Extreme Makeover at Sacramento Co-op

BY PAUL CULTRERA

If the thought of losing millions of dollars, operating with no cash, watching your net worth head south of Antarctica, and becoming the poster child for how not to open a new store sounds as attractive as a bowl full of GMOs, I'm here to tell you that the light at the end of the near-death tunnel is real and not so far away as you might think.

Sacramento Natural Foods Cooperative's Elk Grove site, its second store, was opened on June 15, 2005. Two and a half years later, after under-performing and producing significant losses, the Elk Grove store closed on Jan. 21, 2007. The majority of the store's fixtures were sold and/or auctioned off in the following month, and the lease on the facility was assigned to new tenants on Mar. 15, 2007.

A snapshot of the store's effect on the co-op's finances can be seen in the accompanying summary of its balance sheets.

	March 04	March 05	March 06	March 07	March 08
Cash	$667,050	$219,440	($419,529)	$225,077	$388,219
Fixed Assets	$1,825,470	$3,676,071	$4,975,415	$1,566,027	$1,360,008
Other Assets	$ 809,315	$ 864,088	$1,170,641	$ 792,873	$ 793,226
Total Assets	$3,301,835	$4,759,599	$5,726,527	$2,583,977	$2,541,453
Current Liabilities	$835,896	$913,106	$2,641,674	$2,399,215	$1,942,916
Long Term Liabilities	$23,744	$1,527,991	$2,986,889	$2,558,739	$2,047,384
Total Liabilities	$859,640	$2,441,097	$5,628,563	$4,957,954	$3,972,300
Owner Shares	$1,261,972	$1,385,228	$1,562,209	$1,739,117	$1,850,629
Retained Earnings	$1,115,309	$1,217,650	($444,105)	($1,690,484)	($3,796,379)
YTD Income	$64,914	($284,376)	($1,020,140)	($2,422,610)	$511,803
Net Worth	$2,442,195	$2,318,502	$97,964	($2,373,977)	($1,430,847)
Liabilities & Equity	$3,301,835	$4,759,599	$5,726,527	$2,583,977	$2,541,453

At the end of March 2004, 14 months before the new store opened, all was going according to plan. Years of strong sales and profits at our Sacramento store had left us debt-free, with plenty of cash and net worth of nearly $2.5 million. A year later, with the new store nearly ready to open, we had both used cash and taken on loans to fund what would turn out to be a nearly $5 million project. But all was still going according to plan—or at least according to the revised revision of the original plan.

What didn't follow the plan was the sales volume at the new store, which failed to reach 66 percent of what had been projected by the two market studies that we had commissioned. Looking at the March 2006 balance sheet, you can see the effects: no cash, lots of debt, mounting losses, and net worth down to nearly zero. Skip ahead another year and you see the effect of writing off nearly $2.5 million in assets associated with the store's closing: cash starts to come back, while net worth plummets to depths where the sun dares not shine.

But then things turned around. In a year's time, we had reduced our liabilities by $1 million, increased cash by $163,000 and added $943,000 to our net worth. In the first six months of this fiscal year alone, we posted $511,803 in net income. After *Cooperative Grocer* called us out on strikes in November, we dusted ourselves off and have started hitting it out of the park. Short of hiring Barry Bonds' pharmacist, what did we do?

Road to recovery

Once the Elk Grove store closed, many of its customers began shopping at our Sacramento store, driving sales there from $375,000 per week to $420,000 per week virtually overnight. If you ever want to see your store's profits improve, try adding $45,000 in weekly sales and see what happens. Of course, with our 12,000 sq. ft. of retail space, those sales volumes create their own challenges, and alone they don't represent what we have done or what can be taken away from our experience as a best practice.

Throughout the difficulties that we encountered, we always communicated the gravity of the situation to our employees and stated what it would take to keep the store open. While the negotiations surrounding the eventual assignment of the lease were necessarily done in private and were kept confidential, it was no secret that we were reaching the point of no return with the new store. As soon as possible, we held meetings with all employees to explain how the store closing would affect them.

We made a commitment to absorb half of the 60 jobs that were associated with the closed store. We made good on that commitment, and within six months of the closing we were able to hire back everyone who was laid off. As our finances improved, our employees became partners in the success, earning $80,000 via our Gain Share program in the past year.

Through the years, we have always attempted to build trust and a partnership with the union that represents our employees. Through the most difficult times, when we had to ask for wage and benefit concessions, and now as we have been able to start to roll those back, the strength of that relationship has been invaluable. Without the loyalty of our staff, both union and non-union, this turnaround would have been impossible.

Our management team and board of directors understandably came under a lot of fire before and after the store closure. But because we had established a culture in which authority and accountability were understood and respected, and in which managers and directors remained unified and accepted responsibility not only for their decisions that lead up to the closure but also for turning things around, we have been able to move ahead with a minimum of the disruption that often accompanies unpopular events in co-ops.

The situation with the Elk Grove store was communicated on a regular basis via our newsletter and special mailings (not to mention the local press). When the decision was made to close the store, we held a series of four meetings for our owners and customers to explain the closure and answer their questions. To address our cash problems and our need to improve our debt to equity ratio, in Feb. of 2007 the co-op's owner equity requirement was increased from $200 to $300. While we saw an initial bump in the number of owners asking to withdraw, more than 2,000 owners have become fully vested since that date.

Perhaps most important from an operational standpoint, as the tremendous time and financial pressures have eased, we have been able to focus our energies on providing more training programs. This is especially true for our managers in setting and upholding standards. As a result, we now have a more motivated crew of managers and assistant managers who are better prepared to lead their teams and to support each other. Our management team has had the time and energy to establish an action plan for the year and to commit to achieving its goals. And with one exception (a 20-year veteran who decided to move on), all of the members of that team have remained through this transition, giving us the stability needed to make it happen.

What makes any business a success is the people who are involved in it. If we have learned anything from our Elk Grove experience that is portable to other co-ops, it is that continually working to build loyalty, trust and avenues of communication among everyone involved; having the courage to make unpopular decisions; investing resources into developing staff skills; and making as many people as possible partners in your success all increase the odds that you will in fact succeed. Even when an initiative fails, your overall mission can recover and thrive if these fundamentals are maintained. ■

For background, see "Elk Grove: How a Co-op's Expansion Went Wrong," CG *#133, Nov.-Dec. 2007.*