Twin Cities Cooperative Local Food System

By Joan Stockinger and Dave Gutknecht

Find the complete study at www.cdsus.coop

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"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

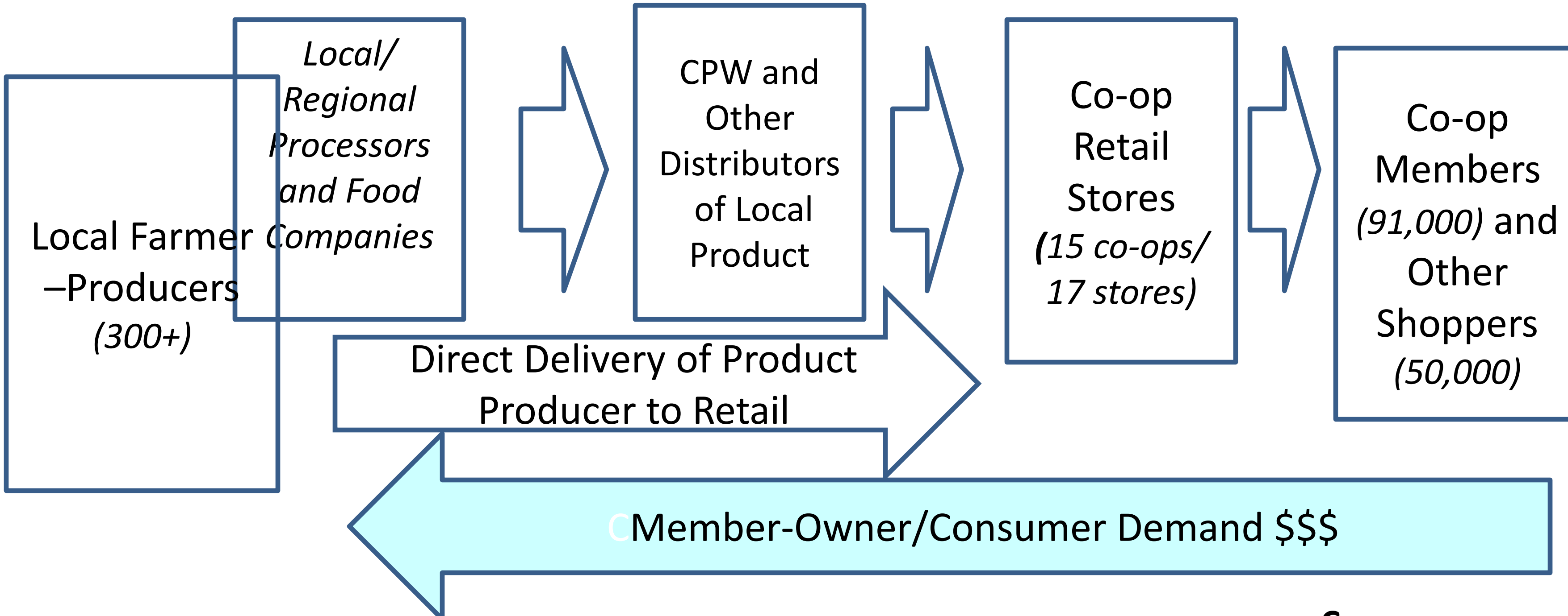
- Twin Cities metro area 3.4 million
- Rich and diverse farming environment
- History of cooperatives in region
- Supportive environment; not-for-profits, government
- Industrialization of food production
- Growth of healthy food movement
- Organic growth and organic price premium
- Cooperative retail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



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

Year	# of Retail Stores	# of Members	% Change	Average # of Members
1992	13	10,655		820
2002	15	36,157	239%	2,410
2012	17	91,102	152%	5,359
20 Year Gain	***4***	***80,447***	***755%***	***4,539***

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

Year	# of Retail Stores	# of Members/ Owners	Total $ Sales	$ % Change	Gross Margin	Net Margin (Profit)
1992	13	10,655	$16,535,130		33%	2.3%
2002	15	36,157	$66,086,819	300%	37%	2.0%
2012	17	91,102	$178,557,339	170%	39%	2.7%
20 Year Gain	***4***	***80,447***		***980%***		

