Twin Cities Cooperative
Local Food System

By Joan Stockinger and Dave Gutknecht

Find the complete study at www.cdsus.coop

Funding provided by Minnesota Department of Agriculture
Study sponsor is Cooperative Development Services (CDS)
“The key to sustainable livelihoods in food systems is for farmers, processors, retailers, and consumers to form vertical cooperatives with like-minded friends or make friends of like-minded people with whom they choose to cooperate.”

-John Ikerd,

(Journal of Agricultural, Food Systems, and Community Development 10/18/2012)
Project Description and Scope

• Case study of one local food channel in Twin Cities; not academic but grounded in data*
• Goal to profile the whole system, relationships, how it works, success factors, challenges
• This is a well-developed local food system:
  - commercial scale
  - viable enterprises at each level/node
  - moves significant amount of local product
• Gathered data from all 15 retail cooperatives
• Met with Co-op Partners Warehouse
• Qualitative interviews with 10 producers

* Local is defined in our study as coming from Minnesota or adjoining states.
Local Context

- Twin Cities metro area 3.4 million
- Rich and diverse farming environment
- History of cooperatives in region
- Supportive environment; not-for-profits, government
- Industrialization of food production
- Growth of healthy food movement
- Organic growth and organic price premium
- Cooperative retail system part of larger local food environment
Cooperatives and like-minded friends...

*Working together over 40 years have built a system:*

- 91,000 co-op members plus 50,000 shoppers
- 17 retail stores with total sales of $179M
- Local retail sales $54M
- Farm gate income est. $31M
- 300-350 producers or producer companies
- Individual producer farm gate income ranging from $5,000 to $700,000
Twin Cities Cooperative Local Food System:
High Level $$ Flows

Local Farmer –Producers (300+)

Local/Regional Processors and Food Companies

CPW and Other Distributors of Local Product

Co-op Retail Stores (15 co-ops/17 stores)

Co-op Members (91,000) and Other Shoppers (50,000)

Member-Owner/Consumer Demand $$$

Direct Delivery of Product Producer to Retail

Farm gate income: $31M

Direct deliver: $20M
Distributors: $11M
(Dist margin 17%)

Retail purchase of local: $33M
(Avg. retail gross margin of 38.5%)

Consumer purchase of local: $54 M
(30% of total sales of $179 M)
### Twin Cities Retail Co-op Member-Owners

<table>
<thead>
<tr>
<th>Year</th>
<th># of Retail Stores</th>
<th># of Members</th>
<th>% Change</th>
<th>Average # of Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>13</td>
<td>10,655</td>
<td></td>
<td>820</td>
</tr>
<tr>
<td>2002</td>
<td>15</td>
<td>36,157</td>
<td>239%</td>
<td>2,410</td>
</tr>
<tr>
<td>2012</td>
<td>17</td>
<td>91,102</td>
<td>152%</td>
<td>5,359</td>
</tr>
<tr>
<td><strong>20 Year Gain</strong></td>
<td><strong>4</strong></td>
<td><strong>80,447</strong></td>
<td><strong>755%</strong></td>
<td><strong>4,539</strong></td>
</tr>
</tbody>
</table>
Member-Owners’ Role in System

• Member-Owners support this system
  – Loyal customers
  – Control through board and policy
  – Share values around food and community
  – Provide financial support
    • Equity share investment
    • Retained patronage (profitable stores)
    • Nonvoting investment shares / loans for expansion
Retail Co-op Metrics

• Greater Twin Cities Metro
• $179M total sales
• 15 co-ops with 17 stores
  – 5 co-ops $1-3M
  – 6 co-ops $4-17M
  – 4 co-ops $22-33M
## Sales Growth in Twin Cities Retail Co-ops

<table>
<thead>
<tr>
<th>Year</th>
<th># of Retail Stores</th>
<th># of Members/Owners</th>
<th>Total $ Sales</th>
<th>$ % Change</th>
<th>Gross Margin</th>
<th>Net Margin (Profit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>13</td>
<td>10,655</td>
<td>$16,535,130</td>
<td>33%</td>
<td>2.3%</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>15</td>
<td>36,157</td>
<td>$66,086,819</td>
<td>300%</td>
<td>37%</td>
<td>2.0%</td>
</tr>
<tr>
<td>2012</td>
<td>17</td>
<td>91,102</td>
<td>$178,557,339</td>
<td>170%</td>
<td>39%</td>
<td>2.7%</td>
</tr>
<tr>
<td>20 Year Gain</td>
<td>4</td>
<td>80,447</td>
<td>980%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Retailers’ Role in Local

• Local is part of mission and shared values
• Commitment to local throughout from board to floor
• Consolidate demand for local food
  *A producer: “Most important is that co-ops are where our target clientele shops.”*
• Preserve identity of product
• Tell the story well/best
• Better at local than any other outlet
Retailers’ Role In Local (cont.)

