

Don't Wait—Act Today!

Build loyalty for the day when competition comes to town

BY JEANNE LAKSO

Competition in the grocery industry is fierce. With more retailers entering the natural and organic market and more shoppers purchasing natural and organic foods at conventional stores, food co-ops need to act and perform as though new competitors are just seconds away.

When many of the so-called “new wave” food cooperatives in the U.S. were founded, they were often the only purveyors of organic, local, whole foods in their markets. If you wanted tofu, tamari, or wheat berries, the co-op was the place to go.

Fast-forward 40 years. According to *Natural Foods Merchandiser*’s “2011 Market Overview,” sales of natural and organic foods at natural and specialty retailers (including food co-ops) totaled about \$36 billion in 2010 and grew at a rate of around 7 percent over the previous year. During that same period, natural and organic products sold through conventional retailers accounted for \$29.9 billion in sales, and growth in sales through those conventional channels, at 7.6 percent, outstripped natural specialty grocers.

What co-op managers have learned

I recently interviewed several co-op managers to learn about their experiences with new competition. Large stores and small, in urban and rural areas, have experienced incursions by big box stores, conventional grocers, and super-natural chains such as Whole Foods Market.

In Wisconsin, Milwaukee’s **Outpost Food**

Co-op faced a perfect storm in 2008. Within a six-month period, the area’s first Whole Foods Market and Trader Joe’s both opened in locations

just a few miles away from the co-op’s primary store, and a local chain, Sendik’s, opened a new store within Outpost’s main trade area. At the same time the Pick ‘n Save across the parking lot from the second of Outpost’s three locations completed an expansion and remodel, adding more natural and organic products and expanding its prepared-foods offerings.

The results for Outpost were staggering, and the co-op suffered sales losses in the double digits. “We weren’t as prepared as we thought we were,” said Director of Brand Lisa

Malmarowski. “The sales decline made us take a new, hard look at our stores, and we found many areas where we’d let things slide.”

The recovery period has taken three years, yet Malmarowski is surprisingly grateful for the opportunity that new competition presented. “What this type of competition did for our culture and brand was really positive,” she said. “Going through tough financial times pulled staff closer together. It made managers braver and able to say the hard things. It really feels like we have a common goal.”

Besides bringing staff together for a common cause, Outpost’s onslaught of competitors resulted in a laser-like focus on improving the co-op’s retail operations and marketing around their points of differentiation: fresh foods; outstanding service; their cooperative, community-owned structure; and their commitment to local products. Three years later, Outpost is back to double-digit sales growth.

Also in 2008, **Berkshire Co-op Market** of Great Barrington, Mass., faced the expansion and renovation of a Big Y market (a regional big-box store with 52 locations) two miles from the co-op.

General Manager Art Ames echoed those same points of focus on operations and differentiation as key. “The smartest thing we did was not to panic, not to adjust prices in a knee-jerk reaction, and instead to continue to focus on customer satisfaction, individualized service, employee knowledge of products and issues, abundant displays, fresh and unique home-grown foods, and organic produce from our local farmers,” he said. “It [competition] gave us a renewed focus on what we were doing well and encouraged employees to be more involved with our shoppers.” The already strong co-op saw a six-week drop in sales of less than 5 percent, followed by a record-setting summer. Since then, Big Y has withdrawn a significant portion of the natural and organic products from its shelves.

In November 2010, the **Davis Food Co-op**, located about a mile from the UC Davis campus in California, had a Trader Joe’s open in a shopping center adjacent to the university, in the heart of an area with a large concentration of

student housing.

According to Melanie Madden, marketing manager at Davis Food Co-op, the co-op took preemptive steps in preparing for their new neighbor that included increasing communications among staff members, holding mandatory “brand awareness trainings,” and focusing on strategies to increase basket size—things staff can do that have a significant impact on the bottom line. The co-op’s management also carefully reviewed store expenses in order to make cuts without negatively impacting customer service, such as changing from weekly to biweekly payroll and switching to a different paper products vendor. In anticipation of declining sales, wages were frozen, but all staff continued to receive health care benefits.

Madden suggested there were some missteps, too, including an article about Trader Joe’s in the co-op newsletter to which some shoppers reacted negatively. In the first five weeks after Trader Joe’s opened, the co-op’s sales declined over 12 percent, and the average number of customer per day dropped significantly. Since that time, the co-op’s strategies have mitigated that impact, and sales growth at the end of 2011 was once again positive.

Competition for shoppers’ grocery dollars comes in many forms, including local farmers markets. **Sno-Isle Natural Foods Co-op** in Everett, Wash., like most co-ops, is a longtime supporter of local family farms. When they heard the news that a year-round farmers market was planning to open just two blocks away, the co-op chose to come up with a plan for dealing with the situation in a cooperative fashion. Vanessa Edwards, Sno-Isle’s community outreach and marketing manager, said the co-op has proactively positioned itself as a collaborator with the market, becoming a member and taking part in the planning process. Edwards said, “Competitors will always exist. Showing that we walk the talk and are truly a cooperator in the community has helped increase our success. Last year was our most successful year ever, and we intend to continue.”



Preparing your store

Overall, the message that came through the strongest from these cooperators was that competition is an opportunity. Said Ames, "I really believe that we can identify the true competition by looking in the proverbial mirror and taking care of what happens within our own four walls."

Malmarowski agrees: "I remain convinced that we would not be as successful as we are now without having this competition move in. And it's good to remember this because we just found out that another Trader Joe's is opening a few miles from our west side store—the one we just remodeled, before we had even heard about [the new] Trader Joe's!"

Co-ops shouldn't wait to prepare for competition. The success of food co-ops across the country has helped build markets that are ripe for natural and organic grocery competition to move in and for conventional grocers to add natural, organic, and local products to their mix. So it's likely not a question of whether co-ops will encounter competition but when it will happen.

Tips

Here are some tips to prepare yourself for thriving in a competitive market:

Develop tools and processes to assess your store's performance and competition readiness: audits, secret-shopper programs, staff checklists and cleaning schedules, clearly articulated customer service standards. Be brutally honest, especially in assessing areas where you may be quick to pat yourself on the back. You may need a reality check from an outside source to determine whether your customers feel you're doing as well as you think you are and whether your store is strong in the areas customers value the most. Regular shopper-satisfaction surveys are a great way to measure this.

Keep staff informed and engaged. Be sure they understand the situation, have positive talking points to use with customers, know the plan and see how their everyday actions can contribute. Staff members should have a clear picture of success and what a healthy balance sheet looks like, too.

Don't panic. According to Rob Martin, business development director for NCGA's Development Cooperative (which engages with startup and existing cooperatives to improve their business performance), "Your customers shop with you for a reason; don't give them a reason to leave. Find and eliminate your Achilles heel. Just be the best operator you can be, and after your shoppers go and check out the new guy, they'll come back."

Develop strong marketing and customer retention plans. Competitor openings typically include media campaigns, events, and special promotions. Develop strategies that will take your customers out of the market before your new competitor opens its doors. If you do periodic

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"owner appreciation" days or promos, do them again.

Never bad-mouth the competition. Your public message should always be positive and focus on your store's strengths: fresh, delicious food; local roots; community; knowledgeable staff; excellent service; and the cooperative business model.

Above all, don't wait! Outpost's Malmarowski said, "Competition is really a great gift. It has made brand differentiation easier because it's clear what our strengths and weaknesses are. We've learned to focus on the strengths first. We also know we can't wait until competition finds us to make improvements to our co-op. It needs to be part of our everyday process." ■

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