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**Blooming Prairie: "The most important strategies are those that strengthen our retail members."**

By Jesse Singerman

As the market we helped to create undergoes dramatic and fundamental change, cooperative natural product distributors and retailers, the "new wave" of consumer cooperatives formed in the 1970s, are reaching maturity. There are parallels to the end of the era for "old wave" cooperatives such as Berkley, Palo Alto and Central States in the 1950s and '60s. Just as there was not a uniform fate awaiting all food cooperatives at that time, there is not going to be a single outcome for all the natural product businesses we have built.

The market forces shaping our future include the consumer and demographic trends in the larger economy and the mergers, acquisitions and consolidations that have reshaped the natural products industry in the past five years or more. In large part the extraordinary growth of the natural products industry in the past 20 years has been fueled by societal trends such as the impact of an aging population, the growth in understanding of the long-term consequences of diet on health, and the direct availability of large amounts of information. More recently, improved access to capital has had a profound impact on our industry.

In fact it would be hard to overstate the impact that capital from the public market, venture capitalists and other equity partners has had on the current success of the natural products industry. More products, better products, better marketing, and better stores are a direct result of recent investments in the industry.

Initially many of the mergers and acquisitions of natural products companies represented a roll-up strategy by other natural products companies to increase their size, buy up good operators and position the larger company for market dominance or to go public. Tree of Life, United, Whole Foods and Wild Oats are representatives of the success of that strategy. Although these mergers created formidable competitors for those of us in the industry, at least they are still in our industry and we know how to compete with them -- often with tremendous success.

However, the latest round of acquisitions on the manufacturing side seems to be a precursor of something really new -- the acquisition of natural product companies by mainstream food companies. This new round of acquisitions is not just creating larger competitors in our industry, although that is happening, but more importantly represents the potential absorption of natural foods into conventional food channels and distribution systems. As an example, consider the acquisition of Cascadian Farm and Muir Glen Organic by General Mills. As Gene Kahn, the founder of Cascadian Farm put it: "We've got the facilities, the people, the resources of a \$6.5 billion company behind us now." That situation, and others like it, will certainly present some challenges we haven't encountered yet.

Of course, there will be plenty of opportunity for these acquisitions to go wrong. Maybe Kraft will ruin Balance Bar; or maybe Fleming will buy United and try to absorb them into their struggling distribution system. But many of these acquisitions will succeed, and we will be faced with the efficiencies and cost reductions that can ensue from tremendous volume going through the traditional grocery channel.

In developing strategies to respond to these changes, I do not believe that bigger is always better, although it often is. Maintaining and expanding our market share will be crucial. But gaining market share makes no sense if it is not profitable, and there is no good reason to merge two businesses if the outcome is a weaker whole. Nor do I think that small is always beautiful. But somewhere in between is a strategy for natural products cooperatives.

To my knowledge no natural product cooperative has yet been able to harness any of the raw economic power supplied by access to large amounts of equity capital. In addition, the interest in good financial performance and future financial position that large equity owners demand is too often missing from our cooperative boardrooms. Measuring a business by the robustness of its financial returns is an important part of positioning it to grow and thrive in an uncertain future.

A related issue is the difficulty that cooperatives have in offering meaningful ownership, particularly equity participation, to employees. It is hard to believe, but the labor market is predicted to continue to tighten. Many of our cooperative businesses are already in a state of perpetual stress due to labor turnover. Dot-com competition for labor and management, with its tempting mix of high risk and high rewards will also be an interesting new factor in employee recruitment and retention. Being able to offer equity participation to employees with the potential for an upside when financial value is created for the members is a problem we should resolve.

Because of our capital structure, we must be able to fund expansion in large part with profit. This will require us all, wholesale and retail alike, to embark on a concerted search for operating efficiencies and cost reductions to increase profitability. But cost reduction will not be enough. We must differentiate ourselves from the competition at both the distributor and retailer level to ensure continued growth. Cooperative distributors must differentiate themselves from our competition by excellent operational processes that allow us to provide outstanding basic services at competitive costs. At the same time we must find the right mix of services and programs to support the critical differentiation that has to occur at the retail level, where there is direct consumer contact.

