

CASE 10

Lola's Market: Capturing A New Generation

Katherine Gonzalez
MBA Student, Sonoma State University

Sergio Canavati
Sonoma State University

Armand Gilinsky
Sonoma State University

"Our core is Latinos, try to trigger them, try to get every single Latino in our store. . . what's hard are the young ones; they are more focused with what is on their phone."

—David Ortega, Owner, Lola's Market

"Before I used to tell them, 'Put those phones away' now I just let it go, it happens so much. . . they do not listen."¹ As David Ortega, owner of Lola's Market takes a break from replacing wallpaper and making repairs to his long-standing business in Santa Rosa, California, he surveys his store and watches as his millennial employees are fully invested in the tweets² and hashtags³ that flood their notification screens. David contemplates on how he can engage these employees, and even further, how he can engage this generation. David is a man rooted in tradition and he believes that the traditions of good business and good customer service need to be passed down to the new generation, but how? Situated in Sonoma County, California, Lola's Market has five locations, each targeting the Latino consumer, each filled with generations of customers who have shopped at their various locations since their doors first opened in Santa Rosa. David is inspired to make changes for his business and knows that engaging the younger generation—the millennials⁴—will strengthen Lola's future business for years to come. David is at risk of losing this new coveted consumer base to retailers that "speak" to

the millennials in their language—businesses that utilize social media and online shopping experiences to appease the tech savvy culture. Regardless of where he stands amongst his competitors, David's outlook on the possibilities Lola's has is inspiring and will facilitate Lola's capacity to gain this new generation: "Never say you can't, you always have to be positive."⁵ With this mindset, it is no surprise that David Ortega has been recognized by the North Bay Business Journal as one of the first honorees of the Latino Business Leadership Awards for outstanding leadership throughout the North Bay.⁶ With this type of leadership, Lola's can potentially reposition themselves as the sought-out center for the Latino millennial consumer and workforce.

INDUSTRY OVERVIEW

When looking at the Supermarket Industry as a whole—including markets who offer specialty services, such as Lola's bakery and restaurant—there are key success factors that will give a particular

Copyright ©2018 by Armand Gilinsky. All rights reserved.

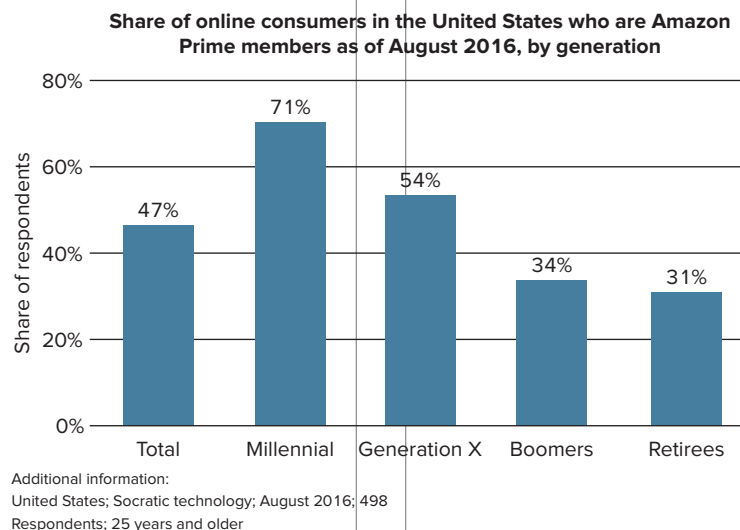
organization a competitive advantage. These key factors include proximity to key markets, access to a multiskilled and flexible workforce, the ability to control stock on hand, close monitoring of competition, and access to the latest available and most efficient technology and techniques.⁷ Alongside these key success factors is evolution with the consumer: the new target consumer amongst industries is the millennial consumer—the millennial generation interests marketers due to its size and growing market influence.⁸ This generation is one of the largest generations in history and is about to move into its prime spending years—millennials are positioned to reshape the economy.⁹ Millennial consumers want to engage with brands on social media; about 62 percent of millennials say that if a brand engages with them on social networks, they are likely to become a loyal customer and with 87 percent of millennials using between two and three tech devices on a daily basis—brands must stay relevant by appealing to and engaging millennials on these tech platforms.¹⁰

