Getting Started with Expansion Planning

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With the current intensifying of competition and the slowing of growth, thorough and prudent expansion planning becomes more important than ever.

Expansion projects for food co-ops fall somewhere between a labyrinth and a maze. With continuous improvement and development of best practices, expansion projects are moving closer to the one path of a labyrinth and further away from the messiness of a maze.

We invite you to step into the expansion labyrinth. You will learn to navigate it through building commitment and alignment; learning and engagement; strengthening and positioning; and clarifying roles, policy, and accountability. We will walk through the key decision points in an expansion timeline, look through four windows of feasibility, and review the basic tools needed to find our way to opening day.

A systematic approach

Over the past 20 years, "expansion planning" has become an essential and ongoing system in the organization and operation of food co-ops. In contrast to yesteryears, when expansion was basically thought of as an "overnight move" (minimal planning, one big lunge), food co-ops have developed a much more systematic approach to expansion planning and implementation. With the rapid growth of the natural foods market, many food co-ops have responded with larger and more stores that are better managed and operated. And with the current intensifying of competition and the slowing of growth, thorough and prudent expansion planning becomes more important than ever.

In this article we will discuss the components that contribute to a successful launching of an expansion planning process. Lessons learned over recent decades apply to food co-ops of all sizes and to projects of all types: expanding the current store, expanding through relocation, and expanding through adding additional stores.

For an established food co-op, there are four stages of an expansion project:

Stage 1: Assessing feasibility (3 mo.–3 yrs.+)
Stage 2: Preparing for construction (2–12 mo., commonly 4–6 mo.)
Stage 3: Construction (2–12 mo., commonly 4–6 mo.)
Stage 4: Preparing for opening (1–2 mo., commonly 1 mo.)

In the present review of preparing for expansion, we will look primarily at the process, focus, and key decision points of Stage 1 and then give a quick summary of Stage 2.

Stage 1: Assessing feasibility

The key components of Stage 1 are:

1) Commitment and planning
2) Strengthening and positioning
3) Site search and securing

Remember, these components are not necessarily sequential. Work is often done concurrently in each of these areas, serving as a test of your organization's capacity. Can you continue to focus on continuous improvement and excellence in store operations while bringing focus to expansion planning and working on each of these three areas during Stage 1?

Stage 1 concludes at a key decision point, when the co-op secures a site with contingencies. Securing a site with contingencies is done through a lease agreement, a purchase agreement, or an option agreement. (Securing a site with only a nonbinding letter of intent does not legally constitute gaining control of a site.) When securing a site with contingencies, the primary contingency is financing. In most cases the co-op, after securing the site, will need at least 120 days to get all of its financing in place—collecting internal financing and closing on external financing.

Stage 1 typically takes one to two years to complete, although, theoretically, it could be as short as three months or as long as three years or more. We've seen a number of co-ops take three to six years to complete all the steps of Stage 1, as they work through challenges and barriers related to building organizational alignment and internal readiness and/or securing an appropriate site (with contingencies).

Assessing feasibility

In addition to learning about the key components of Stage 1, it is important to understand that the goal/objective of Stage 1 is to assess feasibility of the direction the co-op is pursuing. The type of expansion the co-op will be pursuing will also be determined during Stage 1. But it is not necessary to be clear and decided before beginning expansion planning.

At the onset, the goal is only to be clear that that co-op is committed to exploring and pursuing expansion. While this should be viewed as a decision point (formal or informal), it is by no means the final decision point. It may happen that on day two of expansion planning, it may be determined that expansion is not feasible. This is likely not the case—but this extreme example illustrates the importance of building commitment without becoming attached to a specific end outcome. Expansion planning is a process!

How do we assess feasibility? In practice, assessing feasibility is a studied process, not a proclamation. It is a process of vision, study, research, dialogue, imagination, planning, and integration. It involves the leadership of the co-op working with professional consultants to assess and strengthen feasibility.

In addition to one's gut reaction, there are at least four windows through which feasibility is assessed, and not necessarily in sequence:

- Market feasibility
- Internal readiness
- Financial feasibility
- Design feasibility

Market feasibility

Market feasibility is assessed primarily through a market study conducted by a professional market analyst who is experienced in the natural food and grocery industries. The market study will assess your market ▷

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- **financial feasibility**
- **design feasibility**

opportunity, including demographics, competition, and sites, and it will provide a professional sales forecast based on a set of assumptions and conditions. If the market study and sales forecast are favorable, that is good news. But that will not tell you anything about the financial feasibility of your proposed expansion, nor will it assess your internal readiness. While a market study will assess a site in terms of market suitability to be a grocery store, it will not assess structural, site, or environmental issues related to that site—those are best addressed through a preliminary design process that involves a store designer and architect.

Financial feasibility

Financial feasibility is best assessed through a tool referred to as a financial pro forma. The financial pro forma is a model that allows you to learn and do financial planning for your food co-op. A financial pro forma will include a "sources and uses" budget (showing the sources of capital and the uses of funds for the project), a set of key assumptions, three years of financial history of the co-op, financial projections for the remaining time prior to the opening of the new store, and financial projections for years 1–10 of the new store. Financial projections include income statement (profit/loss), balance sheet, cash flow, debt service, and key ratios.

