its mission and goals, but is less successful in getting owners to fully support their co-op with their patronage. In his survey, he learned

Cint Survey 2014, http://www.cint.com/loyalty-programmes-have-a-long-way-to-gobefore-they-start-affecting-consumers-supermarket-choices-survey-reveals/ ²"Only One-Half of Brands Can Identify Their Most Loyal Customers," March 30, 2012, http://www.marketingprofs.com/charts/2012/7523/only-one-half-of-brands-can-identifytheir-most-loyal-customers#ixzz3ZTtTIV3F.

3Accenture 2013 Global Consumer Pulse Survey, http://www.accenture.com/ SiteCollectionDocuments/PDF/Accenture-Global-Consumer-Pulse-Research-Study-2013-Key-Findings.pdf

that 23 percent of owners provide 60 percent of sales. "You gain an appreciation of how important they are to your business," he said. That 23 percent of owners, Garfinkel found, averaged between 12-22 visits to the co-op per month, while about 60 percent of owners shopped only two-five times per month.

Garfinkel thinks encouraging that 60 percent of owners to increase the number of visits to the co-op is critical, because when they do shop, their average basket size is a respectable \$28. "Getting them to visit the store incrementally more often has the biggest single value in driving sales, because when they come, they spend money," he said.

Garfinkel also noted a disturbing trend in which a statistically noteworthy number of people had joined the co-op, but their patronage actually declined over time. "It's begging some significant questions. They might see membership as a social donation to their neighborhood or community, but why they don't support the sales function of their co-op?"

Importance of owner engagement as patrons

Understanding owner patronage is a question that Mari Wood, cooperative relations manager, has been working to address by using owner data management at Outpost Natural Foods in Milwaukee, Wisc., a 21,400-owner co-op with multiple retail locations. To help focus her inquiries and get answers, Wood has been taking a two-pronged approach. One has been to be mindful of what member records reveal, and the second is to evaluate owner sales trends.

Outpost has a database system to ensure that all owner information about equity payments, patronage refunds, and retained patronage is

evaluated regularly for accuracy, but also reviewed for what the information can tell Wood and General Manager Pam Mehnert about the health of the co-op and owner participation. For example, Wood learned through evaluating her records that only 30-40 percent of people on equity payment plans complete their investment. She can track who hasn't paid their equity in full and remind them in order to improve that result, and she also can give new owners incentives to pay all of their equity in full

In addition to tracking equity, Wood keeps her finger on the pulse of the shopping habits of co-op owners. "We use owner sales reports to guide our decisions. It shapes key areas we need to focus on for the fiscal year, especially if we're looking at growth and a new location."

In addition, Wood uses the information to encourage more owner sales. "I've been exploring the 'missing-in-action' owner data to find out why," she said, and encourage these owners to come back. "We've been sending out mailings targeting those who have dropped off." Wood has also been surveying them and holding focus groups to gauge the reasons why they aren't shopping more frequently. Apart from typical reasons such as convenient locations or budget, she was surprised to learn that "a lot of people said they didn't realize they had dropped off."

At Wedge Community Co-op in Minneapolis, Minn., CEO Josh Resnik

Announcing the Revised Patronage Dividend Primer

Important revisions have been made to the *Patronage Dividend* Primer and have been published at cooperativegrocer.coop. To download the new, revised *Primer*, go to: www.cooperativegrocer. coop/patronage-primer-15

Bruce Mayer, CPA, is the author of the revisions. In his introduction to the first part of the Primer, Mayer notes:

"This article revises a *Cooperative* Grocer article first published in January-February 2008. The key changes relate to trying to reduce the problem of unclaimed patronage dividends and correcting an error about the definition of patronage vs. non-patronage for tax reporting purposes."

Revisions reflecting these changes also have been made to the final Primer section, "Implementing Patronage Dividends," as well as to the original article in the website Magazine archives (an act of rewriting history).

noted that they have also begun to use member sales data to encourage more shopping frequency with owners. He's found that targeted outreach and simple reminders work. For example, when they had an exceptional deal on coconut oil in the store, they sent out a mailer to those who had purchased it in the past year, to let them know about the deep price cut. The sales lift was excellent.