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

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

** 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

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

** 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."

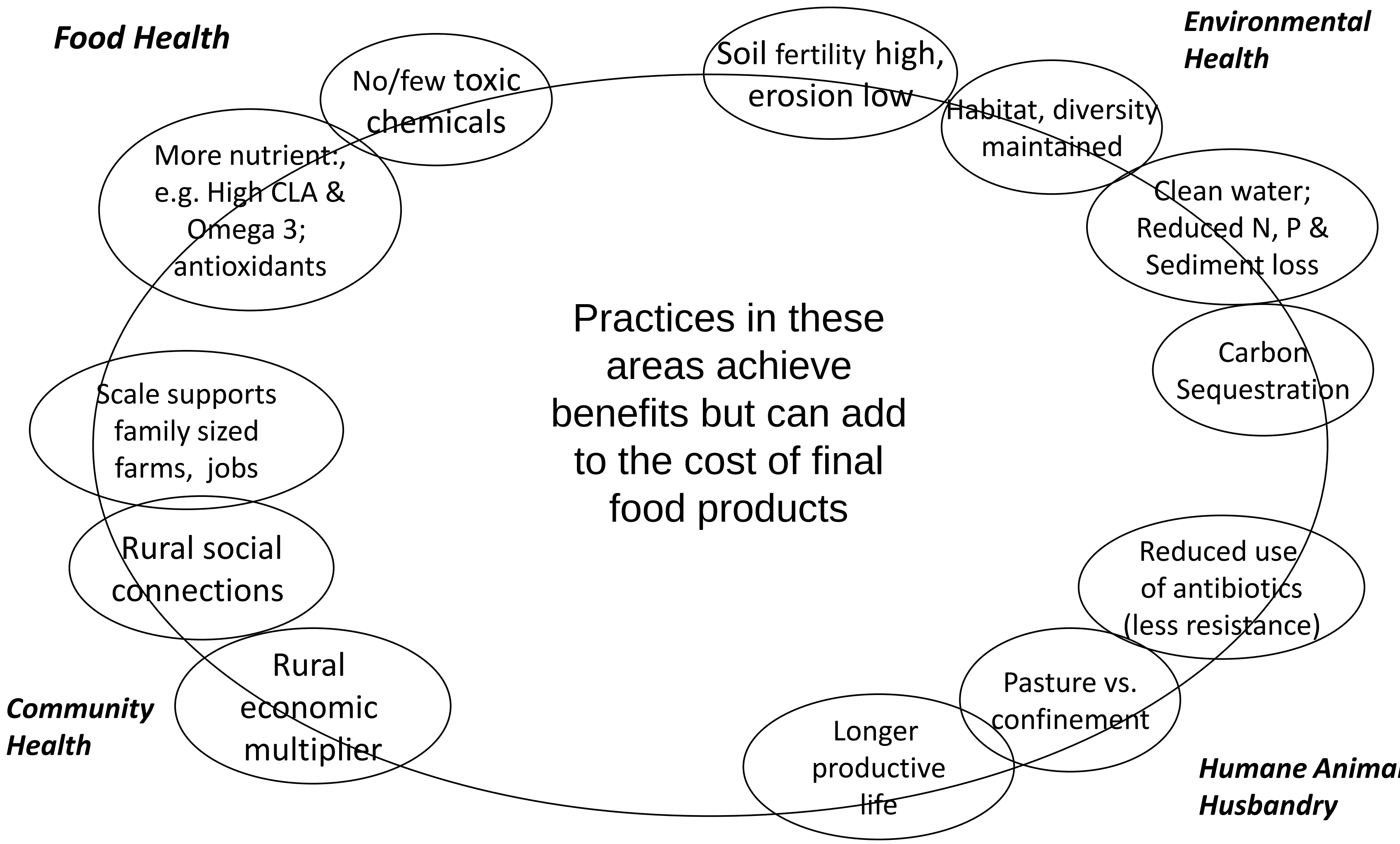
  -"The co-op is a credible storyteller – tells the story about the farm best."

  -"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



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.)

