



The Twin Cities Cooperative Local Food System

A Case Study and Commentary



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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 Agriculture, Food Systems and Community Development (Volume 3, Issue 1 / Fall 2012, pp. 9–11)*

This paper is a case study of a thriving cooperative local food system centered around the Minneapolis/Saint Paul metropolitan area. This paper is not an academic study but rather combines research and comment to provide a system-wide profile that highlights the web of enterprises, relationships, and values-based practices that result in significant flow of local food from producers to consumers. The authors have identified what we believe are key success factors at each level. We hope our study will benefit participants in this system by revealing some of its complexity as well as strengths and challenges, and that it also will add to the understanding of advocates, educators, and business developers in local food enterprises elsewhere.

This study was conducted by Cooperative Development Services (CDS), a not-for-profit development organization with 28 years of experience working with a variety of cooperative projects, including producer and consumer-owned ventures in agriculture and other fields. CDS brings knowledge of the local and sustainable food marketplace from both a production and retail perspective. CDS provides early-stage concept testing, assistance for startups, and market and business planning for growth and expansion.

This paper was made possible by the cooperation of many area food producers and co-op managers, who supplied information on their past and present operations. We especially appreciate receiving detailed data from the following co-ops: Just Food, Mississippi Market, River Market, Seward, Wedge, and Co-op Partners Warehouse. Among local producers the following were especially helpful: Cedar-Summit Dairy, Featherstone Fruits and Vegetables, Pastures-a-Plenty, Hoch Orchard, Larry Schultz Farm, Keewadin Organic Farms, DragSmith Farms, CROPP, Callister Farm, and Rochdale Farms.

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Study Authors

Both authors have a long history of working with cooperatives and continue as member-owners and advocates in the local food system that is the focus of this study.

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Cover photos:

Cedar Summit Farm by Rolf Hagberg Photography, courtesy of the Agricultural Utilization Research Institute, www.auri.org.

Heirloom tomatoes by Pat Thompson.

Table of Contents

1. Study Summary and Highlights	5
2. High-Level Profile of Current System Components	8
3. Detailed Profile: Member-Owners	13
4. Detailed Profile: Retail	17
5. Detailed Profile: Distribution	26
6. Detailed Profile: Producers	34
7. Findings, Success Factors, and Challenges	45

Appendices

A. Glossary	50
B. Sources and Methodology	
C. Producer Comments	
D. Support Organizations	
E. Readings	

SECTION 1. STUDY SUMMARY

Interest in local food enterprise is strong and growing as a means of improving community health and building local economies, while preserving local farms. Local food enterprises include farming operations, processors and food companies, distributors and retailers. Local food is sold through both wholesale and direct (farm to consumer) channels. A “local food system” generally refers to a local or regional network of food enterprises that work together to bring food “from farm to fork,” connecting producers to consumers through one or more of these channels.

This study profiles a thriving cooperative food system or value chain in the greater metropolitan region of Minneapolis-Saint Paul, Minnesota. Promotion of local food is one of several core values of this system – others include providing healthy and organic food, supporting family farming and sustainable farming, promoting fair trade, offering good jobs, and advancing cooperative values and enterprise.

This study focuses on this co-op system’s shared mission around local food and describes how it reaches from producers through a variety of distribution channels to cooperative retailers and their member-owners and other shoppers. This value chain is an example of a viable, commercial-scale wholesale/retail system for local food.

A multi-level cooperative system built over a period of 40 years, this local food value chain comprises well over 300 producers, a cooperatively owned distributor of organic product, and 15 consumer cooperatives operating 17 retail food stores, backed by 91,000 co-op member-owners and an additional 50,000 shoppers. In the year leading up to this study, total retail sales through this cooperative system were \$179,000,000 (\$179M), with local product accounting for 30 percent of sales, or around \$54M. Local farm gate income (income flowing to producers) after distributor and retail margins is estimated to be over half of those local sales or \$30M.

Our goal in this case study is to provide an in-depth picture of a proven local food system operating at a commercial scale with viable enterprises at each level or node. After a system overview, we discuss in detail each key level – member-owners, retail co-ops, distributors, and producers – in the following ways: Each of these levels or nodes of activity makes a substantial contribution to the local food economy and receives substantial benefits from it; we describe these contributions and provide some metrics for each node. Along with success factors, each level also has specific challenges in areas such as market capacity,

operating margins, and economies of scale. All of the elements mentioned must be managed in growing a viable food system.

Some Findings and Success Factors

See *Section 7* for a complete summary of study findings, some of which are highlighted below:

Demand-driven: The Twin Cities cooperative food system has been a demand-driven system from its inception, when member-owners organized to access food they could not find elsewhere. This continues today as the retail cooperatives emphasize growing member-ownership, which expands the base for local food sales.

Many owners: The member-ownership base of the retail cooperatives embodies many strengths for growing a local food system. Member-owners generally join based on their food and community values, and they are loyal customers. Member-owners also support the system with financial investments and express their broader values through board policies and membership activities.

Shared values: There is a base of shared values around healthy food, local food, sustainable farming, and community, and these values reach from local farms to businesses, member-owners, and shoppers. These shared values give coherence and create differentiation supporting ongoing growth in the local food economy. The values support a partnership approach to business within and across the different components.

Supportive environment: There is a supportive context of state laws and policies supporting cooperative formation; supportive nonprofit organizations and government programs; a business community familiar with cooperatives; and a rich and diverse agricultural base in the region.

Business focus: There has been a focus on business viability, good business practices, and growth in scale in order to achieve financial sustainability and have more mission impact. Attention is paid to competition and the need to communicate value, to innovate and change in addressing that. All of the enterprises in this system are for-profit businesses and have been since inception.

Shopping convenience: The retail cooperatives combine local product with long-distance product and have been able to attract and retain member-owners and shoppers looking for convenience and year-round variety, thus supporting business viability.

Fostered trust: The cooperative culture also fosters trust across the system. There are many formal and informal ways in which members of this system provide support to each other.

Resilience: There is a culture of experimentation and learning at all levels. Over the 40-year history there have been notable failures of producers, distributors, and retailers, with many conflicts within co-ops. The system has demonstrated resilience in its ability to learn, reform, and continue to grow.

Professional talent: Support for good jobs and the development of professional standards have enabled the enterprises at all levels of the system to attract and retain dedicated and talented managers and staff.

Some Challenges and Risks

Limited additional capacity: The co-op system's local food capacity is largely "full." Existing producers have the ability to meet the demand in this system. This means there is limited opportunity within the existing system for new local producers of primary products, including the categories of local and seasonal vegetables and fruits, dairy and cheese, meat and eggs.

Challenges of mid-scale: All the key enterprises under study – farms, co-op retails, and a co-op distributor – are small or at best mid-sized within their respective sectors, and competitors often have greater financial resources and greater economies of scale. Challenges to enterprises in the local system include the need to operate very efficiently, limited funds for marketing and promotion, and limited buying power – with smaller lot purchasing and sales – compared to larger players.

Price constraints: Price is a challenge to growth of the overall system of local food. The production of food at a small or mid-scale is often more costly than for the larger farms. The cost to distribute and to retail smaller lots of local product is also often higher (per unit) than in the mainstream distribution/retail system. Growing certified organic products also has additional costs. Communicating the cost/price/value proposition from the producer to the consumer is an ongoing challenge.

Values tensions: There are tensions among multiple values in the local food system, most visibly around price – values that are manifested in these goals:

- Providing a fair return to farmers who use sustainable and humane practices
- Paying employees fair wages and benefits
- Providing healthy, high-quality food to people of ordinary means

SECTION 2. HIGH-LEVEL PROFILE

The Twin Cities cooperative system is a major food channel in a larger, vibrant local food environment that also includes:

- well-developed direct-to-consumer sales through farm stores, farmers markets, community supported agriculture (CSA), and other direct delivery operations;
- significant local food restaurant sales, with a range of farm-to-restaurant connections both direct and through distribution;
- a supportive environment of nonprofits, farm organizations, government programs, and commercial ventures promoting local and organic/sustainable food;
- significant consumer/community interest in purchasing organic/sustainable and local food and capacity to pay a premium for such food.

While the present study focuses on the local food system's co-op retail and distribution businesses, we do touch upon these additional elements of the local food environment. (For key terms used here, see *Appendix A: Glossary*.)

Following are two charts that present a high-level or conceptual view of the cooperative food value chain, showing the flow of product and key nodes in *Chart 1*, with additional aggregate revenue numbers for each component of the chain in *Chart 2*.

Chart 1 shows the major nodes in this local food system. Starting on the right, we find:

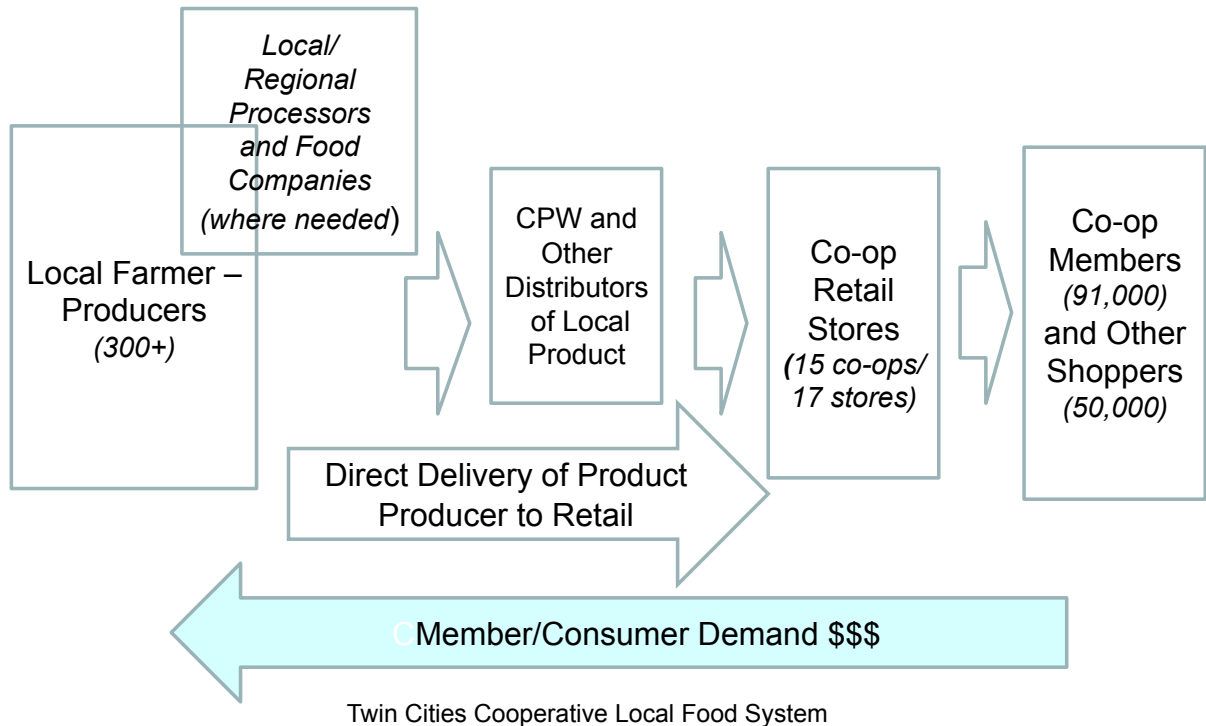
- There are 91,000 consumer member/owners and an additional 50,000 nonmember shoppers.
- There are 15 consumer-owned independent cooperatives operating 17 retail stores.
- There are a range of distribution options in this system carrying local product:
 - Producers deliver direct to the retail stores
 - A cooperatively owned distributor, Co-op Partners Warehouse (CPW) purchases local product and offers additional drop-ship or “cross-dock” services to local producers
 - Diverse other distributors carry a limited selection of local product
- 300-350 local farmers and local food companies supply product through this network, in many product categories. Some processing is done “on farm,” while other producers have a range of packing/processing arrangements.

Each of these nodes will be profiled in depth in *Sections 3-6*.

Chart 1

**Twin Cities Cooperative Local Food System:
High-Level View of Major Nodes and Players**

**Twin Cities Cooperative Local Food System:
High Level View of Major Nodes and Players**



Regarding the direction of arrows: In these charts, the primary arrows are shown moving from left to right, representing the flow of local product through the system to the end consumer. This is the “supply view” of the food system. We want to call attention to the large arrow flowing the other way, showing purchasing dollars from the member/owners and consumers back through the system to the producers. This is the “demand view.”

These two directions are equally important, but if we had to choose we would emphasize the importance of focusing on the demand side in building a local food system. Identifying the market and correctly sizing the system to that market is essential and can be overlooked in a “supply-driven” approach. One of the conclusions of this case study is that this particular system has been viable and robust because there has been strong consumer leadership (demand) from the beginning.

Marketers talk of “push” versus “pull.” The Twin Cities system was built largely as a “pull” system, with member-owners initially seeking to get whole and healthy food and to build community. Business practices supporting that mission broadened over time to include local sourcing, support for family farmers, support for sustainable farming practices, and creation of good jobs for employees. A focus on building local economies and community has become more visible in the mission, while the broader society, by contrast, is seeing more and more commercial consolidation.

