

Ag-of-the-Middle Task Force Regional Case Studies

New Seasons Market – Case Study Portland, Oregon By Eileen Brady, July 2004

a) Background of the enterprise

New Seasons Market is a regional grocery chain based in Portland, Oregon, founded in 1999. The organization has 4 stores open currently, one due to open in September, 2004 and another due to open in Spring 2005. The stores grew out of a natural foods grocery philosophy, but are most accurately described as “neighborhood grocery stores.” About 75% of the product mix is in natural foods and 25% is in conventional groceries. As they say, they carry everything from “Frosted Flakes to Free Range Chickens.” The company’s purchases emphasize sustainable and quality products. In addition, the organization has made buying from local vendors a key priority. “Building a regional food economy” is one of its stated missions. The price point of the chain is mid-range, competing with conventional grocery chains like Safeway or Albertsons. Each store averages about 15,000 customer trips a week. The average retail footprint for each of the stores is approximately 30,000 square feet. The chain often places stores in what they refer to as “the sweet spot” between well educated, higher income neighborhoods and lower income neighborhoods, providing a base of traditional natural foods shoppers from the former and newer entrants to a quality foods shopping experience from the latter.

The operation provides ten percent of after tax profits annually to over 350 community organizations, focusing on educational and environmental related donations.

b) Organizational form/scale/leadership

The organization was founded and is owned by three local families. The organization is an S-Corp and is financed by the original capital of the three families as well as traditional bank financing. Of note is that ShoreBank Enterprise, potentially the first conservation focused bank, participated at a point in time when other banks declined. Now many banks vie for the business of New Seasons Market. The decision making and purchasing structure is fairly similar to a traditional grocery chain operation of its size except that significantly more resources are employed to manage purchasing of local and sustainable products than would be employed in a conventional operation. In a conventional operation, there would only be a handful of consolidated vendors that service the business. Instead there are hundreds of small and mid-sized farming, fishing, ranching and manufacturing operations that have individual relationships with the purchasing managers.

b) Nature of products and the “value chain”

Of interest to the Ag of the Middle project are the numerous examples of purchasing relationships with local and regional vendors. The company actively seeks personal relationships with regionally based, quality food providers. For instance, New Seasons Market purchases all of its beef products from Oregon Country Beef, a coop of natural cattle ranchers who are stewarding 2.5 million acres of land while raising natural beef. New Seasons has a direct relationship with this operation. For

lamb, New Seasons has a long term relationship with Umpqua Valley Lamb. Rose Fisheries out of SE Alaska provides all of the off season coho salmon for the operation. What is notable about these relationships is: 1) the New Seasons Market buyer knows the owner of these local operations. 2) deals on price are cut without a middleman 3) the price paid to the producer does not vary with the Commodity Price Index. The price agreed to is based on what the producer needs and what New Seasons Market thinks it can afford. Each party's interest is taken into account. The relationships New Seasons has with its producers are long standing and vital. New Seasons Market promotes the name of the grower on in-store signage as well as in weekly newspaper ads. The company believes that the growers make the shopping experience more interesting and exciting for the customers. (See story below describing the history of the relationship New Seasons Market has with its hog farmer.)

d) Economics of the enterprise

Sales information is not made public. However, the company will say that it is very successful in an extremely competitive market. Pricing as noted above is comparable to a Safeway price point.

Some examples of volume that the organization does (at current 4 store level) include:

Hogs: 2080 hogs annually (whole animal).

Lamb: 2890 lamb annually.