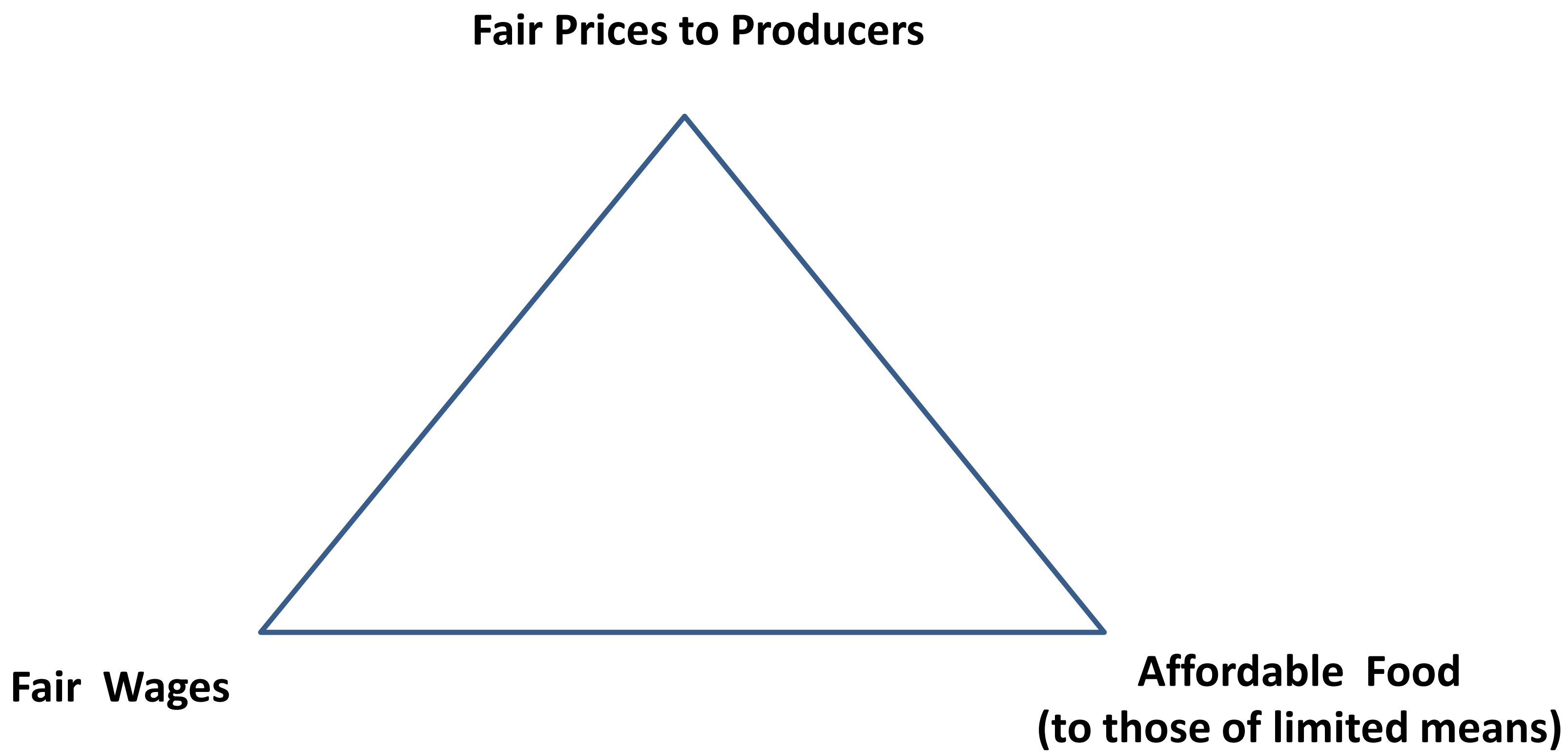
- Business focus
- Talent, professional management and staff
- Shopping convenience (year-round at retail)
- Cooperative culture – trust
- Resilience, learning from mistakes and failures

