



# The Grocery Gap



Changing lives, one community at a time.

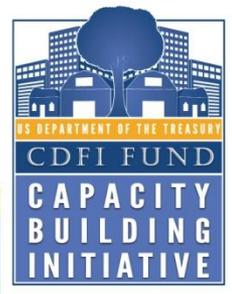
**Presented By Jeff Brown**

April 24, 2012



# Introduction

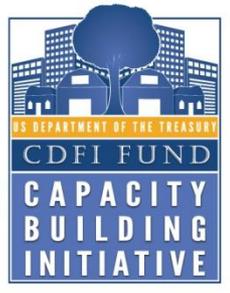
- CDFI Fund's Capacity Building Initiative
  - Financing Healthy Food Options
    - Workshops
    - Technical Assistance – individual and group
    - Resource Bank



# Today's Webinar Topic

## The Grocery Gap

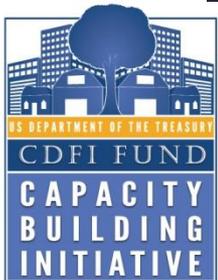
- Why?
  - Grocery stores typically run on thin margins. This is even more pronounced in food deserts.
  - Financial and operational innovations to make grocery stores in low-income, urban areas profitable.



# Presenter



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# The Grocery Gap



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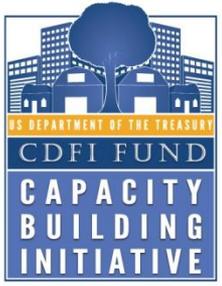
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# Brown's Super Stores

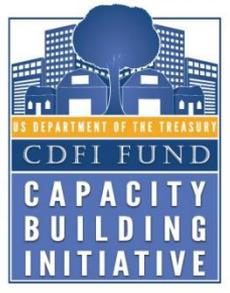


- **Jeff Brown**, a fourth generation Philadelphia grocer, is the founder, President and CEO
- Operates **ten ShopRite supermarkets** in the Delaware Valley
  - Five of which serve “food deserts”
  - 1<sup>st</sup> store opened December 1988 (23 years ago)
  - 1<sup>st</sup> urban store opened 2000 (11 years ago)
  - Two new “food desert” 70,000 sf stores (North Philadelphia & Baltimore, Maryland)
- Employs **2,300 associates**, 92% unionized with UFCW locals 1776, 152 and 1360
- Our average store is **60,000** Square feet
- Member of **Wakefern Food Corp.**