In 2017, Amazon's acquisition of Whole Foods, took the online retailer into the brick and mortar setting and Amazon is now driving down Whole Food's prices across the board—this is causing supermarket competitors to raise the stakes.¹¹

Amazon is also implementing an additional shipping option utilizing its Prime delivery service for customers who choose to shop with Whole Foods.¹² Amazon is a company that has already created a strong relationship with the millennial generation, as a majority of Amazon Prime users are a part of this generation (see Exhibit 1). Since millennials already have ties with Amazon, which has the strong online presence and convenience that this customer base prefers, it will be even more difficult for smaller, family-owned businesses like Lola's to attain this consumer base.

When it comes to supermarkets in California, specifically the North Bay, there are various competitors who have their own takes on how to generate this technological change and brand advancement. Sonoma County is one of the most competitive food markets in the country, thanks to an array of strong local and national grocery businesses vying for customers' time and money.¹³ In 2016, one of the largest competitors in the North Bay market, Oliver's Market expanded its doors and rebranded itself with a more modern appeal and even including the addition of in-store Wi-Fi available to its customers.¹⁴ To capture the millennial generation, specifically in the supermarket sector of the retail industry, companies need to take

EXHIBIT 1 Amazon Prime User Demographics



Source: Statista, "U.S. Amazon Prime Reach by Generation 2016," August 2016, <https://www.statista.com/statistics/609991/amazon-prime-reach-usa-generation/>.

advantage of the latest technology and implement it within in-store and online (if applicable) IT systems, such as their points of sale processing. This will lead to increased productivity and higher profit margins.¹⁵

LOLA'S STORY

"I'd go over to look at the bakery and think, one day I am going to open up something like this."

—David Ortega

As a 15-year-old young man working at Perez Family Restaurant in Santa Rosa, California, David Ortega had vast aspirations for his future and the future of his family. David recalls countless seeing the bakery next door from the restaurant in which he worked and dreaming that one day he would have a business of his own—a business that provided quality products, produced with the love and attention that the bakery he gazed upon provided. Along with having quality products, David wanted to offer the Latino consumer a taste of home by offering authentic Mexican bread and ready-to-eat food. In addition to authentic Mexican food, David paid tribute to his mother Dolores, by naming his dream business after her—from a cost-effective play on her name,¹⁶ *Lola's Market* was born.

On February 8, 1992, with his mother Dolores and father at his side, David achieved his dream. With the smell of fresh *Pan Dulce*¹⁷ in the air, the first Lola's opened on Dutton Avenue in Santa Rosa. It stood at about 1,000 square feet, filled with the promise of growing tradition and quality goods and services. Today, Lola's Market has expanded to five stores; each Lola's store still has its famous fresh bakery and restaurant, as well as a produce department and deli section. Lola's Market has two locations in Santa Rosa—one in Napa, one in Healdsburg—and its newest location in Petaluma, which opened in 2013. Lola's believes they can "compete with anybody"¹⁸ and with the quality of goods and services they provide, they do have the potential to outgrow and stand ahead of their local competitors. David believes that Lola's is known for its service, quality meats and produce and the comfort that the markets provide for its Spanish-speaking customers: "Hispanics like to communicate in their own language, that's probably why they shop here."¹⁹

Lola's Market is operated with David Ortega as President; General Manager, Mario Lozano; and Controller, Carlos Salvatierra directly under him. His General Manager, Mario Lozano, oversaw the chain's POS Supervisor, Safety Coordinator, and HR Coordinator, as well as all managers at the five store locations. Mario is the eyes and ears of Lola's on the employee level—he is key to helping David understand what the needs are from the employee-management perspective, as well as consumer needs. In doing so, Mario was able to provide the most insight as to what worked within the store structure and what ultimately drove same-store sales. When David first opened Lola's his marketing tactics included creating promotional flyers that he would place on windshields in local church parking lots on Sunday mornings. This worked for him initially as it did bring in new Hispanic customers looking to enjoying traditional Mexican food after a Sunday service, or buy fresh produce and tortillas²⁰ to cook Sunday dinner for their family.