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

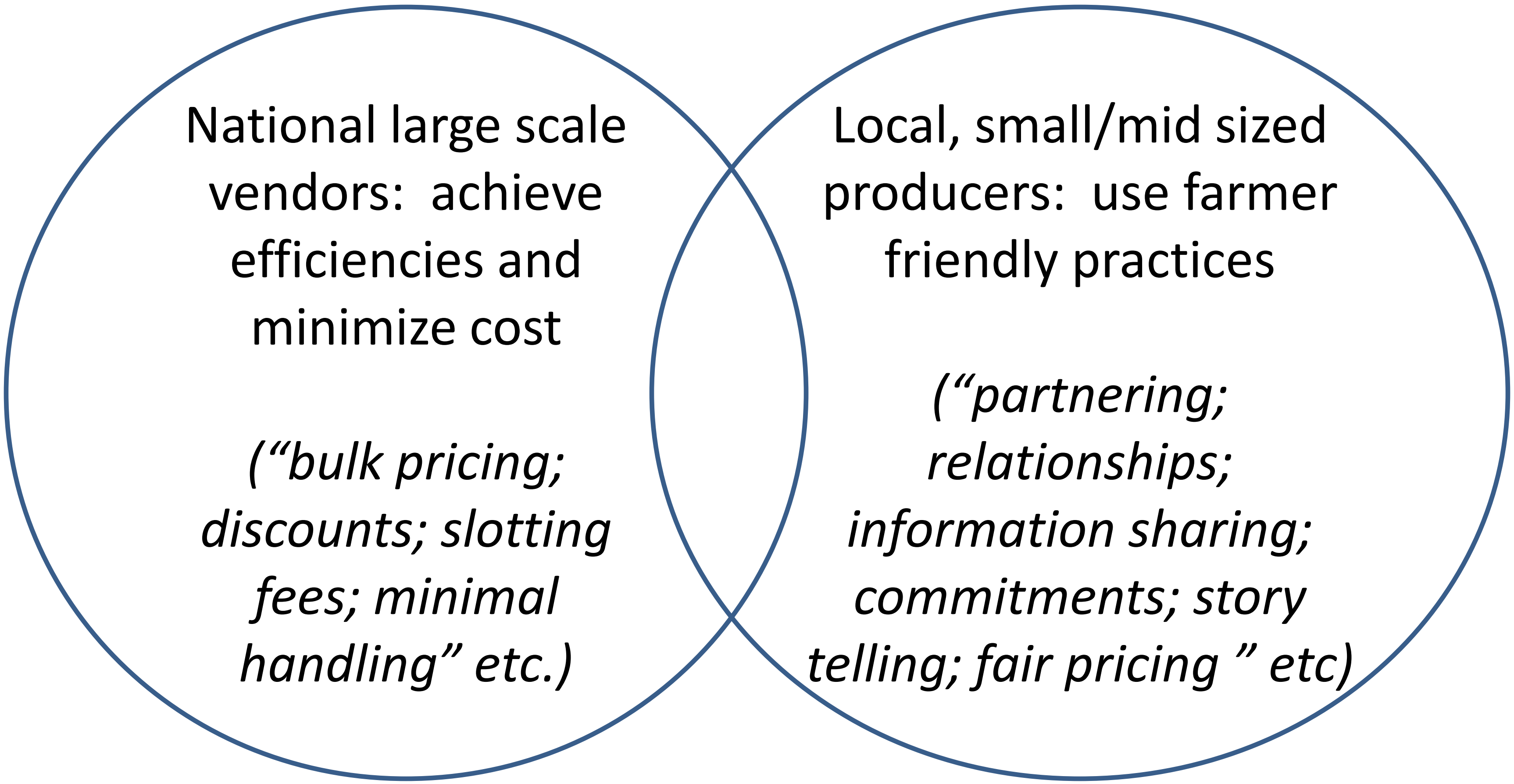


Opportunities

- 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



Thank you!

