



Learning While Leaping

Wheatsville Food Co-op's expansion

BY MICHAEL OWENS AND DAN GILLOTTE

Wheatsville Food Co-op in Austin, Texas, recently completed a major renovation, successfully doubling selling space, improving stocking areas and moving the offices to an adjacent building. After providing some background, we'll discuss the most important lessons learned and share some experiences to give back to the cooperative community from which we have so greatly benefited.

History: youthful crisis, 2009 expansion

Wheatsville Food Co-op was an extension of a loose organization, the Austin Community Project, an early-1970s, consumer-based, anti-war reaction to corporate food production and distribution. The store opened in mid-March of 1976. Its name honored the post-Civil War black community of Wheatville, first settled in 1869 by freed slave James Wheat.

Wheatsville relocated in the late 1970s. With Co-op Bank loan support and armed with investor shares and greater membership equity, Wheatsville reopened at 3101 Guadalupe, its current address.

At the time of the move, Wheatsville was a crossover store. It carried a full line of grocery products, including many that were not natural food brands, in order to serve the local community and to maintain good relations with the landlord at the former site.

In 1982, the relocation was not going well, and the store was threatened with foreclosure. Walden Swanson, a Wheatsville staffer, made an impassioned statement and passed the hat at the Consumer Cooperative Alliance meeting in Ohio. This raised some needed cash and helped to keep Wheatsville open. Other Wheatsville members made short- and long-term inventory loans to keep food on the shelves. The contractor who pulled the site renovation out of the fire became an investor. Skilled management and committed membership helped complete the renovation and increase store sales.

The store was renovated again in the late 1980s, but with little increase in selling area.

The 2009 expansion fulfilled the original relocation dream of removing the temporary office buildings, moving to an adjacent building, and expanding the selling space and stockroom. Selling space doubled, to 8,400 square feet. The most recent year before project completion showed \$9.9 million in sales; currently,



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Wheatsville is on track to reach \$12 million.

Lessons learned

Use outside help: Don't reinvent the wheel—use the knowledge and lessons learned by natural food co-ops before you.

Before we even knew whether it could handle any size project, we consulted with Bill Gessner of CDS Consulting Co-op. He helped us get on the right path for expansion. We treated him as our main expert on the process and used his book, *The Expansion Toolbox*, as our main roadmap.

Wheatsville joined the Cooperative Grocers Association—Midwest and began to get its bearings on what it would take to expand the cooperative economy (an explicit part of Wheatsville's mission). In particular, Dan Gilotte became a student of many general managers who had recently completed or were undergoing their own store expansion. Perhaps most valuable was a store audit in 2003 that allowed Wheatsville to use the collective intelligence of the Midwest managers. That audit set the co-op on a clear course of improving the current store before embarking on any attempts at additional locations.

Get your house in order: Before any expansion, stabilize and strengthen your current operations. Implement the improvements you will need after the expansion.

"There was one benefit of the project planning phase taking more time than expected," Gilotte said. "We had time to make the

improvements to our systems, especially around hiring and training, and a chance to work on our customer service, including our internal service to each other."

This work on operational basics helped them to become financially stronger and gain confidence. Financial strength helped attract a lender, NCB, and allowed Wheatsville to raise \$715,000 in investor shares (a cross between member loans and Class B stock) in just six weeks.

Wheatsville's board did extensive work on the articles of incorporation, bylaws, and board policies to make them compliant with some changing business codes and to make them more readable and more useful overall. This project took more than a year and cost about \$20,000 in lawyers' fees, but the co-op anticipates it will serve them well for many years.

As a final piece of planning, get your formal management and project reporting systems in place.

Change management: In expansion projects, there is a need for some understanding of change or transition management.

Gilotte read *Managing Transitions: Making the Most of Change* by William Bridges and found its theory about people's reaction to change to be "spot on. I was glad to have read the book, so that when people would react with some level of disproportionate craziness to a change, I understood why and treated it accordingly. I found that most complaints and upset during and shortly after the project were, at their heart, people's reaction to change."

Gillotte also had his management team members take a survey prior to the project in order to gauge their change feelings. The results showed that nearly all managers enjoyed change far more than the norm. Gillotte says, “This was really helpful for us to know and kept us from forgetting how much differently we viewed change than the average staff person or customer.”

Look ahead (and tell!) Gillotte found it very valuable to be clear about what the co-op was trying to accomplish with the renovation. He also found a way to boil it down to a couplet: Make Wheatsville a better place to shop and a safer, more efficient place to work. “It helped everyone know what we were doing at a basic level.”

He had also learned from other co-ops that it was crucial to realize that staff, while excited overall, would still be experiencing some anxiety and even sadness about the coming changes. “We understood that some of the things in the new store might seem like a loss to some staff and also that we needed to honor the original store that got us where we were today.”

In order to do that and build alignment around the project, Gillotte enlisted the aid of Maggie Bayless and Stas Kasmierski of Zingerman’s training arm, ZINGtrain. Together, they developed a plan to create a cohesive vision for the new store. The most important product was a vision statement articulating what the renovated Wheatsville would look and feel like. Says Gillotte, “Through this exercise, alignment was built, and we then wrote a narrative vision that we shared with the rest of staff. The cool thing about this? It basically described the way the store *is* post-renovation!” Gillotte found that these simple tools helped people on all levels understand what Wheatsville was trying to accomplish and what was expected as a positive outcome.

