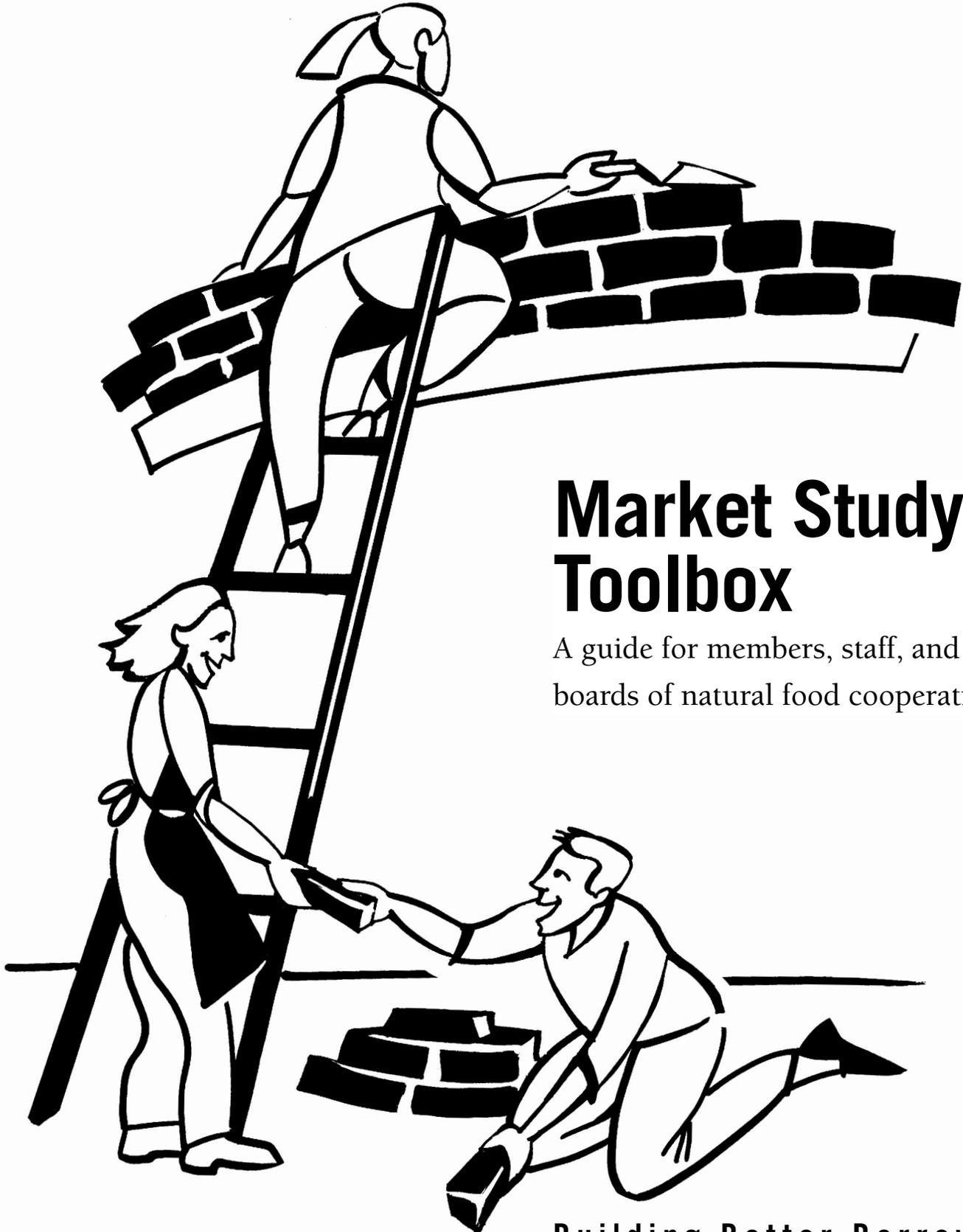


TOOLBOX SERIES

Published by Northcountry Cooperative Foundation
in partnership with the Northcountry Cooperative Development Fund



Market Study Toolbox

A guide for members, staff, and
boards of natural food cooperatives

Building Better Borrowers

MARKET STUDY TOOLBOX

A guide for members, staff, and boards of natural food cooperatives

Published by Northcountry Cooperative Foundation
in partnership with Northcountry Cooperative Development Fund
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About the Publisher

Northcountry Cooperative Foundation (NCF) is the nonprofit, educational affiliate of the Northcountry Cooperative Development Fund (NCDF). NCDF was founded in 1978 by a group of natural foods consumer and worker cooperatives whose members wanted to invest their capital in business activities that supported their values. What began as a simple tool for self-preservation—a handful of co-ops lending money to each other because no one else would—soon grew into one of the first community-development loan funds in the country, and a model for community-based capital control.

Since its founding, NCDF has made millions of dollars in capital available to a range of small consumer, worker, housing, and producer cooperatives and their members, playing an instrumental role in the success of these enterprises. From its beginning as a collaboration of local cooperatives, NCDF has grown into a regional network of more than one hundred community-based, democratically owned and governed enterprises.

NCF, as the nonprofit arm of NCDF, was formed to more effectively carry out and expand the educational and technical assistance activities with which NCDF has long been involved.

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INTRODUCTION

The purpose of this guide is to provide volunteer board members of new or expanding food cooperatives with an accessible tool they can use to better understand their market potential. A market study is a pivotal piece of information necessary to obtain project financing. Even more important, a good market study will help a cooperative or organizing committee decide whether it is even feasible to consider a new or expanded store. It can help keep you from making a very costly mistake.

This toolbox is not intended to replace the work of a professional market study. Professional market analysts have access to data and years of experience that few volunteer boards can match. This guide can, however, help boards of directors gain a thorough understanding of the issues before they engage a costly consultant, and prepare a good foundation of basic market data before they even begin. A good market study can cost between \$5,000 and \$10,000 to complete, depending on the scope and level of analysis required. Studies involving substantial customer surveys and focus groups can cost even more. The process of following the steps in this book and collecting and analyzing the basic market data will help volunteer boards decide whether it is advisable to move to the next step of engaging a professional. It will also help you ask good questions and use your consulting resources wisely.