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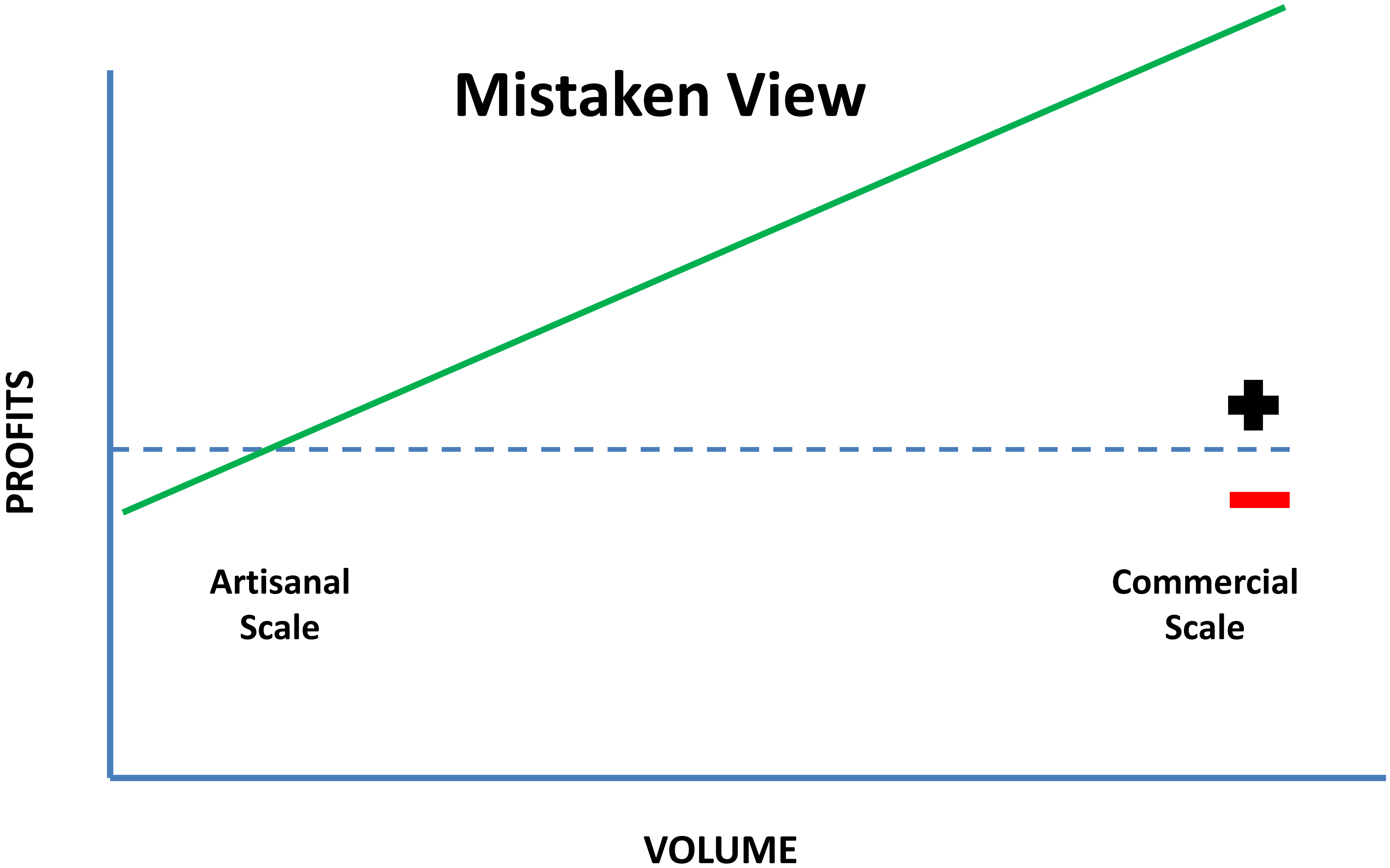
