



Food co-op's warehouse/distribution division a key cog in developing regional food system

By Adam Diamond

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The Wedge Community Cooperative opened in 1974 in Minneapolis as a small store operating out of a basement apartment. Today, one move and three expansions later, the Wedge has 14,000-plus members and more than \$40 million in annual sales from its retail store, from Co-op Partners Warehouse (CPW) — its distribution arm — and

from Gardens of Eagen Farm, an organic farm on the outskirts of the Twin Cities. The farm was purchased in 2006 by the Wedge and now supplies \$600,000 worth of produce to the store every year.

The Wedge is one of the highest grossing consumer cooperatives in the country. CPW, one of the only cooperative food distributors in the country, serves the Wedge and dozens of other retail outlets throughout a five-state region in the Upper Midwest.

Warehouse goal: better quality produce

Co-op Partners Warehouse was started in 1999 as a way to obtain better produce for the Wedge and, in so doing, to give the co-op a competitive leg up on its competitors. For several years, CPW primarily served as the Wedge's "back office,"

providing co-op members access to a greater variety of products than would be the case if the Wedge's retail operation had to physically store its entire product inventory.

As CPW developed and more warehouse staff was hired, the Wedge leased two refrigerated trucks and started making deliveries to other cooperative groceries in the area. However, even after four years of operation, 80 percent of the warehouse's sales were being made to the Wedge; overall sales were fairly stagnant.



In addition to its retail food store (facing page), the Wedge Community Cooperative also operates Co-op Partners Warehouse, a wholly owned subsidiary that supplies the Wedge and dozens of other retail outlets in the Upper Midwest. All photos courtesy The Wedge

Starting in 2005, a combination of key personnel changes, favorable market conditions and new infrastructure investments contributed to rapid sales growth, helping CPW become a significant catalyst for the development of a regional food system. A key turning point was the purchase, in July 2005, of a worker-owned organic distributor in Minneapolis that had been the primary source of organic produce for food stores in the area by a large (non-cooperative) national organic food distributor.

In the wake of that co-op buyout, many customers switched to CPW for their organic produce. CPW also picked up some skilled staff members who left the co-op after the buyout. This influx of experienced personnel helped professionalize what had been a fairly informal operation at CPW. These new employees drew on their skills and industry relationships to bring new business to the firm.

In the next three months, business at CPW increased by 60 percent. This meteoric sales growth meant that more warehouse space would be needed before long.

CPW management discussed different options with its

landlord and with Wedge management. It was decided in late 2005 to triple warehouse space to 45,000 square feet. While the 30,000 additional square feet was more space than needed to handle CPW's immediate needs, the rental rates were low enough to make it affordable. It made sense to secure this additional space to allow for future growth.

Expanding the warehouse allowed CPW to vastly increase its ability to serve farmers in the region and to increase its customer base far beyond the Wedge. Sales were \$2 million in 2003, with the Wedge accounting for 80 percent of the total. In 2010, annual sales had climbed to \$17 million, with the Wedge's share being only 23 percent. Sales growth was particularly rapid from the period just prior to expansion and in the next few years afterward, increasing 300 percent from 2004 to 2007, to \$13 million.

Business structure

CPW is a wholly owned subsidiary of the Wedge Cooperative, which, as a retail food cooperative, is owned by its consumer members. Consumer cooperatives, like all cooperatives, are controlled by their members and are obligated to serve them. The Wedge's mission statement says the co-op will:

"...provide a diverse selection of highest quality, fairly-priced products and a deepening understanding of their importance to our members, employees, and community. To achieve this, we will: 1) Earn the loyalty of our member-owners through an ongoing commitment to service; 2) Forge a deepening bond between sustainable local producers and the co-op community; and 3) Build upon cooperative principles and values."

This organizational mission directly supports the development of CPW as a vehicle for providing the kind of food members want and for supporting local agricultural producers and sustainable agriculture. The warehouse manager at CPW reports directly to the Wedge's general manager, and all the other employees of CPW report to the warehouse manager.

