

Prepared Production Possibilities

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The commissary at Willy Street Co-op.

A relative rarity not long ago, commissaries—dedicated production kitchens that supply retail sites with either shelf-ready or ready-to-heat prepared foods—have become an investment that is either on the radar or in active planning stages for a number of co-ops.

In some locations, prepared foods sales have outstripped the growth capacity of the retail-based production. Prepared foods, along with the entire category of fresh foods, have become a cornerstone of what natural and organic foods shoppers value most highly in co-op offerings, with that trend showing no signs of slowing. While still profitable and necessary, packaged foods have ceased to be a differentiator for co-ops in large part. Investing in an efficient means to offer top-notch prepared foods with unique ingredients and flavors is an attractive, although not inexpensive, proposition for more stores now.

If you are considering a commissary as a next step for your co-op, congratulations. You clearly

have reached a level of success that suggests you are operating your prepared foods department at maximum efficiency and capacity and still have room to grow. Or, perhaps an expansion is on the horizon. Whatever the case, you need first to establish what the mission of your commissary will be in order to decide whether the investment will be satisfying. That mission should go well beyond “Sell more prepared foods,” though that may be a bottom-line motivator.

Your co-op may want to move nearly all production to the commissary, or you may want to retain some components of the retail production. You may want the administrator of the commissary to set supply levels, or you may want the retail managers to do so. You may have a production kitchen at a retail site that will continue to operate, but perhaps it will be retooled or refocused.

Questions to ask

These questions are key:

What will the commissary accomplish in one, three, and five years? What functions

will the commissary not pursue or fulfill? This leading question alludes primarily to external missions or accounts, such as a catering program, servicing local shops and restaurants, or offering snacks to schools. All may present worthwhile or appealing incentives, but such programs may also divert resources from the primary mission of serving your retail outlets. Be clear about where you will not apply the commissary’s resources—it’s often easier not to begin a program than to extricate yourself from it once revenue or staff hours are associated with it.

How will the commissary serve the mission plan or business plan for your co-op?

Be sure not to overlook strategic advantages the commissary can offer—sales should be expected to increase to some extent, if you are at maximum capacity in your retail setup, but the primary benefits may not be monetary. Perhaps you want more consistent product across sites or want to allow your retail kitchens to focus on a particular and unique angle, such as a restaurant/café concept.

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How will a commissary change your prepared-foods program in the most beneficial way? A commissary will change that program—if a decision isn't made about how it should change the prepared foods program, a commissary will change it organically in ways that can be difficult to track and manage.

What will the accounting model be for your commissary? Profit center? Cost center? Break even? Before making the decision to open a commissary, consult with your finance manager on how the chart of accounts will be structured and how the reports that issue from it will help you track cost of goods, margin, and labor targets. The assumptions and decisions that result from this planning are likely to have a strong influence on how your commissary operates.

The answers to these questions are likely to differ widely across co-ops. Take time to assess them carefully before planning a commissary monopolizes your attention.

I'm assuming as a premise for this essay that, because of the expense involved in building a commissary, you have thoroughly entertained and exhausted your available options for expanding onsite production. For some co-ops, such as the Wedge Co-op in Minneapolis and Ashland Food Co-op in Oregon, opening a third shift came before discussions of a commissary site. Such a move has to be handled carefully and is simply not desirable for some stores, but it's not to be ignored as an important possibility. It's far less expensive than establishing a new site, obviously, and can be a highly efficient production shift due to less congestion and distraction in the kitchen space. This paragraph is mostly a reminder that a commissary is worth considering only if there are no improvements that can be made to retail production systems.

Commissaries cost a lot (ours costs the business between \$275k–\$325k annually, not including cost of goods sold or personnel) and may not put a lot of gravy on the bottom line for some time—or ever. Be honest with yourself about this because chances are that whatever issues need attention in the retail site will still need attention after the commissary is open—and so will a whole host of new and unfamiliar issues. Be sure that you cannot otherwise innovate your way into better sales and that management is shipshape.

