

# Co-op Partners Warehouse

**Location:** St. Paul, Minnesota

**Business structure:** Subsidiary of a cooperative

**Product offerings:** Produce, milk, cheese, yogurt, soy products, juices, smoothies, sauces, deli items, condiments and dry goods.

**Services:** Drop-ship and traditional warehouse aggregation, local deliveries within the Twin Cities, billing and marketing.

**Suppliers:** Co-op Partners sources regionally and nationally, featuring products from over thirty Wisconsin and Minnesota producers. When regionally grown product is not available, goods are sourced primarily from California and Washington.

**Customers:** Retail co-ops, independent natural food stores, buying clubs and restaurants in five states: Minnesota, Wisconsin, North Dakota, Iowa and Michigan.

**Volume:** ~ \$4 million worth of local product in 2008

**Years in operation:** 10

**Grower requirements:** More than 98 percent of all product is certified organic. Co-op Partners relies more on transparency and relationships than GAP certification and HACCP approval with its local producers, and seeks fair trade product when organic is not available.

**# of employees:** 29: 6 drivers; 9 warehouse employees; 2 buyers; 7 sales associates; 2 accounting positions; 2 quality control employees; 1 manager.

**Pricing:** Co-op Partners negotiates prices directly with local growers. Markup ranges from 16-25 percent depending on product perishability. Prices are set in advance or determined as needed.

**Website:** [www.cooppartners.coop](http://www.cooppartners.coop)



Co-op Partners Warehouse is a certified organic distributor of produce, as well as perishable and shelf-stable, value-added products. Based in St. Paul, Minnesota, the warehouse mainly serves retail co-ops and natural food stores throughout the Upper Midwest. Its innovative drop-ship program enables Co-op Partners Warehouse to distribute many local products directly from producer to customer. This results in efficiency gains, growth in the wholesale local food market, and stronger relationships between area growers and wholesale buyers. Its gradual and strategic vertical integration has served to maintain supply chain relationships and develop a brand identity built on co-op values and tailored to co-op clientele.

Originally established in 1999 as a subsidiary of The Wedge Community Food Cooperative, Co-op Partners Warehouse emerged as a response to the growing need for representation of small and local producers in the regional wholesale produce market. It soon filled the void left by the collapse of other regional cooperative distributors. Initially, Co-op Partners Warehouse contracted with a regional distributor to inspect, store, and deliver products purchased directly from farmers by The Wedge's produce staff. Eventually, Co-op Partners vertically integrated, moving into a 45,000 square foot warehouse in St. Paul and administering local deliveries.

To retain its cooperative values and offer a substantive alternative to conventional distribution models, Co-op Partners Warehouse developed a drop-ship program that streamlined distribution while still maintaining a short,

relationship-driven supply chain. Rather than having each purveyor deliver separately to the same retail accounts, Co-op Partners consolidates product both through direct hauls and at their warehouse. This co-op has its own small fleet for local deliveries, but distribution within the larger five-state region is achieved through a partnership with Edina Couriers, an independent hauling service. Co-op Partners Warehouse assesses producers a small delivery fee, but customers order from and are billed by the producer.

The drop-ship program provides four major advantages to producers:

- 1) It is an efficient use of fuel and labor;
- 2) It maintains the direct relationship between producer and retailer;
- 3) Local product is regionally distributed at a larger scale, reaching a wider local audience than farm stands, farmers' markets and CSA farms; and,

4) It helps local producers earn a greater economic return on their product.

Recently, Co-op Partners further extended its supply chain management by collaborating with the National Cooperative Grocers Association to develop an exclusive line of local deli products. Co-op Partners Warehouse has helped put more local food in the regional wholesale market by improving distribution efficiency, increasing volume and offering more local, value-added products.

## Challenges

**Matching local supply and demand.** Lori Zuidema, Director of Business Development, describes the cooperative's supply and demand difficulties as a function of local grower coordination. To reduce competition, area growers have parceled out different crops to different farms. As a result, when weather events or unanticipated demand result in local shortages, Co-op Partners Warehouse has to import product from California. This persistent tension between reducing local competition and ensuring sufficient local supply remains a challenge. Yet, attracting new growers or diversifying and bolstering current operations presents another set of concerns in a market that is close to saturation in a good year. Efforts to increase local supply would need to be matched with the expansion of the local foods market into the region's more conventional grocery retailers.

**Balancing distribution business interests with respect for farm-direct sales.** Co-op Partners Warehouse has relationships with many retailers outside of the Twin Cities that can help growers reach new markets. It has also assumed a number of local retail accounts from growers who would rather outsource their deliveries. However, many local growers who partner with Co-op Partners for regional deliveries have maintained their own local accounts. Tensions occasionally arise when local retailers can't purchase a desired volume or product directly from the farm and must pay the 16 to 25 percent markup to purchase the same product through Co-op Partners Warehouse. Experienced growers usually avoid this issue and stabilize sales by charging different prices for direct sales and those made through a distributor.

## Lessons

**Conscientious vertical integration can improve efficiency across the supply chain while preserving relationships and values at every level.** The addition of a warehouse facility proved to be an asset not only to Co-op Partners—enabling it to offer cold storage and delivery services to its growers

and other customers—it also provided valuable storage space for the growing Wedge Co-op. Likewise, the purchase of Gardens of Eagan both preserved an existing supply chain and protected farmland surrounding the Twin Cities.

**Careful alignment of producer and retailer interests helps create viable distribution models and product lines.**

Although the initial emphasis of Co-op Partners Warehouse was on local produce, it was soon approached by a variety of value-added food producers looking for new markets for items such as artisanal cheeses, condiments and prepared foods. Recognizing retailers' receptiveness to these products, Co-op Partners Warehouse saw an opportunity to partner with the National Cooperative Grocers Association to develop a signature line of deli products.

**Growing incrementally and using existing resources can reduce start-up costs, enhance product differentiation and facilitate adaptation to constraints and opportunities.** Due to its close affiliation with The Wedge and its suppliers, Co-op Partners Warehouse entered the distribution business with an exceptional number of contacts in regional produce and cooperative networks. This foundation helped differentiate Co-op Partners Warehouse from conventional distributors and distributors of large organic brands. The co-op later capitalized on its branding by producing an exclusive product line with the National Cooperative Grocers Association.

**Skilled, experienced and networked management is critical to a successful enterprise.** As Zuidema succinctly described, "You can do with substandard equipment for awhile, but not bad management." Though multiple factors have contributed to Co-op Partners' success, it is not surprising that the enterprise became economically self-sustaining the same year it hired a warehouse manager with more than a decade of practical experience and professional relationships. While experience is crucial to operational efficiency, the relationships that management brings to an enterprise can be just as valuable in building strong, enduring business networks.

**Local food and values-driven markets are dynamic, requiring regular assessment and adaptation.** While many of its customers are food co-ops and natural food retailers, Co-op Partners Warehouse has discovered that shared business values alone are not enough to ensure their business. Co-op Partners Warehouse has to compete with other local and national organic and specialty food distributors despite its proximity and relationships to its retail customers. This competition can be unanticipated in a sector that prides itself in its values-driven entrepreneurship, yet it also has the potential to drive innovation and maintain quality standards.