The Grocery Gap

UpLift Solutions
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

Jeff Brown
UpLift Solutions
Jeffb@wakefern.com
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”
  – 1st store opened December 1988 (23 years ago)
  – 1st 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.**
“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

Supermarket
Financial Sustainability*

Community
Social Improvement

Public
Financial Intervention

* 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

<table>
<thead>
<tr>
<th>Normal</th>
<th>Savings</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supermarket Building costs</td>
<td>$ 7.80 M</td>
<td></td>
</tr>
<tr>
<td>Land and Site costs</td>
<td>$ 4.20 M</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$12.00 M</td>
<td></td>
</tr>
<tr>
<td>NMTC (net benefit)</td>
<td>$ 2.40 M</td>
<td>$ 9.60 M</td>
</tr>
<tr>
<td>Gross Rent</td>
<td>$ 20.00 psf</td>
<td>$ 16.00 psf</td>
</tr>
<tr>
<td>Re-allocate benefit of other tenants</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Evaluate Brownfield, Historic, etc</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goal (1/2 Market Rent)</td>
<td></td>
<td>$ 10.00 psf</td>
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# Reducing the Financial Gap: Supermarket

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<tr>
<th></th>
<th>Normal</th>
<th>Goal</th>
<th>Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>$20.00 psf</td>
<td>$10.00 psf</td>
<td>$600,000/yr</td>
</tr>
<tr>
<td></td>
<td>$1,200,000/yr</td>
<td>$600,000/yr</td>
<td></td>
</tr>
<tr>
<td>Real Estate Tax</td>
<td>$180,000/yr</td>
<td>$30,000/yr</td>
<td>$150,000/yr</td>
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**NMTC**

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<tr>
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<th>Savings</th>
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</thead>
<tbody>
<tr>
<td>Equipment and fit out</td>
<td>$6.00 M</td>
<td>$4.80 M</td>
<td>$1.20 M</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>$360,000/yr</td>
<td>288,000/yr</td>
<td>$86,400/yr</td>
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**Total savings**

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<tr>
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<th>Goal</th>
<th>Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Amortization</td>
<td>$857,143/yr</td>
<td>$0</td>
<td>$857,143/yr</td>
</tr>
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</table>

**Operating Cash Flow Improvement** (Ex. Balloon payment after 7th Yr.)

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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>$1,694,000/yr</td>
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</table>

*2.7% of Sales*

*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

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Additional Resources
Financing Healthy Food Options Resource Bank

http://www.cdfifund.gov/what_we_do/FinancingHealthyFoodOptionsResourceBank.asp
Upcoming Workshops

Farms & Food Production
Boston, MA
May 31st and June 1st

[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/ to register for one or all of the TA webinars
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