Internal readiness

Internal readiness or organizational capacity is best evaluated through a combination of internal self-assessment and external assessment (both consultant-based and peer-based). As assessment of organizational and operational systems—including strengths, weaknesses, opportunities, and threats—is an important undertaking during Stage 1, with an eye towards prioritizing key systems and areas for improvement. Internal readiness is an essential part of Stage 1; the time between now and the opening of a new expanded store is a golden opportunity for focused improvement.

A checklist of critical steps, tasks and milestones can be compiled that when completed will show a green light scenario. The checklist can include other items and tasks related to assessing feasibility and Stage 1, but the internal readiness portion of the checklist is essential to show progress and completion.

An important aspect of internal readiness is organizational alignment. Is the leadership of the co-op—board and management—aligned in support of the future direction of the cooperative? Is there alignment within the management team? Is there alignment within the board of directors? Most importantly, is there an effective working relationship in place between the board and the general manager? If there isn't alignment, do you have a process in place for building alignment?

Organizational alignment begins at the leadership level, with board and management. Once alignment is achieved at that level, management can focus on alignment within the staff, and the board (with support from management) can focus on alignment with the members.

If you do not have alignment and a good working relationship between the board and the general manager, your co-op will not be ready to move into Stage 2 of the expansion timeline.

Design feasibility

Design feasibility typically begins once a preferred site has surfaced and met the initial tests of market feasibility and financial feasibility, and the site appears to be an available option. The steps to assessing design feasibility of the site and building include schematic design and preliminary design (oftentimes simply referred to jointly as preliminary design). The full and complete design work will not be done until the site has been secured with contingencies and the co-op has moved into Stage 2. Preliminary design should be done as part of the feasibility process and completed before lease or purchase negotiations begin. In addition to assessing design feasibility, preliminary design will give you a basis for getting initial bids for building improvements and equipment. This is essential information to have before you begin lease or purchase negotiations.

Overall

Looking through each of these four windows of feasibility for your proposed and preferred project, what do you see? Are there large areas of concern, limitations, or unmovable barriers? Can the areas of concern be addressed and resolved?

Can the project be strengthened with additional equity and less debt? Are there compromises being proposed (due to cost overruns or limitations of capital) that will weaken the project enough that the sales projections are jeopardized? Looking at the project as a whole, do you have a sensible plan for the remaining steps set out in a reasonable timeline?

A systematic approach and process to assessing feasibility will give you a basis to test and confirm your gut reaction. It will give you a basis to assess opportunity vs. risk and to balance that in a manner that will meet the comfort level of the leaders of the co-op and be appealing to the co-op's members and bankable to external sources of capital.

Stage 2

The end of Stage 1 represents a major decision point but certainly not the final one. This decision point should not be taken lightly since moving into Stage 2 signifies a substantial commitment of additional time and money to work through its requirements.

Of course, Stage 1 planning work would include the development of a communications plan for all stages of the expansion project and the planning of the capital campaign. Stage 2 typically begins with a public announcement of the site that has been secured and the launching of the co-op's capital campaign. However, do not disclose or announce the site until it has been formally secured with contingencies.

Aside from all of this excitement, the main tracks of Stage 2 are:

1) Design
2) Financing

These two tracks run somewhat parallel through Stage 2 but, we hope, come together at the end when the co-op has commitments for external bank financing. That financing typically is conditional upon meeting the goal of the co-op's internal capital campaign and conditional upon bids for the build-out and equipment (based on the complete design) being within the parameters that were presented to the bank. If all of this comes together, the co-op is in position to close on its financing and remove the contingency that secured the site (in the lease or purchase agreement). This is the second and most important key decision point and is referred to as the final decision point—from which there is no turning back!

Overcoming resistance

Often, by its self-definition, a co-op will resist this template of the four stages and key decision points for an expansion project—because their project is "special and unique." Yet the four stages of expansion projects represent a systematic approach to planning and serve as a container of sorts, without which your project may well spill over in unfocused directions of dysfunction and inertia. While there is lots of room for variance and diversity within each of the four stages, the leadership of the co-op is challenged to take the co-op's "special and unique" project and have the discipline to fit it into this expansion template. The model thus provides guidance and support as your co-op pursues the pathway of the expansion labyrinth. ☐

ROLES AND RESOURCES

During Stage 1 of expansion, it will be essential to work on clarifying roles and policy related to the planning and implementation of the project. What is the role of the board of directors? What is the role of the general manager? What are the reporting requirements and methods for the manager to report to the board? How will the expansion project be managed? Will there be a project manager? When? Who will that person report to?

"Expansion and Relocations," by Bill Gessner, often referred to as the Expansion Toolbox, is available at http://www.cooperativegrocer.coop/toolbox/relocation. The Toolbox includes examples of checklists for each of the four stages.

Talk with your Cooperative Board Leadership Development (CBLD) consultant or Mark Goehring to identify appropriate expansion planning and reporting resources in the online CDS Consulting Co-op Library: http://library.cdsconsulting.coop/. CBLD consultants are available to work with your board to review, modify and update board policy to encompass expansion projects.

As you embark upon expansion planning, take time to review your co-op's foundational documents and policies, deeply understand the purpose of the co-op, and make sure there are clear organizational goals in place that focus on operational excellence and continuous improvement.

And don't forget the cart corral!