Doing the math

OK, say you have decided that a commissary is the right move for your co-op, and you're shopping for a lease. When doing this, consider your projected sales increase and the sales per square

foot you want to achieve in the commissary setup. At Willy Street Co-op, our commissary occupies about 3,000 square feet, including very generous storage and refrigeration areas. From 2009 to 2013, the commissary sales per square foot have grown from \$80.61 to \$158.81 (the co-op expanded to a second retail site in 2010). Rolling Sales Per Labor Hour (SPLH) figures are derived after a standard 52 percent margin is applied to commissary products before being supplied to retail; this quarter, that rolling SPLH figure is \$50 for kitchen, \$33 for bakery.

On the balance sheet, much of what you consider the "health" of a commissary operation is, of course, likely to be a function of the specific rates you negotiate on the space you choose. A lease with great (i.e., low) rates per square foot could allow you to grow into a commissary operation at a comfortable pace or achieve a break-even point earlier—enabling you to focus on what the commissary can accomplish for your business in nonmonetary ways. Consider the costs of buildout carefully when trying to reach a break-even project as well—field evidence suggests that a number of co-ops that have opened commissaries are striving for break-even but are actually running their commissaries as cost centers to one degree or another.

Right about the time you're shopping for a lease is the right time to consider how the process changes that will take place with the addition of a production site will be managed. It's quite likely that production in your retail site(s) uses some methodologies that will not translate well to a commissary. That may be the size of the pars, the actual recipes being used, the costing methods—the simple fact is that a wholesale production environment doesn't generally operate under the same business rules as a retail environment, and someone will need to "translate."

Firsthand experience and reports from peers have shown me that it's best to ensure that accountability for this is clearly assigned, in order to allow production managers and deli managers to focus on their jobs rather than hammer out multiple decisions by ad hoc committee in the margins of a working day. Decisions may be made amicably enough, but it frequently happens that they are limited in scope and do not reflect a good business practice so much as the conveniences and preferences of the individuals

immediately involved at the time. Category management of prepared foods prior to opening a commissary, if possible for your business, is a strong move that should speed up the benefits to the operation.

It's difficult to make overarching recommendations for a healthy or effective run-up to a commissary, knowing all the variables that apply to different co-ops. However, from my experience running the Willy Street Co-op commissary for seven years, there are some points I won't hedge on. Those are:

Don't consider a commissary until you have opened at least two retail sites or the opening of the second is guaranteed and fairly imminent (within six months).

If the only benefit you have positively identified to the opening of the commissary is sales-based or monetary, go back to the drawing board until you have clearly identified and documented other substantial advantages that will accrue to the business and when they will be expected to materialize.

Don't take on external accounts unless you've been able to secure one or two of sufficient volume to justify dedicated hiring to support them. If that's the case, don't try to compete with other, professional wholesalers on price—co-op kitchens are rarely positioned to do well in that scenario. Ask for the price that funds the labor so you can ensure the activity doesn't threaten your stores in any way. If these criteria aren't met, walk away with a clear conscience.

Co-ops are generally businesses with a heavy emphasis on quality (often expensive) ingredients in their prepared-foods offerings, and the high level of member participation in determining the product offerings can lead to some inefficiencies. These factors create challenges for the cost-efficient management of a commissary, challenges that shouldn't be underestimated. However, a commissary can offer options to retail sites that simply would not exist otherwise. (Case in point, just before Thanksgiving: 572 pies sold in the past month, with the heaviest sales forecast for the three days just before the holiday).

Give at least a year to the planning process while you clean up or redesign systems in retail operations and your organizational chart. Visit peers you admire who have commissaries. For me, Outpost in Milwaukee and Community Food Co-op in Bozeman, Mont., shine, but there are others I'd like to see but haven't, such as Indiana's Bloomingfoods and New Hampshire's Hanover Co-op. If you decide a commissary is a good move for your co-op, welcome to the fold. ■