Chart 2

**Twin Cities Cooperative Local Food System:
High Level \$\$ Flows**

**Twin Cities Cooperative Local Food System:
High Level \$\$ Flows**

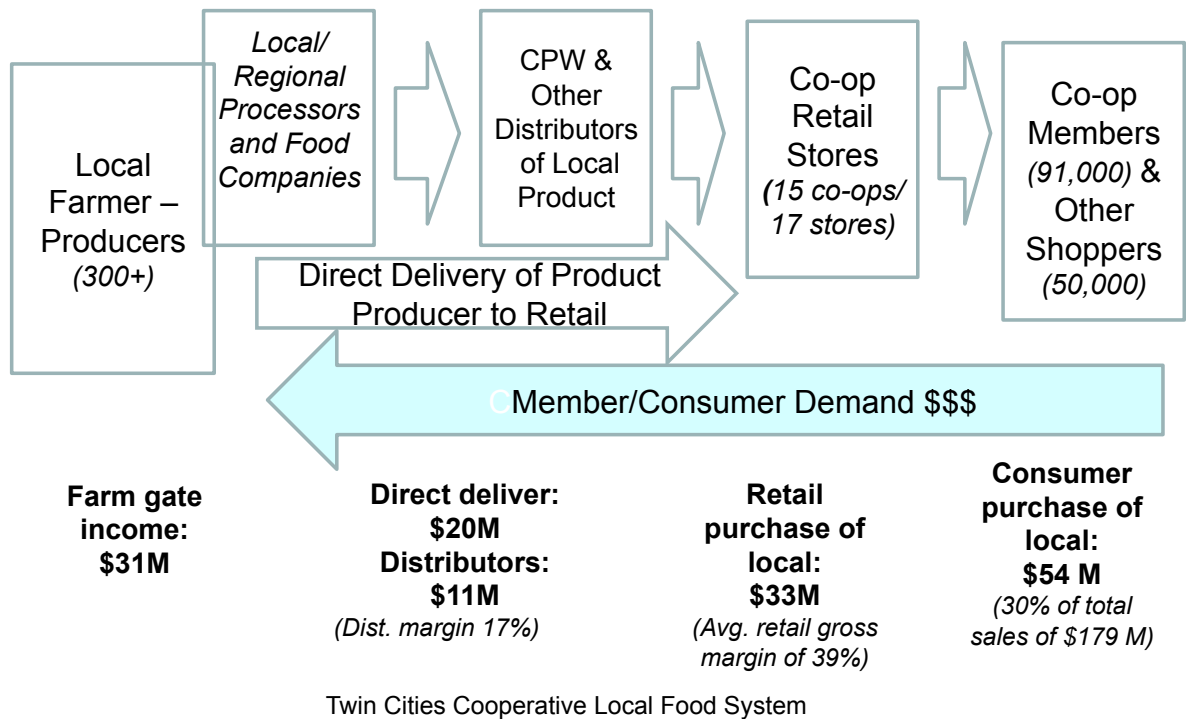


Chart 2 adds high-level financial data for the system. Starting again at the right:

Member/owners and other shoppers combined purchased \$179 million of product from the co-op system in the year prior to this study. Of this, 30 percent was

identified to be local, or about \$54 million. Local food includes farm product (fresh fruit and vegetables, dairy, meat, eggs, etc.), locally processed food (baked goods, cereal and grain products, many others), and limited non-food items. The 91,000 co-op members provided 70 percent of total sales, with nonmember shoppers providing the other 30 percent.

Retailers. Retail purchases of local product, after a retail gross margin of 39 percent is taken out, were about \$33 million. Stores in this study range in size from \$1–30 million in annual sales, and the proportion of local product sold ranges from 21 percent to 37 percent. (For background on the retail data, see *Appendix B: Sources and Methodology*.)

Distribution. Producers use a variety of means to move product from the farm through processing and to the retail co-ops.

- Direct delivery by producers/suppliers to co-op stores was about 60 percent of product purchased or \$19–20 million.
- The cooperatively owned distributor, Cooperative Partners Warehouse (CPW), moves more than 20 percent of the local total in two ways: CPW purchases product and resells it in a traditional distributor manner (\$4 million sales of local product in the past year). CPW also offers a producer-friendly “cross-dock” or “drop-ship” service, in which for a flat fee (per pallet) CPW will deliver producer goods at any of the stores in this system. The value of producer sales handled via cross-docking at CPW is estimated to be another \$2 million annually.
- Other local distributors and national distributors deliver another 20 percent of local product purchased by cooperative retailers in this system.

Alongside these three methods are a variety of other cooperative distribution arrangements, including at least two fresh produce aggregators, plus co-distribution arrangements in which a producer will bring a neighbor’s product into the metro on a regular basis and deliver direct to stores or drop at CPW for further distribution.

Producers. A more difficult number to pin down is the total number of producers supplying product to this system. Most producers use multiple sales channels, and the co-op system represents just a part of their overall sales. Some producers sell product to more than one local co-op store and will use the co-op distributor some of the time but not for all deliveries. Stores have provided good estimates of their total number of local suppliers, but many suppliers are double-counted.

We have estimated that there are at least 300 different producers/producer groups/local food companies selling product in this channel. Within total farm gate income of \$30M,

there is a very wide range in scale of producer sales through the co-op system – from several million dollars for a regional dairy cooperative representing many dairy farmers and selling through all co-op stores, to \$10,000 or less for artisanal product delivered to one or two stores. An average sales figure would not be representative, but there is significant economic impact for a sizeable group of local producers.

We believe that a critical metric for a food system is to achieve a volume of purchases (farm gate income) that can support viable farming operations. Evaluating a food system by the number of producers participating is inadequate if the dollar volume per producer is very small. We do not have data from enough producers in the Twin Cities co-op system to estimate accurately a median farm gate figure; however, the average of \$88,000 - \$102,000 for over 300 producers does illustrate the impact of this system.

SECTION 3. DETAILED PROFILE: CO-OP MEMBER-OWNERS

- *Importance in this local food system*
- *Background and metrics*
- *Success factors and challenges*

We have chosen to start the system detail in this case study with the consumer member-owners of the retail cooperatives. Often studies on local food start with a producer group. By starting with the member-owners, we in no way intend to diminish the importance and role of the farmers and local suppliers. But we have seen elsewhere that a common reason local food efforts fail is that they do not gain genuine commitments from a customer base, at a price that both generates net income for the producer and enables the producer to grow and achieve a viable scale.

The natural food retail cooperative movement was “demand-driven” from its beginnings, although this language would not necessarily have been embraced by the founders. People formed buying clubs and small storefronts to gain access to what were then “alternative” foods – whole or minimally processed, free of unwanted additives, organic. Initially this was not primarily a local food movement, although it was locally focused; but early in its development, local food and support for family farming gained a central position.

We believe this demand-driven or consumer-driven approach has proved to be a critical success factor – it laid the base for a strong and committed local food retail market. As owners of the cooperatives, members have the opportunity to seek a much wider range of values and connections in their food purchasing. Over the years, as the co-ops became more focused on the role of members and on growing membership, the interest in local food and in connecting with local farmers took a more prominent role. Values-driven members have sustained values-driven enterprises.

Membership Numbers

In the past two decades, food co-op leaders have emphasized growing the membership, recognizing that this is critical to the success of the mission and to the viability of the retail cooperative businesses. The following table shows the growth in co-op member-owners over a 20-year period from 1992–2012:

Table 1

Twin Cities Retail Cooperative Member-Owners

	# Retail			Average #
Year	Stores	# Members	% Change	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

As shown in Table 1, retail cooperative membership increased eight-fold over the 20 years from 1992 to 2012. If the strong increase in member-owners during just the latter decade were divided evenly over that period, the Twin Cities food co-ops have been gaining some 100 new member-owners each week for 10 years – an impressive and sustained campaign.

What does this mean for the local food system? Members contribute to the viability of this system and the retail natural foods cooperatives in many ways:

Loyal customers: The 91,000 members accounted for 70 percent of system sales, or \$126M of product in the most recent year. The retail co-ops also report that average transactions by member-owners are higher than average transactions by nonmembers. Annual purchases from the co-op average \$1,384 per member household.

(To give this context, in the U.S. individuals annually spend an average of \$2,215 on food purchased for home consumption, and another \$2,167 on food consumed away from home [USDA ERS]. Thus, a hypothetical average Twin Cities co-op member-owner household of 2.2 people [2010 Census] purchases about 28 percent of its food consumed at home from the co-op – assuming only one membership per household. Using the same average figure for food consumed at home, the Twin Cities co-ops have approximately a 2.3 percent share of the total grocery market in the greater metro region.)

Members are owners: Members control the organization through the election of a board of directors. If a cooperative is to thrive, its values, goals, mission, and strategic direction must reflect those of the membership. Members have sought co-ops in order to engage around a widening set of food values – organic, local and family farming, fair trade, fair wages, community connection – and this set of member values has been key to the priority of local food in this system.

In a consumer cooperative with hundreds or thousands of members, the leadership (board and management) must work to keep the values in front of members – but ultimately the members make decisions to participate or not. In this way, the significant local food component of this retail cooperative system reflects member values and desires.

Members provide financial support. In a consumer cooperative, there are typically many owners, each contributing a relatively small amount of capital. Broadly, members of the food cooperatives provide financial stability and support in the following ways:

- Membership shares provide an important base of owner equity. System-wide we estimate an average share price of \$85 for a core equity base of \$7.7 million, a figure that grows each year with new member-owners. The retail co-ops have maintained relatively low member investment requirements (ranging from \$75 to \$200) and also offer installment plans for this investment. The modest cost of an owner share makes membership affordable to a wide population. Understanding the importance of equity to growth and viability of the co-op, and building equity over time through growing membership, have been key lessons and success factors.
- Net earnings in a cooperative are primarily distributed to members as patronage refunds (after member discounts, staff bonuses, co-op investments and reserves); but in the food co-op system members increasingly accept that a major portion of these earnings usually is retained in the cooperative, thus improving services for current and future members and building additional equity on the co-op balance sheet.
- Members with financial means and commitment provide key support for growth and expansion in the form of subordinated debt financing, often representing from 25 percent to 50 percent or more of a financial package, contributing \$1-3 million for a major renovation, expansion, or new store project.
- Some individual cooperatives offer donation programs at the cash register as well as through the annual patronage distribution, with many small contributions adding up to thousands of dollars. Donation campaigns have been conducted to support local farms, food shelf and food justice programs, plus many other community organizations. This is an expanding practice among the co-op retails, a capacity that reflects careful management as well as a benefit of greater economies of scale.

The involvement of a growing number of customers as members of a cooperative has been key to the long-term viability and resilience of this local food system. In the following section, we address how the retail co-ops have engaged members and grown over the years.

Nonmember shoppers. In addition to 91,000 members, we estimate that at least another 50,000 consumers/shoppers purchase food from the cooperatives annually. (See *Appendix B: Sources and Methodology*.) While encouraging shoppers to become members, the cooperatives communicate that “all are welcome” to visit and shop the co-op.

Nonmember shoppers usually come from the surrounding community, contribute a significant volume of trade, help the cooperative have more impact, are a pool for recruiting new members-owners, and often share many of the same values as the co-op.

SECTION 4. DETAILED PROFILE: RETAIL

- *Importance in this local food system*
- *Background and metrics*
- *Success factors and challenges*

The greater Twin Cities metropolitan area has a population of 3.4 million people; it is considered to be one of the most vibrant local food markets in the country. Included in this local food economy is a strong direct-to-consumer network of farm stands, CSAs, farmers markets, and more. Sales of local food at public retail businesses including food co-ops are in addition to sales at these direct-to-consumer venues.

Nationally, such direct-to-consumer sales are estimated to represent less than 2 percent of all food sales. Assuming that the Twin Cities is above average on this measure, its level of direct sales might be 3-4 percent. Substantial anecdotal evidence from producers in this market is that there is a slowing of growth in direct sales. Farmers markets are full (have enough producers); the CSA enrollment growth has flattened. All these factors help shape and define the local food economy.

Most people buy the majority of their food consumed at home in grocery stores. To build a significant local food economy, it is necessary to capture a meaningful share of the retail market, and the retail co-ops in our study have achieved that. According to our survey, and using a \$2,215/person/year average figure for food consumed at home, the Twin Cities co-ops have approximately a 2.3 percent share of the total grocery market in their region (see above under consumer-members). In addition, these co-ops make a strong contribution to local food sales and to organic food sales, likely far outpacing any other area retailer group in this regard.

Achieving their market position has depended on improved professional operations and cooperation with other cooperatives. The food co-ops have been greatly strengthened through retail cooperative grocer associations, beginning in the Twin Cities and the Midwest during the 1990s and nationally thereafter. These associations have deepened peer relations among retail managers and directors; greatly enhanced professionalism and co-op services through the development of shared training and best practices; and widely improved food co-ops' competitive position through joint marketing and national purchasing programs.

Their national organization published a study of the impact of food co-ops, released in 2012. “Healthy Food, Healthy Communities,” sponsored by the National Cooperative Grocers Association (NCGA), describes a range of positive practices that provide background for the present study. Nationally, 128 NCGA member food co-ops in that study operated 165 stores and collectively directed 20 percent of their purchases to local sources – contrasted with less than 6 percent for the average conventional retail grocer. In all departments besides produce (such as meats, dairy, grocery, HBA, bulk, and deli), food co-ops far outperformed other grocers in the number of local producers for sourcing and in the proportion of local in total supply. (See *Appendix B: Sources and Methodology*.)

