

When the Last Grocery Store Closes – Exploring Cooperative Options – 10-18-16

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>> Welcome, everyone. As I'm sure most of you are aware, October is co-op month. USDA is pleased to organize a series of events. Today's webinar will be When the Last Grocery Store Closes Exploring Cooperative Options . About 34 or 40 years ago, if you look back, every town had a family grocery store or community owned facility. You now have big box stores moving in on the edge of urban areas beginning to shut down grocery stores in the world community. The loss of the last grocery store is difficult. People in those communities lose access to fresh, local food. There is loss of a hub for that community. Grocery stores have always been a gathering place. It also loses a sense of economic vitality. Towns are starting to look for ways to keep grocery stores in their community creating community owned stores and the cooperative model. The cooperative model is a perfect fit. Today we will have tremendous speakers talking to us about the way the cooperative model can be used. The first speaker is Ms. Margaret Bau. We would then have Dr. David Proctor -- Parker speak. We will then have Marni Thompson speak. She is with the fund for democratic community in Greensboro North Carolina. She recently had the new Renaissance cooperative last Friday that opened in the neighborhood in her hometown. We are excited to have all three speakers speak and excited to have you join us. We look forward to your questions and thoughts. I will now turn it over to Margaret Bau.

>> Thank you, Chad. Welcome and happy co-op month. My name is Margaret Bau. I have had the honor of helping people organize cooperatives for the last 18 years. I am excited about this topic. Before we dive into the topic of exploring options when the last grocery store closes, let's touch base on a definition of a cooperative. A cooperative is a business owned and democratically controlled by the people that use its services. There are three hallmarks to when a cooperative business. It is owned by the members, democratically controlled -- one member one vote regardless of how much money, time or resources are invested -- and that the benefits go back to the member owners. There are about 29,000 cooperatives across the United States. They are defined by who are the member owners of that business. The most common type of cooperative or the consumer co-ops, natural food co-ops, rural electric co-ops, credit unions which are financial institution cooperatives. Another type is what we tend to think about in rural America, the producer co-op where farmers joined together and do joint marketing, joint distribution, joint processing to get their product to market. A lesser-known type of cooperative are the shared services cooperative where individual businesses, nonprofits or even individual local or County governments will come together to pool resources in order to obtain information, goods or services at a lower price, and to share information or have a national advertising campaign. For example, true value hardware or Ace Hardware are both cooperatives, individually owned businesses that have voluntarily come together. Another type which only has between 300 302 -- 300 to 400 is where employees co-own and 20 benefit from a business. And up-and-coming cooperative are the multi-stakeholder cooperatives. That is where you may have different membership groups

within the same cooperative. This may be important to consider as we take a look at rural groceries. You could have a grocery co-op in which you have both consumer members plus worker, owner members, as well. That is a brief introduction to provide background as we proceed with the remainder of our talk today. As Chad shares, we have two presenters. First we will have Dr. David Parker give an overview, issues and solutions communities are coming up with. We will then have Marni Thompson share with us a very exciting initiative that she has been deeply involved with that can serve as a model for the rest of the country. Without further delay, I turned the presentation over to Dr. David Proctor.