CPW has 32 employees, including: 7 drivers, 10 order fillers, 3 buyers, 9 sales associates, 1 bookkeeper, 1 quality-control manager and 1 manager. Profits earned by the cooperative, including the store and the warehouse, range from 1 to 4 percent. Profits are allocated in three ways: one portion is reinvested in the business for maintenance and expansion; another portion is returned as patronage dividends to the 14,000 members of the cooperative; the third portion is distributed to the Wedge's 262 employees as part of a profit-sharing plan that can add as much as \$2 per hour worked during the previous quarter.

The warehouse is self-supporting with operating revenue covering its expenses. It has been able to draw on the Wedge for capital infusions both when it initially started and when it has needed to purchase equipment.

Business operations

The vast majority of CPW's sales come from distributing produce to retail cooperatives. The firm distributes weekly price books to customers, takes orders, makes deliveries and bills customers. It charges customers 16-25 percent above farmgate prices, depending on the perishability of the commodity.

To satisfy year-round customer demand for fresh produce, "in season" the firm buys locally and regionally grown produce from more than 30 farmers in Minnesota, Wisconsin and other parts of the Upper Midwest (when available), but relies on California producers for the bulk of its fresh produce supplies.

Retail grocery cooperatives account for 88 percent of CPW's sales. The remaining 12 percent of sales is accounted for by restaurants, independent natural food retailers, buying clubs, community supported agriculture (CSA) co-ops or associations, and food manufacturers.

Additionally, CPW operates an unusual drop-ship program for farmers and other value-added food producers in Minnesota and Wisconsin. This service allows smaller producers to take advantage of CPW's superior logistical capabilities on a fee-for-service basis. This program preserves producer identity and visibility in supply chains by allowing farmers to handle the sales and marketing aspects of their business transactions, but entrusting CPW to handle the logistics portion of each transaction for a flat delivery fee.

Farmers drop off their products at CPW's St. Paul facility, including a packing list showing what each customer is supposed to receive. CPW then delivers the farmers' product to area stores. Producers pay CPW \$20 for each drop-shipment and invoice the buyers directly.

About 24 producers or value-added food producer companies are currently using the drop-ship program. This program is also helpful for co-op stores that want to buy product from local producers but would rather not have a dozen different trucks coming with small deliveries.

Overall sales for this program are not tracked, because CPW only collects the flat \$20 delivery fee per shipment, and because product volume is only a small fraction of the Warehouse's sales to cooperatives and other retail outlets through traditional distribution operations. Nonetheless, this program demonstrates CPW's commitment to helping local farmers find profitable outlets for their product.

Fair dealing with farmers

CPW is committed to building strong relationships with its producers and ensuring they receive a fair price for their products. As Wedge General Manager Lindy Bannister recently wrote in the store's newsletter:

Dean [the Wedge's produce buyer] and Rick [the buyer for Co-op Partners Warehouse] sign contracts to ensure our farmers receive a fair price for their product and that we have a reliable supply of vegetables and fruit to adorn your tables. Dean and Rick visit the farms,

watch the production methods and get to know the families. As we like to say, "we have smelled the dirt."

In general, CPW aims to set prices that enable farmers to cover their costs and are fairly predictable, with minimal variation throughout the season. Lori Zuidema, CPW's director of business development, clearly articulates how values of fairness to farmers are embedded in CPW's price negotiations with farmers:

"...a lot of people think it's the California market that influences it [prices], but it's more production-cost related.... They [farmers] figure out how much it's going to cost them.... and you know we want their product. We want to be able to present it to our customers. We want them to be in business. We don't want...them to sell to us so cheap that they can't make a living and then they have to fold in two years.... So that's our incentive for paying them a fair price."

Fair pricing becomes not only a point of principle, but also a pragmatic strategy for ensuring a stable supply of high-quality organic produce for CPW and its customers. Dean Schladweiler, the Wedge's produce manager, has made a point of working with small and new organic farmers to help them price competitively and realistically. Sometimes he has actually had to negotiate prices up with farmers because he knew they were underpricing themselves and that they could charge a higher price.