Friendly retailers. Food co-ops in this study were “friendly” to local producers from the beginning. According to our interviews with local producers, the food co-ops are the strongest and most supportive retail outlets. The retail co-ops’ expanding purchases of local product, as well as their producer-friendly buying practices, have been critical for many local producers.

How else do retail cooperatives support local food and build this local food system? Key examples include:

Consolidating and growing the demand. The co-ops consolidate the market demand for local food. They do this by enlisting and empowering consumer-owners who share values around food. As the co-ops have become more attractive to a wider group of shoppers, they also have consciously worked to make nonmembers welcome, further building their base and carrying the local food story to a larger market.

Telling the story. When a producer sells directly to a consumer, a connection is forged, and the producer story can be transmitted – often this involves information about quality of product, farming practices, family farming, and cost of sustainable production. When the local product goes through an intermediary handler such as a retail operation, that handler must be very active if this direct connection with the producer is to be maintained. Producers in our interviews unanimously agreed that the food co-ops do the best job of telling their story and helping create and maintain a positive environment for local product.

Committing to local. The co-ops have a system-wide commitment to local sourcing. Reflecting values shared with their member-owners, most of the cooperatives have local food as part of their stated mission or organizational goals. It is not merely a marketing slogan for them, and co-op management is empowered to make this work. Other co-op employees also appreciate and learn to promote local food. As co-op operations have

grown in scale, co-ops have been able to offer more good jobs that support shared values around food and community. Thus, in the best cases, local producers and consumers will find this understanding and support for local throughout the co-op store.

Following is an example of a co-op mission or Ends statement (from Mississippi Market) that demonstrates the retail co-op dedication to building the local food economy:

As a result of all that we do, our community will have:

- A cooperatively owned retail source for fresh, locally produced and healthful food that is conveniently available at fair prices to a growing number of member-owners and shoppers
- Community, customers and staff who are better educated about the inter-connectedness of food, health and the environment
- An increasingly robust and sustainable local food economy
- Financially sustainable operations that support and yield economic, social, and environmental returns

Producer-friendly purchasing. Operating under their mission umbrella, co-ops maintain producer-friendly buying and selling practices that go beyond those of other retailers:

- They commit to pay a fair price based on a producer's reported cost. Local, organic, sustainably produced food is often more costly. Producers of such food must earn a price premium to cover costs and stay in business. The cooperatives work with local producers to set a price that covers production costs and a return to producers.
- They retain source identification for local product through to the point of sale.
- They "tell the producer story" in multiple store communications such as store signage, newsletters, inviting the producer to be an active part of an in-store demo, and in-person testimonials from staff.
- They make preseason buying commitments to producers for both price and volume and honor those agreements.
- They generally do not price shop and will not engage local producers in price wars to lower costs.
- They are flexible purchasers that will purchase direct from the producer or from a distributor and will switch channels as needed.
- They maintain a loyalty to long-term suppliers.
- They will hold open a market position for a producer who is unable to meet demand due to a flood, drought or other farm crisis.

Supporting other local food channels. Retail cooperatives often facilitate direct sales between producers and their member-owners and shoppers. Many retail cooperatives offer regular drop sites for CSA food deliveries, and other co-ops have sponsored farmers markets in the co-op's parking lot or elsewhere. Such practices further strengthen local relationships and also help bring people to the store during the growing season, when shoppers often find their fresh produce elsewhere.

These are examples of the environment of trust and cooperative partnering around core values that distinguishes this system, and this partnering we believe is a critical success factor. Retailer support of other local food channels is also important for another, more challenging reason: several leading co-ops in the system indicate they are near capacity in their ability to take on additional local producers.

Total and Local Food Sales

Remarkable growth in sales and member-owners in these co-ops during the past 20 years is shown in *Table 2*. This adds to the earlier member-owner data (*Table 1*) the gross sales and margins for the same group of cooperatives for the 20-year period 1992–2012. Most of the stores have been profitable in most years, and net earnings are strong and trending upward – recently at 2.8 percent. (Food Marketing Institute, the leading grocery industry trade group, reports a 2012 net earnings average of 1.7 percent for all grocery retailers; selling groceries is a high-volume, low-margin business.)

With board and membership approval, most of these retail co-ops (after member discounts and all other expenses) retain a significant proportion of the annual earnings or patronage refund, internally distributed to member-owner accounts in proportion to each member's patronage. The part of distributed earnings that is retained within each co-op has ranged from 80 percent (the legal maximum) down to 40 percent. Consequently, at the current level of sales and earnings, aggregated owner equity in these co-ops increases by several million dollars each year from operational earnings, along with several hundred thousand dollars from new member share investments.

Table 2

Sales Growth in Twin Cities Retail Co-ops

(nominal dollars)						
Year	# Retail stores	# Member/Owners	Total Sales \$	% Change Sales	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%		

*NET = earnings after all other expenses but before distribution to member-owners.

A Note on Inflation

Food inflation undermines consumers' buying power, and it also erodes the strength and reliability of sales figures. According to Congressional Research Service (2013) and the USDA, beginning before 1990 food inflation averaged about 2.5 percent for many years. It then rose sharply to 4 percent in 2007 and 5.5 percent in 2008; declined sharply to 1.8 percent in 2009 and 0.8 percent in 2010; then jumped to 3.7 percent in 2011. Since 2012, annual food inflation has been back in the range of 2.5 percent. We have used the All Food CPI percent to calculate inflation-adjusted figures in *Table 3*.

(As an example of how these figures matter: If inflation is 3 percent, a store that records sales increases of under 3 percent annually is actually not growing sales at all – leaving its operation with fewer dollars to cover its inflating expenses.)

Table 3

Inflation-Adjusted Growth in Twin Cities Retail Co-ops

(1992 constant dollars adjusted by All Food CPI)						
Year	# Retail stores	# Member/Owners	Total Sales \$	% Change Sales	Gross Margin	Net Margin (Profit)
1992	11	10,655	\$16,535,130		33%	2.3%
2002	15	36,157	\$51,626,917	212%	37%	2.0%
2012	17	91,102	\$105,595,852	105%	39%	2.7%
20-year gain	6	80,447		539%		

When presented in constant (inflation-adjusted) dollars, the co-op system sales increases are still very strong but are more plausible. As shown in *Table 3*, in constant dollars the 1992 co-op aggregate sales of \$16.5M grew to \$51.6M by 2002 and \$105.6M by 2012; compare highlighted figures with those in *Table 2*. (The non-adjusted, nominal figures in *Table 2*, including \$179M for total system sales, are used in the rest of the present study).

In viewing our co-op system totals, note also that the retails are of diverse sizes and are in diverse locations, from dense urban areas to outlying metro small cities:

- 5 co-ops have annual sales of \$1-3 million
- 6 co-ops have annual sales of \$4-17 million
- 4 co-ops (including two with two stores) have annual sales of \$22-33 million



(As of this writing three additional stores are in planning stages, each of these a second or third outlet of an existing cooperative – one will open in 2014, the others in 2015 or later. A list of co-ops covered in this study is in *Appendix B: Sources and Methodology*.)

Local Food Sales

Next, in *Table 4*, we show the local food sales estimate for the same group of co-op stores for 2012–13. (Local food sales were not tracked in 1992 or 2002.)

Table 4

2012–2013 Local Sales and Farm Gate Purchases by Twin Cities Retail Co-ops

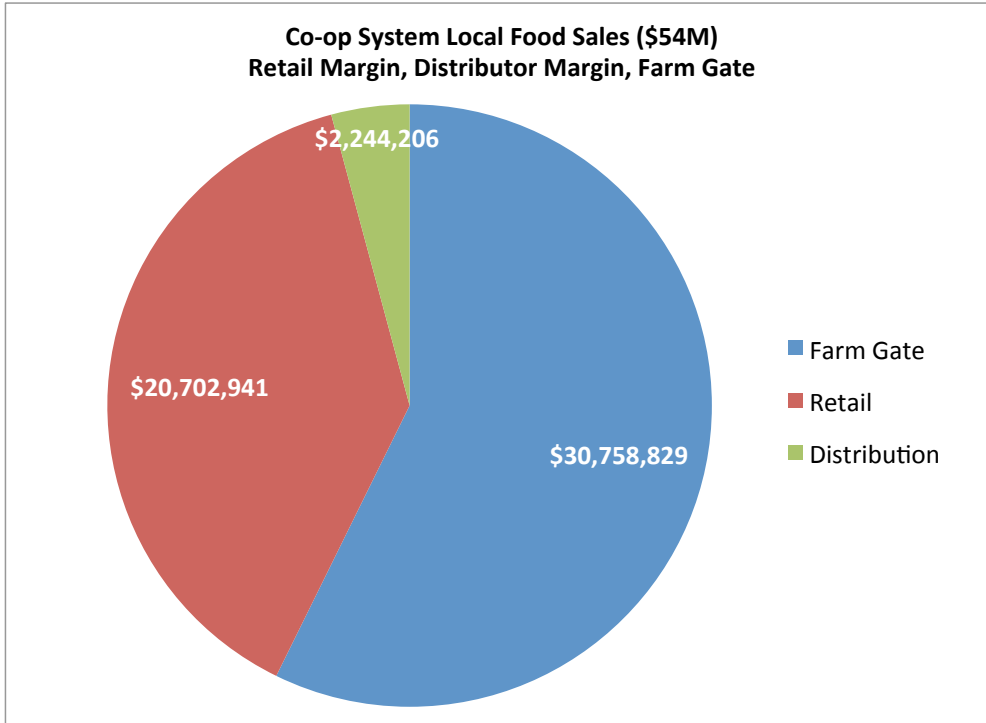
# Retail stores	# Member/ Owners	Total Sales \$	Est % Local Sales	Total Local Sales \$	Retail Gross Margin	Dist Margin (for 40%)	Total Local Farm Gate (1)
17	91,102	\$178,557,339	30%	\$53,705,977	38.5%	17%	\$30,758,829

Est # Local Producers	Producer Retail Sales	Producer Farm Gate (1)
300	\$179,020	\$102,000
350	\$153,446	\$88,000

(1) Farm gate income is that portion of sales that goes to the producer/supplier. It is calculated as the retail sales minus retail and distributor margins.

There is considerable diversity in the percent of local product sold and reported by the stores, from a low of 21 percent to a high of 37 percent. In part this simply reflects different degrees of effort and success in local sourcing, and in part this range may be due to inconsistent methods of recording local sales. We believe the aggregate data from all the co-ops, which includes detailed data on local sales at several leading co-ops, provides a good estimate.

The chart on the following page shows components of local sales: retail margin, distributor margin, and farm gate income.



For reference we note that farmers and ranchers receive 15.8 cents of every dollar that consumers spend on food at home and away from home. (USDA Economic Research Service).

The Twin Cities metro is the nearest large market for producers in a multi-state region, and the definition of local for almost all of the Twin Cities metro stores includes products sourced from within Minnesota and the surrounding states of Iowa, Wisconsin, and North and South Dakota. In practice, most local product in the Twin Cities co-op system likely is coming from within 200-250 miles. (For more on tracking “local,” see *Appendix B: Sources and Methodology.*)

Local Food Sales by Grocery Category

The following *Table 5* gives 2012-13 aggregate data on grocery category sales at 15 consumer-owned retails in the Twin Cities cooperative local food system. The data is partially extrapolated from detailed departmental figures on local sales obtained from several leading retails, a sample with combined sales that represent 55 percent of total system sales. The projections for the remainder of co-ops in the system are conservative within the reported range of local sales. The totals in *Table 5* also are roughly consistent with figures for total sales and local sales that were reported separately by all the co-ops, shown above in *Table 4*; there are slightly different totals due to rounding.

Table 5

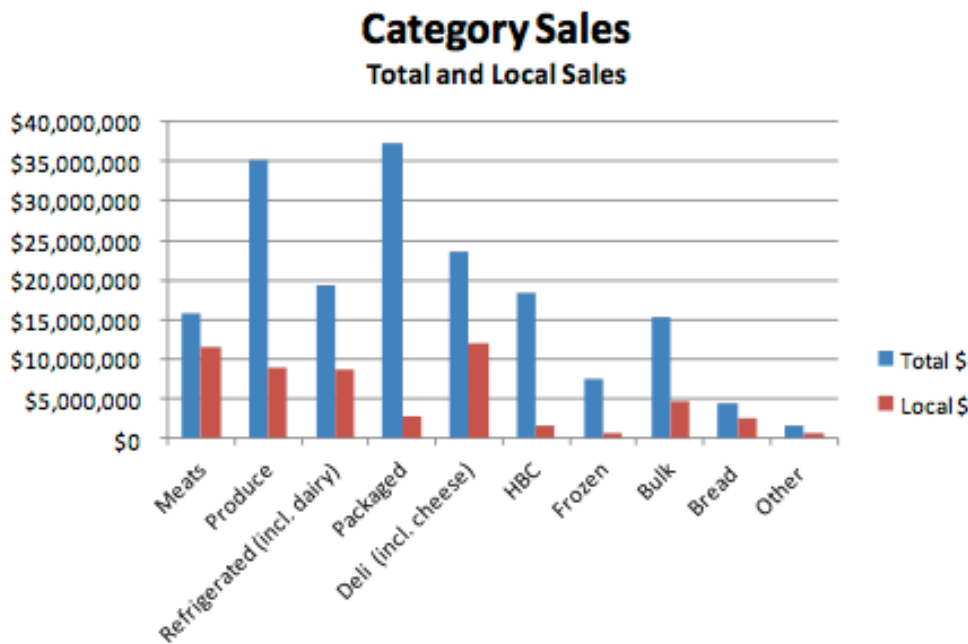
**2012-2013 Retail Co-op Local Sales and Purchases
by Grocery Category**

Category	% of Total Sales	Category \$	Local Sales %	Local Sales \$	Local Purchase / Farm Gate (1)	Category as % total Farm Gate (2)
Meats	9%	\$15,877,065	72%	\$11,433,529	\$7,412,644	24%
Produce	20%	\$35,239,181	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%	\$53,913,476	\$30,852,343	100%

(1) Farm gate is the income that is paid to farmers. Farm gate income is calculated here as retail sales minus retail and distributor margins.