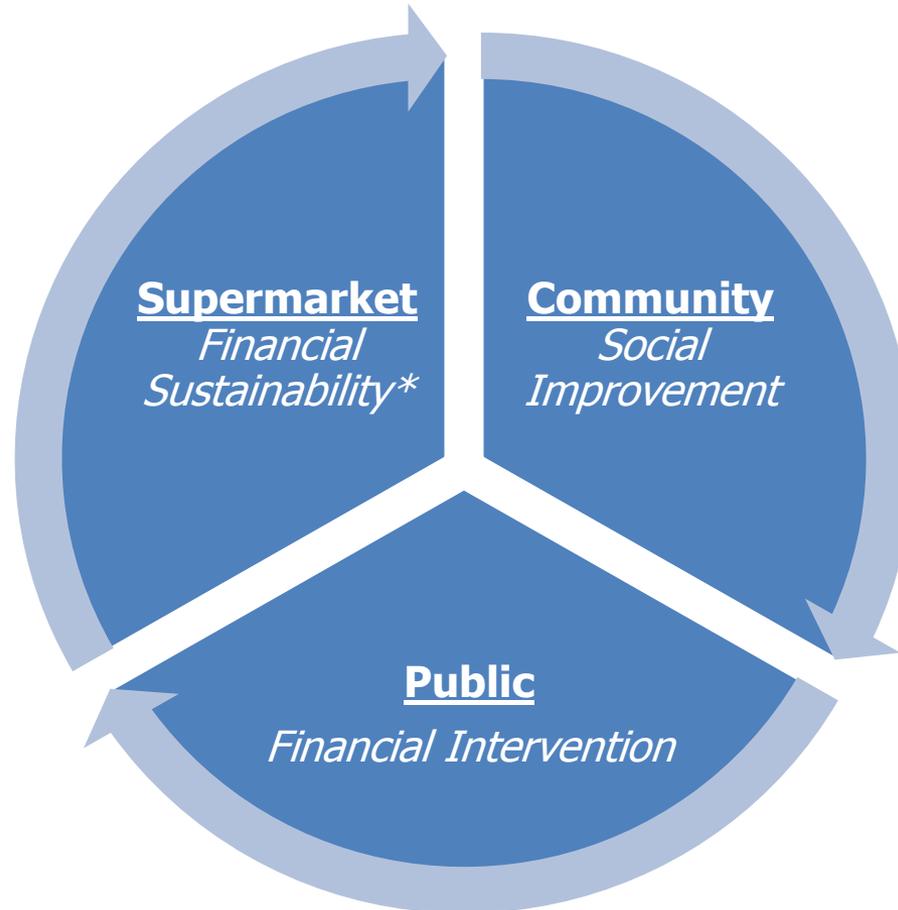


# Grocer's Challenge

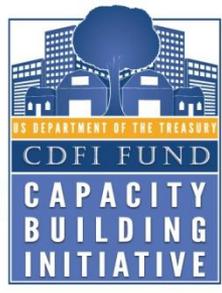
- “Food deserts” are not self correcting; operating costs are generally higher and margins are lower
- Food desert locations often experience a gap in profitability of around 5% of sales (i.e. 4% loss instead of 1% profit), causes include:
  - Reduced average sale
  - Lower inbound gross profit
    - Reduced grocery gross profit (increase formula penetration)
    - Lower penetration of high margin department's (Produce, Deli, General Merchandise, Gourmet)
  - Higher training costs and reduced productivity
  - Higher security and insurance costs
  - Higher building and maintenance costs
- Correcting the gap with higher pricing, lower wages or reduced standards have proven to be ineffective
- **This gap has resulted in high “food desert” grocery store failure rates**



# Correcting the Financial Gap



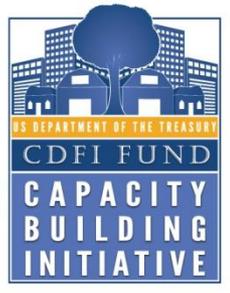
*\* Plus entrepreneurial innovation*



# Reducing the Financial Gap: Landlord

Assumptions: 60,000 sq ft store, \$130psf building cost, \$100psf equipment cost, weekly sales of \$600,000, NMTC proceeds of 20- 24% of total project, NMTC requires 7 year balloon, 6% interest, assumed 10 year RE tax abatement, [normal RE taxes of \$3psf], assumed FFFI incentives are obtained to cover capital and/or preopening costs in excess of normal levels

	<u>Normal</u>	<u>Savings</u>	<u>Net</u>
Supermarket Building costs	\$ 7.80 M		
Land and Site costs	<u>\$ 4.20 M</u>		
	\$12.00 M		
NMTC (net benefit)		\$ 2.40 M	\$ 9.60 M
Gross Rent	\$ 20.00 psf		\$ 16.00 psf
Re-allocate benefit of other tenants			
Evaluate Brownfield, Historic, etc			
Goal (1/2 Market Rent)			<b>\$ 10.00 psf</b>



# Reducing the Financial Gap: Supermarket

	<u>Normal</u>	<u>Goal</u>	<u>Savings</u>
• Rent	\$ 20.00psf \$ 1,200,000/yr	\$ 10.00psf \$ 600,000/yr	\$ 600,000/yr
• Real Estate Tax	\$ 180,000/yr	\$ 30,000/yr	\$ 150,000/yr