WHAT TO EXPECT

This guide will take you through the basic elements of market research, including such variables as market penetration, site accessibility, demographics, and area competition. Also included are various worksheets and outlines that can help you assemble the data you compile in a useful and organized way.

While all of the activities described here can be undertaken successfully by a group of volunteers, it is important to understand that market research can take a lot of time and energy. Starting a brand new food co-op, for example, is an activity that sometimes can take years rather than months. Setting out a realistic timeline for the group, keeping expectations reasonable, pacing yourselves, and leaving room for setbacks are important parts of the process.

To keep the energy level high and prevent people from getting burned out, it is important to get as many people as possible to help with your great idea. Breaking up the tasks into manageable pieces (someone researches public data, for example, someone else does a member survey) helps to make the work go faster. If you live in a rural area, county extension agents or your state USDA Cooperative Specialist can be great resources. Your local economic development agency may well have data or insights that are useful. **Collecting baseline public data or conducting a customer survey are also perfect tasks for a student intern to take on.** Contacting your local college or university may open doors to free or low-cost help. Other help can be had from the local office of the Small Business Development Center (a program of the Small Business Administration, part of the U.S. Department of Commerce) or SCORE, an organization of retired business professionals providing free or low-cost help to new or expanding small businesses.

For a treatment of the broader issues of starting a food co-op and some useful case studies, see “How to start a food co-op,” available at www.cgin.org/howto.html

START-UP VERSUS EXPANSION VERSUS RELOCATION

Whether you're considering the start-up of a brand new food cooperative or expanding or relocating an existing cooperative, board members will need sound market data to make an informed decision. This guide is intended for use by either group under the assumption that different users will pick and choose what is helpful for their situation. Here are some useful distinctions to think about:

Start-up

A start-up effort generally begins with a group of community-based food enthusiasts who want the kinds of products, information, and community cohesion they see available at food cooperatives in other areas. A start-up situation is particularly hard from a market study perspective because there is no baseline sales data from existing members. Prospective members may report that they would buy certain products, but there isn't any data to show what they in fact do buy. The lack of an established customer base does not make the market study impossible, however. There are many sophisticated data analysis tools that predict the propensity of shoppers with certain demographic characteristics to buy particular products, for example, when those products are presented in an attractive and convenient location.

It is also possible for start-up groups to mine market data from existing groups in the community that may have a preference for buying from a co-op, particularly a natural foods cooperative. Shoppers at the local farmers market might be one place to start, for example. Local buying clubs are another obvious choice, as they have already demonstrated the propensity to shop for organic and natural foods, and they go to some amount of trouble to do so. Logical as this may sound, however, it is important to survey buying-club members to discern their motivation for joining the club. A buying-club member whose key deciding factor is price, for example, is unlikely to transfer all of their shopping dollars to a retail food co-op because retail prices will invariably be higher than wholesale buying-club prices. A customer whose primary motivation is freshness, quality, convenience, and variety, however, is a good person to count as a potential core member and shopper at the new co-op.

Expansion/Relocation

While existing co-ops start with the advantage of an established customer base, they face unique challenges as well. Most co-ops embarking on an expansion and/or relocation are doing so because of sales pressure at their existing store and/or to head off competition. In either case, the idea is to expand beyond the existing base and attract new customers as well—customers who may not fit the same profile as the existing membership. This can be difficult for some co-op members who think of their co-op as an intimate place, filled with people who are a lot like them.

A cooperative, however, is at its base a community enterprise. Opening the doors to new, broad and diverse clientele can only make the cooperative a stronger and more visible community asset. In the case of expansion, think of the market study as an opportunity to take a step back and relearn about your own community—you might be surprised at how much interest there is from a wide variety of people if the cooperative option is presented to them in an attractive, accessible, and welcoming way.

For a good guidebook about all the elements of food cooperative expansions and relocations, see the "Expansion and Relocation Toolbox," available from Northcountry Cooperative Foundation, www.ncdf.coop or Cooperative Grocer, http://cooperativegrocer.coop/cg_special.html.

THE DIFFERENCE BETWEEN A MARKET STUDY AND A FEASIBILITY STUDY

When thinking about starting a new business or launching a new product, it is typical to first commission (or write for yourself) a feasibility study. A feasibility study is simply a written analysis of the primary issues related to a new business proposal. The feasibility study helps to identify key opportunities and impediments, and basically determine whether it makes sense to move forward with a business idea.

The three basic elements of a feasibility study are

- market feasibility;
- technical and operational issues; and
- financial feasibility.

This guide addresses the first of these, market feasibility.

A feasibility study provides the foundation for a more in-depth business plan, which would look at each of these three elements in a much more detailed manner.

There are many guides on the market for how to write a business plan. A good outline of a basic business plan can be found in the publication “Cooperatives: A Tool for Community Economic Development” available from the University of Wisconsin Center for Cooperatives website at www.uwcc.wisc.edu/manual/chap_6.html

The Market Study

The overall objectives of a market study are several:

- To define an effective trade area that is currently being served by an existing cooperative, or could be served by a new one
- To review and evaluate the overall market conditions and potential in a trade area
- To determine an existing cooperative’s penetration of its market within this area, or estimate a potential new cooperative’s penetration rate
- To assess the competitive environment within an existing trade area
- To evaluate potential new site locations, and outline the advantages and disadvantages of each
- To draw conclusions and make an overall recommendation for moving forward

Essentially, the market study involves collecting data about the potential market to provide a basis from which to more accurately project potential sales and to craft a strategy to capture those sales.

A sample outline is attached as Appendix A.