(2) This column shows the percent of total local farm gate (income to producers) for each grocery category. Meat, Produce, Refrigerated/Dairy, and Deli are the strongest local categories in total dollars purchased in this system, accounting for 76 percent of total farm gate.

The chart below, derived from Table 5, shows total and local retail sales by category.



SECTION 5. DETAILED PROFILE: DISTRIBUTION

- *Importance in this local food system*
- *Background and metrics*
- *Success factors and challenges*

Distribution is an essential piece and a significant challenge for local food systems. It is necessary to move product from the farm to the retail or consumer in any system. There are costs associated with distribution that must either be deducted from producer income or added to the consumer price. Alternatively, producers can deliver directly to their customers and absorb the distribution costs (vehicle, driver, packing, selling, invoicing) into their operation. When selling direct, however, a producer often finds that distribution costs are eating up any production profit; scaling up production can make it more feasible for the producer to rely on a separate distributor to bring the product to retailers or consumers.

Conventional food distribution systems today are highly centralized and rationalized and operate on thin margins (very little profit per unit). There are significant economies of scale, and this has driven consolidation of distribution. Distributors seek to limit handling and increase lot sizes to achieve lower cost, and this favors larger producers. Typical food distributor gross margins, reflecting specific product lines as well as scale of operations and other factors, vary from under 12 percent to over 20 percent. As in food retail, operational earnings or net margins are thin, typically under 2 percent.

Those not familiar with food distribution might believe that a local system will have lower costs due to fewer miles. This is generally not true, because the local systems must move smaller amounts of product from multiple sources to smaller customers with multiple locations. There is more handling and “overhead” associated with moving these smaller lots. Energy costs per unit of local product often are higher as well, for largely the same reasons. As the natural/organic/local market has grown, the challenges of achieving competitive scale in such an environment have also grown – as seen in the history of local distribution.

Evolving Local Distribution

The Twin Cities cooperative local food system has a long history of innovation, including the 1970s establishment of co-op grocery warehouses in the Twin Cities to distribute to

co-op stores and buying clubs (with similar small distributors in neighboring Duluth, Minn.; Madison, Wis.; and Iowa City, Iowa). Innovation also included the formation of small worker-owned distributors of perishables. These cooperatives operated with some success during the first three decades of this system. Over time, these enterprises all ended through consolidation with larger distributors or through business failure. The Minneapolis-based food co-op distributor, DANCe (1975-1988), was consolidated with Blooming Prairie in Iowa City. Blooming Prairie was sold in 2002 to United Natural Foods Inc. (UNFI), the nation's largest distributor of natural/organic products.

Roots & Fruits Cooperative Produce, formed in the mid-1970s, was a Twin Cities worker-owned distributor that absorbed related, small local enterprises and expanded the customer base for organic and local product. In 2005 it was sold to Albert's Organics, which in 1998 had become a division of UNFI, the large national distributor. Before that time, a few key personnel from Roots & Fruits had migrated to positions at Co-op Partners Warehouse, a new organic distributor launched in 1999 by Wedge Co-op.

Cooperative leaders from this era indicate that the key reason the grocery distributors failed or were sold was the inability to compete on price and services in a business where the economies of scale are so compelling. This demise of cooperative distribution was repeated across the country as more than 25 cooperative natural foods grocery distributors were closed or absorbed into a larger entity.

Local Distribution Channels

How is local product – including fresh produce and several other grocery categories – being distributed today in this co-op system? There are three primary ways local product moves from producer to retailer:

- Direct delivery from producers to retail stores is the primary distribution method, representing up to 60 percent of total local product purchased by retail cooperatives.
- Co-op Partners Warehouse (CPW) delivers around 20 percent of local product in this system through conventional distribution and a significant part of the direct delivery total through its cross-dock service for producers.
- Several other national and local distributors deliver around 20 percent of local product sold through the co-op system, in several grocery categories.

Many producers use more than one of these methods of distribution. Additional creative distribution arrangements are also found. Within direct delivery from producers are cooperative arrangements in which one local producer will carry product for another

producer from the same region. And there are at least two producers acting as aggregators for small-scale vegetable growers. There also are arrangements in which a producer will pick up for a neighboring producer and drop product at CPW for further distribution.

The level of direct delivery to the co-op retails is surprisingly high. Direct delivery is attractive to growers, since it provides their highest-margin sales – despite also demanding more time and attention than does selling through a distributor. Retail co-op purchasing practices that strongly support local growers (discussed in the previous section) make the co-ops very attractive as customers for many producers.

Direct delivery to the stores allows easier entry into the co-op system by smaller growers. Reflecting the loosely federated status of the Twin Cities co-ops, there is decentralized purchasing, with minimal coordination of overlapping local producers among retail buyers. Local producers are able to start at one or two stores, where they can benefit from retail buyer knowledge and develop delivery/sales systems.

Direct delivery also has benefits for larger producers who pilot new products. They likewise can test the market by introducing new items at small volume in one or two stores, gather feedback and refine production, and better manage the risk of product development.

Many local producers are trying to increase their sales through the co-op system. As a limiting factor, however, each co-op can effectively source product from only so many producers. In our interviews, co-op leaders and local producers pointed to the difficulties experienced by new and smaller producers in attempting to enter this system.

As the following discussion of CPW indicates, producers in this co-op system also have the option of relying on a supportive distributor to help reach smaller or more distant accounts, while still maintaining direct delivery to larger accounts.

Co-op Partners Warehouse

In 1999 the Wedge, which was for many years the largest Twin Cities retail co-op by sales volume, launched Co-op Partners Warehouse to improve the supply of organics from small producers both distant and local. Almost all CPW sales are of certified organic product, with fresh produce presently accounting for around 70 percent of total sales. CPW operations are reported as its own separate department at the Wedge. In this study, CPW sales are excluded from aggregate data for retail co-ops and are reported separately.

In the Twin Cities, distributors of organics operate in a very competitive market, and retail co-ops often use several such distributors. CPW sells to many accounts, but most of its sales are to retail co-ops. CPW leaders are clear that they are competing primarily with services and less with price. By comparison with CPW, its local competitors in distributing organic are likely to be larger in volume but selling less local product. Over the course of the year, primarily during the local growing season, CPW buys from around 80 local producers, with a few large ones dominating, and nearly 100 long-distance producers, mostly on the West Coast.

CPW's conventional distribution functions, in which it buys food from the producer, account for less than 20 percent of the local product sold in the Twin Cities co-op system. But CPW cross-docking or drop-shipment of product (explained below) makes its system role more significant and perhaps doubles the amount of local food that arrives at retail via CPW delivery. CPW provides exceptional support services to local producers and to CPW customers who also buy from those local producers.

The commitment to service local producers, as well as small and sustainable farms elsewhere, is embedded in the CPW mission:

Co-op Partners is committed to fostering sustainable farming practices and organic agriculture by supporting local producers, small farmers, and family farms.

In locating sources for our products, we actively seek out local producers and quality-conscious growers who exhibit commitment to the land and to organic principles. We are dedicated to offering unique items with their "grower personalities" included.

As the organic industry continues to evolve and expand, Co-op Partners reaffirms our loyalty to the pioneer growers who forged the current demand for organics and who are its active, visible proponents.

Reflecting this mission, CPW offers a range of flexible, producer-friendly practices:

Drop-shipment (cross-docking). Drop-shipment, or what CPW usually refers to as cross-docking, is a key service that provides logistical support for small producers and for larger producers to reach smaller or more distant customers. This service enables a small producer to make one stop that will get the producer's product to any CPW customer for only a small per pallet charge, usually \$25-30. Unlike conventional distribution where the distributor buys the product and adds an operating margin, with cross-docking the producer retains ownership of the product until it arrives at the

customer. This service is significant in the local system and is growing in volume; in 2013 nearly 50 producers used CPW cross-dock services, usually on a regular basis.

Support for producer direct-to-retail sales. CPW, in accord with its mission but differing from standard trade practices, allows its local producers to sell directly to retailers when the producer is able to do so. It allows producers to move “in and out” of CPW distribution without penalty, a flexibility that few distributors offer. This reduces CPW revenue but increases the producer’s margin and also supports retail buyer options.

Long-term support. CPW offers long-term and supportive relationships; its buyers carry out extensive preseason planning and commit to both volume and price, allowing producers to “plant to order” and stabilize income.

New items. CPW conducts ongoing searches and handles many queries for new local items.

Storage. CPW offers refrigerated and other storage space for local producers for reasonable fees.

Price support and flexibility. CPW offers price support and flexibility with producers during shortages or difficulties as well as during peak harvest conditions. In responding to producer challenges, CPW often acts in the interest of producers. For example, if a producer loses a crop, CPW will fill in with other product but keep that place open for that producer for the next year. If prices move above the negotiated preseason rate, CPW will often pass this on to the local producer. In our interviews, CPW representatives said, “The typical distributor makes money by hammering producers on price. This is not our model.” And, “We believe we have a good image with the farmers because of how we treat them.” Local producers, in our interviews summarized below, confirmed this kind of CPW price support.

Preserve producer identity and story. Along with flexible distribution relationships, CPW supports local producers by “telling the story” of the producers, preserving farm identity of product. Just as at retail, this marketing supports the local connection and the local price premium necessary for the system to work.

As a result of these producer-friendly practices and flexible policies, during the peak local season (July-September quarter) CPW sales of fresh product actually decline, due to the high volume of local produce sold directly to stores. Retail produce sales also slow during

the local growing season, because more customers are finding local food at farmers markets and in home gardens, and often they are away from home. For CPW, sales of local product are actually lower in the “peak” season – perhaps counterintuitive, but another aspect of the impact of CPW’s service flexibility on its sales.

Our conversations with CPW leaders suggested significant limits to the present system capacity to move more local product, at least until additional co-op stores are opened. Existing local producers are able to fulfill most of the supply that CPW needs to satisfy its customer base, leaving relatively little room for new producers.

CPW Metrics

CPW passed \$5 million in sales in its fourth year (2002) and thereafter hovered around break-even with a gross margin of 18-20 percent. Achieving consistent profitability took until nearly ten years after launch. CPW continues to be a relatively small player in its field of distribution, but its local impact has been greater than its numbers indicate.

CPW has been growing strongly for years, while also increasing its customer base. In 2002, CPW had total sales of \$5.4 million to about 46 customers, for average per customer sales of \$119,000 – heavily weighted by a few large food co-ops. In 2013, CPW had sales of \$21.7 million with over 300 accounts, for average sales per customer of about \$70,000. Retail co-ops still are the primary accounts, but increased sales have resulted from broadening the customer base. However, the expanded base may reduce efficiencies due to smaller orders.

Table 6 shows Co-op Partners Warehouse data for FY 2013.

Table 6

Co-op Partners Warehouse and Local Producers: 2013

CPW Annual Sales	Locally Sourced Sales %	Customer Accounts	Total Suppliers / Producers	Local Suppliers / Producers	Average Sales per Local Producer	Average Purchase per Local Producer (farm gate)
\$22,000,000	20%	350	180	80	\$55,000	\$45,650

Of total CPW sales in FY2013, about 20 percent was locally sourced, or approximately \$4M. However, as noted earlier, its cross-docking (drop-shipment) services likely add at least \$2M annually to the amount of local product delivered by CPW. The distributed local portion trended downward recently due to a temporary disruption in local organic

supply, and CPW leaders expected that figure to rebound to 25 percent during 2014. Meanwhile, the amount of cross-dock product through CPW is increasing in volume.

CPW's strong, double-digit sales growth has slowed slightly in recent years; it was 12 percent in the year leading up to this study. CPW has expanded its facility twice since 1999 and currently has 45,000 square feet of warehouse operating space, along with several delivery vehicles. (A small warehouse area is leased by organic fair trade distributor Equal Exchange.) CPW staffing has grown from a handful to around 40. For the stores in this study, CPW delivers from one to five times weekly – an important service.

CPW (Early) Success Factors

In a competitive distribution environment, what critical success factors enabled CPW to launch and thrive?

CPW was sponsored by a successful, established retail cooperative. The Wedge had a strong management team and an organic champion in its experienced head buyer. The Wedge provided critical support that included:

- committing to purchase product through CPW – in the early years, over 50 percent of sales were to the Wedge
- providing accounting, personnel and other management services
- committing to professional warehouse management
- underwriting early losses

CPW also had a friendly, thriving, and very proximate market in the other metro co-op stores. Several of its early leaders brought to their positions a history of work in co-ops and familiarity with business relationships among these co-ops.