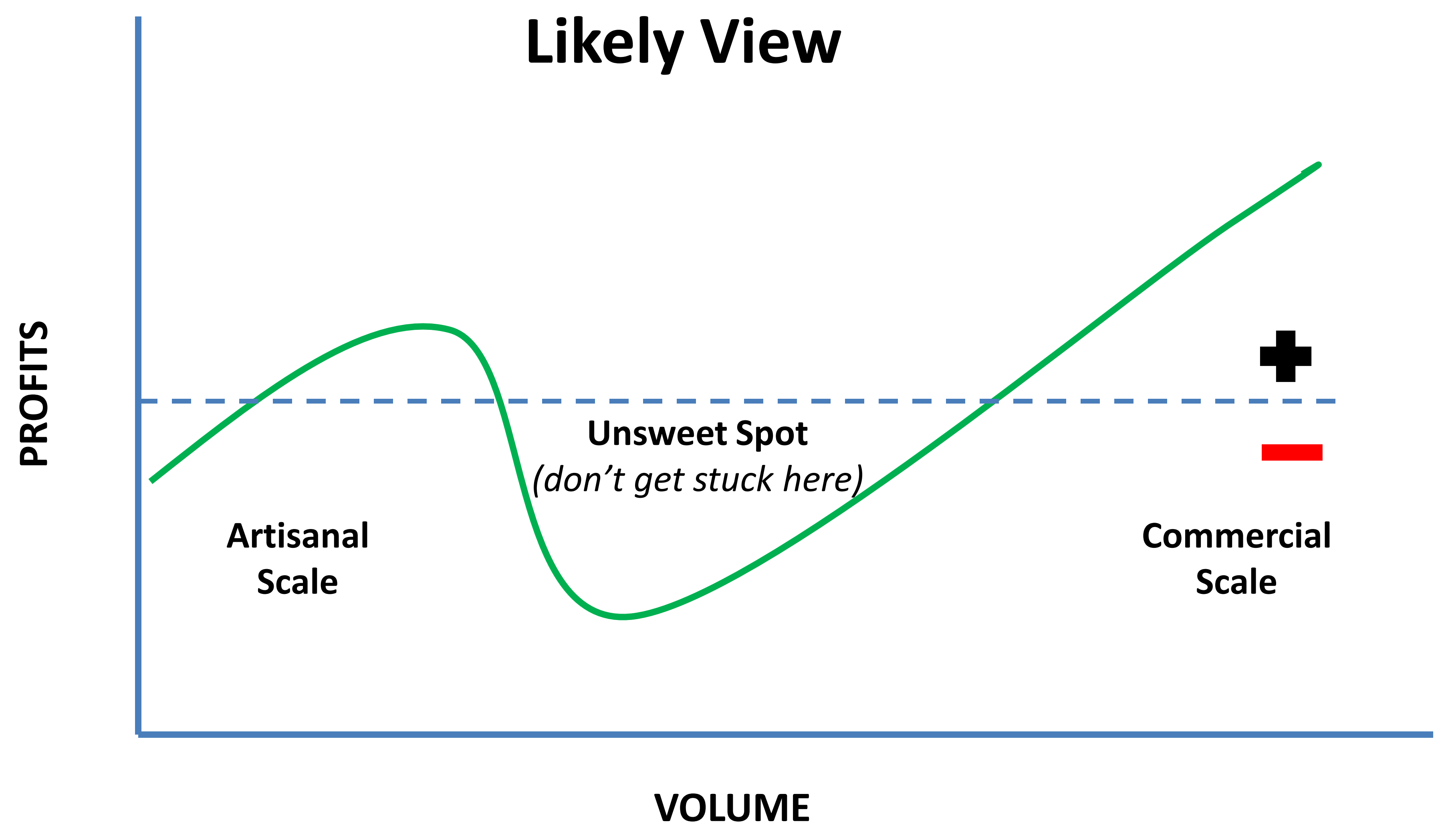
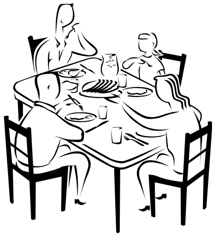
Extra Slides for Reference in Discussion


