

Polishing Up the Box

BY KELLY DEAN WISEMAN



PHOTOS COURTESY OF BOZEMAN COMMUNITY CO-OP

Every co-op in every community has its unique challenges, and we all choose different paths to both serve our member-owners and go toe-to-toe with the competition. Here in Bozeman, Mont., we have some very innovative competitors, and for this reason we have had to push and stretch the limits of the retail box with a new project or program just about every year.

We buy our organic dairy products direct (three pallets a week) because our competitors do. This caused us to create an internal dairy warehousing system that feeds the various food service and grocery departments that use it. The end result is that our margins are good, and our organic milk is cheaper than just about anywhere else.

We then created a central warehouse with a capacity of about 80 pallets to forward buy grocery items on sale so we could both extend sales and compete on price with our competitors, who also have a large warehouse.

Our kitchens were no longer sufficient to handle the deli sales, so we created an offsite central kitchen (same building as the warehouse), with the idea of using its big capacity to feed a second store. And then we opened

that store 10 blocks down the street from our West Main store. After two-and-a-half years, the co-op downtown is a hit, with sales of over \$2.7 million in what is basically a self-service restaurant.

So, we were ready to take a breath and relax a bit, with the only new project being our local foods processing for food service. (See Dean Williamson's accompanying article.) But then we heard that a new startup chain from Colorado, Lucky's Farmers Markets, was coming to town. Our alarm bells went off when we discovered they were planning on plopping a large, full-scale market just six blocks down Main Street from our mothership store.

Even without the pressure of a new competitor's impending arrival, we had started working on spiffing up our larger, West Main store. It had suffered from the attention and resources devoted to opening the new, smaller co-op downtown: the old gal was sorely in need of a new coat of paint. But from the very instant we learned of this Lucky's outfit and its close proximity in our neighborhood, we viewed it as a serious threat. A sparkly big store with great pricing could knock us right off the rails, and we are not in the habit of underestimating anybody.

We took a look at the numbers and also took

a hard look at our primary weakness: price perception. Our stores, overall, achieve a very high margin (42.5 percent), but this is due to the high proportion of food service in our show (29 percent of sales at West Main, 65 percent downtown). Our departmental margins all looked in-line with CoCoGap numbers (data shared among food co-ops), and for years we have done some very proactive variable margin pricing in the center aisles. Still, we looked hard at our competition and decided to make some moves to instill real savings and deals for our member-owners. We do a lot in the community to build loyalty, but great pricing wins a lot of hearts, like it or not.

Coupon and discount math

Our first step was to create an online member coupon program. By going to our website, members can sign up to receive, via email, a different weekly coupon each week. We set it up on the POS (Point of Sale system) to start each Wednesday morning and run through the following Tuesday night. Using a simple template, it only takes a few minutes to design a new deal, and we can alter the deals to push different departments, categories, or even individual products. ►

Processing Plant Extends the Life of Local Produce

BY DEAN WILLIAMSON

Bozeman is home to the Community Food Co-op. It's also home to mountains, cows, and hay fields, and for a large part of the year, winter. A long winter means a short season for growing vegetables—not smaller quantities of vegetables, just shorter times when they're available.

The co-op has been buying locally produced meats and vegetables for its entire 34-year history and is wholly committed to its local suppliers. Co-op management worked with area vegetable growers to take advantage of this short window when so much locally grown produce is available. The result: full-scale processing of vegetables for the co-op's use—in prepared foods, grab-and-go foods, and more.

Just this past spring, using a grant from the Montana Department of Agriculture's Growth Through Agriculture, a terrific program that aims to fund small food-production and food-processing projects in the state, the co-op implemented a commercial-scale processing venture for vegetables. Grant monies purchased a food processor, a flash freezer, tables, a walk-in freezer, and more. Grant funds will cover \$50,000—about two-thirds of the costs of the equipment—with the co-op covering the difference between the grant and actual costs.

The processing work occurs in the co-op's central kitchen; deli and to-go foods are prepared there and delivered to two retail stores. As of September 15, the co-op had purchased just under 31,000 pounds of locally grown produce in 2013, of which about 10,000 pounds have been processed in one form or another. (The majority is blanched and frozen, though there is some pickling, fermenting, saucing, and pureeing, as well).