>> Thank you very much. It is a pleasure to be with you today. I appreciate the opportunity to talk about the real grocery initiative out of Kansas State University. I am the director of a center in Kansas City University. As this slide shows our mission is to connect resources and expertise to the significant issues of public need facing those in Kansas and communities worldwide. When we first started in 2006, we started to hear almost immediately from communities that there was an issue with struggling, small-town grocery stores. What people were telling us is that these small businesses, small retail food outlets were anchor institutions in their town and struggling. They were afraid if the grocery store closed or had already closed that it was a very significant blow to these communities. We started to do research in 2007 to understand why these businesses were significant and important. None of us that worked in the center work as economists -- agricultural economists but we were interested in a community development. We found these little grocery stores were really important, community assets for three reasons. The first is because they provide a significant amount of economic development. The slide on the screen now highlights reasons these are important economically. Research we have done at Kansas City State shows that in Kansas in the small grocery stores when we are talking about rural grocery stores, we are talking about grocery stores in the smallest of small towns in Kansas we're looking at communities with 2500 people or less. We found that these stores on average were contributing almost 3/4 of \$1 million -- to the economy each year. We found they tend to be historically resilient businesses and during economic downturns, the small grocery stores tended to do as well as any other business in town and served as a bellwether of how the economy was doing. We also found from research that they were an important employer in the community. On average, the small stores provided 17 local jobs. There was always a mix of full-time and part-time. Research indicated it was 6 full-time and 11 part-time. One out of every five tax dollars were being generated by these grocery stores and the stores have a larger multiplier effect. Money that is spent in these grocery stores tended to circulate through the community doing more work in the community than money spent in a chain store such as a dollar store or chain, corporate-owned convenience store. We found there was people using SNAP and WIC benefits providing economic stimulus. In addition to the economic benefit, we found the stores important providing access to healthy foods. As this slide shows, each percent of the rural population across the country are living in communities identified as food deserts. These are census tracts -- tracked with significant poverty and lack of access to a grocery store. They are talking about areas where people are at least and more than 10 miles away from a local grocery store. In Kansas, when we talk about this and say 10 miles or more and you are in a food desert, people scoff at that. When you link that 10-mile distance with poverty, that becomes a challenge. That is because folks that are low resource audiences that did not have resources that others do, transportation becomes a challenge. Another characteristic is that they tend to be higher in terms of folks older in that part of the country. Elderly folks probably --

it is not their best interest if they are driving long distances to grocery stores. The poverty peace and access peace are what determine food deserts. Research has found rural areas suffer from higher obesity rates. Grocery stores are providing healthier foods at lower costs than rural convenience stores or places where they are selling primarily gasoline and a little bit of food. They have found there is an inverse relationship between the prevalence or presence of grocery stores and the incidence of obesity. Grocery stores in these communities are often distribution points for locally sourced and grown foods. They tend to be places where local foods are often aggregated and redistributed. There are sometimes farmers markets. There are many nutrition related reasons for the importance of these grocery stores. The third reason we came to believe the grocery stores were important is because they function as community hubs. These are places where people gather. We have found from our work in rural grocery stores that there are -- in addition to having a table to drink coffee in the morning, they are also places where they have service club meetings, Rotary club meetings. Sometimes there are needed clubs -- knitting clubs, cooking classes, local school artwork. In 2007, we realized there was a rural business opportunity grant. We decided to apply for that grant. We identified these four goals. We were going to identify challenges, develop responses to those challenges, identify and detail sustainable models of grocer operation and build a virtual and face-to-face information network for rural grocery store owners. We were fortunate to have this funded. That launched our work into the rural grocery initiative. When we did this study, we surveyed all rural grocery store owners and communities of 2500 people or less. We received a 60% response rate. We found these seven challenges the owners identified. Number one, competition from the big-box grocer in urban areas. Second, operating costs. That refers to almost exclusively, energy costs. Refrigeration is a huge issue. Often times in rural areas, the buildings are older, historic buildings. Often times the HVAC is in good. I will add, our center and grocer initiative are working with stores to help them put together applications for the REAP program. Part of that is an energy audit. We have been helpful in helping the store owners apply for and receive funding from the USDA. The third challenge were labor issues this was both quantity of labor and some concerns about quality of labor. The fourth is government regulations. The store owners are independent people and not always happy with any kind of regulation. Part of it falls back to labor. They feel it's a challenge given the difficulty they have with coming up with enough labor to make sure these government regulations are followed. Fifth, lack of community support. Six, lack of sales volume. They feel like they need to sell more product. Finally, minimum buying requirement. We asked what could be done legislatively to help rural grocery store operations. You can see the pie chart and major responses we received. Next I will talk about how we responded to some of these challenges. A big challenge was lack of community support. Owners talk about this in terms of being approached by a number of different groups in the community asking for their help. For example, the softball coach might come to the store and ask for juice to have available after a game. The youth minister might come and ask if they could provide cups and plates for an overnight lock-in. There are lots of community groups that come to them and ask them for their help around the community initiative. It frustrates the owners when they notice that youth minister or softball coach drives past the store and purchase his groceries at a larger city. We have tried to help them help communities demonstrate the importance of these stores by expanding on those first three slides. Talking about the economic importance, importance for health, and important that the stores have for creating social capital and building community identity. We highlight the power of community support. I have given an example.

