



# A Faster Path to the Bottom Line

## Wheatsfield's expansion aided by development cooperative

BY MARI ROSEMAN



The flower gardens are being planted and designed by a member. Rain barrels will be added.

**W**heatsfield Co-op didn't want to reinvent the wheel. The Ames, Iowa, co-op was expanding and working through the plethora of challenges and decisions such projects present.

The staff leveraged their available resources, networked with other co-ops that had recently expanded, and hired consultants to weave all the information together to shape their project

### KEY STATISTICS

	Before	After
Retail square feet	2,000	6,000
Total square feet	3,000	10,000
Parking spaces	0	48
Employees	30	50
Members	1,700 (Nov. 2008)	2,500 (Nov. 2009)

#### Total Project Costs:

\$2M (budgeted) \$1.86M (actual)

and add the missing pieces. While not reinventing the whole wheel, Wheatsfield was reinventing pieces of it, which was common for food co-ops with limited resources—until the Development Cooperative was formed.

The Development Cooperative (DC), a subsidiary of the National Cooperative Grocers Association (NCGA), was created to provide focused development services to individual food co-ops, ranging from improving basic operations to assisting stores with openings or expansions. National and regional conventional grocery chains gather their collective experience in business and store development projects over time, and each new project benefits from a cumulative knowledge base. The DC's aim is to do the same for NCGA member co-ops.

Wheatsfield was eager to benefit from DC resources and be a part of knowledge creation for future co-op projects. "When the DC came into existence, we had already signed a lease, had most of our financing in place, had a floor plan, were halfway through our member loan program and were preparing for construction," said Linda Johnson, Wheatsfield general

manager. "After talking with CE Pugh [the DC's Director], I realized that his experience and access to resources were a perfect match for our needs."

### The need to expand, the appeal of the DC

The co-op had outgrown its 3,000-square-foot location. Annual sales exceeded \$1,000 per square-foot, and the site operated with minimal on-street paid parking. The Wheatsfield staff and board had been working towards expansion and relocation for 18 months or more before engaging the DC for their project.

While consultants helped shape the store's initial expansion plans and progress, the DC offered Wheatsfield more comprehensive, fast-track assistance. "We had studied five or six expansion projects and knew of the struggles and long recovery times other co-ops had faced," Johnson said. "CE [Pugh] believed stores should be able to complete projects quicker and less expensively and become cash positive—or at least cash neutral—much faster. Getting to the positives sooner and avoiding as many of the negatives as possible was appealing."



Bright colors and a large produce section greet shoppers upon entering the store.

## Key Benefits the Development Cooperative Brought to the Wheatsfield Expansion

### Planning & Construction Phase

- Reviewed and helped adjust initial store plans.
- Helped secure financing.
- Provided guidance on construction and retrofit issues, including troubleshooting and equipment sourcing/recommendations.
- Provided access to experts to assist in planning, staff training and mentoring, and new store opening (from NCGA staff and other co-ops, particularly La Montañita).

### Business Operations

- Helped adjust pro forma statement and provided a user-friendly, high-detail pro forma format.
- Provided ongoing adjustments and guidance at micro and macro levels, including reviewing the income statement line by line to guide operational decisions.
- Managed labor costs through strategic, staged hiring plan based on projected department sales (rather than a hiring blitz).
- Gave continued assistance after store opening (when the many people who helped—inside and outside the co-op—returned to their normal job functions)
- Allowed for back-loaded fees.

The DC's fee structure also appealed to Wheatsfield. The DC provides tailored, needs-based services with back-loaded fees that are contingent on the success of the project. This model forges partnerships between co-ops and the DC and creates a financial model where successful projects provide future capital for additional development within the food co-op sector.

### Readjusting plans for future success

Wheatsfield and the DC began work in May 2008, with Pugh and Johnson working together to coordinate and adjust store plans, financing, and construction. "We took a step backwards when we first started with the DC," explained Johnson, "but that was a good thing. Our original floor plan would have worked fine initially, but not over time."

Initial plans called for limited deli (salad bar only) and meat sections (fresh, case-ready meat). Based on the new store's size—which offered three times more retail space than the old store—Pugh advised expanding these sections to include hot food, a grab-and-go case, and a larger fresh-meat area, in addition to revising kitchen plans to include a bakery area and adding a meat room. Many of the modifications were based on the notion that in a larger grocery store, shoppers expect fuller service.

### Making decisions, shifting roles

The decisions that must be made in an expansion and the amount of detail that go into each quickly mount. General managers or project leads adept at managing the many facets of co-op business are often thrust into unfamiliar territory during store expansions.

The DC harnesses experience with multiple store expansions to identify blind spots, home in on necessary focus areas, and offer guidance to general managers on a range of matters, while helping to prepare them for what to expect over the course of the project.

One challenge most general managers face during expansion is a fundamental role shift. When Wheatsfield committed to the expansion, Johnson had to delegate her operational responsibilities to other staff to enable her to focus on the expansion.

### Strong opening, hard work continues

Wheatsfield's move to its new location went very smoothly. The \$2 million project opened on schedule and \$140,000 under budget on March 18, 2009 with sales 15 percent above projections. A host of volunteers

from NCGA and NCGA co-ops helped relocate the store in a short day and a half. Members, some of whom were concerned they would "lose their Wheatsfield" in a bigger store, were pleasantly surprised and have embraced the new store. Johnson and the rest of the staff feel similarly.

With the expansion complete, Johnson can once again return to more traditional general manager responsibilities. However, "those responsibilities have changed dramatically," she emphasized. "I can't just take back my former operational duties, as my staff is doing a good job with them. And, with a bigger store, new departments, and debt, it feels like a new business with many new and different general management needs." So, Johnson is adjusting to what is fundamentally a new job as general manager.

A new debt load means more pressure on sales, and that's one place where Johnson is spending a greater amount of time. In the past, sales grew 20 percent per year without concerted effort. Now, there's a greater need to grow sales quickly. Despite the down economy, Wheatsfield's sales are on projection, and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) is \$40,000 for the first six months, a healthy \$60,000 over projection.

While opening a new store requires a tremendous amount of work, the most difficult work begins after it opens, to ensure it performs as projected. The DC and Wheatsfield have set up a highly disciplined approach to monitoring financial statements and identifying, and quickly adjusting, underperforming areas.

"We've worked together on pricing strategy, a marketing plan, product mix, margins, department development and so much more," Johnson said. "While there are many things we would have figured out along the way on our own, the DC helps us avoid mistakes and hit our targets more quickly."

For Johnson and the Wheatsfield staff, Pugh became one of the project team members. He was on-site to readily answer questions, big and small, while maintaining what Johnson described as a "great working relationship."

Johnson and Pugh are grateful for the opportunity to work together on this project. And, they agree that through this, the DC's first engagement, the DC is in an even better position to help other co-ops through similar projects in the future—ultimately helping food co-ops develop and expand more quickly and easily, and with a stronger bottom line. ■