On the whole, Christina Waller, the central kitchen manager, is pleased. Her budgetary goal for produce purchasing is \$2.00 per pound, irrespective of source or time of year. In 2013, she is at \$2.74 per pound, attributing higher cost to large purchases of more expensive local produce, especially cilantro and basil. "If you took the herbs out, we would be right where we want to be," Waller says.

Purchasing local produce is more art than science. There are some foods that are cheaper if bought from a large distributor (UNFI or Sysco), but often the local vegetables are significantly less expensive.



A couple of examples: The co-op pays \$2.50 a pound for local tomatoes to can for winter use; that compares poorly to the \$1.00 a pound for diced tomatoes from Sysco or UNFI.

Canned pumpkins, on the other hand, are a different story. They cost around \$1.40 per pound from the big suppliers (plus, says Waller, there are LOTS of very small cans to open), while local pumpkin runs \$0.75 per pound. Cost comparisons across the menu suggest that higher prices for one food are largely offset by lower prices for another.

Processing local food also means increases in spending during "local season." Waller believes the financials will even out over the course of the year (since she will purchase less produce in January), although she concedes that more forward-buying in the summer makes her margins suffer.

She stresses that local purchasing for processing is not an act of charity; this must pencil out if it is to continue, she says. At the same time, she recognizes that the quality difference between local food and big-distributor food is worth increased costs. She is "willing to pay a lot for taste" and believes that sales will increase because co-op shoppers are willing to pay for

food "of such higher quality."

Plus, Waller adds, processing is largely meant to "replace fresh, non-local produce in the winter (not canned items), so an anomaly like the tomatoes hurts us less in the long run."

She has reason to be optimistic. In 2012, as an experiment with local processing, the Central Kitchen pureed local pumpkins for Thanksgiving pies...and sold more than double the number of pies sold in 2011 (nearly \$12,000 in sales, versus roughly \$5,000).

To be sure, there are continuing kinks being worked out in this system. Labor costs are one. Processing of local food adds between 40 and 75 hours of labor a week, with three to five part-time cooks doing this work. That labor also fluctuates with the food item—basil and cherries take longer to pick apart or pit than a tomato takes to drop into a food processor.

The increased costs of goods is also indisputable. That impacts the margin, as do the increases in labor—and for a department that does not generate any direct sales. Waller is confident that this will all even out during the winter, but these are challenges that suggest the perspective on budgets, on margins, on costs of goods, and on labor numbers might have to shift to a longer-term view of financial costs in order to see the benefits of local food purchases.

The marketing around local food has increased as well, as a means of helping to drive sales: from social media, to exhibits of photos of suppliers, to blogs and coupons—the marketing efforts at the co-op are increasing proportionately to the increased use of local food. It is not intuitive that the sauce on your pizza in January is from tomatoes harvested right down the road, months before, and the thinking is that members are more likely to purchase local food, even during the winter. The ancillary benefit to this marketing is the increase in loyalty to the co-op among its members, especially in times of increased competition and increased difficulties in brand differentiation.

This effort to process local food is still in its infancy. Although growers, the central kitchen, and the co-op management are all wading into untested waters, Waller says, "we are all proceeding, based a lot on good faith that this will flourish." Ideally, the support for local food translates directly into support for the local co-op.

Member Weekly Coupon
Sept 25-Oct 1
Co-op West Main & Co-op Downtown

SAVE

\$15

on a purchase



Member Weekly Coupon
September 4-10, 2013
Co-op West Main ONLY

Save On Wellness

\$5

off \$20



Member Weekly Coupon
September 18-24, 2013
Co-op West Main ONLY

Save On Seafood

\$4

off \$15

on Fresh Seafood
(not valid on frozen seafood)



Member coupons (left) can be generated on the fly and offer a range of discounts. Most members use a coupon at least twice a month.

A biweekly flyer (below left) pushes perimeter departments, with items priced as near-loss leaders.