In 2016, 24 years after its first doors opened in Santa Rosa, Lola's was performing overall at a 30 percent gross margin, which was a 0.7 percent increase from the previous year. Even with the improvement in performance, Lola's was still experiencing a decrease in profitability of (0.8 percent). Lola's decrease in cost of goods sold from 71 percent in 2015 to 70 percent in 2016 demonstrated that Lola's had the potential to boost its profitability for the coming year if it continued to trend with a decrease in its cost of goods sold ratio—as a decrease in this ratio identifies improvements in Lola's cost controls. The implementation of new technology and possibly new marketing methods that had the potential to boost Lola's customer base might also decrease this ratio and result in an increase in gross profit (see Exhibit 2). Along with tactics toward technological improvement, David believes Lola's commitment to freshness and tradition will continue to boost sales create high levels of customer satisfaction. "People know our commitment to freshness is the key. The secret to stay true to your roots and serve everything fresh."²¹

ALTERNATIVES FOR LOLA'S

David Ortega is a man rooted in tradition and quality, but he is also a creative business man who has plans to remodel Lola's Dutton Ave location in Santa Rosa.

EXHIBIT 2 Lola's Combined Statement of Income

| Lola's Market, Inc. and Affiliates Combined Statement of Income Years Ended December 31, 2016 and December 31, 2015 | | |
|------------------------------------------------------------------------------------------------------------------------------|----------|----------|
| Profitability | | |
| | 2016 | 2015 |
| Net Sales | 100% | 100% |
| COGS | 69.97% | 71% |
| Gross Margin | 30.03% | 29.31% |
| Direct Store Expenses | 20.43% | 18.75% |
| Administrative Expenses | 4.43% | 4.09% |
| Income from Operations | 5.17% | 6.47% |
| Total Other Income (Expenses) | −0.67% | −0.72% |
| Net Income Before Income Taxes | 4.50% | 5.75% |
| Liquidity | | |
| Working Capital \$ 000 | \$ 2,337 | \$ 2,389 |
| Current Ratio | 1.98% | 2.01% |
| Quick Ratio | 1.43% | 1.46% |
| Year-on-Year Growth Rates, % | | |
| Total Revenue | −0.76% | |
| Gross Margin | 0.72% | |
| Operating Expenses | 8.14% | |

Source: Lola's Market, Inc. and Affiliates.

This remodel is intended to fit consumer needs as it will offer a buffet style, self-serve setting similar to what is seen at large competitors such as Whole Foods. With this remodel, Lola's will have freshly prepared, authentic Mexican food with a breakfast, lunch and dinner menu. Customers can serve themselves and will be charged based on the weight of their meal. David understands the need to capture the interest of the younger market base and on a global level the millennial consumer is seeking a fast meal that does not sacrifice health.²² Implementing this self-serve option will offer the young Latino consumer the access to authentic meals that are healthy and require little-to-no excess effort on their part. The millennial consumer is already shopping within the

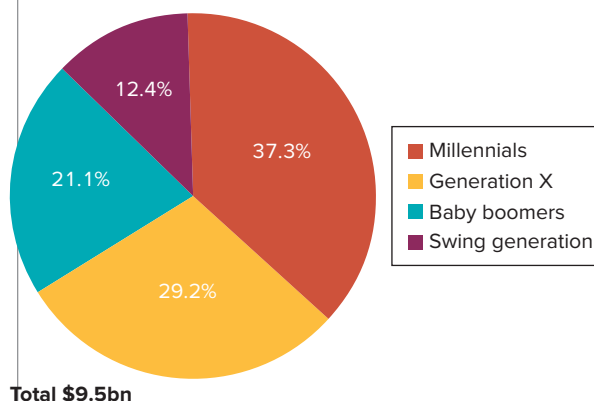
specialty food store industry that Lola's is a part of, accounting for about 37.3 percent of this market (see Exhibit 3) so to differentiate itself with its competitors Lola's can align remodeling with a repositioning effort to be an engaging brand on social networks. Globally millennials are considered to be the "first digital natives"²³ and as a consumer they offer the potential of a long-term customer.