Farmers would tell Schladweiler that they were basing their prices on the California organic price. He would respond that they were not in California, and that they had to consider their own individual production costs and price their merchandise accordingly. His general point of view is that farmers need to be savvy about their market and stand firm on their pricing, otherwise they will not be able to stay in business.

Marketing: serving customers needs

In marketing to retail grocery cooperatives other than the Wedge, CPW emphasizes that it is also a cooperative and that one of the foundational principles of the cooperative movement is "cooperatives helping cooperatives." This emphasis on organizational solidarity with its retail cooperative customers is meant to demonstrate that CPW is committed to its customers' success not only to serve its particular business interests, but also as a means for furthering the cooperative movement in general.

However, recent feedback from customers indicates that cooperative solidarity alone will not determine sourcing decisions for most retail grocery cooperatives. A customer survey conducted by CPW about three years ago showed that product quality was the No. 1 criterion for picking a distributor; price ranked second while product availability ranked third in importance. Purchasing from a locally owned business or a cooperative did not make the list of top five

criteria, even though retail grocery cooperatives constitute CPW's largest group of customers.

With a competitive organic and natural foods sector in the Twin Cities, Co-op Partners Warehouse has worked hard to differentiate itself from its competitors by offering exceptionally strong customer service, reaching above and beyond what other organic and natural food distributors are willing to provide. This has included offering a Sunday delivery service and a "short delivery call" service for in-



CPW has 32 employees.

the same accounts that we're going to."

Co-op Partners has to be pragmatic in pursuing its mission of supplying co-ops and other customers with high-quality organic produce, with an emphasis on local procurement. If CPW insisted on only selling local produce, it simply would not be able to stay in business. Overhead is too high to run a full-service produce distribution operation seasonally, to say nothing about the

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town customers, whereby orders received by 10 a.m. can be delivered that day for no extra charge.

The same-day delivery service was instituted because trucks often arrive late in the day after the price list has already been distributed. Customers can call the next morning, find out which products just came in (including those that weren't on the previous afternoon's supply list), place an order by 10 a.m., and have it delivered by 4 p.m.

Lessons learned:

Service is paramount; co-op solidarity won't keep you in business—For a time, Co-op Partners Warehouse (CPW) management thought just being a cooperative would go a long way towards building customer loyalty. Realizing this was not the case was a tough, but important, lesson. Food cooperatives need to be business savvy and conscious of costs as they compete with specialty food chains and supermarket chains that increasingly stock items such as organic produce and milk, soy milk and tofu that were once the stock-in-trade of food co-ops. Meeting customer needs for good service, competitive prices and high-quality produce has made for a winning combination.

Be pragmatic with local procurement—CPW is strongly committed to supporting small local growers and goes to considerable effort to buy as much produce as possible from small and/or local growers. However, this is often not possible, given the high demand for produce throughout the year. Tom Rodmyre, the warehouse manager, explains:

"Our mission has always been to support small local growers...but because we are pretty much a full-service organic produce warehouse, we have to supplement — there just isn't enough local product to fill the needs of what we are doing.... And then the local farmers themselves....want the direct connection with the people they are selling to; they'll be trying to sell their product to

high level of direct-to-consumer marketing to food cooperatives during the growing season in the upper Midwest that makes it hard for CPW to procure enough local produce for its customers even in season.

Even cooperatives are not going to buy from a cooperative distributor without being assured they are getting good value for their money. Absorbing this lesson and building the business with competitive pricing, unique services (such as Sunday delivery and short-delivery calls), along with a very strong commitment to organic and local food, has made for a winning formula.

CPW has demonstrated its continued commitment to local growers not only by buying their products and distributing them through its sales network, but also providing an extra level of service in the form of its drop-ship program. While not a significant revenue earner for CPW, it earns the organization good will with farmers, saves them the hassle of shipping products to stores, and smoothes relations with its retail store customers, who are relieved from having to deal with multiple trucks clogging up their loading docks.

This is a good example of how small business ventures can reap rewards far beyond their immediate impact on company sales.

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Some information was also used from the following websites: www.wedge.coop/ and www.lakewinds.com/store/About-CO-OPS-W18C0.aspx ■