## **NMTC**

• Equipment and fit out	\$ 6.00 M	\$ 4.80 M	\$ 1.20 M
• Interest Expense	\$ 360,000/yr	288,000/yr	\$ 86,400/yr

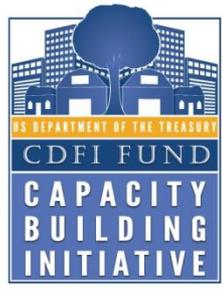
## **Total savings**

**\$836,400/yr**  
***2.7% of Sales***

• Debt Amortization	\$ 857,143/yr	\$ 0	\$ 857,143/yr
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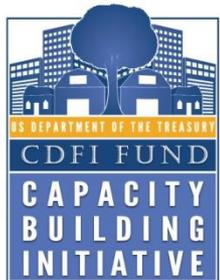
## **Operating Cash Flow Improvement** (Ex. Balloon payment after 7<sup>th</sup> Yr.)

**\$1,694,000/yr**  
***5.4% of Sales***



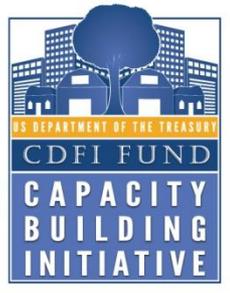
# Entrepreneurial Innovation

- **Mission:**
  - Bring Joy To The Lives of The People We Serve
- **Brand Attributes:**
  - Authentic Products
  - Affordability
  - Community Responsibility
  - Enjoyable Shopping Experience
- **Values:**
  - Seek Understanding
  - Be Flexible
  - Show Respect
  - Act Responsibly



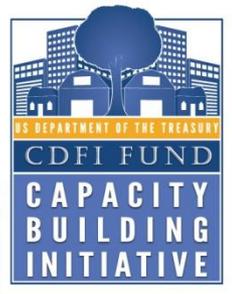
# Site Selection

- Truly a “Food Desert” and not wasting public resources
- Strong community leadership and elected officials with a general consensus on the goals
- Adequate site size to realistically support the planned store format with parking and loading
- Densely populated
- Very good accessibility and visibility to the population (ie strong public transportation access)
- Relative availability of public support (tax abatement, NMTC eligibility, financial support for training, etc.)
- Relatively low level of violence
- **Target rent of 50% of suburban market rents is usually necessary for new locations to be financially viable**



# Financing Challenges

- Lender doesn't understand the supermarket business and has unrealistic expectations
- Lender doesn't understand how leverage financing needs to work with NMTC, especially when the collateral is equipment, fixtures and leasehold improvements
- Lenders with a negative view of minorities and/or lower income communities
- Coordinating new loans for "food desert" locations with existing facilities (i.e. existing facilities require all new assets to be collateral)
- The cyclical nature of the economy and finance
- The Paradox (if the grocer is doing well in its suburban business and has plenty of financial capacity, they often aren't interested in new strategies)
- The balance between financial sustainability and social benefit



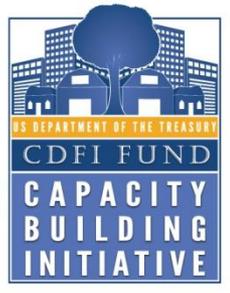
# CDFI's partnership with the Grocer

- **How CDFIs Can Help Grocers**

- The goal would be to assemble or coordinate the entire financing/public incentive package for new “food desert” supermarkets (ie all levels of the public sector)
- Understand supermarket finance and how things are normally done, especially when real estate is not part of the collateral
- Be the grocers advocate and be prepared to help solve problems with the public sector, utilities, landlords, lenders, etc.