A crucial factor relevant to understanding this cooperative system was the founding commitment at CPW and at all the co-op stores to support local food within a larger grocery context of year-round supply. In this highly seasonal growing zone, a fundamental strategic decision was made to provide trustworthy and organic product by sourcing from outside the region. This allowed CPW to reach break-even scale sooner and to keep customers on board throughout the year, and non-local organic product remains the bulk of CPW volume.

Other Challenges

Increasing local sales also have occurred at other distributors in the Twin Cities that serve the retail co-ops, including Albert's Organics, J&J Distributing, H Brooks & Co., and Bix Produce; these and other distributors handle local product in several categories. (Albert's is part of UNFI, and the parent corporation is the main grocery supplier to the co-ops; other local distributors are much smaller.) We did not attempt to gather data about these companies. However, some of the retail co-ops report that 25 percent of their overall local supply is received through distributors other than CPW. This figure, besides indicating the spread of local demand that is being serviced by other distributors, also reflects sales growth in categories of local food (meat, for example) other than fresh produce, which comprises most of CPW's sales.

In the context of the retail co-ops and other distributors, ownership by Wedge Co-op (rather than by the retail co-ops through a secondary-level co-op) sometimes works to the disadvantage of CPW. Some buyers at metro co-ops have the perception that Wedge is given priority on organic supply from CPW, although CPW personnel report differently. The perception of unequal treatment becomes a barrier to supporting the co-op distributor if as a consequence the retail buyer chooses to buy from a different supplier.

In general, CPW's recent years have been an extended period of profitability and strong growth. Its experienced management and logistics abilities, its special services, and the continuing growth of organics give it a strong position within the co-op system.

SECTION 6. DETAILED PROFILE: PRODUCERS

- *Background and metrics*
- *Importance of this local food system*
- *Success factors and challenges*

Challenges in reporting

Gathering data and characterizing producers brought more challenges than did obtaining data on local sales and purchases by the retail cooperatives. There is no central organization tracking local production and sales into this system. Whereas the retail co-ops have common operations and financial reporting, the producers do not. And there are many more local suppliers than retail co-ops (300-350 compared to 15).

A second challenge in reporting on local producers is maintaining confidentiality. These are private enterprises. Whereas the retail cooperatives generally publish core financial data broadly to their members, the producer financial data is private to their businesses. We have respected the need for confidentiality and worked around that.

Some producers have shared significant data with us, and thus our comments and conclusions are informed by and grounded in real data. But we are not able to report farm-specific financial data. And because of the diversity of operations, aggregated data is not as meaningful. Nevertheless, we believe this section will be useful to understanding the system and its impact for producers.

To profile the local producer/supplier sector, we used several sources and methods:

- We identified representative producers across the product groups and conducted qualitative survey interviews by phone with 10 of them.
- We also relied on survey data gathered in 2010 by Cooperative Development Services (CDS) for a project focused on market opportunity for local food in the co-ops.
- We used the sales data provided by the retailers to estimate total farm gate income (calculated by backing out from the local sales total the retail margin, along with a distribution margin for the portion not delivered direct).
- We used insights gained from many CDS business-planning engagements with a range of local producers and producer cooperatives.

Background: A Farming Region

Understanding local food production in this region will be helped by some review of its agricultural context and history during the development of this system. Some, but not all, of these factors have been strongly supportive of a revived local food economy:

A rich and diverse farming environment. Minnesota is the fifth largest agriculture-producing state; Iowa is third, and Wisconsin is ninth. The agricultural region within 250 miles of the Twin Cities is highly diversified with row crops, dairy, specialty crops, and meats. In particular, there are many organic/sustainable farms and much certified organic acreage in the area – Wisconsin has the second largest number of organic farms of any state, and the Minnesota-Wisconsin region straddling the Mississippi River has one of the highest concentration of organic farms in the U.S.

History of cooperatives in the region. The development of this cooperative alternative system was assisted by a long history and broad experience of agricultural and other cooperatives in the region. Minnesota and Wisconsin have the highest number of cooperatives of all the states. Selling to and partnering with new retail cooperatives was not completely unfamiliar.

Industrialization of food production. During the 40-year period that saw the growth of this local food system, agricultural production experienced waves of industrialization across the major food/production categories. It was in this environment that some of the local producers in this survey, unable to compete in commodity markets, took a risk to “take the product to town” and started a value-added business.

Growth of healthy food movement. During this 40-year period, there was much growth of interest in and desire (among consumers as well as among farmers) for healthier and less processed foods.

Organic and a price premium. The overall growth of organic trade created a premium market that was key to the success of this system. Local food, grown on mid-scale family farms, using organic and sustainable practices, is almost always more expensive to produce than is conventional food or even organic/sustainable food grown on large commercial operations. For local producers to remain viable, markets that will pay a

premium over commodity prices are necessary to cover the farm costs and to provide a return. Most of the producers in the Twin Cities co-op system have adopted organic practices and sell certified organic product (with the major exception being natural meats).

Local Producer Metrics

Number of producers: We asked the retail cooperatives and Co-op Partners Warehouse how many local producers/suppliers they source from. Estimates of their local suppliers ranged from 65 for a smaller retailer to 300 for one mid-sized retailer, and about 80 for CPW. We know that most producers sell product to more than one local co-op store, and some have product in all of the stores. Producers who use CPW for distribution also often deliver direct. Consequently, there are many “double counts” in the numbers.

We believe 300-350 is a reasonable estimate of the number of local producers/producer groups/food companies selling product into this system. There are additional individual farms that are affected – for example, a local processing dairy cooperative such as Westby Creamery or CROPP/Organic Valley has been counted as a single supplier, although milk is sourced from many regional farms in these producer cooperatives. Farmer-led aggregation of small vegetable producers has also been counted here as a single source, although several farms may be involved. In sum, the estimate of 300-350 local producers may understate the number of farming operations involved.

Within the “local” count, the retail co-ops include these sources:

- individual local farmers with fresh and processed products
- farmer cooperatives
- local aggregators or food processors that source locally or regionally
- local small/artisanal companies that may or may not source ingredients locally (such as a local fair trade coffee company, a local bakery, or a local maker of sauces or spreads).

Table 7 shows our estimate of the *average* retail sales per local producer, and the *average* farm gate income per local producer/supplier in this system. (Farm gate income is the portion of the revenue stream that goes to producers.) To estimate this income, we subtracted from total system level local sales a 39 percent retail gross margin, along with a 17 percent distributor margin on the 40 percent of product carried by distributors. This calculation yields an estimated total system farm gate income.

Table 7

Local Purchases and Farm Gate Income per Producer/Supplier

					Average per	Average per
Total Local	Retail Gross	Dist Margin	Total local	Est # Local	Local Producer	Local Producer
Sales \$	Margin	(for 40%)	farm gate est	Producers	Retail Sales	Farm Gate Income (1)
\$53,705,977	38.5%	17%	\$30,758,829	300	\$179,020	\$102,000
				350	\$153,446	\$88,000

(1) Farm gate income is that portion of sales that goes to the producer/supplier. It is calculated as the retail sales minus retail and distributor margins.

A critical metric for a food system is to achieve a volume of purchases (farm gate income) that can support viable farming operations. Evaluating a food system by the number of producers participating is inadequate if the dollar volume per producer is very small. From farm gate income, the producer must pay for production costs and overhead; any processing, if required; storage, if needed; and in most cases, if self-delivered, transportation to the distributor or store.

Based on an estimated 300-350 local producers, the range of retail sales per producer is about \$150,000-\$175,000; consequently, income to producers averages \$88,000-\$102,000 in this system. However, the very wide range of producer incomes through this system makes an average figure less representative.

We know there is a wide range in scale of producer sales of local product through the co-op system, from several million dollars for a large dairy cooperative selling through all the co-op stores, down to \$10,000 or less for artisanal product delivered to one or two stores. Thus, the average figure is not representative, but it does show that there is economic impact for a significant group of local producers. We also know that almost every producer in our study sells through other channels, so the co-ops represent only part of their total business.

Producer Interviews

We interviewed a selected group of producers. We chose producers to include diversity of product, of operational size, and of years of working relations with the co-op system (both

long-established and newer). In our interviews, we asked the producers for basic business information:

- total sales of product
- sales channels and the percent of total sales in each channel
- delivery/distribution methods
- distribution through Co-op Partners Warehouse
- a rating of the importance of the cooperative system to their success at the beginning and currently (on a scale of 1-5, with 5 the highest rating)

We also asked the producers open-ended questions about how this system helps them and what could be improved. We were impressed, even moved, by many of the comments and have retained many of them in *Appendix C: Comments from Producer Interviews*.

What did we conclude from our interviews? There is no typical local producer or supplier in this system. Each has a unique mix of sales channels and distribution arrangements. Often there is complexity and nuance in “getting to market,” and this is important for their success. One of the common themes in the interviews is producer appreciation of the willingness of the co-ops to work with individual situations.

Following are some general findings about producers/suppliers that we interviewed:

- Producers in our interviews had total farm gate sales to the co-op system ranging from \$350,000 to several million dollars for a large cooperative group.
- Every producer we interviewed has more than one distribution channel.
- The portion of total producer sales into the co-op channel ranged from 25 percent to 90 percent for our sample.
- Most individual producers started out selling direct to consumers at farmers markets or on-farm.
- The retail co-ops were important early wholesale accounts for the producers, where they had a supportive customer while learning how to manage wholesale growing and selling.
- Some producers in our sample were longstanding commodity producers who switched to organic/sustainable practices. For these producers, the co-ops were important partners in learning to be successful value-added marketers.

Sample Producer Profiles

Given the small size of our survey sample, we have wrestled to find a way to share useful data while respecting confidentiality. Following are producer profiles that, while not specific, we hope will illustrate some of the diversity and complexity of sales channels and distribution methods used by actual producers in the co-op system. Many of these producers are in the “ag-of-the middle” spectrum being “*too small to be served well by commodity markets and too large to be served well by direct markets.*”

PRODUCER EXAMPLE #1

					DISTRIBUTION			
					Direct	CPW	CPW	Other
Total Farm Sales	Sold Direct to Consumer	Sold to Co-ops	Sold to Other Retail	Sold to Restaurants			Cross Dock	
\$750K–\$1M	15%	70%	2%	12%	Yes	No	Yes	Yes

- Year started farming: multi-generational, began value-added production in 1998.
- Year started selling to co-ops: 2002.

This producer sells 70 percent of processed product to retail co-ops, with most being sold in the Twin Cities. They also have a direct-to-consumer business that diversifies the customer base and helps balance inventory. They use a range of delivery systems. They contract delivery to the Twin Cities with another producer nearby who also is a significant supplier to the co-ops. They use CPW cross-dock services for delivery outside the metro. They do a small amount of direct delivery near the farm. They sell to about half of the 17 retail co-op stores and sell all they can produce. They enthusiastically rate the co-ops 5 (the highest) for importance both at the beginning and today: “*This is where we started.*”

PRODUCER EXAMPLE #2:

					DISTRIBUTION			
					Direct	CPW	CPW	Other
Total Farm Sales	Sold Direct to Consumer	Sold to Co-ops	Sold to Other Retail	Sold to Restaurants			Cross Dock	
\$750K–\$1M	22%	72%	4%	2%	No	Yes	No	Yes

- Year started farming: multi-generational; organic transition in 1990s; value-added production from 2002.

- Year started selling to co-ops: 2002

This local producer sells about 70 percent through the retail co-ops channel. The producer also has an on-farm store, which diversifies the customer base and also is an outlet for secondary products from their operations. This farm made the transition to organic and sustainable practices and developed value-added products. They began as direct sellers (farmers market, buying clubs, on-farm) and have grown with the co-ops. Their product is in almost all the co-op stores. They rate the retail co-op system as a 5 in importance in the early days and today: *“They were it; they kept us afloat.”* This producer now uses CPW for all distribution; they rate CPW also a 5 in importance to their success.

PRODUCER EXAMPLE #3:

					DISTRIBUTION			
					Direct	CPW	CPW	Other
Total Farm Sales	Sold Direct to Consumer	Sold to Co-ops	Sold to Other Retail	Sold to Restaurants			Cross Dock	
\$1.5M–2M	40%	30%	30%	0%	Yes	Yes	Yes	Yes

- Year started farming: 1997.
- Year started selling to co-ops: 1997.

This producer began both direct sales (CSA) and wholesale production for the co-ops around 1997. They now also produce for local stores that are part of a national natural foods retail chain. When asked to rate the co-ops’ importance to the success of their business, this producer rated them 5 both for the early days and today: *“Tremendous advocates. The critical difference for us.”* This producer primarily delivers direct but also uses CPW for smaller stores and during the slow season. This range of delivery options helps the producer to maximize efficiency and maintain the margin necessary to remain viable.

PRODUCER EXAMPLE #4:

					DISTRIBUTION			
					Direct	CPW	CPW	Other
Total Farm Sales	Sold Direct to Consumer	Sold to Co-ops	Sold to Other Retail	Sold to Restaurants			Cross Dock	
\$300K–\$400K	10%	90%	0%	0%	Yes	Yes	Yes	No

-
- Year started farming: 1995.
 - Year started selling to co-ops: 2000.

