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## Food co-op opens in Logan Square

By: Kristin Ostberg December 21, 2009

The recent opening of the Dill Pickle Food Co-op in Logan Square was the culmination of a five-year effort that corralled more than 500 paying members.

The Monday after its "soft launch" saw the store closed for a few hours so staff members could regroup and reorder products. The checkout line had wrapped around the store, with customers buying out whole categories of inventory.

The co-op officially opened Dec. 12 in a 1,400-square-foot space roughly half the size of a typical convenience store. Members led the selection process of the merchandise, which focuses on organic, sustainably produced and locally sourced foods.

The Dill Pickle, the only consumer-owned retail food co-operative in Chicago, joins a cluster of small-format, specialty grocers that have opened within a mile radius of Wicker Park in the past five years. As large chains fight for marketshare with discount grocers, a few independents have been opening shop with carefully curated collections of specialty foods in tiny stores, ranging from 900 to 3,500 square feet.

Observers describe it as a high-risk format: Profit margins in the grocery industry average 2 cents on the dollar, and small footprints demand rapid sales. "They can't carry much merchandise. They have to only carry items they can turn over rapidly," says John Melaniphy of Chicago-based retail consultancy Melaniphy & Associates Inc.

"I noticed people are spending a little less per ticket on average (in recent months), but our customer traffic has continued to grow," says Bill Maheras, who opened Olivia's Market in Wicker Park five years ago with his wife, Joy. He won't share numbers, but says Olivia's turned a profit in its first year and has grown every year since.

Olivia's Market, W Grocer, Green Grocer and Provenance have all offset the risk of losses posed by perishables with wine and beer sales. The Dill Pickle Co-op is not selling wine and beer, but its members donated labor to the build-out and set up the store, financed the project's \$125,000

opening costs with a combination of member fees and member loans and oversaw an 18-month product selection process.

Co-op Treasurer Payton Chung says ongoing donated labor could render profit margins of 8%, though he is prepared for 2% to 3% if the co-op must be fully staffed.

"They're going to have a hard time getting 8%," warns Robert Graybill, president of Baltimore-based FMS Solutions, a consultancy that tracks independent grocers. In a survey FMS Solutions conducts with the National Grocers Assn., independents saw profit margins grow modestly to 1.9% in 2008, but Mr. Graybill predicts they dropped to 1.3% in 2009. He acknowledges the gourmet sector appeals to a demographic that will spend more, even when the economy is down.

But Mr. Graybill questions whether the Logan Square and Wicker Park neighborhoods have the density to support a concentration of grocers in that segment. "I think you're going to see an oversaturation to start, and then some of these guys are going to end up failing."

Yet competition can be good for retail, says Mari Gallagher, principal of Chicago-based Mari Gallagher Research & Consulting Group, which analyzes emerging markets in food retail. "There are a lot of ways to appeal to your customer," she says. "Different choices appeal to different preferences, and that market is stronger as a result."

Intentional grocers often appeal to their customers' desire for a sense of connection. Cassie Green, owner of Green Grocer at Grand Avenue and Noble Street, works with upward of 60 food producers, so she can extend that connection with growers, too. "If one of our growers loses a lettuce delivery to a flash flood, we can have that conversation with the customer," Ms. Green says, but "Whole Foods can't be out of lettuce."

Consumer demand for products with a story creates a role for regional suppliers that larger distributors may not take. "Small producers need a point of entry into the system," says Bob Scaman, president of Goodness Greeness, an organic wholesaler in Englewood. A willing wholesaler can aggregate product, guarantee consistency and bring the product safely to market.

"(Small growers) need someone willing to bring them into the fold, which isn't always the case with a 1-million-square-foot warehouse," says Mr. Scaman, who has followed Dill Pickle's blog for more than a year. "We're cheering from the sidelines," he says.

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## What do you think?