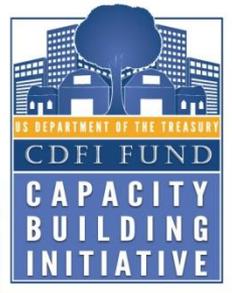
- **Attracting Capable Grocers**

- Be flexible and do the above well
- Figure out what your CDFI team can be involved in to get to know the potential grocers better (state trade organizations, higher education, etc.)
- Work with UpLift Solutions



# Community Involvement

- Include every community/elected leader possible
- Look for grocers that are prepared to do the same
- Encourage regular community meetings before and after store development to discuss what they need from their new supermarket and community challenges; community rooms are very well received
- Successful “food desert” grocers should share plans with the community prior to implementing them and listen effectively, including follow-up on commitments. Show respect!
- Understanding each communities special needs is critical to success (i.e. Halal, etc.)

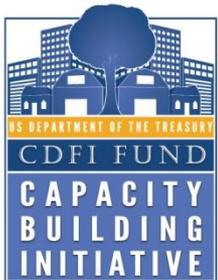


# UpLift Solutions

A national nonprofit to support food businesses, government and nonprofits to create sustainable environments for underserved communities.

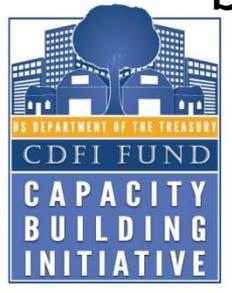
## Program Areas

- ✓ **Sustainable Food Systems**
- ✓ **Health Innovations**
- ✓ **Community Development**



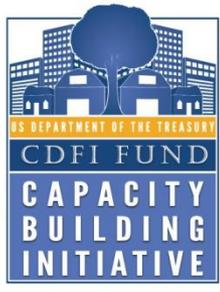
# Sustainable Food Systems

- Technical Assistance for Increased Food Access
  - Financing new stores
  - Public/private partnerships
  - Low access operator higher education and certification programs
- Healthy Food Access Fund (HFAF)
- Urban Agriculture
  - Business model innovation
  - Local agriculture branding
- Alternative Energy
  - Delivering innovative turn key solutions to improve business and environmental results



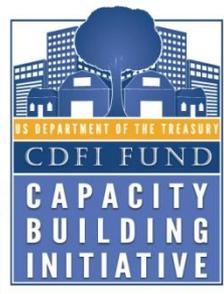
# Health Innovations

- Access to Primary/Preventive Care
  - In store acute health clinics
  - Entitlement advocacy
  - Health/nutrition education
- Anti-Obesity Market-Based Research



# Community Development

- Workforce Development
  - Re-entry
  - Unemployed/unskilled
- Access to Financial Services
  - In store credit unions
  - Financial literacy
- Community Development
  - Community micro-grants
  - Community partnering





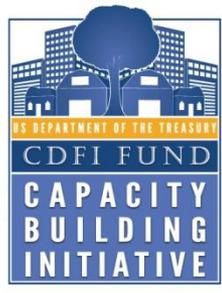
***Delivering Entrepreneurial Solutions that Support  
Underserved Communities for the Joy of a Healthy Life***

**Contact Information:**

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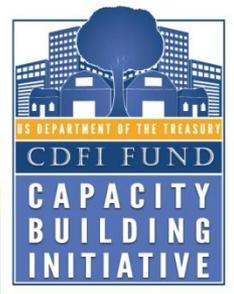
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# Additional Resources



# Financing Healthy Food Options Resource Bank

[http://www.cdfifund.gov/what\\_we\\_do/FinancingHealthyFoodOptionsResourceBank.asp](http://www.cdfifund.gov/what_we_do/FinancingHealthyFoodOptionsResourceBank.asp)



The screenshot shows a web browser window with the URL [www.cdfifund.gov/what\\_we\\_do/FinancingHealthyFoodOptionsResourceBank.asp](http://www.cdfifund.gov/what_we_do/FinancingHealthyFoodOptionsResourceBank.asp). The page features a navigation menu on the left with links: WHO WE ARE, WHAT WE DO, IMPACT WE MAKE, NEWS & EVENTS, and HOW TO APPLY. The main content area is titled "COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND" and "UNITED STATES DEPARTMENT OF THE TREASURY". Below this, the page is titled "Financing Healthy Food Options Resource Bank" and lists three main sections: I. Training Curriculum, II. Financial Resources Catalogue, and III. Food Desert Mapping Tools. Each section contains a list of links to various resources. A disclaimer at the bottom states that the documents were funded by the CDFI Fund under Contract TPD-CDF-10-C-0006, Task Order 0001, and that the content is the responsibility of the authors. The page was last updated/reviewed on 12/07/11.