This producer grows an organic specialty crop that is sold fresh and made into several value-added products. Direct sales are made from the farm and at two farmers markets. The co-ops are a primary outlet for both the fresh and processed products. The co-ops are able to sell all product they produce through this system. The producer has been gradually eliminating direct delivery and shifting to using CPW – both the traditional distribution and cross-dock. They rate both the retail co-ops and CPW a 5 in importance to their business. *“The key to our business...” We have a “shared value set...”*

Note Regarding Processing

Note that all producers must absorb some processing costs (sorting, grading, packing, storage) before bringing product to market, and these costs vary widely by product type. For those producers who require value-added processing (dairy, meat, cheese, specialty products), we found a variety of arrangements. A few do processing on-farm, while others have found local processing facilities. The farm gate income shown in this report often is actually lower because of processing costs incurred before product is sold.

Processors are key allies in this system, and the region has some strong processors for local product. While all of the producers in our survey have found viable processing options, in the course of this study we have learned of two small processors in the region that have ceased operations (poultry, meat). One of these was an on-farm processor that sold to the co-ops. Processing costs at even the mid-scale are higher than competitive commodity product, and in both cases it appears that the operation could not achieve break-even.

Issues of Cost and Price

The issue of price in the system comes up repeatedly in our research and conversations. There are those who claim this is an “elite” food system. However, there is a fairly widespread understanding across this system that the cost of local, organic, sustainable production is higher than for other foods, due in large part to internalizing costs that are often externalized in other production systems. Conventionally produced foods often do not fully reflect their production costs in resources used, animal care, and labor conditions.

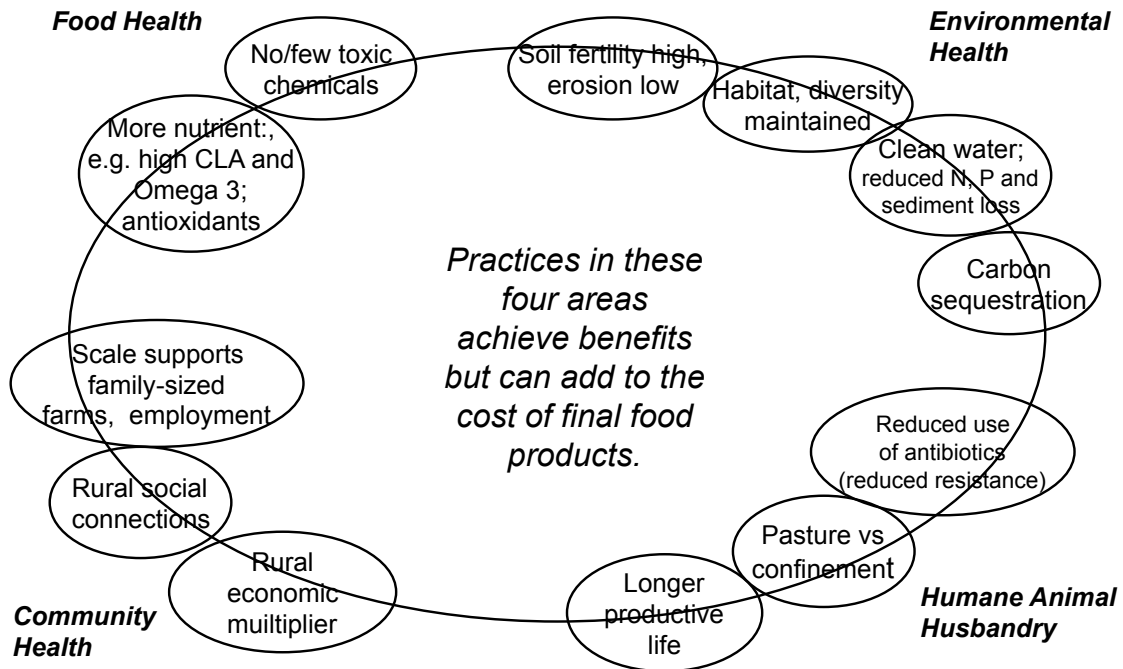
Virtually all the producers in our survey spoke favorably of the co-ops as “not squeezing” on price.

The following chart identifies in general terms the multiple values-based production practices that are often sources of cost that impact local, sustainable growers. It is intended to illustrate some of the key factors behind the higher cost of local, organic food.

This chart reflects the complex story that the retail cooperatives and staff communicate to members and shoppers as part of conveying the local food story. It is clear from our work that communicating this is a challenge that must be continually revisited. Many producers stated that the co-ops are unique in their ability to “authentically communicate” the farming situation and values.

Chart 3

Areas of Costs Internalized in Organic and Sustainable Farming



CDS 2011

Issue of Mid-Scale

This cooperative local food system is not always a good fit for the very small producers, and this is another complaint about it. “Going wholesale” for a producer requires change in practices, and prices received will be reduced by retail and distribution margins. While the retail co-ops do purchase from some very small farms, they incur costs from handling small lots and seek to develop reliable plans for a volume matched to their sales demand. As one co-op buyer in our survey said, *“Adding more vendors is equally problematic – getting a case of tomatoes from four places is very inefficient versus four cases from one source.”*

This system can be characterized as “mid-scale” in production, processing, distribution, and retailing. Mid-scale enterprises are challenged in all these areas by low-cost competition from massive, efficient, and integrated operations that continue to grow larger. Many of the producers for this system are among the few “ag-of-the-middle” survivors of the industrialization process. Agricultural census data reflects ongoing decline in ag-of-the-middle farms, with more farm output shifting to very large agricultural operations. The growth in number of farms is coming from the entry of very small or artisanal producers.

This cooperative system appears to be a somewhat rare place where ag-of-the-middle producers can survive through “vertical cooperation” with mid-sized distribution and mid-sized retail enterprises and reach their mid-sized owner-member base.

Production-Related Success Factors and Challenges

We identified production-related success factors and challenges in this case study.

Production factors critical to the success of this system include:

- Strong and diversified environment for local producers in a range of food categories
- Commitment to common cooperative and food and farming values across the system
- Vibrant network of local producers who provide mentoring, promote each others’ products, share best practices, and participate in local farm support organizations
- Strong local and regional support organizations for organic and sustainable farming including training, mentoring, and promotional services

-
- Ability of co-op distributor and retailers to communicate farm stories including values and costs
 - Concentration of values-based consumer member-owners at the retail cooperatives
 - Willingness within the system to engage, understand, and accommodate producer/farmer needs
 - Fair pricing – usually at a premium
 - Flexible arrangements
 - Deep relationships, loyalty

Production-related challenges that we identified:

- The current system is largely full – there is not much room for new producers, according to comments from producers, retailers, and CPW.
- Processing options are limited and often costly, due in part to small scale of operations.
- The system is now at a scale that often is not a good fit for the smallest producers; yet there are many difficulties in moving to wholesale production.
- Ag-of-the-middle – a scale that goes beyond selling direct – continues to be very challenging.
- Price and the cost to produce are high. This raises the questions, “Is this an elite system?” and, “Does this system more completely reflect the true cost of producing food?”

For comments from our producer interviews, see *Appendix C*.

SECTION 7. FINDINGS, SUCCESS FACTORS, AND CHALLENGES

Summary of Key Findings and Success Factors

Our study has revealed a number of key findings, success factors, and challenges to this cooperative local food system, summarized below.

Demand-driven. The Twin Cities cooperative local food system has been a demand-driven system from inception. Original member-owners organized to access food they could not find elsewhere; in marketing terms, this formed as a “pull” system rather than a “push” system. This continues today as the retail cooperatives place continuous emphasis on growing membership, expanding the base for local food sales. The past decade shows very strong increases in member-owner numbers in the system.

Member-owners. The member-ownership base offers many strengths for growing a local food system. Members generally join based on their food and community values. Members are loyal customers; as of 2012–2013, 91,000 member owners purchase 70 percent of the \$179 million in food sold in this channel. Members also support the system with financial contributions and express their broader food values through special member activities and board governance.

Shared values. There is a base of shared values around healthy food, local food, sustainable farming, and community that reaches from local farms to consumer members and other shoppers. These shared values give coherence and create differentiation for ongoing growth. Although priority of values can differ, the values support a partnership approach to business within and across the different components. From the producers’ perspective, the co-op distributor and retailers are especially “friendly” – they are quite commonly referred to as “partners.”

Fostered trust. The cooperative culture also fosters trust across the system. There are many formal and informal ways that members of this system provide support to each other. Producers cooperate in preseason planning, and mentoring occurs both spontaneously as well as through support organizations; retailers cooperate with each other through regional and national organizations; buyers are flexible and take a fair price approach; individual member-owners are willing to support these values with their business, paying fair market value and often a price premium.

Resilience. There is a culture of experimentation and learning at all levels. Over the 40-year history there have been notable failures of producers, distributors, and retailers and member conflicts. The system has demonstrated resilience in the ability to learn, reform, and continue to grow.

Business focus. There has been a focus on business viability, good business practices, and growth in order to achieve financial viability and have more mission impact. Attention is paid to competition and to the need to communicate values and innovate. All of the enterprises in this system are “for-profit” businesses and have been since inception. Some are proprietor-owned (farms) and others are cooperative, but all operate within a commercial framework. Producers, distributors, co-op retailers and their boards of directors all partake in professional training and use the services of business advisors.

Organics growth. The system was started in the early years of the organic food movement, and the larger organic trade momentum has helped this cooperative local system to grow and achieve scale. For many years, both prior to the promulgation of uniform standards under the National Organic Program in 2000 and continuing afterwards, the annual growth in sales of organic food nationally was strong, around 20 percent. In addition, the organic industry established an organic premium price that was critical to the success of innovation on local farms and at the retail and distribution levels.

Shopping convenience. The retail cooperative component was organized from the start to provide food year-round. It blends “imported” product with local product and has been able to attract and hold member-owners and shoppers looking for convenience and year-round variety, thus creating and maintaining market viability. Equally important in developing the local food system, retail co-ops and CPW have offered critical flexibility in purchasing that allows seasonal, local producers into the market alongside standard items from more distant sources.

Supportive environment. There is a supportive business community context. Minnesota has the largest number of cooperatives in the U.S. (Wisconsin is second) and a history of cooperative formation. In addition, the Twin Cities foodshed is a rich and highly diverse farming environment. There are supportive cooperatives, not-for-profit organizations, and government programs for sustainable and family farming, for cooperative development, and for promotion of food values including local food. (See *Appendix D: Support Organizations* for a partial listing.)

Diverse agricultural region. The soil, climate, and farming traditions of the region support a strong and diverse food economy, the center of which is the Twin Cities metro. Local food production has grown in multiple categories including fresh fruit and vegetables, meat and fish, dairy products, grains and seeds, herbs, and value-added items.

Professional talent. Support for good jobs and the development of professional standards have enabled the enterprises at all levels of the system under study to attract and retain dedicated and talented managers and staff. Shared values and commitment to practicing those values have led many producers, managers, and co-op staff to devote themselves, often continuing for many years, to the community and enterprise fostered by the co-op system.

Summary of Key Challenges and Questions

A system near capacity. From a supply perspective, the co-op system is largely full of local food. Existing producers, some of whom have grown up with the retail co-ops and customer base and some of whom are newer, have the capacity to meet the demand in this system. This means there is very limited opportunity for new local producers of the primary products including fresh seasonal vegetables and fruits, dairy, cheese, meat, eggs. There is ongoing incremental growth at existing retail cooperatives, but existing suppliers can generally provide for this (and the producers often need this volume to achieve their own viable scale). New or expanded co-op stores are opening at perhaps one every other year; existing suppliers can generally absorb this increased demand. According to the produce buyer at CPW, local organic supply is increasing faster than the larger market is handling it: “We need more than the co-ops, though they are doing a good job.”

Price constraints. Price is a strong challenge to growth of the overall system of local food. Small or mid-scale production of food is almost always more costly than for larger industrial farms; this is true for organic and conventional product. The cost to distribute and to retail smaller lots of local product is also higher (per unit) than in the industrial distribution/retail system. The values-based member-owners continue to demonstrate understanding of this and willingness to pay for this premium system. However, for the retailer there often is a tradeoff between offering a fair price to suppliers and offering low prices for customers.

Food is very price sensitive, and price does limit the available market; even for the most committed consumer-members, there are price limits. Local foods often have a higher price per pound or per item, and consequently local food is sometimes thought of as “elitist.” Retail co-ops attempt to address high prices and a high price image in several

ways, and the juggling of price/service/value at the retail level is an ongoing challenge. Communicating this price/service/value proposition, from the producer through to the consumer, is an additional challenge.

Values tensions. There can be tensions between various multiple values in the local food system. The most visible of these is around price, within a context seeking the following:

- Fair return to farmers using sustainable practices and operating at a family scale
- Commitment to paying employees fair wages and benefits/good jobs
- Desire to provide healthy, high-quality food to people of limited means

Competition and the viability of mid-scale. Operating at small- to mid-scale, food businesses face competition from other market players, and often the competitors have greater economies of scale and greater financial resources. Farm operations, CPW distribution, and even the largest retail cooperatives are all relatively small or mid-sized in their respective fields. Challenges include the need to operate very efficiently, limited funds for advertising and promotion, limited buying power compared to larger players, smaller lot purchasing, and more.

