BUILDING BLOCKS

Against the Tide

River Valley Market grows to over $15 million in four years

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PHOTOS COURTESY OF RIVER VALLEY MARKET

River Valley Market in Northampton, Mass., opened in 2008, early in the current wave of new food co-ops and just before the start of the economic decline. Original sales projections had River Valley Market reaching $7.4 million in sales in its first year and $10.8 million in annual sales by the end of year five.

While some were skeptical of the plans for starting a new food co-op in a 17,000-square-foot facility to accommodate that projected capacity, 1,700 local community members joined the co-op prior to its opening. In addition, 250 of them made member loans totaling $1.1 million, and 48 co-ops from across the country provided over $600,000 in support for this startup.

Upon completion of our fourth year in mid-2012, with over 5,000 member-owners, we reached annual sales of nearly $15.2 million, posted a 1.77 percent net profit, and declared our first patronage rebate. We are on track this year to reach $16.7 million in sales, exceeding the original projections by over 50 percent.

River Valley Market
Northampton, Mass. (opened 2008)

FY	2011–12	2012–13 (est.)
Sales	$15.2M	$16.7M
Owners	5,300	5,800
Staff/full-time	102/86%	115/84%
Square feet:	17,434 total, 11,000 in retail	

Strong competition

Northampton is a relatively affluent, highly educated, college community in western Massachusetts with a population of around 29,000 people. There are well-established natural foods grocery competitors including several privately owned, small-format natural foods-oriented stores in the downtown/Smith College Campus area; the local Stop & Shop, where they boast of having the highest natural foods sales in that entire chain of stores; and a thriving Whole Foods Market and a Trader Joe's operating in nearby Hadley, about eight miles from co-op. (A 1970s food co-op failed in Northampton during the early '80s, shortly after the opening of a Bread and Circus store, the predecessor of the current Whole Foods Market in Hadley.)

The new Northampton food co-op was not filling a need in a food desert or a need for access to natural foods. River Valley Market was organized to establish a cooperatively owned retail grocery that would meet the members' aspirations for building the local foods movement, while also meeting the community's regular grocery shopping needs. River Valley Market was formed as a strategy for strengthening local foods enterprises in the region, providing the community with a shared business asset, while building local economic and community vitality.

Discussions to shape the co-op began in 1998, and the co-op was incorporated in 1999. Many options were explored for the format, including a small, worker-owned storefront; ▶

a local-foods home delivery program; a year-round farmers market; a medium-sized conventional supermarket; and (the option that was ultimately selected) a natural-foods-oriented market specializing in fresh, local foods. The decision was based on gathered data about which format would have the greatest impact supporting local farmers and food producers, which format would best meet the needs of local shoppers, and the economic feasibility of the proposed format.

Market studies, repeatedly updated

Early on, the co-op organizers made a decision to use data from experts to guide them through the many decision points this project would require. One of the most important sources of data was a market study by Cooperative Development Services (now CDS Consulting Co-op).

The site search was extended repeatedly when different preferred sites fell through. Over several years during this stage, the co-op invested in updates to the market study multiple times to ensure our decisions were based on current information.

Getting a market study done by a natural foods grocery analyst with experience with food co-ops was critical to the success of this project. It provided information that supported the site search itself, as well as supporting data for our projections and business plans; it also was essential for credibility with funders.

The site we ultimately succeeded in securing was on the outside edge of the business district, and it wasn't our first choice. But after several years of setbacks, during which several preferred sites had fallen through, another market study gave us the confidence we needed to build on the available site.

Perhaps a benefit of our extended site search was that we developed the co-op membership over those years, creating momentum, commitment, and enthusiasm for the opening of the co-op. Communication with the membership obviously was an important part of getting the business launched.

A hard "soft" opening

Everyone naturally wants the co-op to be fabulous upon opening, and one of the hardest things to do is communicate to the membership that the newly opened co-op may be less than fabulous on opening day. We let our members know that we needed their patience, shopping support, and their feedback over the first few months while we worked out all the kinks and systems of a new store with an all-new staff.

Our opening was the roughest I've seen. There were many details remaining to be completed in construction; our POS system was not working correctly; our liquor license was still pending transfer, so that section of the store was empty; and in general, we just didn't have our systems functioning well. We planned a "soft" opening without external advertising beyond our membership, with a grand opening to be held a few months later.

One of the benefits of having a developed membership before opening is that we had a significant core of people who were following our progress closely and who were more likely to be forgiving of less-than-well-executed beginning store operations—in part because we warned them ahead of time. We used weekly emails to give our members updates on our progress and sent coupons for savings to members to be used for a shopping trip in each of the first four weeks that we were open.

The result was that we still lost some customers who were unimpressed with the shopping experience over that time period, and we found it harder than it seemed it should have been to get some of our members to come to the store. Fortunately, enough of them kept coming to shop and cheer us on that we made it through that really hard "soft" opening phase. Sales averaged over $130,000 weekly during the first two months and then dropped off a little over the summer that followed. We waited five months before we advertised outside our membership and then held a month-long grand opening in October 2008. At that point, we felt we had the capacity to run the store relatively smoothly and to concurrently offer special, grand opening events.

The economic news leading up to this point had been worsening since we opened, there was steep inflation in many food prices, and the collapse of the big banks was dominating the news media as we started advertising our grand opening. We promoted how important it was to support our local farmers and local businesses. Our sales began to climb steeply at that point, and we ended our first full year with $8.16 million in sales.