CDFI Fund - U.S. Treasury - x

www.cdfifund.gov/what\_we\_do/FinancingHealthyFoodOptionsResourceBank.asp

Opportunity Financ... CARS™ - Comprehe... Other bookmarks

- WHO WE ARE
- WHAT WE DO
- IMPACT WE MAKE
- NEWS & EVENTS
- HOW TO APPLY

## COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

UNITED STATES DEPARTMENT OF THE TREASURY

### Financing Healthy Food Options Resource Bank

#### I. Training Curriculum

- [Food Systems Overview](#)
- [Healthy Food Retail Financing](#)
- [Financial Services for Mid-Tier Food Chain Enterprises](#)
- [NMTC & Urban Supermarkets](#)
- [Understanding the Grocery Industry](#)
- [Underwriting Supermarkets & Grocery Stores](#)
- [Mid-Tier Food Chain Enterprises Overview & Underwriting](#)
- [Capitalizing Healthy Food Retail Initiatives](#)
- [Identifying Optimal Areas for Supermarket Development](#)

#### II. Financial Resources Catalogue

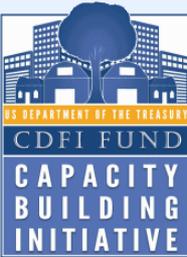
- [Financial Resources Catalogue](#)

#### III. Food Desert Mapping Tools

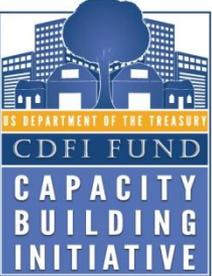
- [USDA Food Desert Locator](#)
- [Policy Map](#)

*These documents were funded by the CDFI Fund, under Contract TPD-CDF-10-C-0006, Task Order 0001. The curriculum and opinions expressed in these documents are those of the authors, who are solely responsible for the content, and do not reflect the opinions of the CDFI Fund or any other person, entity, or organization.*

Last updated/reviewed: 12/07/11



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# Upcoming Workshops

## Farms & Food Production

Boston, MA

May 31<sup>st</sup> and June 1<sup>st</sup>

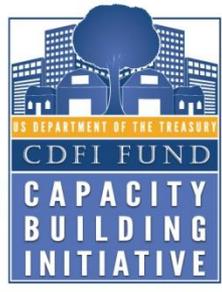
[Link](#) to Training Information & Registration

## Food Retailers

Seattle, WA

June 28th and 29th

[Link](#) to Training Information & Registration



# Upcoming TA Webinars

## **Connecting Farms to Institutions**

•Monday, April 30, 2pm EDT

## **Green for Greens: Finding the Funding for Healthy Food Retail**

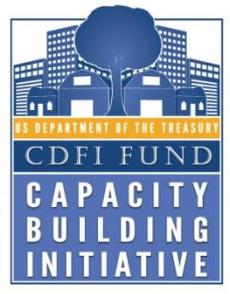
•Thursday, May 10, 2pm EDT

## **Healthy Food Options Program Design & Social Impact Measurement**

•Wednesday, May 23, 2pm EDT

**MORE WEBINARS TO COME IN MAY!**

Visit [www.opportunityfinance.net/FHFOwebinars/](http://www.opportunityfinance.net/FHFOwebinars/) to register for one or all of the TA webinars



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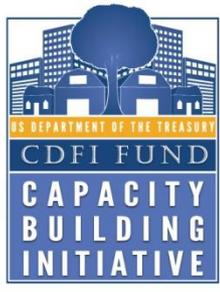
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