This is a community and Walsh, Colorado -- Walsh, Colorado. It is a community of 700 people in Southeast Colorado that lost their grocery store and decided they were fine with that a grocery store going to a larger town to buy groceries. There was a terrible storm cutting the town off completely. They could not get out of town and stranded without groceries. They decided that they were going to -- they needed a grocery store. They created a community owned grocery store. It has been a tremendous success going for about five years. We try to build community investment by holding conversations to talk about the importance of the grocery store. These are called FEAST conversations. It stands for food, education, agriculture, seeking solutions together. It's a community process that has come out of the Oregon food bank that our center for engagement Rural Grocery Initiative has adapted for our purposes. It highlights the importance of the grocery store as well as the importance of strengthening local food systems. It's been a powerful tool. We do trainings for store owners and managers to talk about effective grocery operations. This is a slide that talks more about FEAST. We bring together a diverse group. It's a food system based on assets. It builds community investment, develops strategic action plans to help make them more secure. The grocery store is always part of that conversation. Another challenge highlighted earlier was the idea of meeting the minimum -- food distribution is a serious challenge. Often times the small store owners cannot purchase enough food from the grocery wholesalers so that it is economically viable for the wholesalers to distribute food. We have tried to help find ways to meet that challenge. We have tried to encourage stores to collaborate with one another and combine and join orders and jointly order from the wholesaler so that they can meet that minimum food distribution requirements. We are working in both Southeast Kansas and Northwest Kansas to literally build redistribution food centers so that those centers can purchase and water from the wholesaler. We have held a number of convening's where we have talked about food distribution models and provided information back to the store owners. We have worked to help them with identifying and talking about different models of ownership. These are primary grocery ownership models based in examples we know from around Kansas or around the U.S. There are several stores in the U.S. owned by high schools, run by high schools. They have their own physical plant. It's a standalone physical facility. They are community owned. Walsh is one of those. There are several in Kansas. We are finding that communities are identifying healthy food as a public good. Communities are willing to put in public dollars in conjunction with private entrepreneurs to create public, private partnerships. Sole proprietorship is the primary model of ownership. There are more more communities looking at creating nonprofits. As part of the mission they are running grocery stores. We are seeing two in Kansas and we know of other communities looking into this. We have put together a case studies for the six ownership models. You can find that on our website which I will reference shortly. We highlight this on the rural grocery toolkit. This is an example of the case study. We have one case study for each model. We define characteristics, challenges and benefits. We highlight examples. There are examples that illustrate this model of grocery operation. We have those case studies on our website. This is the toolkit. There is a link with a step-by-step process. The if you were to go to the website and click on one of these tabs, you would see resources in each area. There are different ways to assess the market and get started, business and marketing plans. I would encourage you to take a look at the toolkit. We have built an information network. We have our website www.ruralgrocery.org with the toolkit and rural grocery operations along with stories highlighting great examples of important work being done. We also have a rural grocery Facebook page and a twitter site.

We would love for you to friend us and like us. There is a lot of information and data we push out through Facebook and twitter. The face-to-face networks include the FEAST events. We have three more scheduled for 2017. We also have a summit every other year. We will do that again in June of 2017. We will do that again in June 2018. That is the Rural Grocery Initiative. I appreciate the opportunity to talk to you. You can see my contact information and website on the screen. I would encourage you to take a look. Thank you.

>> Thank you, David. What a great overview of issues and solutions that's communities have come up with. We will proceed to the next speaker, Marni Thompson who will talk about an urban example in Greensboro, North Carolina of a community coming together to address their food desert needs.