Preparing by paring: Wheatsville’s expansion involved a lot of complicated activity on-site, resulting in times when back stock space and floor space would be greatly reduced. Gillotte explains, “We were already exercising an operational drive to have deliberately edited product selection, with multiple fronts for products to improve our sales, our inventory turns, and our cash flow. In preparation for the project, we took this to an even more extreme level and went back through our entire grocery department and further pared it down, so that we could case out all product coming in on a given delivery. This allowed for next to no back stock in our largest department. Our shelves sometimes had six, eight or even 10 fronts of some of our fastest moving product.”

This process did require dropping a significant number of products and being disciplined about bringing in new products. Niki Nash, Wheatsville merchandising manager, elaborates, “We basically went on a new-product moratorium. Unless I deemed the product a must have,

we said no to new stuff. We also got good at explaining to customers why we were reducing our selection. To help with that, we created a “Wish List” and directed customers to place items on it that they wanted us to carry post-expansion. Most of the new items we are bringing still come from that list! We did disappoint some people, but it was a necessity, and sales did continue to grow through the renovation, even at our tightest.”

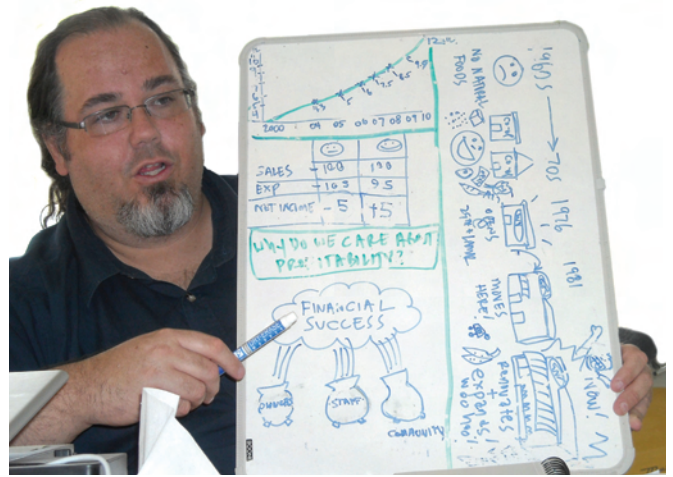
Live and learn fast: Gillotte says, “I followed the model of having the general manager try to quickly become a contract negotiator and project manager. Due to my inexperience at this, I’m sure we left money on the table. Our project took longer, cost more, and required us to make other concessions to stay within budget because I was learning as I went along. Still, managing the project gave our management team valuable experience in developing and executing plans, budgeting, and managing change.”

When done, it really starts: It is very important to mentally prepare management and staff for the psychological challenges that follow opening a new or renovated store. During an expansion, co-op staff work very hard to get through the project, but the real work starts after completion of the construction aspects. “Other general managers had told me about this phenomenon, and we tried to prepare for it, but the intensity of it still surprised us,” Gillotte said. “We were all ready for a break, but the realities of running this new and larger business swept over us!”

His team worked to finish “moving in” and to fix unforeseen serious problems, but not without toll. “We were really in a tough emotional spot,” Dana Tomlin, deli manager said. Managers also found that staff and customers who had been quite flexible through the project seemed to lose their patience almost overnight and to expect all the items that managers considered “loose ends,” or had put off due to other pressing concerns, to be fixed immediately. “Customer and staff complaints were tough, honestly. We had poured our hearts and souls into this great new store, and people were still on our case!” sputtered Gillotte. “We had to dig deep to handle the complaints and issues with calm.” The management team spent some time at meetings venting about these feelings. They also committed to supporting each other even more during the tough early period of the new store.

You will have lemons, so make lemonade: Acknowledge some of the unexpected aspects of many projects: costs will rise, delays will happen, and some days there are no good choices.

Example: A contractor is scheduled to start



Wheatsville General Manager Dan Gillotte explains it all.

cutting out a slab of cement at 6:00 a.m. in order to be finished before most of store’s retail day. Contractor is ready to start work at 10:00 a.m. Should we delay a day to start at 6:00 a.m., risking a repeat, or start at 10:00 a.m. and deal with jackhammers, earplugs, dust in the air, and noise that is terrible? Gillotte reminds us all: “If you find yourself going through hell—keep going!”

Wheatsville budgeted a larger contingency number throughout the project than some other co-ops have for their projects. In this way, Gillotte made sure that overruns would not jeopardize the project. But he also knew and articulated that he was seeking to preserve 25 or 50 or 75 percent of the overrun as a goal. “By doing this, I didn’t scrape the pro forma budgeting tool to the bone to make the numbers look good, but did build in a pool which I could use for unforeseen problems or opportunities. In reality, the 35 percent or so of the overrun I was able to retain became a part of our cash cushion.”

On Dec. 1, Gillotte said, “We have had our best quarter ever, with three consecutive million-dollar months and 20–25 percent growth.” The co-op’s cash position has also been strong, with approximately \$700,000 in the bank. The co-op experienced no cash crunch and does not anticipate one.

Can we change faster?

In late 2009, the natural foods chain Sprouts Farmers Market entered the Austin area with three stores and plans for two more in 2010. Interestingly, these stores are being located in areas identified years ago by consultant Pete Davis as prime spots for Wheatsville expansion.

While proud of what Wheatsville accomplished, Gillotte questions the slow pace of this and other co-op expansions and imagines what it would have been like to have three Wheatsville stores at \$40 million in sales in the same timeframe, instead of only expanding its home base and having one store at \$12 million. He wonders, “How can we find ways to grow our co-ops more quickly in the right markets?” ■