I do not believe that having a vote in a board election and input into the governance of the store is enough to keep consumers shopping at a cooperative retail, or to attract new members, if the same products are widely available, not only at other natural products stores but also at the super-center on the edge of town. Cooperative retailers need to be great retailers above all else. The stores need to be differentiated on the quality of the shopping experience for consumers and the right mix of price, product and service.

At Blooming Prairie we believe that the most important strategies today for continued success of the cooperative natural food distribution system are those that strengthen our retail members. Without the continued growth of our core customer base, whatever else we do as a distributor will have little meaning. There are several projects in the works that we believe are critical to long-term success both for cooperative retails and their cooperative distributor partners: CoCoFist, a national private label for cooperative retails, and the National Cooperative Grocer Association (NCGA), are especially important.

CoCoFIST can play an important role in the struggle to improve and control operating costs at retail. For the first time an effective tool exists to benchmark and standardize best practices and systems for cooperative retailers. It's not only important -- it's fun. This effort should be supported with time, energy and money, but more importantly it must be supported with understanding by the retail general managers of CoCoFIST's potential and their dedication to making staff members accountable for results.

Blooming Prairie is also very encouraged by the progress on developing a national private label for cooperative retailers. We believe that a well-managed, well thought-out private label strategy will be an enormous asset in differentiating cooperative stores from the competition. The only effective way to make this happen is to use the volume of all cooperative retailers nationally to support a label. Even with that there will be plenty of challenges. We are looking forward to handling these private label items for the cooperative retailers in our region and feel that it is one of the most important functions we can fulfill as their primary distributor.

We are also hopeful that the current CGA structures can be federated into a working national network -- NCGA. The potential of working together on projects that can support the individual, independent stores seems almost limitless. There are issues to be confronted of course, such as how the CGA groups grow and decide on new members, particularly if economic benefits are part of membership in a CGA as is frequently the case, and how to ensure equal access to NCGA benefits if membership in NCGA is limited to existing CGA groups. These are important issues for the CGA groups and for the distributors that serve them, particularly since many of the economic benefits gained thus far are dependent on margin reductions by the distributors. Nevertheless, we have seen first hand in the Midwest the important strides that can be made by cooperative retailers working together to provide joint programs and training.

Other important efforts to strengthen the network that we continue to support include CGIN, CCMA, and of course, Cooperative Grocer.

All of that having been said, the cooperative distributors face our own set of challenges in improving our competitive position, entering new channels of distribution effectively and controlling our operations. Blooming Prairie sales topped \$100 million this year, a milestone for us but a tiny slice of the pie in the food industry overall. We continue to experience steady growth of about 20% per year, as we have for most of the past 20 years. Just like the retailers, we have to lower costs to cope with lower margins while at the same time figuring out how to provide more services. These aren't small problems.

Increasing volume is one important solution. Our number one sales goal as a company is to increase sales with current customers. As a result, we expect that the next few years will see us working even more closely with the retailers in our region to provide cost effective distribution, coordination of programs, and new services such as shelf-management. We continue to place a high value on our retail services program that includes store design and equipment bill-through services. We made a significant investment this year in adding shelf-management software, planograms and new merchandising capabilities as well. Use of new technologies on the web for information exchange and business transactions between Blooming Prairie and our retail customers will be an important new area of development for us.

In addition, the strategic alliance formed between Blooming Prairie, Northeast, and Nature's Best provides an opportunity to pool resources and share costs for developing new services and perhaps also combining volume to gain economies of scale.

Just as the supermarket cooperatives begun in the 1920s and 1930s were the foundation of many of our successes today, I have no doubt that the seeds of a new generation of successful co-ops have already been sown.

Jesse Singerman is CEO at Blooming Prairie Warehouse.

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