Conducting Market Research on Your Own

If you approach the job in an organized and objective fashion, it is possible to learn quite a lot about a market as a do-it-yourself project.

There are two basic kinds of market research:

- **Primary research** includes information that you collect for yourself or conclude from personal observation. Examples might include the results of a customer survey, observations from a site visit, or your conclusions from a conversation with an industry expert.
- **Secondary research** is research that someone else has conducted. This might include information collected from government statistics, trade journals, published reports, the Internet, or other such sources.

Both primary and secondary research can be either **quantitative** (that is, something that is counted) or **qualitative** (something that is described based on identified characteristics).

It is often best to start with secondary research. Secondary research helps you understand

the broader market and industry trends so that your primary research can be more focused on asking the right questions. Secondary research also helps to identify industry benchmarks or standards. Finally, secondary research is generally faster and less expensive to carry out than primary research.

Primary research, however, is what really tells you about your own market instead of somebody else's. Because it may be hard for co-op enthusiasts to hear negative things about the co-op, some experts recommend that all primary data be collected by outside parties. While this might be true, there is also the consideration that no one knows a community like the people who live there. Relying on your own opinions and observations has a place in market research, but you should try to back these observations up with hard, objective data wherever possible, resisting the temptation to look only for data that confirms your own thoughts.

While market research is just one element of a feasibility study, it is a critical one. Market research forms the basis for sale projections upon which the entire business plan rests. It is critically important that the market research be as thorough, accurate, and specific as possible. And, as with many things, the quality of the information is often directly related to the amount of effort that went into procuring it. Good market research takes time and energy.

Things to look at with market research

Demographics—age, gender, educational attainment, income, occupation of customers or community residents

Customer profile—lifestyle, values, hobbies of customers or community residents

Economic indicators—Is the community growing or stagnating? Are jobs stable? Who is moving in and out?

Industry status—Nationally and locally, is the target industry growing or declining?

Local industry profile—What is the competition?

Geography—Where are customers located? Are there natural barriers to trade?

Frequency of use—How often do customers purchase the products? What products do they want most?

Public presence—How do customers find out about the co-op?

Adapted from Co-operatives by Design, The British Columbia Institute for Cooperative Studies, 2002

Need, Desire, and Demand

When thinking about the market for a particular item or service, it is easy to confuse a need or desire with a market demand. There are many things that people need (people may need to eat fewer sweets, for example) but that doesn't necessarily mean the need will translate into a market demand. Similarly, there are many things that people say they want, but saying they want it and actually buying it are two different things. Many community members may voice a desire for a food co-op in their neighborhood and others may stress the need for one. The key question of market research, however, is not whether people need or want the co-op, but how much they will shop at the co-op once it is there.

MARKET, TRADE AREA, LOCATION, AND SITE

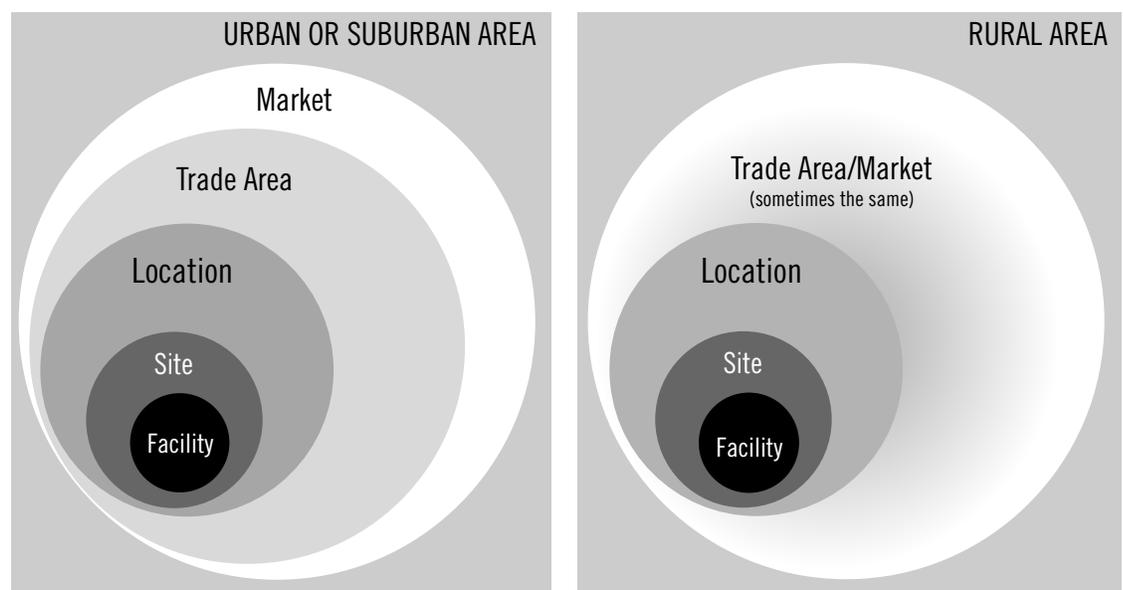
A market study is really a multilayered analysis looking at increasingly more specific local indicators and conditions to reach some conclusions about potential demand. The term “**market**” is the broadest term, usually used to refer to the general demand or exchange of goods. When people talk about the geographic market for some goods or services, what they are usually referring to is actually the “trade area.” The trade area is the geographic area (usually measured in census tracts) from which a store obtains most of its sales volume. This is usually defined as that area within which a store draws 65–85 percent of its sales dollars. Further, it is defined as the geographic area within which the store usually has its highest levels of per-capita sales, or “sales penetration.” (See appendix B for definitions of market research terms.)