>> Thank you, Margaret and, David. I will never feel sorry for myself when we compare what we're doing here to the difficulties in a much smaller town. There are lessons about community owned grocery stores that can be taken from what we're doing here in Greensboro to rural areas. In 1998 the Winn-Dixie closed its store despite the fact that it was profitable. Similar moves happened as corporate chains attain higher returns. It became what is now known as a food desert. Not only could the 35,000 people who live here access -- no longer access fresh food be closer -- closure also led to economic decline. This is what the shopping center looks like in 2015, 17 years after the Winn-Dixie closed. In 2011, the community decided to fix it. They worked with my organization to figure out if it would work to own and operate its own full-service grocery store. They asked themselves what they needed. They also wanted greater economic opportunity in the forms of jobs and community wealth building. They wanted to do it providing people to work together to build a thriving and inclusive community. They wanted to become masters of their own destiny. They had a lot going for them. The community was pretty well organized having spent the better part of a previous decade closing a landfill. They knew each other's phone numbers and were used to going to meetings month after month. They liked working together. I mention this because I believe being unorganized community is a precondition to success. The store opened last Friday. You are looking at photos during construction. The soft opening was October 14 and the grand opening November 4 and 5. These are some photos during the construction phase. You can get a sense of the size of the store. It took five years of organizing, political work, planning and fundraising. The store is 100% owned and controlled by the community. It will never leave seeking a higher return on investment elsewhere. This is a shot taken at night. It is incredibly encouraging to see that sign in the darkness of the night. The store is 10,530 square feet. It can sell everything you would see in a full-service grocery store. It is not a glorified convenience store. It is full-service stocking between 12,000 to 15,000 SKUs. It provides affordable food. It's more like a price point at a Food Lion or Kroger. It can sell quality food at an affordable price. We were able to get a contract with a reliable distributor. We work with a firm that might have some interesting things to share about helping grocery store owners key into that network so you can get competitive for the business. The RCC set about to meet the community's needs. This store has produce, dairy, meat and seafood. In the last five days, the hot bar has sold out. There are lots of special touches attracting shoppers. This was another example. This is not a picture of the store. It looks better than this. The RCC looks prettier than this picture. The store's appearance is part of building confidence, giving people hope. It is not uncommon to see people walking up and down the aisles with tears because they are so

moved that they own and control something this special and beautiful. Another need was the need for better jobs. The RCC is employing 30 people. The lower starting wage is \$10 and our -- an hour, and full timers get health coverage. Employees come from a 2 mile radius and several live right next door in a public housing community -- housing community. It's all about the community. We are estimating that over the next five years, wages and benefits totaling more than \$3 million will be paid into the community. Over the next 10 years, we estimate 69 dollars in wages and more than \$350,000 in profits reinvested into the community under the control of the community owners. You may be wondering how this is possible from a financial standpoint. Very early on, we commissioned a professionally prepared market study to test the idea. According to that market study the store is going to gross formula dollar -- \$4 million to \$5 million in a year. There is no other grocery store around. In urban areas, the definition of a food desert is smaller than urban areas. The people who live there spend \$1.34 million every week on groceries. That is because even if you are poor, you have to eat to stay alive. Projections are conservative. We're only counting on attracting 5% to 6%. It cost \$2.5 million to get this up and running including startup costs and community organizing efforts. The money was raised to open the store. 1.5 million is equity. \$1 million is debt. The debt terms are pretty good. I am often asked how we did this in Greensboro. It's important to start with an organized community. We deliberately build capacity drawing on and doing teaching and training and coaching with established and new community leaders. That got us a steering committee that turned into a Board of Directors. We build out the ownership base. It is now 920 owners. I would imagine it would grow up to 1500 to 2000 over the next few years. I was told this community is too poor to be able to purchase ownership shares. It is so moving to go into the monthly RCC meetings seeing people on a limited income showing up with \$5 in an outflow to put that down on an ownership share. Almost all people buying that on a plan are paid up. People saw that this was important even though it is a imitating come community. We also accessed technical support from experts and co-ops in the grocery business. My organization provided the bulk of the information about running the store as a cooperative. We also relied upon up live solutions and Lake Shore food advisors. We hired a general manager a year before the store opened. We used architecture services and self help benches fund. At all phases, we deliberately cultivated community engagements. The community built organizing muscles fighting to close that landfill. We were able to attract 50 to 5120 -- 50 to 120 coming to the monthly meetings. We had a meeting last night. 100 people attended. We enjoy positive media support, which has been useful in helping get the support of elected officials. When we started, we didn't know how we would raise the money. We didn't know we would have to raise that much. Will we get some money in, it's easy to get more money in. The support from F4DC helped find support from the local community. When the community foundation came in, it foisted -- boosted shares. Wind shear capital and regenerative finance came in that is what -- when the city stop talking about giving us a grand and finally gave us a grant. All of the news attracted more people, churches and owners. I think there are four things a successful co-op needs. Authentic support from an organized community. I know David was talking about community engagements. I couldn't agree more. I also think helping communities get organized meaning they know how to stay in touch, delegate work and be accountable requires a skill set. Next, a solid business plan. I don't mean a 100 page document. It's a solid sense of what we will do, what we will sell, how much we will sell, who were the customers. It is a living thing and not a 100 page document that matters. Next, sound management and governance. The Board of Directors and owners