A company's strategy rests on its unique activities,²⁴ and David Ortega's plans for remodel are distinguished from his competitors by their offering—traditional, nostalgic, homemade food. What will further distinguish this strategy are the marketing activities taken to promote the new changes in the store. Also, David is hoping that the remodels at Lola's will set them apart from other Hispanic markets; so that everything is not so jam packed. David sees too many of his competitors put too much out on the floor and it is not shoppable. He understands one of the key metrics of the industry is dollars earned per square foot, and agrees it is better to have a smaller space and bringing in more money (the Trader Joe's model) than to have a large store bringing in less money per square foot.

Millennials are interested in specialty food stores as they have an adequate source of living and are likely to use a significant share of their income for discretionary spending.²⁵ Millennials keep up with current health and diet trends; in order to retain this

EXHIBIT 3 Specialty Food Stores: Consumer Base

Major market segmentation (2017)



Source: Guattery, M., IBISWorld Industry Report 44529, Specialty Food Stores in the U.S., 2017, retrieved from IBISWorld database.

demographic, Lola's must show the consumer that despite the stigma that authentic Mexican food is inherently unhealthy, Lola's offers healthy options—even options for the vegetarian consumer. As leaders, David Ortega and his management team must ensure that all the changes and efforts toward rebranding are met with support and understanding by Lola's employees at all levels. When Lola's does launch their new remodeling at their Dutton Ave. location, employees must understand and adhere to the new store dynamic. All new roles and responsibilities that may be placed upon employees needs to be addressed clearly and implemented with proper training.

To tighten its fit and truly target the millennial Latino consumer there are some additional resources Lola's may need. Though there are employees at Lola's who are part of the millennial generation, but none of them currently possess the experience in social media marketing. No one on the Lola's team has a background in this type of promotional marketing tactic, as the most current marketing methods include monthly radio sound bites and weekly flyers distributed to neighborhoods near all five store locations. To be strategic in its industry Lola's must take advantage of the new industry change and utilize that to their benefit—social media allows for direct access to customers and direct access to customer feedback through applications such as Yelp. Instead of taking on the cost of hiring someone as a social media marketing specialist, Lola's can create a position for a college intern who would handle social media marketing in exchange for school credit. This type of relationship would give Lola's access to someone with insights to the platform and accountability for the work he or she is producing. As another alternative, David can implement HootSuite into his stores and train store managers on running this software. HootSuite is a free, easy-to-use software that allows content management across all social media platforms and

using this type of software will create a congruency and consistency amongst Lola's social media pages. Consistency amongst the platforms is key as all the content being pushed must be in alignment with Lola's mission statement and company culture. Overall, utilizing social media can potentially eliminate the number of flyers distributed weekly and some excessive marketing costs, while allowing Lola's to give its customers real-time updates on their new services, products, and promotions.

FUTURE DIRECTIONS

The focus on the millennial consumer is exciting as it will bring in a new market; but Lola's must not forget about its original consumer and employees who are part of the earlier generations. Companywide Lola's must ensure that the implementation of social media coincides with Lola's value on quality, customer service, and authentic Mexican food. Only then will they distinguish themselves from every other company marketing themselves on these platforms. By implementing social media into their brand dynamic, Lola's is taking a global risk seen among many business situations—the potential loss of integrity a brand can face when delving into those platforms. The Internet creates an unknown place where users have the option to freely voice their opinions, both good and bad, behind an anonymous mask. If Lola's is going to place itself in a position to be promoted for the better, it also needs to be prepared to expose itself to the potential of critique and feedback from its customers. If Lola's actively chooses to listen to the constructive criticism and reviews that its consumers offer, it can positively manipulate the negative side effects and utilize that data to its benefit—as they are receiving up-to-date consumer feedback at no financial cost. Lola's must focus on keeping its integrity in light of new changes and challenges it may face with its coming business efforts.

ENDNOTES

¹ D. Ortega, personal communication, October 03, 2017.

² Tweets: On the social media platform Twitter, a "tweet" is when a user creates a new posting on their page.