Trade areas are affected by a number of factors including the following:

- **Population density.** Rural stores will typically have much larger geographic trade areas than urban stores—in fact, in rural areas trade area and market are often the same.
- **Competition.** Lack of competition will tend to broaden trade areas, while significant competition will shrink them.
- **Retail synergy.** Co-location with another business known to draw from a large geographic area might expand the trade area of a given store.
- **Access.** Poor service by major roads or freeways will limit a store’s trade area, while superior access may expand it.
- **Barriers.** Physical or geographic barriers (rivers, freeways, etc.) may limit a store’s trade area and limit its sales, even from areas that are relatively close geographically. Social barriers (being on the “wrong” side of the tracks) can also inhibit draw.

Mapping is often an effective way to display market penetration data. See Appendix C for a sample map.

“**Location**” in a market research context means something more specific: the portion of the trade area in which the store is actually located. This might mean which street for a compact trade area, which neighborhood for a larger one, or even which town for a very large trade area. Factors such as retail synergy and access greatly affect the quality of different locations, even within the same trade area.



MARKET, TRADE AREA, LOCATION, AND SITE

“Site” means something even more specific: the exact address or intersection at which a store might be located. Factors that can significantly impact site quality include visibility (can you see the store?), ingress and egress (can you get in and out?) and parking, both configuration and capacity. Ultimate sales demand can be greatly affected by different sites, even if they share a common general “location.”

The differences between market, location, and site are more than semantic. Getting even one of these factors wrong (a great site in a poor location, for example, or a poor location in an otherwise strong market) could prove disastrous for a new business. Remember, no matter what the propensity to shop organic, convenience is a huge factor in shopping for food. Making the choice to “shop co-op” easy for people through good location and site selection can make all the difference.

While many organizing groups for new co-ops start thinking about site at the outset (“there’s a great empty storefront on Main Street, let’s start a co-op”), it is a good idea to resist the temptation to get too specific too early. Getting a real understanding of your market and trade area through customer surveys and secondary data analysis will help you make better choices about location first, and then you can think about a site.

Specific site analysis is also a very good place to bring in professional help. While an educated shopper can make some good basic observations, a professional analyst with years of experience in multiple markets is going to see things that a layperson just wouldn’t. To have the greatest chances for success, limit your risks by getting an outside opinion before committing to a specific location and site.

MINING PUBLIC DATA SOURCES: RESOURCES FOR SECONDARY RESEARCH

Gathering and analyzing already existing data (secondary research) is a great way to start to get a feel for your market. Two of the most important sources of easily accessible secondary research data are industry publications and government statistics.

INDUSTRY PUBLICATIONS

For an existing natural food cooperative, gathering market data on the natural foods industry at large may not be necessary: the co-op may already have sufficient data from its own historical sales figures to demonstrate that natural foods are a strong and profitable segment of the overall food market. For a new store, however, it will be very important to establish an understanding of basic industry trends and benchmarks. In addition, if your organizing group plans to approach a traditional bank or other source for financing, such macro data will be very important. Natural foods, as a segment of the food industry, is growing at a much faster rate and yields much higher margins (the percentage of the sale price that is left after the cost of goods has been deducted) than conventional groceries. If your lender is used to underwriting regular grocery stores, you will likely need objective industry data to convince your lender that the sales and profits you anticipate are really there.

There are trade publications tracking practically every industry in the universe, and natural foods is no exception. *Natural Foods Merchandiser* is one great source of industry-specific data, while *Cooperative Grocer* does a survey every year that is specific to cooperative food stores. *Progressive Grocer* does a nice annual survey of the retail food industry in general, and there are various resources available online (see below).

Other resources recommended by consultant Pete Davis include:

- www.npicenter.com/newsletter
- www.naturalproductsinsider.com for specific information about a particular product
- www.nutritionbusiness.com is another good source
- Claritas.com will do census modeling and give you access to an annual census projecting populations between years, for a fee

THE U.S. CENSUS

The U.S. decennial census statistics are a tremendous source of valuable demographic information about every person and every part of the country. Using this data, you can construct a profile of your trade area for such important consumer variables as age, gender, and income. By using the previous decade's census and comparing the rates to the most recent ones, it is possible to track changes in the magnitude and composition of your target area, giving you an idea of what kinds of industries and jobs are growing, whether people are moving in or out of the area, and potentially some indications of what the future demographic profile could look like. Various professional companies also specialize in demographic projections based on census data.

The primary demographic characteristics that are favorable to natural foods customers are age (the 35–54 age group having the greatest propensity to shop), higher education levels (college graduate or better), and stronger household incomes. Other characteristics that tend to correlate with natural foods shoppers include smaller family size, and professional, managerial, technical, or service (white-collar) occupations.

Census data is used by market-study professionals to help determine an existing store's trade area and penetration level, and to help project annual sales for a start-up operation. For an existing store, a survey is made of at least several hundred shoppers, documenting where each shopper lives relative to the store location and how much he or she spent (this is sometimes called a "CAT" survey for Customer Address and Transaction). The same kind of analysis can be done by tracking addresses and sales figures from personal checks written to the cop over a certain prescribed period of time, but the check analysis method has the disadvantage of dividing customers by method of payment, which may or may not include a representative sample of the customer base. Once the data is collected, you can aggregate sales by census tract and determine which census tracts yielded the greatest percentage of sales. The area comprising 65–85 percent of a store's sales makes up its **trade area**.

Each census tract's percentage of total sales is called its "**capture rate.**" Using the capture rate as a percentage of each tract's total population (sales/per capita) yields the estimated average sales "**penetration rate.**" Comparing an existing penetration rate to a potential penetration rate (based on national data about propensity to spend natural foods dollars) is what helps market study professionals make educated estimates of the future sales potential of an expanded facility.

Penetration rates can vary quite a bit according to the type of trade area (rural versus urban and other factors), so it is a good idea to have a professional familiar with such data assist you in determining an appropriate sales goal for your new store. The natural foods/specialty foods market potential (that is, the average dollar amount the average person in a trade area will spend on natural foods, no matter where they buy the product) will also vary according to the demographic base of each trade area. Trade areas with a high percentage of educated, middle- to upper-class white-collar shoppers, for example, will spend more on average per capita than will trade areas with lower average education, income, and

Natural foods customers are primarily in the 35–54 age group, with college level educations or better, and with above-median household incomes. Other characteristics that tend to correlate with natural foods shoppers include smaller family size, and professional, managerial, technical, or service (white-collar) occupations.