who elect the board represent the governance side. The general manager and staff represent the management side of the operation. We hired a talented general manager a year before opening. That has been really important. We were able to get a solid deal with our main distributor, which was part of her management plan. The board and owners are in constant capacity building mode. Fourth, adequate financing. One of the things -- on opening day we were sitting on more than \$350,000 of capital that we hadn't touched. One of the big reasons businesses fail is that they haven't had access to capital to weather the initial ups and downs. We need access to this extra capital to pay rent, staff and cover various contingencies. We are fortunate to have access to capital. We build that into the original sources and uses to cover any initial losses. We did sensitivity analyses to make sure we had capital to cover things if we were wrong about sales volume, cost of goods or labor costs. We will be okay and all parameters of those three items. For the rural closer where there has been a store or it's about to close, there may be a different way of financing and how much capital you need. In general, you need adequate capital. I am happy to answer questions. That is how you can contact me and my grandson.

>> Thank you, Marnie. October is co-op month. We at USDA are having a campaign. Please join us. Click on the link where you can write your story. Take a picture of it and added to our social media campaign. It's a fun thing to do to show that co-ops are everywhere. We at USDA Rural Development have financial loans and grants that may be of interest to what is going on in Kansas and other rural areas. David Procter talked about the Rural Energy for America Program, Rural Energy for America Program, which is energy grant to help -- grant to help pay for a more energy efficient system on a rural grocery store. There is also the business and industry loan guarantee program in conjunction with lenders to help them feel more comfortable about providing a loan. Unfortunately, we were not able to do that in Greensboro for obvious reasons. This is an option in rural areas. David talked about the rural business opportunity grant which is combined with the grant combined to be called the rural business development grant. Another resource especially in rural America are co-op development centers funded by a rural cooperative development grant. Co-op development centers help provide co-op technical assistance. The type of things that the Fund for Democratic Communities has provided in Greensboro, paired with business knowledge especially industry specific grocery knowledge can make for a successful launch. These are available resources.

>> Please type any questions or comments into the chat box in the lower left-hand corner of your monitor. I want to share that Trevor has brought -- wrote in to say that he has been to Walsh, Colorado and has visited the co-op.

>> In 2012 we had the president of the Board of Directors from Walsh as our keynote speaker at the summit. The story is super inspiring and powerful.

>> David, can you talk about your summit.

>> Every two years we host the national rural grocery summit averaging about 200 people. About half are rural grocery owners. The other half are service providers, NGOs. We also have researchers that participate if they are doing research on rural groceries access. It is a mix of panels. Some are all small-town grocery store owners talking about best practices around marketing or reducing food waste,

increasing sales. We have also brought in store owners or civic leaders talking about different models of business. One year we brought in high school folks from Minnesota, Nebraska and Missouri that had stores owned by the high school. We have had co-op people talk about their store's co-ops. We have always been interested in funding panels. We have had USDA at every summit, along with small business development centers. We have had state commerce people. There is a financial institution known as CDFI who have been there. It's a nice mix of owners, civic leaders and people working in that sector.

>>Marnie , we have questions asking you to elaborate on the financial package.

>> The amount at the bottom of the slide is now \$2.45 million. One idea to help is that some rural electric co-ops are rumored to have a fair amount of cash on balance sheets. I am wondering if people who know people on the Board could enter into conversations about the rural electrics making some funding available in the form of loans or grants.

>> A rural electric co-ops can apply through something called the red leg grant program providing at cost loans.

