

# Moving from the Fringe to Downtown



BY CLEM NILAN

In 1999, the Onion River Co-op was feeling the pinch. Its facility was too small. In order to support and sustain sales growth, the co-op would have to find a bigger space.

At the same time, the city of Burlington, Vermont, was without a downtown supermarket. The grungy Grand Union store had folded a couple years earlier. New supermarket construction was taking place in the suburbs, where parking was abundant. The Burlington Community and Economic Development Office realized that in order to keep the downtown vibrant and to support the elderly population, the city had to recruit a new supermarket for the downtown area. The city offered a prime downtown location, the former police station, as a site for a new grocery store and published a request for proposals with economic incentives.

In short order, five proposals were submitted, and the choice was narrowed down to two. The contest became a two-horse race between the Onion River Co-op and Shaw's, a large regional supermarket chain. The resulting public debate was fierce, and the discussion quickly took on political overtones. The Burlington Progressive Party mayor supported the co-op's homegrown roots and social mission. A city referendum favored Shaw's. Burlington's senior population doubted the co-op's ability to meet its needs. Many saw the co-op as expensive, elitist, and catering to a small fringe population. Even loyal co-op shoppers were polarized. This small-town political debate actually bubbled to the national stage in media such as the *New York Times* and NPR.

Shaw's, thinking they had the upper hand, began exerting pressure on the city to make more expensive concessions such as underground parking. As noted in a January 23, 2000 *New York Times* article, "'Shaw's Supermarkets wants to build a 45,000-square-foot store on the site,' said Bernard Rogan, spokesman for Shaw's, which has headquarters in East Bridgewater, Mass. Shaw's says it will need to build an underground garage, and it has asked the city to pick up \$800,000 of the bill with a bond vote." The city was unable to comply and chose the co-op, to the chagrin of half the population of Burlington.

Jane Knodell, Burlington city counselor,



PHOTOS COURTESY OF CITY MARKET



City Market (Burlington, Vt.) won the Cooperative Excellence award in 2008.

was quoted in the same article. "It's true that you may not get umpteen different versions of cornflakes offered at Onion River,' she added, 'but I'm not sure that makes anybody's life any better anyway.'"

To appease the voters, the city had the co-op sign the "Supermarket Principles," a document of 22 provisions designed to assure an expansion of store services and address the concerns of the disgruntled members of the community. Per the Supermarket Principles, the co-op would carry a line of conventional, low-priced

products to meet the needs of low-income, disabled, and elderly residents. The co-op would support food stamp purchases and report each year to the city council on our progress. Other stipulations included store hours, set from 7:00 a.m. to 11:00 p.m., seven days per week.

The city also required that the co-op support local agriculture and mandated that the co-op carry a minimum of 1,000 Vermont products. In addition, the co-op was to have a grocery delivery service. Also per the agreement, the co-op would donate \$90,000 to the Food Shelf

by 2011. Sensing that the former store name Onion River Co-op would not reflect this new persona, the Onion River Co-op morphed into “City Market.”

### Further polarization

A win-win victory? Hardly. Rather than bringing both sides together, the compromise seemed to further polarize the community. Community members continued to cry foul and thought the city had pulled a fast one on them. Many residents felt that only a conventional supermarket could meet the needs of the community. With equal fervor, many idealistic longtime members, with roots back to the co-op’s beginning days as a buying club, felt the co-op had sold out.

What a difficult time for our membership! In order to raise sufficient construction capital, the co-op’s board of directors changed the equity requirement from \$35 to \$200. Many members left the co-op, either unwilling or unable to meet the new equity threshold. The sight of Coca-Cola in the aisles further alienated other members and prompted customer comments such as, “...making a deal with the devil.” It took years for the co-op to recover from the flight of members.

The irony is that today the mix of organic, natural, and conventional functions well. Our marketing research indicates that many patrons shop at City Market in a patchwork quilt pattern of buying. In addition to the co-op, they also shop at Costco (a club store), at supermarkets, and at farmers markets. What our merchandisers and marketers have come to realize is that having conventional foods on our shelves has allowed some of our customers to bypass the supermarket stop and only shop here.

As part of our lease agreement with the city, the general manager reports to the city council every year. The city council has been impressed with our well-rounded product line and competitive pricing. They seem unified in agreement that City Market now meets the needs of the community. By embracing the Supermarket Principles, the co-op was able to turn around public opinion and make the hybrid model work. The crossover business model that was such a source of shame to many co-op “true believers” turned out to be a pleasantly effective business model.

Transitioning from a natural foods store to a hybrid store was operationally very difficult. Buyers brought in conventional products and, recognizing their margin was 10 percentage points lower than natural food, placed them on the bottom shelf or in secondary merchandising placements. Some conventional products did sell well and met margin goals. These tended to be the boutique products such as Italian olive oil and higher grade pastas. Merchandisers placed these on the selling shelves. While operationally sound, this merchandising strategy

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was a public relations nightmare. The co-op was lambasted in the papers several times a week in the early years for failing to live up to its agreements and for having high prices. City Market was ridiculed as “City Mark-Up.”

Ironically, through all of this, sales boomed. Actual sales blew away the budget. It’s hard to fathom how too much sales can kill you, but that’s exactly what was happening. The co-op was caught in a classic rapid-growth phase that can destroy a business as ruthlessly as low sales. The management of the co-op was totally unprepared for the volume. Usually the progression in management goes from doing to managing and finally managing managers. The doers—the cashiers, buyers and stockers from the previous store—had been promoted to be top managers (managing managers) with scant idea where to begin.