In rural areas and small towns, census data may be limited because those statistical samples may be too small to allow for generalization to the entire community. The Census Bureau may also aggregate or delete data from smaller communities because of concerns over confidentiality.

professional-level profile. The more of these factors that exist simultaneously, the higher your sales will be. With a greater average dollar per capita to capture, a food co-op will have a greater potential future sales volume. Distance also has a role to play: all things being equal, sales per capita levels tend to fall as distance from the store increases, making rural markets, on average, much more difficult to penetrate effectively than urban ones.

Volunteer market-study teams can make estimates about market factors using national-level data that is easily available. Overall, natural foods represents about 10 percent of total food purchases and 15 percent in some markets. The average man, woman, and child in the United States, for example, spends between \$200 and \$350 per year on natural foods (2005), with the higher number referring generally to populations that are fairly well-educated, upper-middle-income, aged 35–54, and holding white-collar or professional jobs, and the lower number referring to populations that are less educated, with lower incomes, and holding blue-collar jobs. There is a significant swing upward among all groups, however. A good overall average figure today is about \$275–300 on average per person.

The more specific the data is to your particular trade area, however, the more accurate a picture you can present. Once a co-op board or organizing group has collected enough data to demonstrate a potentially strong market demand in their area, it is a good idea to turn to a professional analyst to help tailor the sales projections based on the consultant's more in-depth experience.

In the case of a start-up store where there is no base of existing customers to draw from, the task of estimating future sales from census population data is even more complex. In these cases, survey data may be secured from a group of buying-club members or other self-identified interested parties (see next chapter). However, making estimates based on the self-reported plans of a group of co-op enthusiasts to shop at a store that does not yet exist is not nearly as accurate and basing sales estimates on the actual shopping choices of real customers. A professional market analyst can be very valuable in these cases, as they can construct a projection for a future co-op based on the sales performance of natural foods cooperatives in other markets with a similar demographic profile, trade area size, location type, site characteristics, and so forth.

In addition to collecting demographic data about individual shoppers, it is important to understand the underlying economic base of your market area and the affect that could have on co-op sales. Considering such factors as changes in income and employment, the diversity of the local economic base, rising or falling unemployment rates, and the changing community economic profile area are all going to influence the number and composition of your potential shoppers.

When estimating sales projections, market-study professionals tend to use “household-based” population data rather than total population data to exclude institutional populations such as nursing home or prison residents, who don't make individual shopping choices about their food.

Two useful census sources are the Census of Population and the Census of Retail Trade. Both are available from the U.S. Department of Commerce, Bureau of the Census, and can be found online and at libraries. Other important sources are the Bureau of Labor Statistics and state departments of planning, commerce, economic development, and employment.

OTHER SOURCES

In addition to the U.S. Census, useful data may be available on the town, county, municipal, or state level. If the site is located in or near a major metropolitan area, data relative to regional employment and population trends may be available from the metropolitan planning agency. State agencies often have data that is more specific and potentially more up-to-date than U.S. government census figures. If your site is in an area with a rapidly changing demographic profile (e.g., rising immigration, development pressure from a growing nearby city, or a rapidly growing, declining or aging population) the more local data you can collect in addition to the census, the more accurate the portrait of your potential market will be.

Local chambers of commerce and county or regional economic development authorities can also be a good source of secondary data. In rural areas, county agents will sometimes help to locate and analyze relevant economic data in the interests of promoting further economic development.

In any event, there is nothing to be lost by casting your net far and wide. In the search for local data, you will encounter knowledgeable and well-connected individuals who may be very interested to know of the co-op organizing effort and may be able to assist the project in some other way when the time comes.

If your site is in an area with a rapidly changing demographic profile (e.g., rising immigration, development pressure from a growing nearby city, or a rapidly growing, declining or aging population) the more local data you can collect in addition to the census, the more accurate the portrait of your potential market will be.

A CAVEAT

Sales projections—even those built on rigorous data analysis—still have a good dose of art mixed in with the science. While there are certainly statistically demonstrable profiles of natural foods shoppers that, all things being equal, will execute their shopping tasks and distribute their shopping dollars in statistically predictable ways, it is still true that every market is unique. Many of us could accurately conjure up an image of the “average” natural foods shopper, but we also know anecdotally of many co-op shoppers who don’t meet that profile. For every dozen or more co-ops that succeed in typically “co-op” markets, we also can name a handful of others that grow and thrive in far less forgiving soil, and still others that seem never to get ahead despite the obvious wealth of their demographic surroundings. **Market is one thing; market execution is something completely different.**

So don’t despair if your community is aging, undereducated, of only moderate means or “too” blue collar. Co-ops can and do succeed in all kinds of communities—it is just a lot easier if your demographics are forgiving. A superb location or site (one contiguous with other like-minded businesses with significant market pull, for example) can offset many of the effects of a less-than-stunning demographic profile. A natural foods co-op in a declining city with a smokestack-based economy can thrive with a marketing and outreach program that is creative and compelling enough to lure shoppers from a greater distance than is typical. It’s harder and more risky, but it can be done. In such a case, it is even more important to get a market analyst with a natural foods background involved. The significant industry experience of such a professional is invaluable in making a “go or no go” decision for a market with mixed factors.

TALKING TO YOUR CUSTOMERS: COLLECTING PRIMARY DATA

Using secondary data sources like census data can tell you a great deal about your market. But there are some things that only local residents can tell you, and that is a reason to do primary research. Common sources of primary data for a market study include a customer survey, as well as observations of the local competitive environment and the advantages and disadvantages of competing sites (see the next chapters).