Mistaken View
PROFITS
Artisanal
Scale
Commercial
Scale
VOLUME


Likely View
PROFITS
Unsweet Spot
(don't get stuck here)
Artisanal
Scale
Commercial
Scale
VOLUME

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

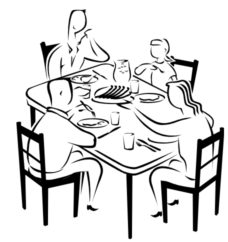
For a "friendly" retailer & distributor

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

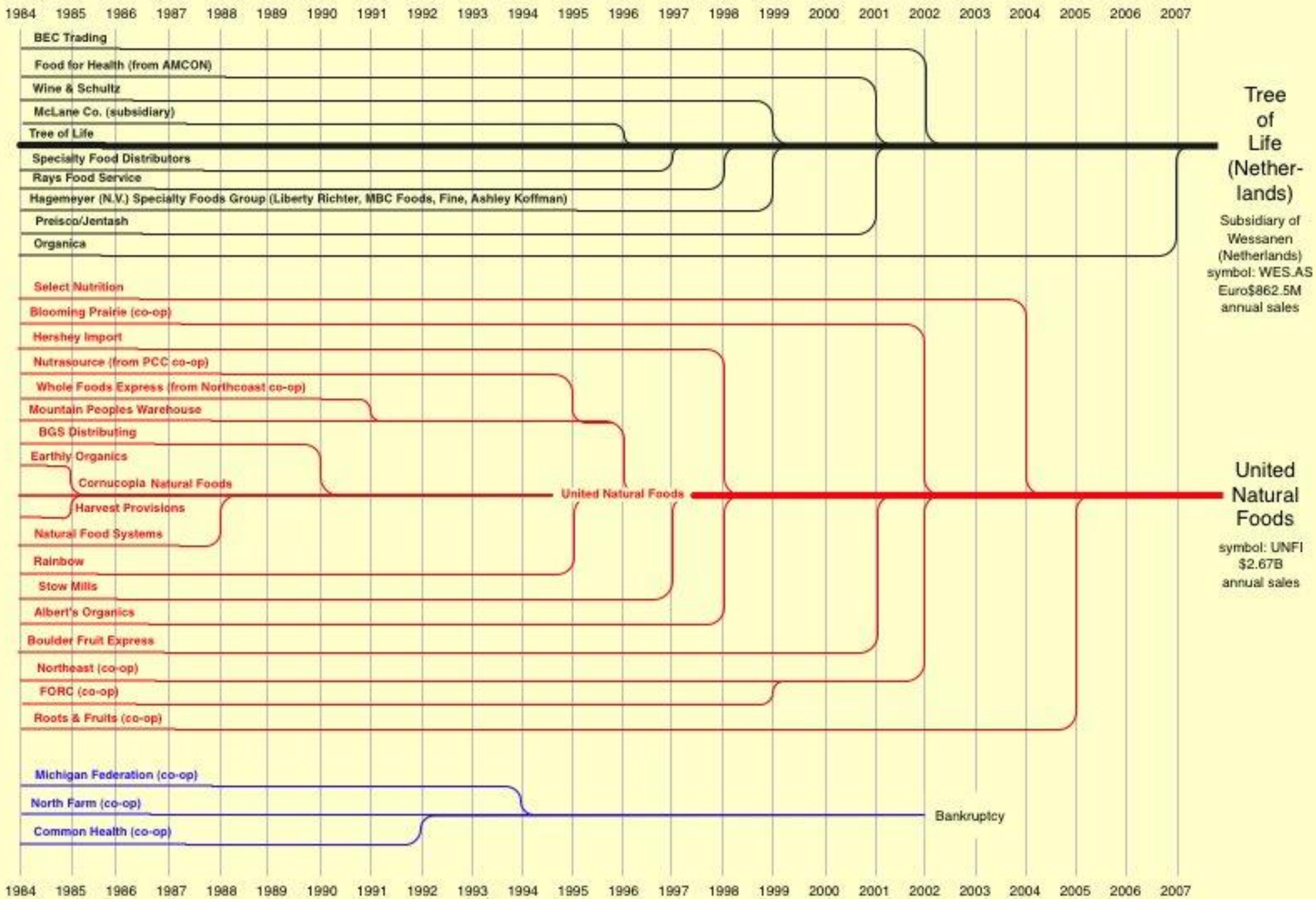
10c

35c

$1
(premium price)

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

Organic Industry Structure: Distributor Acquisitions and Mergers, 1984-2007



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