³ Hashtag: Utilized on all social media platforms including—but not limited too—Facebook, Instagram, and Twitter, a hashtag is

a word or phrase that is preceded by a pound sign (#) and signifies that the content adheres to a specific topic or event.

⁴ The Millennial generation is comprised of individuals born between the years of 1980 and 2000.

⁵ D. Ortega, personal communication, November 21, 2017.

⁶ North Bay Business Journal, "17 North Bay Latino Business Leaders," *North Bay Business Journal*, September 9, 2016, <http://www.northbaybusinessjournal.com/events/6057702-181/north-bay-latino-business-leadership-awards-named?artslide=10>.

⁷ Guattery, M., *Industry Report 44511, Supermarkets and Grocery Stores in the U.S.*,

IBISWorld, retrieved October 31, 2017 from IBISWorld database.

⁸ Moore, M., "Interactive Media Usage Among Millennial Consumers," *Journal of Consumer Marketing*, 29(6): 436–444, 2012.

⁹ Schawbel, D., "10 New Findings About the Millennial Consumer," *Forbes*, January 20, 2015, <https://www.forbes.com/sites/danschawbel/2015/01/20/10-new-findings-about-the-millennial-consumer/#1db62f776c8f>.

¹⁰ Schawbel, D., "10 New Findings About the Millennial Consumer," *Forbes*, January 20, 2015, <https://www.forbes.com/sites/danschawbel/2015/01/20/10-new-findings-about-the-millennial-consumer/#1db62f776c8f>.

¹¹ Rey, J. D., "Amazon and Walmart Are in an All-Out Price War That Is Terrifying America's Biggest Brands," *Recode*, March 30, 2017, <https://www.recode.net/2017/3/30/14831602/amazon-walmart-cpg-grocery-price-war>.

¹² Rey, J. D., "Amazon and Walmart Are in an All-Out Price War That Is Terrifying America's Biggest Brands,"

Recode, March 30, 2017, <https://www.recode.net/2017/3/30/14831602/amazon-walmart-cpg-grocery-price-war>.

¹³ Swindell, B., "Oliver's Debuts Store of the Future in Windsor," *North Bay Business Journal*, May 17, 2016, <http://www.northbaybusinessjournal.com/opinion/5627170-186/olivers-markets-new-windsor-store?gallery=5627183&artslide=0>.

¹⁴ Swindell, B., "Oliver's Debuts Store of the Future in Windsor," *North Bay Business Journal*, May 17, 2016, <http://www.northbaybusinessjournal.com/opinion/5627170-186/olivers-markets-new-windsor-store?gallery=5627183&artslide=0>.

¹⁵ Guattery, M., *Industry Report 44511, Supermarkets and Grocery Stores in the U.S.*, IBISWorld, retrieved October 31, 2017 from IBISWorld database.

¹⁶ Originally when David opened Lola's the cost for the signage above the store was about \$125/per letter. To save some money David shortened his mother's name from Dolores to her nickname "Lola."

¹⁷ Pan Dulce—translated into "Sweet Bread." This term encompasses many rolls, cookies, and Mexican pastries.

¹⁸ Lola's Market Home Site, *Lola's Market*, 2017, <https://www.lolasmarkets.com/>.

¹⁹ Fletcher, J., "Mexican Food Flourishes in Sonoma County," *SFGATE*, April 24, 2002, <http://www.sfgate.com/bayarea/article/Mexican-food-flourishes-in-Sonoma-County-2846114.php>.

²⁰ Tortilla: (In Mexican cooking) a very thin, flat pancake of cornmeal or flour; sometimes with added spices or flavoring ingredients.

²¹ D. Ortega, personal communication, October 03, 2017.

²² Health & Wellness, *Food Marketing Institute*, 2017, <https://www.fmi.org/GroceryRevolution/health-wellness/>.

²³ Millennials Infographic, *Goldman Sachs*, n.d., <http://www.goldmansachs.com/our-thinking/pages/millennials/>.

²⁴ Porter, M. E., What is strategy?, *Harvard Business Review*, 74 (6): 61–78, 1996.

²⁵ Guattery, M., *IBISWorld Industry Report 44529, Specialty Food Stores in the U.S.*, 2017, retrieved from the IBISWorld database.