We have already seen in the last chapter (in the use of customer-specific sales and location data to help refine the count of relevant census tracts for analysis) how effectively primary data can be used to help focus the analysis of secondary data. Primary data can also be used on its own to help inform the “go or no go” decision to start or expand a cooperative, and help focus efforts on the locations and opportunities that will eventually prove most fruitful.

For an existing co-op, it is obvious to start your co-op survey task with the existing membership base, getting input from as many of your core members and shoppers as possible. You should not necessarily end there, however. Especially if a potential move might take a co-op into an expanded trade market, getting a read on the base of those potential new members might also prove useful. For a new start-up, you might begin with members of buying clubs, pass out a survey at the local farmers market, or ask the local Waldorf school, environmental club, or other similar group to give you access to their meetings or mailing lists.

If your customer survey is formulated and executed correctly, it can be much more than a data-gathering tool because you are not just taking in data, but leaving an impression. A brief survey, politely administered outlining enticing possibilities for the future (don't forget to record the customer's address, if they'll give it!) might be just the thing to start building relationships with your future customer base. For an existing co-op, a member survey is a terrific way to introduce the idea of the expansion and to start building a base of member support.

The main thing you want to find out from a customer survey is whether someone will buy the products you have identified, or whether you need to make some adjustments to your plan. Because co-op enthusiasts administering the survey may not always be open to hearing negative information, some experts recommend having a survey done by an outside professional. With a little perspective, however, it should be possible for a co-op board or organizing group to gather and impartially analyze their own survey data. If you think some kind of outside perspective is useful, or are just strapped for time, a **customer survey is also the perfect project to give to a student intern.**

“When exploring a business opportunity, there is nothing more important than to have direct contact with the group you are thinking of selling to, and learning their likes, dislikes, needs and beliefs”
Cooperatives by Design,
British Columbia Institute of
Cooperative Studies, 2002.

QUESTIONS, QUESTIONS . . .

Like any investigator, you will want to find out the answers to the age-old questions of **who, what, why, where, and how (both how much and how often)**:

Who: Age, gender, job, marital status, family size, address, education.

What: What new products and services do they want to see available in the co-op or trade area?

Why: Why do they buy natural foods? What is their motivation—price, convenience, selection? Is the community ownership or cooperative element compelling?

Where: Where do they shop now?

How much: How much do they currently spend on natural foods? How much would they be likely to spend at the new co-op?

How often: How often do they shop for food?

There are three basic types of questions. A good survey uses all three to get at different kinds of information:

Yes/No Questions: Use these only if you are sure that what you are asking for can be answered simply yes or no. One example would be “Are you currently a co-op member?”

Multiple Choice: Multiple-choice questions share the advantage of yes/no questions in being easy to tabulate quantitatively and compare, yet they give the survey participants the opportunity to offer more nuanced responses. Instead of asking, for example, “Do you shop at the co-op, yes or no?” an alternative that would yield more data might be, “How often do you shop at the co-op? Never, more than once a week, once a month, or less than once a month.” These kinds of questions provide a lot more specific data. They are also the questions that best lend themselves to visual representation in the form of charts and graphs. The challenge is to make sure that respondents understand the difference between the options and are not annoyed by their limited choices.

In constructing multiple-choice questions, be sure the options will yield meaningful data. For example, asking someone if they live fewer than 20 miles, 20 to 50 miles, or more than 50 miles from the store yields little useful data for an urban store where almost everyone lives closer than 20 miles. Similarly, a shopper who divulges that they are between the ages of 25 and 65 does not divulge much, as most grocery shoppers fall within this category. Alternately, a question that has shoppers indicate their age within five-year increments is probably collecting detailed data where the details fail to reveal any useful distinctions (a 28-year-old shopper is not much different from a 25-year-old one).

Open-Ended: Use open-ended questions to find out how someone feels about a particular item or opportunity, or to elicit ideas that are outside the scope of information already covered by the questionnaire. While the kind of qualitative data collected from open-ended questions is difficult to tabulate and tends to be subjective, the information will likely be more detailed and may offer information you didn’t think of before. When asking open-ended questions, avoid questions that lead the respondent to certain conclusions (“How bad do you think our current site is?”) or that ask more than one question at a time (“Would you be interested in a co-op that is bigger and located in a better area?”).

Some final thoughts: Make sure you ask questions in a logical order, keep them brief, and pre-test your survey with family and friends to make sure it is easy to follow, unambiguous, and clear.

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The larger the number of people surveyed, the more precisely the data will reflect the norm. In a small market, don't forget to survey local small businesses; in a tourist-based economy, local restaurant and B & B owners may be a great potential customer base for high-end organic produce and the like. And make sure you take the opportunity of personal interaction to gather the most specific market data you can on actual sales opportunities. Remember, it doesn't so much matter what people want—it matters what they will buy.

Here is a sample of survey categories adapted from Cooperative by Design, the British Columbia Institute of Cooperative Studies:

Characteristics	Variable
Age	0–19; 20–30; 31–50; 51–65; over 65
Gender	Male; female
Family Size	1, 2, 3, 4, 5–8, more than 8
Family Characteristics	Single/married; children in household; nonrelated household members
Family Income	\$0–\$10,000; \$10,001–\$20,000; \$20,001–35,000; \$35,001–50,000; \$50,001–65,000; \$65,001–85,000; \$85,001–115,000; over \$115,000
Education	Elementary, high school, some college, college graduate, graduate education
Occupation	Open-ended answer
Shopping Frequency	Daily, weekly, monthly
Preferences	Particular products, departments, price, quality, value, variety, name brands, service, convenience, etc.

CHECKING OUT THE COMPETITION

In addition to the people who are in your chosen market trade area, another critical variable is the other stores that are located there. Checking out the local competition is another important piece of primary research that an organizing group can conduct itself.