CO-OP SALES June 19-July 2, 2013
Co-op West Main • 908 West Main • 587-4039



	
Organic Raspberries 6 oz \$2.48/ea	Organic Peaches All Varieties \$2.13/lb
	
Organic Plums All Varieties \$1.30/lb	Ground Pork Local John Smith Ranch, Whitehall, MT \$3.99/lb
	
Boneless Pork Shoulder Local and Organic Amaltheia Organic Dairy, Belgrade, MT \$6.39/lb	Thai Chicken Sausage Co-op Sausage \$4.29/lb
	
American Cheese Singles Organic Valley (8 oz) \$3.49/ea	

Sale items are available at Co-op West Main, while supplies last. • Select variety available at Co-op Downtown. Printed on post-consumer recycled paper.

▶ To give the program legs, we offered great discounts, some for small baskets (\$1 off any purchase of \$5 or more) and some for large (\$10 off \$45, and so on). We learned to make it as easy as possible for anyone with internet access: you can print the coupon from your computer or at the public library; you can bring it on-screen on your smart-phone; or you can just take a photo of it on your not-so-smart phone and show it to the cashier.


The member coupon program has been a big hit, in part because it is easy for members to use, and because it is quite generous. Members can use it every day if they choose, and we get a lot of repeats. We have over 3,000 members signed up, and most use it at least twice a month. If we have a huge redemption cost one week, we will simply offer a more humble deal the next. Overall, this program costs us about \$7,500 per month, deducted straight from sales.

Member coupons strike a nerve we've been longing to hit: the adventure shopping excitement critical to the success of Trader Joe's. People like getting great offers in their in-box every Wednesday morning, and our truly loyal co-ops have told us that they look forward to what we're going to dream up each week.

The next step was to push some perimeter departments that in turn drive basket size. We decided to design a simple, in-house flyer that would run for two weeks, highlighting three big produce and three meat/seafood deals. To give the in-store flyer some additional punch, we decided these items would be priced as near-loss leaders, with a margin between 10 and 15 percent. The flyers are colorful and easy to read, and they are placed in every cart and basket in the West Main store as well as prominently placed on our website.

You may be wondering what we were thinking. Is it really a good idea

PEACE COFFEE



peacecoffee.com

SPOOKY TO SOME, A SYMBOL OF BOOKISHNESS TO OTHERS, THE OWL'S GREAT EYES GRANT HIM AN UNCANNY ABILITY TO NAVIGATE AT NIGHT.

Nocturnal Brew

Sweet berry flavors mingle with dark chocolate. **NOW AVAILABLE!**

to basically give away product to drive sales? Our numbers, after five months, show that indeed it is. First, our produce and meat departments shot up in sales growth to over 25 percent. Many other departments enjoyed the rising tide of sales growth as folks bought more grocery, refrigerated, and bulk items to complement the near loss-leader sausages or greens. The co-op's West Main store growth went from about 6 percent to 12 percent in one quarter.

Even better, due to the increased volume of popular low margin items, we found that in these five months our margin dollars coming out of produce and meat stayed pretty consistent. For example, the difference between the margin dollars that came out of produce, versus what

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we would have enjoyed at a full 33 percent margin and lower sales, was only \$1,200. So far, all indicators support ramping up the volume in meat and produce in order to help lift total store sales. Our overall margin has not suffered, and overall growth is higher than it has been since 2008.

And we continue to spiff up the mothership. We redesigned our logo to give it more color and punch, and replaced all of the exterior signs.

The templates in produce and meat

were redesigned to better highlight local and organic. All surfaces were re-evaluated for color and impact: if you can see the back of a sign from anywhere on the retail floor, we would put a beautiful color photo of food on it. The customer service desk was cleaned up and all clutter removed and, again, we gave it a better look with nice, large photos. We replaced numerous fixtures and are in the process of having the checkstands cleaned up with some spot-finish work by a local cabinetmaker.

Finally, after completing a SWOT analysis, all departments will have specific projects to complete on a timeline before Lucky's opens.

Our experimentation is not for everyone: we have high occupancy costs, a full-on trucking department, about 200 employees, and the challenges that accompany large, busy food service. And driving sales with low margin or even loss leader deals can be a risky venture. But out here in Montucky, we think pushing the boundaries is the best way to gut-punch the corporate stores and keep our members happy. Pretty much in that order. ■

Cooperative Grocer

FOR RETAILERS AND COOPERATORS

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- Store security review
- P6 campaign update
- Managing a farmers market
- Four pillars of cooperative governance