Challenges of system integration. While seeking market entry or incremental growth, individual producers, distributors, and retailers are forced to consider whether cooperatives or other forms of consolidation will strengthen their market position. Twenty years ago, co-op retails in this local foods system narrowly rejected a five-store merger proposal. Yet, in the present context of heightened competition and market limits, questions still arise about a consolidated system versus a federated system of independent stores. To retain the market strength of the cooperative system, the leading players will have to maintain the extraordinary level of trust, partnering, and values-driven decisions that have brought this system to its current strengths and impact.

The retail co-ops do not integrate their expansion/development efforts in any significant degree, leaving them vulnerable to competitors that do have a metro-wide market plan, such as national or local chains selling natural/organic/sustainable products, companies that have greatly expanded their presence in the Twin Cities in recent years. The lack of system integration also affects CPW, although it treats the leading retail co-ops as “members” with shared distribution of earnings (through Wedge Co-op). CPW’s flexibility has been very helpful for local producers and retail buyers but may be under-recognized.

Distribution arrangements in this system (historically as well as at present) are complex and sometimes thorny; cooperation among cooperatives is being tested.

Although this system operates as a federated partnership rather than a fully integrated one, we believe the efficacy and variety of partnering relations are key to what allows it to succeed. We take inspiration from the John Ikerd quote found at the front of this paper, and believe the Twin Cities cooperative local foods system illustrates his statement:

“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.”

APPENDIX A: GLOSSARY

Cooperative (co-op): An association or business that is democratically controlled by its member-owners, who invest in and receive benefits from the enterprise. Members democratically control the cooperative and elect the board of directors; co-op earnings are distributed to members in direct proportion to their participation in the co-op's business activities; examples include consumer, producer, and worker cooperatives. Cooperatives adhere to a set of seven cooperative principles and, including credit unions, have more than 1 billion members globally, linked through the International Cooperative Alliance (www.ica.coop).

Community supported agriculture (CSA): A method of direct marketing in which customers subscribe to (prepay) a farmer's seasonal supply, usually delivered weekly; CSA arrangements can be for any type of food, with vegetables the most common; a CSA may or may not depend on volunteer labor contributions by the member-subscriber. CSAs usually offer products from only one farmer but may involve combined suppliers for more product diversity.

Cross-dock (drop-ship): A service in which a distributor (in the present study, Co-op Partners Warehouse) handles product on behalf of producers and customers without taking ownership of the goods: in exchange for a service fee (per pallet), the distributor does not purchase but takes delivery from the producer, temporarily stores the product, and delivers it (along with regular distributor inventory) when ordered by the customer; billing and payment for the product itself are handled between the producer and customer.

Direct delivery: Producers selling to institutional customers (retailers, restaurants, etc.) with no intermediary handler or added margin. In the present study, 60 percent of local product sold in the retail co-ops arrives by direct delivery, with the remainder purchased from a distributor.

Direct sales (direct marketing): Producers selling to consumers through on-farm sales, farmers markets, direct delivery, and prepaid arrangements. The term also covers selling directly to businesses and institutions such as retailers and restaurants and schools; the direct sales channel provides the highest profit margin to the producer but usually requires more producer work hours.

Distributor: An enterprise with facilities and equipment, inventory, and professional staff, with operations dedicated to aggregating items from producers and processors and typically selling in full case or larger quantities to other levels of the food system. Distributor operating margins range from above 20 percent for specialty suppliers down to 10 percent for large-scale conventional grocery distributors.

Farm gate income: The portion of sales that goes to the producer/supplier. It is calculated as the retail sales minus retail and distributor margins.

Food hub: A common theme in efforts at reviving local food economies, a food hub in the USDA working definition is a “business or organization that actively manages the aggregation, distribution, and marketing of source-identified food products primarily from local and regional producers to strengthen their ability to satisfy wholesale, retail, and institutional demand.” The present study attempts to examine these functions within a cooperative local food system.

Gross margin, net margin: Gross margin is the portion of total revenue remaining after paying for the cost of goods (inventory) but before all other expenses. Net margin or net earnings is the portion of total revenue remaining after cost of goods and all operating expenses (labor, equipment, utilities, etc.). Gross margins for organic or specialty retailers are significantly higher than for conventional grocers. Similarly, gross margins for specialty food distributors typically are higher than for conventional distributors, and specialty food producers tend to have higher gross margins than conventional producers. Net margins at all levels of food enterprise tend to be slim, usually 3 percent or less.

Local (local/regional): While “local” is defined by USDA as sourced within 400 miles, the term is often used more restrictively; in addition, a local *distributor* or *processor* can be local in operations and ownership while sourcing and handling ingredients that are not of local origin. In defining local sources, the retail food co-ops and co-op distributor in this study usually include farmers and locally owned producers in Minnesota and the four adjoining states of North Dakota, South Dakota, Iowa, and Wisconsin. That definition is the one used for this study. In practice, most local product in this system likely is sourced within 200-250 miles. (For more on measuring local, see *Appendix B*.)

Organic (certified organic): Generally describes growing and production methods that emphasize soil building and prohibit most pesticides, herbicides, and conventional manufactured fertilizers; the term “organic food” in the U.S. now properly refers to products that have been certified by third-party inspectors to meet standards promulgated by the USDA National Organic Program since 2002, under guidance by the National Organic Standards Board.

Perishables: Most broadly defined, this category includes fresh produce along with meat, cheese, dairy, bakery, frozen, refrigerated, and (sometimes) deli/prepared foods; retail sales charts typically give data for each of these perishable categories or for groupings of them.

Processor (manufacturer): An enterprise that acquires raw materials and adds value through changing and/or mixing the ingredients, then sells the resulting product to another level of the food system. Food processor margins range from under 10 to 20 percent or much higher.

Producer: A farm or business that originates a food item or ingredient and sells it either directly to consumers or to another component of the food system.

Retailer: An enterprise with facilities and equipment, inventory, and staff, selling food to consumers, sometimes selling to members only but typically to the general public. Food retail margins vary widely, from well under 20 percent for conventional grocery supermarkets to 40 percent or more for specialty food stores. Overall retail grocery net earnings in 2012 were 1.7 percent, according to the Food Marketing Institute. Co-op retailers are leaders in local and organic sales, although small in overall grocery sales.

Twin Cities: Located within approximately 50 miles of Minneapolis-Saint Paul, the Twin Cities is the urban center of a very large region (from Wisconsin to Montana) with land use and an economy historically dominated by diverse agriculture and food businesses. The Twin Cities metro has seen long-term growth in population, now about 3.4 million.

APPENDIX B: SOURCES AND METHODOLOGY

Co-op Partners Warehouse (CPW)

Generous sharing of data and comments came from Co-op Partners Warehouse through a survey and interviews with CPW general manager Tom Rodmyre, development director Lori Zuidema, and purchaser Rick Christianson. The present study also benefited from the 2012 study of CPW by Robert King and G.W. Stevenson listed in *Appendix E*. Find CPW online at: www.cooppartners.coop.

Twin Cities food co-ops (formerly TCNFC)

For this study, we obtained data from 15 retail consumer co-ops in the greater metropolitan area for the years 1992, 2002, and 2012 (when available). Historically, the TCNFC association launched in the 1990s did not include all of the smaller food co-ops; these have been added in this study of what we are calling the cooperative local food system. Data was obtained through email, telephone, and in-person visits during late 2013 and January 2014.

We refer throughout this study to 2012 and 2012-13 data. Most of these businesses use a fiscal year beginning July 1, and consequently much of the data here actually represents FY 2013 (7/01/12-6/30/13), while some data was supplied for calendar year 2012.

The following co-ops were included in the historical comparison in this study:

- Center City Market (Cambridge)
- Eastside Food Co-op (Minneapolis)
- Grassroots Co-op (Anoka)
- Hampden Park Co-op (St. Paul)
- Harvest Moon (Maple Grove)
- Just Food (Northfield)*
- Lakewinds (Minnetonka, Chanhassen)
- Linden Hills (Minneapolis)
- Mississippi Market (two stores in St. Paul)*
- North Country Co-op (Minneapolis, 1992/2002)
- River Market (Stillwater)*
- St. Peter Food Co-op (St. Peter)
- Seward Co-op (Minneapolis)*
- Spiral Food Co-op (Hastings)

Valley Natural Foods (Burnsville)

Wedge Co-op (Minneapolis)*

For a map illustrating the locations of these stores, see *Section 4: Retail*.

* In addition, these five co-ops provided more detailed departmental and supplier data; their stores account for 55 percent of total local sales through the system. The projections for the remainder of total system local sales were conservative, adjusted downward slightly because the five reporting co-ops, along with better tracking, likely have a higher proportion of local sales than many of the other co-ops. (In February 2014, after this study had been completed, Lakewinds posted data on local sourcing by store category that was very similar to our aggregate results.)

Nonmember shoppers

Along with our survey report of 91,000 co-op member-owners in 2012, the number of 50,000 nonmember shoppers at TCNFC stores is impressive, but nevertheless it is likely a conservative estimate, based on:

- a (weighted) average of 70 percent of total \$178M sales to co-op member-owners, as reported in our survey, or \$52M (30 percent) to nonmember shoppers;
- an estimate, based on reported and anecdotal data, that nonmember average transactions (\$) are consistently less than those of members, perhaps two-thirds in size;
- an assumption that nonmembers do not shop more frequently than members.

Local and reporting of local

Definitions of local are extremely varied. For example, the 2012 NCGA study of food co-op impacts (see below) has a chart showing no fewer than seven different definitions in use among its 136 member co-ops. Many of these definitions have geographic limits of 200 or 300 miles, while others have political boundaries, and no definition is used by more than 32 percent of the NCGA co-ops. On the other hand, USDA uses within 400 miles as its working definition of local. As stated in the main narrative of the present study, we have adopted a “regional” definition – Minnesota and adjoining states – that is the norm among the study’s retail co-ops; it is sometimes described as territory that is less than a day’s drive from the Twin Cities.

Additional reporting questions arise concerning locally grown vs. locally produced.

Because we want to show system revenue flows to local growers, we have only partially followed the convention among the retail co-ops that reports sales of production departments such as deli and bakery as 100 percent local if the product is made at the co-op. Since a great many of the ingredients for these co-op production departments are not locally sourced, in our calculations of total local sales we have reduced these retail production department figures by 50 percent.

A parallel issue in reporting arises with local producers or manufacturers who source their ingredients from outside the region. Purchases from such companies, both large and small, certainly add to the local food economy, yet little to none of the revenue flows to local growers. Since the present study also attempts to estimate “farm gate” income, we are unable to fully resolve this question. We do agree with the inclusion of local processors and manufacturers in reporting sales of locally sourced products – with the exception of “national” or stock corporations located in the region, where neither the product sourcing nor company ownership is identifiably local.

However, in our surveys, we also found that retail co-op reporting is somewhat inconsistent. If *all* local producers and crop-based companies, suppliers that often source ingredients partially or even entirely from outside the region – bakers, coffee roasters, sauce bottlers, condiment and energy bar makers, bodycare manufacturers, and more – were included at 100 percent in reports of retail co-op purchases of local products, the system total would be higher than the figure we report in this study. But that would not significantly increase the revenue flowing to the region’s farmers.

Producers and processors

Comments and generous sharing of data were obtained from the following local producers through email and telephone interviews: Cedar-Summit Dairy, Featherstone Fruits and Vegetables, Pastures-a-Plenty, Hoch Orchard, Larry Schultz Farm, Keewadin Organic Farms, DragSmith Farms, CROPP/Organic Valley, Callister Farm, and Rochdale Farms.

The definition of ag-of-the-middle is taken from the Agriculture of the Middle website: www.agofthemiddle.org/archives/2012/01/characterizing.html

APPENDIX C: COMMENTS FROM PRODUCER INTERVIEWS

Following is a summary of findings from the producer interviews, with a listing of comments organized by theme.

Findings: Importance of Retail Co-ops to Producer Success

In our survey we asked the producers to rate the importance of the cooperative system to their success on a scale of 1-5, where 5 is best:

- *How important were the co-ops for the success of your business at the beginning?*
- *How important are the co-ops now?*

We know the size of our sample is too small to be statistically valid, but we wanted to allow for some quick feedback and get a feel for the responses. The most common ratings (90+ percent) were 5 and 5 – the system is considered critical to these producers' success at startup and also today.

Comments about the co-op system include:

"The key to our business."

"We started 25 years ago; the co-ops were extremely important."

"It's crucial; most important."

Findings: Importance of Co-op Partners Warehouse (CPW) to Producer Success

We also asked a similar question about the cooperative distributor:

- *If you sell through Co-op Partners Warehouse, how important is it (on a scale of 1-5)?*

CPW was rated very highly and enthusiastically as a 5 (with one 4) by producers using its services, including some producers who deliver most of their own product direct. CPW fills gaps in distribution for producers, a service that enables them to maximize their

coverage of their market, cost effectively, for both high-volume and lower-volume seasons and customers. A typical statement about CPW:

“We might not be in business without them.”