If you've done a customer survey, you should already know where in your trade area your prospective customers spend their shopping dollars. It is a good idea to set up some kind of a standard worksheet to start mapping the competition for yourselves. Remember to consider both "direct competition"—stores that carry essentially the same product line as the co-op and target the same customer—and "indirect competition"—those stores that carry your kind of merchandise as part of a larger mix of more conventional goods.

When looking at the other stores, start with what kind of stores they are. Are they wholesale-style big-box retailers? Conventional grocery stores? Convenience-type, limited assortment grocery stores? Specialty stores? Are there other natural foods cooperatives serving neighborhoods or communities nearby? With the number of conventional grocery stores carrying natural foods now, large retail chains can often be significant competition. Small, neighborhood specialty stores are often high on service and carry some local and organic products as well. Conventional grocery stores tend to have greater "pull" across an entire trade area, while specialty or convenience stores generally get almost all their customers from very close by.

The size of the store and the weekly volume of competitors will be important, but difficult, data to collect. A broad estimate is \$50,000 in sales per week per scanner, if they have scanners (half that figure for an express lane), but sales figures can vary widely. It is best to hire a professional for this part. As far as size, you can estimate sales-floor size by unobtrusively pacing the length and width and converting your stride into regular foot measurements, counting floor or ceiling tiles, or the number of aisles if their size is regular, etc., or you could hire a professional for this task.

Equally important is checking out the number of parking spaces available, the ease of exit and entry, any accessory parking (nearby street parking, for example), and the number of checkout counters in place. Adjacent retail use is another factor to consider: whether the stores are freestanding, embedded in mature commercial districts, or located adjacent to other minor uses, such as in a strip mall.

You should also set up a rating system (1–5 representing excellent to average to poor) to compare the quality of specialty departments, such as meat, produce, cold deli, hot deli, and bakery, and make sure the same members of your team rate each store and then average your ratings. See if the store has a special natural foods section, or if products are integrated into its regular shelves. Does the mix of goods indicate more of a convenience-type approach (movie rentals at the front counter) or are customers pushing around full shopping carts? Are local products displayed in any way? Is the bread all from large bakeries, or are some local vendors represented? Is product information readily available? Are sales staff friendly? Easy to find?

All this data about the competition will help you identify the key market opportunities that exist for you, as well as give you an idea of "how high" the bar is set in terms of customer expectations. A final thought is that if your analysis indicates any serious degree of competition in your marketplace, it might be a good idea to bring in a professional for a second opinion. Habits don't always change easily, and breaking into a mature market and drawing customers from an area that is already well-served by competing businesses (even if those businesses are not cooperatives) can be extremely difficult.

DECIDING ON A SITE

While it may seem intuitive that a site is the first thing to think about for a new or expanding natural foods market, it is really part of the final step of analysis. Once you understand your present and future market sales potential, and know what the existing competition in your trade area has to offer, only then is it time to start looking at particular sites.

In larger markets with intense competition for retail space, this may be the time to hire a commercial broker to help locate acceptable space. In a smaller market, it is often the case that everyone already knows what retail opportunities exist in town. In either case, it is always good to check out several competing sites before deciding on the one you want.

Total area and sales area available are the factors to start with. Relocations are time-consuming and expensive, and moving into a space that is too small can be costly. Alternatively, leasing a space that is much larger than needed saddles the co-op with unnecessary physical plant expenses at a time when funds most need to be spent wisely. But total square footage is only one variable.

Site-specific factors are the first thing to consider: **ingress and egress** (getting in and out of the site) is a vital factor for food stores. Are there appropriate traffic controls? Is the area congested? Do one-way streets or other barriers (natural or man-made) get in the way of conveniently entering the site? Could a customer easily exit onto a main artery to drive home?

Visibility is an important factor. Almost one in five households changes residences every year, and research shows that most new residents of an area select their food store within a few months of moving there. Would a person unfamiliar with the area be able to see the site and any signage from a safe and easy distance?

What about **parking**? The best parking for food stores is within 300 feet of the entrance. Are there enough spaces sufficiently close to make it easy and convenient for a customer to do their weekly shopping at the co-op? Many urban communities mandate a certain number of parking spaces per square foot of retail space—does your site comply? Would loading and unloading of goods interfere with circulation in the parking lot? No matter the propensity for natural foods shopping, the importance of convenience and ease cannot be overstated for grocery store sites.

Location of the site is another key factor—where is the site located within a community? Do natural or man-made elements (freeways, rivers, bridges, etc.) facilitate access to the site or impede it? Natural foods stores tend to draw from much larger trade areas than conventional grocery stores—is the location easy and convenient to get to? In addition to access, “retail synergy” is an important element of site quality. The word *synergy* simply means that the whole is greater than the sum of its parts. What are the neighboring businesses, if any? Are they stores that draw like-minded shoppers from all over (the best specialty cheese shop in the state), or do the neighboring clientele tend to inhibit shoppers? Even a compatible demographic of shoppers may not be drawn to the co-op if the neighboring businesses offer a retail experience that is too divergent. A customer who is out leisurely shopping for antiques, for example, is not likely to decide on the spur of the moment to do a week’s worth of food shopping, even if that same person would be a likely co-op shopper under different circumstances.

Retail synergy is particularly important if the site involves shared parking. A local bar and a gro-

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DECIDING ON A SITE

cery store may seem like perfectly compatible (if not exactly synergistic) parking lot co-tenants, for example, but just wait until work lets out on Friday afternoon. Watching Friday evening bar patrons compete for parking spots on a weekly basis with tired workers trying to get a jump on their weekend shopping is not a pretty site. If you are unsure about retail symmetry at a particular site, it might be worth the time to stand outside and count cars at certain regular intervals of the day to see who is shopping where in the immediate vicinity.

A group of volunteers can certainly collect some good primary data about competing store sites, but when it comes down to making a choice, it is highly advisable to have a site-location professional give a second opinion. It is just too expensive to get this factor wrong.