In the first five years of operation in the new location, City Market turned over the general manager position seven times! The volume of sales kept everyone scurrying to fill shelves. Labor control and margin control were put on hold. Communication to the staff was inadequate. Employee unrest soon surfaced, and

there was a successful union movement. The co-op teetered on the brink of collapse.

### Order from chaos

Order slowly emerged from chaos. There was no magic bullet; improvements came in increments. Through a slow building process, with much help from our neighboring co-ops, City Market implemented the best systems we could find and copy, or create. In its fourth year downtown, the co-op turned a profit for the first time since relocating.

One of the downsides of commitment to local foods is the large number of vendors who deliver their goods everyday. Many use handwritten invoices. Through the generous help of the Hanover Food Co-op, City Market was able to implement margin control from backdoor receiving through scanning. Margin control was the single most important element in the turnaround of the co-op.

A second irony was that the Supermarket Principles so reviled by many members turned out to be a blessing in disguise. The Burlington senior community was initially perhaps the co-op’s toughest critic. Through an innovative program in which the co-op provided free meals to seniors every Thursday at rotating senior centers, the senior community was gradually won over. Our senior discount of 5% (for those 60 years and older) and our delivery service were also helpful in turning the senior’s boos to cheers.

Additional programs such as holiday tree sales to support our Committee on Temporary Shelter (COTS) were instrumental in attracting favorable press attention. Burlington has an outstanding program in place for community education in the schools, and our food education coordinator won a local hero award. The co-op donated a salad bar to the local ■>

## EXPANDING COOPERATIVE OWNERSHIP

On October 2, 2008 City Market/Onion River Co-op simultaneously announced an expansion of the co-op facilities (more café seating, another bathroom, and another cash register) along with a reduction in its annual member equity payment from \$25 to \$15. Said general manager Clem Nilan:

“Much of our success has come from non-member shoppers. Non-members account for approximately 75 percent of sales. As we strongly believe in the value of co-op ownership, it is our intent to develop ways to increase the number of member-owners who shop here by reducing the equity payment, through unique member programs and member benefits.”

Co-op members receive the following benefits with their \$15 annual member equity investment:

- Patronage refund (based on annual purchases)
- Store discounts through member worker program (7% and 12% discounts)
- Discounts at area businesses through the Community Business Partner program
- Free water from the co-op’s reverse osmosis water machine
- Opportunity to participate in governance through board meetings, elections, proposals, referenda, and eligibility to run for the board of directors
- Reduced advertising rates in the monthly *Onion Skin* newsletter
- Opportunity to display artwork in the member café gallery
- Check writing up to \$20 over purchases



► elementary school, where over 95% of the children were on free or subsidized lunches, to promote access to local, nutritious salad greens. Our food educator worked with the school lunch staff at the public school system to educate them to learn to use local food effectively. Now the co-op regularly hosts school tours and classes and uses our meeting area to support the Burlington School Food Project, a consortium of educators dedicated to improving school nutrition.

Recently, the co-op began the Food for All Program, which provides an additional 10% discount to recipients of food stamps, WIC participants, and disabled shoppers. The co-op has received letters of commendation from Vermont's U.S. Senators and other representatives and city officials for this innovative social program. In the first four months of the program, some 300 new Food for All members have joined the co-op.

#### Global Ends: local food

Meanwhile, the board of directors has been quietly at work rewriting the Ends policies and diligently working on extricating the board from operations while focusing on Policy Governance issues. One of the new global ends is "local food system is strengthened." This was totally complementary to the Supermarket Principles. Local

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food is hot. The locavore movement is huge in Vermont, and historically the co-op had always been a big supporter of local food.

Because the co-op had to report to the city council annually on how many local foods were on the shelves, the data proved to be a gold mine. The co-op's marketing department seized the opportunity and did a tremendous job of positioning City Market as the preeminent source of local foods. Marketing used a clever mix of media, including television ads making heroes of all local farmers and their products, putting a human face on local. Local food became the theme of our marketing campaign. In a very visible way, City Market differentiated itself from its competition.

Securing long-term success at the co-op was not about selling enough food to meet the budget. The battle was winning the minds and hearts of the community. Selling local food, taking care of seniors, supporting the children of the community, donating to the food shelf,

supporting the homeless, providing high-paying jobs and great benefits have all been the building stones of making the co-op a source of pride rather than a scapegoat. But it wasn't enough to do these things. The public needed to know about them. Hats off to marketing for getting our message beyond our members and in front of the entire community.

Having conventional food has been a pleasant surprise. Margin control presents challenges with a mix of conventional food. In our case, conventional foods account for about 25% of the product mix. The bright side is that carrying conventional food has made us much more

accessible to the general public. Three out of every four customers are nonmembers.

For each of the last two years, over one million customers shopped the co-op. The decision to integrate conventional foods throughout the selling shelves removed the stigma from the conventional shopper. The mantra became, "The Co-op supports choice," and because the co-op provides education, it's an informed choice. Public dissatisfaction has all but disappeared. In the last two to three years, City Market has been held up as a model citizen and a national model of successful cooperation between the public and the private sectors. ■

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