• Producer-Friendly Purchasing
  • Fair price; don’t squeeze
  • Retain source identification at point of sale
  • Make pre-season commitments to price and volume
  • Do not “price shop”
  • Flexible: allow producer to sell direct or through distributor and switch
  • Loyalty to long-term suppliers
  • Hold a position for producer who has production problem such as flood, drought
## Retail Co-op Local Sales and Purchases by Category

<table>
<thead>
<tr>
<th>Category</th>
<th>% of Total Sales</th>
<th>Category $</th>
<th>Local Sales %</th>
<th>Local Sales $</th>
<th>Local Purchase/Farm Gate*</th>
<th>Category % of total Farm Gate*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meats</td>
<td>9%</td>
<td>15,877,065</td>
<td>72%</td>
<td>11,433,529</td>
<td>7,412,644</td>
<td>24%</td>
</tr>
<tr>
<td>Produce</td>
<td>20%</td>
<td>35,239,118</td>
<td>25%</td>
<td>8,955,740</td>
<td>5,315,262</td>
<td>17%</td>
</tr>
<tr>
<td>Refrigerated (incl. dairy)</td>
<td>11%</td>
<td>19,254,322</td>
<td>45%</td>
<td>8,702,914</td>
<td>5,730,777</td>
<td>19%</td>
</tr>
<tr>
<td>Packaged</td>
<td>21%</td>
<td>37,374,622</td>
<td>8%</td>
<td>2,850,325</td>
<td>1,695,058</td>
<td>5%</td>
</tr>
<tr>
<td>Deli (incl. cheese)</td>
<td>13%</td>
<td>23,561,964</td>
<td>51%</td>
<td>11,910,407</td>
<td>5,010,472</td>
<td>16%</td>
</tr>
<tr>
<td>HBC</td>
<td>10%</td>
<td>18,478,158</td>
<td>8%</td>
<td>1,560,909</td>
<td>781,749</td>
<td>3%</td>
</tr>
<tr>
<td>Frozen</td>
<td>4%</td>
<td>7,469,678</td>
<td>8%</td>
<td>604,372</td>
<td>361,345</td>
<td>1%</td>
</tr>
<tr>
<td>Bulk</td>
<td>9%</td>
<td>15,349,364</td>
<td>30%</td>
<td>4,625,988</td>
<td>2,616,022</td>
<td>8%</td>
</tr>
<tr>
<td>Bread</td>
<td>2%</td>
<td>4,325,842</td>
<td>60%</td>
<td>2,587,307</td>
<td>1,714,540</td>
<td>6%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
<td>1,627,144</td>
<td>42%</td>
<td>681,983</td>
<td>214,474</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Total All Metro Stores</strong></td>
<td><strong>100%</strong></td>
<td><strong>$178,557,339</strong></td>
<td><strong>30.2%</strong></td>
<td><strong>$53,913,476</strong></td>
<td><strong>$30,852,343</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

*Farm Gate is the income paid to farmers. It is calculated here as retail sales minus retail and distributor margins.*
Local Methods of Distribution

• Three primary channels for local product
  – Direct delivery (60%)
  – Co-op Partners Warehouse (20%)
  – Other distributors (20%)
• Distributor margin est. 17-20%
Distribution: CPW Profile and Success Factors

- CPW sales $22M
- Year-round, full-service strategy; organics only
- Early years: Wedge support, $5M breakeven
- Professional management
- Compete on service not price
- Local sourced is 20% or $4.4M + cross-docking
- Cross-dock service (drop-ship or piggy-back)
  - charge flat fee to drop box/pallet
  - 12,000 deliveries in study year; growing
  - could not est. value of product – minimum $2M
- Local is in the CPW mission
CPW Role in Local System

• Producer-Friendly Services
  – Long-term loyalty
  – Commitment to price and quantity
  – Price support; do not “squeeze”
  – Share market information, marketing tips, non-traditional methods of support
  – Preserve producer identity and story
  – Cross-dock services support direct-to-retail sales AND distribution throughout region
  – Allows producer to use multiple channels – peak sales period is NOT peak local season
  – Storage and cooler space at reasonable fees
Producers’ Role in Local System

• Grow food, work extremely hard, incur risk
• Pioneer organic and sustainable practices
  – Values and commitments can put them outside mainstream of their communities
• Loyal suppliers – strive to meet expectations of customers (retail, distributor, consumers)
• Strong cooperators working to support each other and others in the system
Local Purchases and Average Income to Producer/Supplier

