Winter Webinar Series

• Nurture the growing healthy food financing sector
• Provide webinars to CDFIs and CDFI partners interested in healthy food financing
Today’s Webinar Topic

• 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.
Jeff Brown

UpLift Solutions
Jeffb@wakefern.com
The Grocery Gap

Presented by Jeff Brown

December 12, 2012

Winter Webinar Series
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.
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

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% 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></th>
<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>
<td></td>
</tr>
<tr>
<td>Land and Site costs</td>
<td>$ 4.20 M</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$12.00 M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NMTC (net benefit)</td>
<td></td>
<td>$ 2.40 M</td>
<td>$ 9.60 M</td>
</tr>
<tr>
<td>Gross Rent</td>
<td>$20.00 psf</td>
<td></td>
<td>$ 16.00 psf</td>
</tr>
<tr>
<td>Re-allocate benefit of other tenants</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Evaluate Brownfield, Historic, etc</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goal (1/2 Market Rent)</td>
<td></td>
<td></td>
<td>$10.00 psf</td>
</tr>
</tbody>
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Uplift Solutions

Nurturing Healthy Food Financing
### Reducing the Financial Gap: Supermarket

<table>
<thead>
<tr>
<th></th>
<th>Normal</th>
<th>Goal</th>
<th>Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rent</strong></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><strong>Real Estate Tax</strong></td>
<td>$180,000/yr</td>
<td>$30,000/yr</td>
<td>$150,000/yr</td>
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</tbody>
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### NMTC

<table>
<thead>
<tr>
<th></th>
<th>Normal</th>
<th>Goal</th>
<th>Savings</th>
</tr>
</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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</tbody>
</table>

**Total savings**

- Debt Amortization: $857,143/yr  $0  $857,143/yr

**Operating Cash Flow Improvement** (Ex. Balloon payment after 7th 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 (i.e. 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
How CDFIs Can Help Grocers

- The goal would be to assemble or coordinate the entire financing/public incentive package for new “food desert” supermarkets (i.e., 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/Consulting for Increased Food Access
  – Financing new stores/Gap Management
  – NMTC Consulting
  – Project Underwriting/Credit Review
  – Grocer consulting/trouble shooting
  – Business Model Innovation
  – Public/private partnership development
  – Low access operator higher education and certification programs

• Healthy Food Access Fund (HFAF)
  – Community Development Enterprise (CDE)

• Alternative Energy/Sustainability Efforts
  – LED Lighting
  – Energy Management Systems
  – Organic and traditional recycling programs

Clients
Brown’s Super Stores
Collin’s Family Markets
U.S Treasury, CDFI Fund
Klein’s Markets of Maryland
Fair Food Network/Kellogg Foundation
Food Trust/ RWJF
Develop Springfield
Philabundance
Health Innovations

• Access to Primary/Preventive Care
  – In store acute health clinics
  – In store dietitian services
  – Entitlement advocacy
  – Health/nutrition education

• Anti-Obesity Market-Based Research

Clients
Brown’s Super Stores
Klein’s Markets of Maryland
William Penn Foundation
Community Development

• Community Engagement
  – Grassroots community outreach and public relations
  – Fundraising and establishment of a community micro-grants/donation program

• Workforce Development
  – Partnerships with nonprofits working with the re-entry population
  – Training support for hiring unemployed/unskilled workforce

• Access to Financial Services
  – In store credit unions
  – Financial literacy classes

• Urban Agriculture
  – Business model innovation

Clients
Brown’s Super Stores
Collin’s Family Markets
Klein’s Markets of Maryland
Philabundance
Living Cities

- Opportunity Finance Network
Delivering Entrepreneurial Solutions that Support Underserved Communities for the Joy of a Healthy Life

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Questions & Answers
Additional Resources
Upcoming Winter Webinars

• **Rural Food Retail: Challenges and Opportunities**
  – January 10, 2013 @ 2pm ET

• **Underwriting Supermarkets and Grocery Stores**
  – January 15, 2013 @ 2pm ET

• **CDFIs and Public Health**
  – January 24, 2013 @ 1pm ET

• **Energy Efficiency and Healthy Food Retail**
  – January 30, 2013 @ 2 pm ET

To register: opportunityfinance.net/fhfowebinars
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
- Understanding the Food Production Sector
- Credit Skills for Lending to the Food Production Sector
- Food Producers Case Studies
- Identifying Partners and Convening Stakeholders

II. Training Webinars

III. Additional Resources

- Searching for Markets: The Geography of Inequitable Access to Healthy and Affordable Food
  - Executive Summary
  - Full Report
- Financial Resources Catalogue

IV. Food Desert Mapping Tools

- USDA Food Desert Locator
- PolicyMap
Connect with OFN

http://www.opportunityfinance.net/industry/industry_locator.asp
How to Apply

OFN welcomes all CDFIs that are committed to performance to apply for Membership. Our standards for Membership are different and generally higher than the CDFI Fund’s requirements for CDFI certification. Not all OFN Members are CDFI Fund-certified and not all CDFI Fund-certified CDFIs qualify to be OFN Members.

To apply please complete OFN's new online membership application. You will be able to provide all necessary attachments when completing the application. If you want to work on the membership application prior to submitting it online please download a practice copy. We recognize that not all CDFIs are ready for or interested in OFN Membership. We invite these CDFIs, as well as non-CDFI organizations and individuals who support OFN’s mission, to become OFN Allies.

Do you want more information?

- Download our Membership Guidelines.
- Read our Membership FAQs.
- Contact our Membership Department at membership@opportunityfinance.net.
OFN Allies

OFN Allies actively support OFN’s mission and the important work that OFN does on behalf of the opportunity finance industry. CDFIs—including those that do not currently meet OFN’s Membership requirements—as well as individuals and organizations that are not CDFIs, are invited to become OFN Allies.

Allies benefits include:

- Participation in OFN’s policy and advocacy efforts on behalf of the opportunity finance industry.
- Policy Action Alerts at key times in the legislative process when your participation in advocacy can make a real difference.
- Regular policy updates and analysis.
- Free participation in Quarterly Ally Calls led by OFN’s policy team.
- The Member discount to attend OFN Regional meetings.
- Subscription to OFN’s E-newsletter, quarterly CDFI Market Conditions Report, and a complimentary copy of the annual Opportunity Finance Institutions Side by Side publication.
- Recognition on OFN’s Web site list of Allies.
- Allies that aspire to become OFN Members are invited to participate in Member Staying Connected calls, a valuable peer learning opportunity for any CDFI.

Annual Ally dues are $75 for individuals and $250 for organizations.

Become an OFN Ally Today.
Contact OFN

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Christy Bare, Senior Associate
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Become a Member or Ally
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Thank You!

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Capital One

INVESTING for Good

MetLife Foundation

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The Grocery Gap

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