Coho Salmon off season: 32,000 pounds annually. About 8,000 pounds per store

Chinook Salmon off season: 25,000 pounds annually. About 6,000 pounds per store

Beef: 570,000 pounds annually

Organic bread wheat flour: 100,000 pounds/annually for three bakeries that serve four stores.

e) Key opportunities & challenges engaged

The opportunity the organization has seized is to be an affordable quality foods store, providing many of the benefits of a natural foods store along with a broad product selection and price point akin to a Safeway or Albertsons operation.

e) Replicability in other settings

Many individuals have called for New Seasons Market to open in their hometown. New Seasons is firmly committed to the Northwest and does not intend to grow outside that region, allowing for the opportunity of other regionally based chains to emerge and perhaps partner on purchasing strategies. New Seasons Market is helping the Community Food Security Coalition put together a handbook for opening quality foods markets in low income neighborhoods across the country.

f) Research, education/demonstration, or policy changes that would strengthen the enterprise or similar enterprises

Help sourcing and re-engineering regionally produced, affordable packaged goods would be useful. Wouldn't it be nice to sell a cereal made from Oregon ingredients to Oregonians?

g) Addendum: Story of the New Seasons Market - Hog Farmer Relationship

In 1989, Brian Rohter, President of New Seasons Market, owned a small meat shop in Eugene Oregon. He was looking for someone to grow hogs for him without using antibiotics. He put an ad

in the Capital Press, the regional agriculture paper, saying “hogs wanted, grown without antibiotics.” He got fifteen responses – all from the central Willamette Valley. He visited a few of places and talked to the farmers. They would get excited explaining that they would be happy to grow natural hogs for Oregon Homegrown Meats. After talking for awhile with each of the farmers, Brian would say “lets go to the barn and take a look at what you have going out there.” First he would take a look at the top of the ingredient label of the feed sacks in the barn. If the feed is medicated, it says “medicated” in big letters. Sure enough every place he visited had antibiotics in the feed. He realized that the farmers didn’t even know that their feed was medicated. Basically, he got 15 calls and found 15 hog farmers he couldn’t do business with. He finally asked his friend who had been searching for natural weaner pigs for an upscale restaurant in California. His friend recommended a farmer in the Valley. Brian went out to the farm and once again had an excited conversation with the grower, dreading going to check out the feed in the barn.

They both then went out to the barn, a very large barn. There was only one sow and a few weaner pigs in this vast outbuilding, but there was no medication in the feed. Turns out that the price of hogs at that point in time was about .30/pound for live weight and break even for the farmer was about .40/pound live weight. The farmer was getting out of the business, just like everyone else. No one could make it at those prices.

Brian said he would buy the farmers hogs, five a week for sure, for .60/pound live weight. The farmer knew he could make it work at .60/pound. They sat down in the living room of the farmhouse and wrote out a contract. Brian would pay .60/pound and the farmer would supply 230 pound hogs that had not been fed antibiotics (therapeutic use of antibiotics was fine). The farmer asked Brian to “type it up” so he could take the contract to the bank for financing purposes. No lawyers. Just two guys working out a deal that made sense to both of them.

Hog gestation is three months, three weeks and three days. So it took awhile to get the deal going. But fifteen years later, the deal still stands. The price of hogs has dropped as low as .15/pound on the commodity price index during that time and gone as high as .65/pound, but both parties have stuck to the deal.

Brian went on to be the General Manager at Nature’s, a regional grocery chain and is now the President of New Seasons Market. He has brought his relationship with the hog farm wherever he has gone. New Seasons now buys 40 hogs a week from the hog farm and is currently negotiating with an additional hog farmer to be a second supplier because of the anticipated increase in volume when the next two stores open in the coming year.

The postscript to the story is that Brian and the New Seasons Meat Merchandiser, Alan Hummel, went out to visit the farm recently on a Wednesday morning. After a visit to the barn, they went into the house and there, scrubbed and dressed up, were four farm children ages 7 to 15. They all stood and shook Brian and Alan’s hand. Brian asked why they weren’t in school. The oldest told them that they were going to be helping out their parents with the hog growing operation some day and they had stayed home so that they could shake the hands of their business partners . This business is our future, he explained.

Note on the case study author: Eileen Brady is a partner in New Seasons Market and married to Brian Rohter, President of the company.