Findings: Open-Ended Questions

We also asked open-ended, qualitative questions to gather more understanding of how this system supports successful local product, and discussion of these questions made up the bulk of the interviews. The open-ended questions were these:

- *What did you find most important/helpful about selling to the co-ops?*
- *What is difficult about selling to the co-ops? What could be improved?*
- *How would you compare selling to the co-ops to your other sales outlets?*

And similarly for those who work with CPW, we asked,

- *What is helpful?*
- *What could be improved?*

Common Themes and Quotes

We began to summarize the common findings, but believe that direct quotes from our producer interviews are very clear. Following are these quotes organized by common themes.

Support getting started:

“They were it at the beginning; they kept us afloat.”

“Our only customer at start.”

“Crucial.”

“Independents (co-ops) drove the business for us in the early days.”

“Early on they were very open to listening to problems and helping us get certain products/parts sold when we were not selling everything. Now we can sell everything we can produce.”

“In the infant stages (of my farm) they were just as important as now. The co-ops were the base then.”

Shared values, partnership, loyalty:

“A shared value set. Their goals are consistent with ours...small, independent, with focus on community and environment.”

“They are my partners. Every (co-op) makes my business work. I like to give them help, share ideas for less waste (for example).”

“I’ve grown with the co-ops; co-ops hold loyalty.”

“Loyal; fair and loyal about price and quantity.”

The right market for local products:

“Most important is that the co-ops are where our target clientele/market shops.”

“We are not looking for the average (consumer) but are looking for those who want to know where their food comes from, (looking) for what we have.”

Tell the story – maintain producer connection to consumers:

“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.”

“Information posted, demos, all consistent with our goals.”

“Explain the cost of local.”

Understanding needs of farmers, preseason commitments:

“Preseason planning that we can grow to.”

“Reliable system. We get preseason planning commitments for volume and price.”

“Co-ops are committed to (local) market; this is huge for field planning.”

“Understand production difficulties and will give better price.”

“Co-ops provide free drop sites for our CSA in their store, allow us to compete with them in their store – free!”

Share valuable information with producers:

“Co-ops provide valuable feedback regarding the market and changes we might not know of...the market is always changing...this is a critical difference for us.”

“Co-ops will tell you if the price is too high or too low.”

Independence of each store, access to decision makers:

“The co-ops (individual store buyers) can make their own decisions and don’t have to send the decision up the chain.”

“When I started it was with two co-ops. I could not have handled them all.”

“Every co-op is different, little communities. I could start at one store with all I could produce. I would never have had enough for the whole system.”

“Decisions are made right in the store by one or two people. If one (co-op) gets mad at me, I still have the others.”

No “squeeze” on price:

“Co-ops are very cognizant of fair pricing and farmers’ wages and the impact of pricing on that.”

“Fair pricing.”

“The (regional chains) are shocked at our pricing – want volume discounts. Co-ops don’t bat an eye.”

“Co-ops will pay the price we ask, and have said we should raise our price at times. This was a surprise as (our) product is already high-priced.”

Additional Producer Survey Comments

Following are additional open-ended questions with representative producer comments.

- What is difficult about selling to the co-ops? What would you like to see changed?

“Honestly I have never felt it has been difficult.”

“No difficulties with these stores.”

“It has been frustrating to get our product to small stores and justify the cost; we had a minimum order, but it was hard to enforce.”

“When there is a turnover in buyers and we don’t get new contact info, and the new buyers are not told about our buying and scheduling.”

“Sometimes the co-ops will sell a product below what we sell for (direct) and the customer will call us, upset. We try to explain...”

“Downside is having to talk to each store, but I value the independence more.”

- What is most helpful about CPW?

“We have used (both) the cross-dock and the distribution; we don’t know if we would still be in business without them.”

“We don’t have to worry about getting delivery to the small stores.”

“Product is fresher, as they deliver more often than we could. The availability of product makes (stores) much happier.”

“The fact that they have a system that can distribute to smaller co-ops is very helpful.”

“Their flexibility and looking out for us. CPW says, ‘Sell (direct) to whomever you can efficiently before you sell to us.’”

“They are flexible.”

“Provide and share good market information.”

“Will adjust on price.”

- What could be improved with CPW?

“Can’t think of any improvements.”

“Never missed a day.”

“Sometimes we wish CPW would charge more; sometimes they price lower than we do on direct delivery.”

“Don’t do as much preseason commitment (compared to individual stores) – would like more.”

“Sometimes the communication is not effective, specifically in the area of what’s available. Sometimes a customer will call and ask for direct product because CPW says it is not available, but we know it is.”

- How does selling in this cooperative system compares to other channels?

“It is a lot easier and one-on-one (with buyers).”

“Co-ops are not so greedy when they put on the margins.”

“It is more difficult with other retailers, where you have to sell first to the corporate office; co-ops make decisions in-house.”

“We’ve been in all kinds of stores – grocery, mass market – the thing about the co-ops is the managers promote us, believe in what we are doing, and convey this to customers. (A local grocery chain) and other mass marketers don’t do this. For us, this is very important, the co-ops are a part of our sales team.”

- Is there anything else about this system you would like to add?

“New producers coming in are finding this a tighter market. This is the reality that we struggled with in the beginning. Core farms should have the right to sell, but it is frustrating for younger growers.”

“How do you account for the customer base in the Twin Cities – is it unique? Do we have a cultural infrastructure that accounts for this customer base? We talk to other growers in other areas and we feel lucky to have the market we do and the farm locations near that market.”

APPENDIX D: SUPPORT ORGANIZATIONS

Cooperatives and Cooperative Grocery

Cooperative Development Services (CDS) (www.cdsus.coop), with offices in St. Paul, Minn., and Madison, Wis., is a nonprofit that helps local producers and potential startup agricultural cooperatives and related enterprises through feasibility studies, business and financial planning, trainings, and collaborative projects. CDS is the sponsor of the present case study; co-author Joan Stockinger works out of its St. Paul office. CDS also is a regional member of Cooperation Works! (www.cooperationworks.coop), which is a nationwide network of cooperative development centers and practitioners.

CDS Consulting Co-op (www.cdsconsulting.coop) historically developed under the wing of CDS and later was incorporated as an independent shared-services cooperative of consultants and trainers, many of whom have held prior management positions in food cooperatives. CDS Consulting Co-op serves and advances the strength of food co-ops nationwide, providing training and consultation in areas such as board development, expansion planning, human resources, membership development, and more.

Cooperative Grocer magazine and Cooperative Grocer Network (CGN) (www.cgn.coop) provide web-based and print resources for the food co-op community nationwide, combining the archives of *Cooperative Grocer*, the food co-ops' trade magazine, with many other resources and online national discussion forums. *Cooperative Grocer* founder and editor Dave Gutknecht (co-author of this paper), as well as the executive director of the publication's parent cooperative CGN, are based in Minneapolis, Minn., at Triangle Park Creative (www.triangleparkcreative.com).

Food Co-op Initiative (FCI) (www.foodcoopinitiative.coop) is the leading U.S. organization assisting startup food co-ops; its thorough guide, "How to Start a Food Co-op" (rev. 2014), is available as a free download from the FCI website. For startup retail food co-ops, FCI's current *minimum* recommendations include: 750-1,000 members by opening day; a facility of at least 3,000 square feet; first-year sales of at least \$400-500 per square foot; and the support of a professional market study.

Northcountry Cooperative Development Fund (NCDF) (www.ncdf.coop) is a lender and developer that had its origins in the 1970s Twin Cities co-ops and remains

dedicated to cooperative enterprise in many forms. In 1988 it reincorporated as a cooperative and has grown to 175 members in 30 states. NCDF has under \$10 million in assets and often partners with larger lenders to meet the financing needs of its member co-ops.

Twin Cities Natural Foods Cooperatives (TCNFC) (www.themix.coop) and **National Cooperative Grocers Association** (NCGA) (www.ncga.coop) are, respectively, the local trade group and national cooperative for shared marketing, peer support, and joint purchasing, a structure pioneered among the Twin Cities food co-ops and in the Upper Midwest during the 1990s. The TCNFC bi-monthly consumer publication *Mix* provides co-op marketing and consumer education reports, often about local producers. NCGA provides strong services to its nearly 140 member retail co-ops through a national purchasing program with hundreds of millions of dollars in volume as well as through training and support in numerous areas of co-op retail operations, management, and governance. For a summary of NCGA's 2012 food co-op impact study, "Healthy Food, Healthy Communities" and a link to the full report, see <http://strongertogether.coop/food-coops/food-co-op-impact-study/>.

Local and Sustainable Farm Support

Institute for Agriculture and Trade Policy (IATP) (www.iatp.org), a nonprofit formed in the 1980s to save the family farm, has grown into an internationally known advocate for sustainable farming, fair trade, and transparency in trade agreements. IATP has been an ally in critiquing and developing public policy around land use, labor conditions, safe food, and democracy.

Land Stewardship Project (www.landstewardshipproject.org) is a nonprofit formed in 1982 that promotes environmental and social justice through stewardship of the land, educating urban and rural citizens on farmland issues, helping farmers in the region move to sustainable practices, supporting CSAs, and more; LSP's main offices are in Minneapolis, and its members actively support the local value-added food chain.

Midwest Organic & Sustainable Educational Services (MOSES) (www.moses.org) is the organizer and host for the nation's largest organic farming conference, based in La Crosse, Wis., and held each year since 1990. MOSES is a nonprofit that promotes organic agriculture through a newsletter and training, the annual conference, and attendant resources. Its sister organization, MOSA, is a leading organic certifier in the Upper Midwest (www.mosaorganic.org).

Minnesota Department of Agriculture (www.mda.state.us) funded the present study and offers many services, including the Minnesota Grown Program, supporting local food producers that market directly to consumers as well as those that wholesale; the Organic/Diversification Program, which sponsors an annual Minnesota Organic Conference in January and staffs the Organic Advisory Task Force; and the Sustainable Agriculture Program, including a grant and loan program and educational materials.

Minnesota Institute for Sustainable Agriculture (www.misa.org) is a nonprofit affiliated with the University of Minnesota; MISA offers many ongoing programs and resources, including a useful online discussion forum, available via email at sustag@lists.umn.edu.

Renewing the Countryside (www.renewingthecountryside.org) is a local nonprofit incorporated in 2002 that offers print and online resources and supports campaigns that provide inspiration and assistance to individuals and communities seeking sustainable ways to renew rural economies and culture.

Sustainable Farming Association of Minnesota (www.sfa-mn.org) is a nonprofit that promotes sustainable farming systems through farmer-to-farmer networking and education; most local suppliers to the Twin Cities cooperative value-added food chain are members. Parallel organizations exist in other states including Iowa (**Practical Farmers of Iowa**: www.practicalfarmers.org) and Wisconsin (**Wisconsin Institute for Sustainable Agriculture**: wisa.cals.wisc.edu).

United States Department of Agriculture (USDA) (www.usda.gov) offers many services, including the National Organic Program (www.usda.gov/nop). For data on organic acreage and production, see: www.ers.usda.gov/data-products/organic-production.aspx.

APPENDIX E: READINGS

Cooperative Grocer has published many articles on food co-ops and local food and farmers; its archives can be searched at www.cooperativegrocer.coop/library/articles. Of particular relevance to the present study is a 2013 article summarizing the only other U.S. food co-op regional food system with a distribution business, launched by La Montanita Cooperative in Albuquerque, N.M.: www.cooperativegrocer.coop/articles/2013-10-14/rooting-local-food-system-cooperation. In the latter report, the New Mexico Co-op Distribution Center (www.coopdistribution.coop) estimates break-even to be around \$5M in distributor sales (similar to CPW history: see next reference).

For additional background on **Co-op Partners Warehouse** (CPW), see “Value-Based Food Supply Chains: Co-op Partners Warehouse,” by Robert P. King and G.W. Stevenson; 2012, Center for Integrated Agricultural Systems: www.cias.wisc.edu/aotm-case-studies.

Food Co-op Initiative (FCI) (www.foodcoopinitiative.coop) is the leading U.S. organization assisting startup food co-ops. It offers a thorough guide, “How to Start a Food Co-op” (rev. 2014), available as a free download from the FCI website. For an excellent summary of key challenges for startups, written by FCI Executive Director Stuart Reid in late 2012, see: www.cooperativegrocer.coop/articles/2012-12-04/why-some-new-co-ops-fail.

Phil Howard of Michigan State University has produced a series of charts strikingly illustrating organic industry consolidation; updated charts, including a 2013 interactive version, are available at his site: www.msu.edu/~howardp/organicindustry.html. Howard recently added a chart detailing consolidation in the seed industry.

John Ikerd is quoted on page 2 from the conclusion to his October 2012 article, “Cooperation: The key to sustainable livelihoods in food systems,” in *Journal of Agriculture, Food Systems, and Community Development* (www.AgDevJournal.com).

Sustainable Farming Association of Minnesota in late 2013 published preliminary results of a survey for its project, “Adjust 2015: When Farming Reality Doesn’t

Match the Business Plan.” They offer figures and comments that underscore challenges facing small and medium-size producers: www.sfa-mn.org/adjust2015.

United States Department of Agriculture (USDA) has many publications and resources related to local food. For a useful discussion of local food systems and concepts, see: Martinez, Steve, et al., *Local Food Systems: Concepts, Impacts, and Issues*, ERR 97, U.S. Department of Agriculture, Economic Research Service, May 2010: www.usda.ers.gov/media/122868/err97_1_.pdf.