>> I will talk about the money raised. \$1.5 million is equity though not what is usually seen. It is money we don't have to pay back. Some of it could be paid back but is not required yet another \$1 million roughly is that -- debt. A big chunk of the equity is grants. Five version 90,000 -- \$590,000 is the tenant improvement. If we don't succeed, the shopping center will not work. It is not uncommon for landlords to provide tenant improvement allowances. \$590,000 Came in the form of balances. We needed improvements made. The installation of the internal construction makes it possible to function. Another important contribution is the \$250,000 grant from the city of Greensboro. The fact that this community was already organized from the landfill, was helpful. At one point the city promised \$700,000 and eventually came in with a 20 \$50,000 -- \$250,000 grant. They have rules about jobs. We qualified for about \$900,000 according to those rules. Most of the grant had to be spent on equipment. It is holding equipment as security in case we don't fulfill the jobs. It was a hard-fought's grant -- hard-fought grant. We are in for \$280,000 for this and community organizing roughly \$30,000 a year to pay for a community organizer, coordinator and an office. The health foundation is also a foundation player. They are only in for a loan, not a grant. A single investor who is very interested in alternative ownership models made a \$150,000 anonymous investment. They purchased preferred shares. That is an important part of our equity basis. Mostly preferred shareholders in businesses have some governance rights. The working world did not want that because they respect the one share, one vote, one person idea. This equity investor will be getting profit-sharing at a very reasonable rate when the store becomes profitable. They do not have any extra voting rights. 920 people have paid their \$100. Grassroots Fundraising. The balance comes from pass the hat. That is where the roughly \$18,000 comes from. \$90,000 came from two different churches. We have \$480,000 coming from Shared Capital Corporative from CDFI. We have two loans. One is for eight years, one for 10 years. The interest is very reasonable. The \$400,000 is from Regenerative Finance who is a group of young investors interested in seeing an equitable world. They raised from around the U.S., \$253,000. Those investors invested in The Working World at 0%. It is the most non-extractive loan meaning no matter

what happens the community will never be the worse off for having taken alone even if it goes belly up. Once we become profitable, we pay 5% of net profits for every \$100,000 invested instead of interest. That is how we share profits with The Working World. We have them slotted into be paid back on years 11 and 15. It's possible they can get paid back sooner or later. That is an exciting example of a broad-based of support for new forms of finance.

>> That is fascinating. It sounds like the community is very fortunate to have the Fund for Democratic Communities to take on that community organizing role and outreach with The Working World and Regenerative Finance. Thank you for the details. If there are more questions, please put the questions into the chat.

>> Can rural grocery co-ops join existing wholesale grocery co-ops such as IGA?

>> Yes. There have been two primary food distributors, wholesalers. They are both co-ops made up of member grocery stores. One is called Affiliated Foods out of Amarillo, Texas servicing the southwest part of the state. The other one is associated wholesale grocers based out of Kansas City covering two thirds of the state. They are both co-ops and members of the stores. The benefit is that when the store owners make their order and water per week, let's say \$50,000 per week, the wholesalers keep track of that amount.

>> Do you have advice for neighborhoods or communities without strong community groups to begin with?

>> I wouldn't want to move forward without authentic community voices without that from the beginning. It will never really worked to have outsiders attempt to organize a yet to be organized community. I am saying that because F4DC has been asked to repeat what we are doing in other communities. The response is always, when I hear from local community organizes, I will think about having a conversation. Step two, sit down with people and identified where people go, where they hang out and who has credibility individually and in institutions. They could be churches, Qantas -- kiwanis. One Omogrosso closed there was no organization. Three different organizations grew up in response to that. It had been there before the grocery store closed in 1998. I would start with authentic community interest.

>> I would second what you said. As we tried to figure out where to best locate our work, we're mapping Kansas food deserts. We are also mapping capacity infrastructure. When we talk about that we look around the state for things like food policy councils in communities, wellness coalitions in communities. Those are the communities where we believe there is the infrastructure to energize or establish rural grocery stores. We talked about community gatherings that we call FEAST events. We have tried to do them in counties where there was not an infrastructure. It just did not work. We couldn't generate from Manhattan, Kansas the interest on her own. Even though we are a land grant university having extension agents from K State. Even working with agents even though there was no organization in place working on healthy food access, we could not make those feast events work. I agree with what Marnie said. It is important to have community voice.

>> I have a question for both presenters related to getting past the point in the project where tips are something that may work to something that will work. Are there any comments about surviving that point and recognizing something other than looking back in retrospect? How did you know you were getting to that tipping point?

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