Working capital crunch

One of the key challenges was having enough working capital. Before we opened the store, we had raised $1.1 million in member loans (250 loans averaging $4,500) to support some of the pre-opening soft costs and to cover some of our anticipated operating losses. We had planned to lose $1.2 million on our first year's operations, but we lost $1.4 million and also had a $100,000 shortfall in our final funding sources. This created a $300,000 gap in our cash flow by the end of the first year.

While we were losing less money at the start of our second year, we were still not making money. To address this, the staff worked on improving the profitability of operations while the board of directors launched a $300,000 member loan campaign. The board also delayed payments of about $60,000 in member loan interest that was due for that year.

It was a challenge for board members, who

Travis Keith, meat department manager: "Holy mackerel, that co-op grew fast!"

Members planting trees prior to the 2008 opening.

The co-op site is on the outside edge of the business district.

had worked so hard on the member loan campaign before we had opened, to get re-energized for the new loan campaign, especially combined with telling our current lenders we couldn't make the interest payment for that year. Our first round of calls was to our newer members. Our thinking was that we had already talked to our founding member-owners in the previous loan campaign and that we should focus on getting our many new members involved.

We found that in many cases our relationship with our newer members as committed owners was not as strong as it had been with our longer-term founding members, and with the economy still in decline, member loans were a harder sell than the previous campaign had been. "Member loans for working capital" was also a harder message to convey than member loans for opening a new food co-op had been.

We changed our approach to include going back to our founding members as well as the newer members and got the whole board more engaged in the process. We succeeded in reaching our goal of $300,000 with 100 new member loans and even had a few of our old loans forgiven in the process.

Reaching profitability

Our focus for improving operations was increasing sales, increasing margins, and lowering payroll as a percent of sales. National Cooperative Grocers Association was a great support with staff training related to merchandising and pricing for margin control. We used in-store promotion events to generate sales increases and adjusted our product mix a lot to meet our many customer requests. At the 1.5-year point, we reached the break-even level on operations (before depreciation) and stopped losing cash—a milestone.

We ended the second year with nearly $11 million in annual sales, a net loss of $130,000, and a positive cash flow of $100,000. This was a huge improvement over the previous year and our original projections. Our third-year sales were nearly $13 million, and we came close to breaking even. In our fourth year, ending mid-2012, sales grew to over $15 million, and we had a 1.77 percent net profit.

We originally anticipated losses for up to six years due largely to the interest expenses on the $7.3 million mortgage and to depreciation expenses associated with the size of our building investment. Our mortgage financing includes a debt forgiveness of about $1.7 million after our sixth year (mid-2014), which will reduce our interest expenses and give our balance sheet a substantial benefit. Our original projections showed that we would be profitable from that point forward.

The accelerated sales growth made it possible to reach profitability sooner than projected. The sales growth also created a strain on our facilities capacity sooner than projected, and in our fourth year we invested $250,000 in an addition for refrigerated storage for our meat and deli departments, which supported their continued sales growth. The combination of the successful $300,000 member-loan campaign and improved operating results made it possible to fund this project from our cash flow.

Throughout this project, I often reflected on the words of one of my early co-op management mentors, Rick Stewart, who said, "It is a tremendous amount of work to get a new store open, but that is a spit in the bucket compared to the amount of work it takes to get a new store to be financially sustainable." He said that no one should ever take on a new store project without understanding that the project isn't complete until the new store is operating in the black and is financially sustainable.

The other thing I've often thought about is that in the middle, most things look like a failure. It would have been easy to have board members, staff, or co-op members panic during this startup phase of steep losses, especially with the overall economic decline dominating the news. Well before we finalized our financing for the project, the board members were informed of the expected losses as well as of the financial plan if the losses were greater than expected. It was a challenge to get comfortable with planning to lose over $1 million in the first year with added losses for the next five years, but over 10 years the project worked well and cash flow looked viable.

We used open-book management to inform the staff of our expected sales and losses and how we were progressing. This approach helped the staff share in ownership of the improvements.

Our reports to the members included enough detail to show that we had a plan, we ▶

were making progress on it, and that they could help by shopping the co-op more, talking up the co-op to their friends and colleagues, and/or becoming a member lender. Everyone had a role and a flow of information to support them in that role, so we were able to keep focused on making improvements and celebrating them as we went.

Success required scale

The investment required to open a store of this size does require substantial community support. But for our community, where a nearby large, sophisticated natural foods store had previously driven a smaller-format food co-op out of business, and where other, smaller-format natural foods stores were already established, it didn't make sense to open a smaller store. Our members wanted a cooperative store that would be able to meet their grocery shopping needs. They also wanted the cooperative to be an economic engine that would support local farmers and businesses and build a stronger local foods system.

A store with a higher sales capacity has higher purchasing power and a greater ability to impact the local economy. We are already finding that the facility (17,434 sq. ft. with 95 parking spaces) is not big enough.

Opening at the start of the economic decline, while not the plan we started with, seemed to be good timing in terms of the benefits the co-op brought to local farmers, food producers, and the overall local economy. One dairy farm told us they likely would have lost their farm in 2008 if the co-op hadn't opened and featured their brand. In the first year, our purchases of local products exceeded $1 million, and this has grown to $2.7 million.

We currently employ more than 100 people, and 86 percent are full-time. Job creation within the co-op is also a substantial economic benefit that we generate, with annual labor expenses of about $3 million going directly into the local economy.

Our co-op members have demonstrated the power of collective local investment and cooperative ownership. The community has definitely benefitted from the co-op, even while we were still losing money. Now that we've begun to get our economic engine running more efficiently and are operating at a financially sustainable level, it's exciting to think about the possibilities for the future.

We have come a long way but have only begun to scratch the surface of our goal to create a vibrant, locally based economy and food system. ■