NEXT STEPS

Conducting a market study may seem daunting, but breaking the task into some of the steps outlined above can make it much more manageable. Many co-ops are now doing market studies about every three years, not to plan for a move, but just to keep up with changes in their local markets as part of a regular improvement program. Remember, do what you can and ask for help (from community members, public officials, professionals and others in the co-op community). Even if you end up deciding to pay for a full professional market study, doing some of the initial research yourselves helps you to better understand your market, as well as the expectations and desires of your community. It also gives you the chance to put your unique market knowledge to work in a directed and productive way, contributing to a cooperative effort that is responsive to its members and proactive and visionary in its view.

APPENDIX A

SAMPLE ELEMENTS OF A MARKET STUDY

1. Introduction and background

- a. Description of city/town where co-op will be located and proximity to major urban areas or other regions of interest
- b. Reason why co-op is desired in that locale
- c. List of report of project objectives
- d. Methodology (what materials were used to conduct research)
- e. Scope of report (what kinds of information the report is intended to present)
- f. Brief summary of what a reader will find in each section and attachments, if any

2. Summary of findings and conclusions

- a. Major findings
- b. Major conclusions to be drawn from findings
- c. Estimated mature level of annual volume
- d. Estimated annual sales/square foot
- e. Estimated number of years until maturity is reached
- f. Sales forecasts for the first five years

3. Study methodology

- a. Types of activities carried out for the market study and goals of conducting the work

3.5 Summary of current facility (for an existing store)

- a. Findings
- b. Annual volume
- c. Nature of site characteristics and site accessibility
- d. Population and demographic of current customer base
- e. Customer origin and differences in sales between member and nonmember
- f. Market share and analysis of market share
- g. Analysis of market share position
- h. Ability of co-op to capture growth in market
- i. Analysis of capacity of sales area
- j. Ability of current store size to handle current level of sales

4. Trade area for the proposed co-op

- a. Description of trade area
- b. Rationale: How trade area was determined
- c. Population estimate for the trade area, and determination of the number of households within that population
- d. Percentage of sales from trade area vs. outside of trade area
- e. Geographic or physical barriers that truncate trade area

- f. Demographic breakdown of trade area
 - i. Ethnicity
 - ii. Age
 - iii. Education
 - iv. Employment: blue collar vs. white collar
 - v. Percentage of households with income over \$50,000
 - vi. Median household income
- g. Average annual per-capita potential

5. Proposed site, location, and facility characteristics

- a. Brief summary of each site location
- b. Facility characteristics, site characteristics, location characteristics
- c. Analysis of each site
 - i. Site description including square footage, number of floors, visibility from each approach to the site, signage
 - ii. Kinds of ingress/egress and ease with which customers can come and go
 - iii. Parking: kinds, number of spots, cost to customers, and potential for additional parking, if necessary
 - iv. Possibilities for retail synergy: summary of the kind of retail in proximity to the site, and the level to which it is symbiotic with the potential new cooperative
 - v. Other pending developments that might impact the sight
 - vi. Other incidental benefits or challenges related to the location or site
- d. Determination of which site is most appropriate and why

6. Competitive environment

- a. Definition of direct vs. indirect competitors
- b. Summary of number of direct and indirect competitors, their locations and description of the kinds of products or services they provide and the extent to which they overlap with the proposed cooperative's goods and services
- c. Maps illustrating the locations of the competitors

7. Market analysis

- a. Factors to consider in analyzing sales potential of the proposed cooperative
 - i. Trade area
 - ii. Trade area population
 - iii. Nearby regional centers that may add/detract from trade area
 - iv. Consideration of recommended site location
 - v. Commentary on site selection including the importance of parking, visibility, ingress/egress, trade area access and retail synergy

Appendix 1. Chart: Sales Forecast

Appendix 2. Map of Proposed Sites

Appendix 3. Map of Trade Area and Competition

Source: Pete Davis, Cooperative Development Services

APPENDIX B

GLOSSARY OF SELECTED TERMINOLOGY

CAPTURE RATE: A number that represents the percentage of a store's sales base that is derived from a specifically defined geographic area (a town, a county, or a census tract).

DIRECT COMPETITOR: A store that is similar to the study store in terms of its merchandise mix, its customer clientele, its image, and its customer appeal.

INDIRECT COMPETITOR: A store that may carry some of the type of merchandise carried by the study store, but where the main thrust is with a different merchandise mix, a different customer clientele, a different image, and a different customer appeal.

MARKET AREA: A term used to describe an overall area of influence, such as the "City/Town Market Area."

MARKET POTENTIAL: A term used to express the number of dollars spent per unit of time (such as a week, month, or year) by all persons within a geographic area (such as a town, a county, or a trade area) for a particular type of merchandise (such as natural food or food-at-home). It is determined by multiplying the per-capita expenditures by the total population base of the particular geographic area. It is a derivative of further analysis of the Bureau of Labor Statistics annual diary studies.

MARKET SHARE: A store's sales that are derived from a specific geographic area (such as a town, county, census tract, or trade area) divided by the total market potential for that geographic area.

MATURITY: That point in time when a new store has reached its forecasted level of sales; generally fairly soon (for the nth store in an existing market area) to several years (for a new store in a new market).

SALES PENETRATION: A store's sales that are derived from a specific geographic area (such as a town, county, census tract or trade area) divided by the population of that geographic area; also called sales/capita or sales/person.

SALES POTENTIAL: For a proposed store, given certain facility, site, and location characteristics, the sales level it could be expected to achieve. It is related to a sales forecast.

TRADE AREA: The geographic area from which a retail store obtains at least 65 percent, and perhaps as much as 85 percent, of its sales.

Source: Pete Davis, Cooperative Development Services.

APPENDIX C

SAMPLE TRADE AREA MAP

Natural and man-made barriers help define a trade area. In this sample map, a river, freeway, and bridge access along specific streets clearly influence where this co-op's shoppers come from.