Similarly, the Wedge had good results in an effort to bring back lapsed customers. A postcard with a humorous message (poking fun at its crowded parking lot) actually got better results than another one that featured a coupon-suggesting the owners like to be remembered and reminded, and do not always need a financial incentive. It's a conclusion similar to Outpost's surveys that show people don't even remember they haven't been to shop the co-op in a while and need a nudge.

This kind of data has also led Outpost to consider instituting a loyalty program and to reconsider their owner benefits. "Owner benefits is a hot topic right now. How could we be savvier? It's a marketing package, where equity is their legal obligation," Wood said. "All of our benefits are based on patronage—rewarding those owners who shop the most." Using data they've collected, they've learned that people shop more when they are rewarded more. "We are looking at ways to reward owners in ways we haven't explored yet. We are doing an owner survey to help guide that conversation."

What about those people who may feel that the co-op's use of data may be turning it into Big Brother? Wood thinks the key to addressing that question is through the cooperative value of transparency. "Outpost's use of owner data is about trying to figure out how the co-op can

offer more return to shoppers. I also think it's important to be clear about what we're using the data for." Evaluating member data is an important tool for building owner participation, which fuels sales that ultimately support the co-op's mission and create more equity for the future.

Outpost has also been distributing patronage refunds since 1997, and retained patronage from member use of the business has been an important factor in their growth. "Our owners are very vocal about growth; they want more stores. We get requests on a daily basis, and our retained patronage has helped us grow," Wood said.

Jan Rasikas, general manager of medium-sized Viroqua Food Co-op in Viroqua, Wis., noted that the co-op's \$1 million in retained patronage is unusual for their small town and a powerful signifier in the community. "That money stays here," Rasikas said. "The work we're doing now with equity in our sector demonstrates how the co-op enhances quality of life in its community." In Viroqua, the co-op has a positive impact on the whole town because of the support it gives to local nonprofits, local farmers, the community radio station, as well as its staff and customers.

How can data be better managed?

The trend toward "customer relationship management" has the potential to have profound impact on food co-ops operating today. More >

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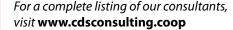




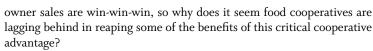












Walden Swanson, board chair of CoMetrics and creator of the Common Cooperative Financial Statement (CoCoFiSt) database, said that one of the challenges historically has been a way to accurately and efficiently capture the data. Owner data isn't a part of conventional financial reporting, so figuring out how to access and incorporate it "is really hard and not done well by anybody," Swanson said. Swanson thinks that measuring new owner recruitment levels, equity, and owner sales in order to help develop robust owner services is important for both individual co-ops and the sector, especially now.

CE Pugh, chief operating officer for National Co+op Grocers, concurred that, to date, "little scrutiny" has been applied to member equity and member sales data. He noted that as reported on CoMetrics, currently 70 food co-ops within the sector have retained patronage from profits earned with owners. "Retained patronage is a reflection of growing operational capacity," Pugh said. He would like to see more co-ops make growing their individual equity (both through more owners and more retained patronage dividends) a measurable benchmark and a priority.

Food co-op equity sector-wide had been growing in the double digits for the past three years. In 2014, this growth rate dropped to 9.8 percent. "Sales to members is extremely relevant to this discussion," Pugh said. "I think it would be powerful to come up with a more structured and comprehensive program of regularly rewarding our best shoppers and letting other shoppers know we want them to get extra benefit."

Although individual cooperatives are making forays into understanding owners and shaping better owner services through data, it is still a new approach for most food co-ops. Harnessing the aggregate power of owner participation through patronage and equity is clearly a question for the sector to address.

In the meanwhile, identifying patterns in data offers individual coops the opportunity to develop specific strategies to reward loyalty. For example, a co-op might set a goal to increase average basket size in a given quartile, perhaps by sending a coupon offer via direct mail. Or, perhaps a co-op might send owners in the upper quartile some reward for their loyalty or even a "thank you" for shopping. Co-ops could try to personalize such appreciation with POS system prompts that would help cashiers recognize when someone has been a shopper for five (or more) years and thank them—or hand out chocolate as rewards for buying a certain amount of groceries that day. You get the idea.

As cooperatives seek to build owner sales, meet competitive demand, and allow communities to reap all of the benefits of the cooperative way of doing business, the time is now to innovate improved owner services and build stronger relationships with the most supportive shoppers. \square

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