<table>
<thead>
<tr>
<th>Total Local Sales $</th>
<th>Retail Gross Margin</th>
<th>Dist. Margin (for 40%)</th>
<th>Total Local Farm Gate Est.</th>
<th>Est. # Local Producers</th>
<th>Avg./Local Producer Retail Sales</th>
<th>Avg./Local Producer Farm Gate Income*</th>
</tr>
</thead>
<tbody>
<tr>
<td>$53,705,977</td>
<td>38.5%</td>
<td>17%</td>
<td>$30,758,829</td>
<td>300</td>
<td>$179,020</td>
<td>$102,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>350</td>
<td>$153,446</td>
<td>$88,000</td>
</tr>
</tbody>
</table>

* Farm Gate is the income paid to farmers. It is calculated here as retail sales minus retail and distributor margins.
Producer Open-Ended Questions
Common Themes

• Shared values, partnership, loyalty
  - “They are my partners. Every (co-op) makes my business work. I like to give them help; share ideas for less waste.”
  - “I’ve grown with the co-ops; co-ops hold loyalty.”
  - “Loyal; fair and loyal about price and quantity.”

• Tell the story
  - “Tremendous advocates (for our product).”
  - “Promote our product on the floor.”
  - “The co-op is a credible storyteller – tells the story about the farm best.”
  - “Explains the cost of local.”
Other Common Themes
(read more quotes in study)

• The right market for local product
• Understand needs of farmers, preseason commitments
  – “Preseason planning that we can grow to.”
• Share valuable information with producers
  – “Valuable feedback regarding the market.”
• Independence of each store; access to decision makers
  – “The co-ops can make their own decisions.”
• Do not squeeze on price
  – “Fair pricing”
  – “Co-ops are very cognizant of fair pricing and farmers’ wages and impact of pricing on that.”
Areas of Cost Internalized in Organic and Sustainable Farming

**Food Health**
- More nutrient-rich, e.g., High CLA & Omega 3; antioxidants
- Scale supports family sized farms, jobs
- Rural social connections

**Community Health**
- Rural economic multiplier

**Environmental Health**
- Soil fertility high, erosion low
- Habitat, diversity maintained
- Clean water; Reduced N, P & Sediment loss
- Carbon Sequestration
- Reduced use of antibiotics (less resistance)
- Pasture vs. confinement

**Humane Animal Husbandry**
- Longer productive life

Practices in these areas achieve benefits but can add to the cost of final food products.
Critical Success Factors for System

• Demand-driven
• Many owners
• Shared values across system
• Supportive environment
• Producer-friendly procurement practices
• “Local” is in co-op mission
• Loyal and trusting relationships
Critical Success Factors (cont.)

• Business focus
• Talent, professional management and staff
• Shopping convenience (year-round at retail)
• Cooperative culture – trust
• Resilience, learning from mistakes and failures
Challenges and Risks

• Limited capacity for more local producers (full)
• Challenges of mid-scale at all levels – production, distribution, retailing
• Price/cost constraints
• Values tensions need ongoing management
  – Fair return to farmers
  – Paying fair wages to employees
  – Healthy food to people of limited means
Values Tension

Challenge of Managing a Fair, Healthy, Sustainable, Local Food System

Fair Prices to Producers

Fair Wages

Affordable Food (to those of limited means)
Opportunities

• Co-ops do local best; powerful differentiator
  • meaningful
  • congruent with values
  • defensible niche

• Gather better metrics on local

• Share practices

• Work together to brand as “the place for local”

• Other?
Two Procurement “Cultures”

potential tension to be understood and managed

National large scale vendors: achieve efficiencies and minimize cost

("bulk pricing; discounts; slotting fees; minimal handling" etc.)

Local, small/mid sized producers: use farmer friendly practices

("partnering; relationships; information sharing; commitments; story telling; fair pricing " etc)
Thank you!

Find the complete study at www.cdsus.coop
Extra Slides for Reference in Discussion
Profits vs. Volume

Mistaken View

Artisanal Scale

Commercial Scale
Likely View

PROFITS

VOLUME

Artisanal Scale

Commercial Scale

Unsweet Spot
*(don’t get stuck here)*
Farm Direct to Consumer

(benchmark)

$1

• Farmstand or Farmstore
• Farmers’ Market
• CSA
• Order/direct deliver

$1
Includes any price premiums*

*Price Premiums include: organic, local, family-farmed, grass-based, sustainable, quality, freshness, taste, local fair trade, natural, other?
Farm to Distributor to Retail

For a “friendly” retailer & distributor

53c*

12c

35c

$1 (premium price)

*Farm-retail price spread for fresh vegetables 16% – 23%
For processed fruits and vegetables 14% – 17%
(USDA ERS 2007-2009)
Farm to Packhouse (Aggregator) to Distributor to Retail with scale & efficiencies in pack/distribution; friendly throughout

34c → 21c → 10c → 35c → $1 (premium price)

*Farm-retail price spread for fresh vegetables 16% – 23%
For processed fruits and vegetables 14% – 17%
(USDA ERS 2007-2009)

Phil Howard, Assistant Professor, Dept. of Community, Agriculture, Recreation and Resource Studies, Michigan State University