HEALTHY FOOD and SMALL STORES

STRATEGIES TO CLOSE THE DISTRIBUTION GAP IN UNDERSERVED COMMUNITIES
Traditional distribution systems are not built to serve small stores. This results in a lack of healthy, fresh foods in the communities that need them most.
Introduction

Access to nutritious, affordable food is a key factor in improving health outcomes, combating diet-related diseases and creating healthy communities. However, for small stores—including corner stores, bodegas, convenience stores, fuel-based retail and rural grocers—providing access to healthy food can be challenging.

Small stores in lower-income communities often face a supplier-to-retailer distribution gap that can make sourcing healthy food particularly difficult. In response to this issue, several organizations across the country have built partnerships with small stores in underserved communities in order to increase offerings of healthy food for people who need it most. As these efforts grow, partners are building connections between suppliers and small stores that not only benefit distributors and store owners but also the community at large.

In many neighborhoods, lack of access to healthy food is a longstanding challenge, partly rooted in the need for distribution of these foods to retailers. Small stores often struggle to stock healthy, fresh foods because they lack infrastructure and staff expertise to handle perishables, or may not have access to appropriate suppliers or the time to manage complicated logistics. Yet, in many urban and rural communities, these stores are the only food retailer for consumers, many of whom are lower-income and rely on Supplemental Nutrition Assistance Program (SNAP) and Women, Infants and Children Program (WIC) benefits to purchase food.

Small stores purchase food from a variety of sources. Many items, including tobacco, soda and high-calorie “junk” foods, are delivered regularly by various distributors. However, healthy products are not as widely distributed to stores and tend to have larger costs associated with delivery. Produce in particular is difficult to source—either through distribution or direct purchasing—since these stores do not have the same buying power as their larger counterparts. This makes it more difficult for store owners to meet distributors’ minimum order requirements and receive good prices.

In October 2015, more than 40 public health leaders and national experts in food retail, agriculture, distribution and marketing convened in Philadelphia for Healthy Food in Small Stores: Distribution Opportunities to Improve Community Health. This national conference tackled challenges and best practices for distributing healthy food to small stores across the United States. Co-hosted by The Food Trust and the Robert Wood Johnson Foundation, this meeting sought to build connections among experts and identify ways to overcome distribution challenges in ways that are profitable for businesses and provide better access to healthy food in stores.
The Challenge: *Distribution Gaps, Both Rural and Urban*

Today’s conventional food distribution system is not designed to efficiently and effectively serve small stores in underserved communities.

By their nature, these stores operate on a smaller scale than their supermarket and megastore counterparts. Not only do small stores offer less variety and keep smaller quantities of food in inventory, they also place relatively small food and goods orders, experience lower overall sales, and have less square footage and relatively low capacity for store operations. Additionally, small stores are frequently unable to achieve the economies of scale that would enable them to consistently and affordably purchase healthy, fresh foods to offer their customers.

Nevertheless, these stores play a key role in their communities as a place to purchase food, to gather, to provide jobs and to anchor commercial corridors while capturing dollars that would otherwise be spent outside the community.

Traditional distribution systems are not built to serve small stores. This results in a lack of healthy, fresh foods in the communities that need them most. Given the important role that small stores play in food access for many communities, the need to bridge the gap between healthy food supply and small store operations is clear. Without cost-effective, efficient means to bring healthy food to those who need it, customers are either faced with costly goods at prices they cannot afford, or customers simply do not have any access to these products as stores lack the means to stock them.

**Specific challenges to accessing consistent, reliable and affordable healthy products by small-store owners are numerous:**

1. Small store stocking and inventory needs are often incompatible with supplier order and delivery minimums.

2. Most independent small stores are not equipped with inventory and ordering systems that facilitate transactions with larger distributors or wholesalers.

3. Store owners/operators may lack knowledge and equipment to handle and merchandize produce that meets quality demands while minimizing spoilage and product loss.

4. There are varying definitions of what constitutes “healthy” food, particularly for shelf-stable or snack foods and beverages, making common understanding among retailers and suppliers challenging.

5. The size of orders from small stores is not compatible with the efficient, cost-effective operations of many large distribution warehouses designed around selections, or “picks,” of much larger orders.

6. Many store owners are not taking advantage of distributors that offer “last mile” deliveries, and often take it upon themselves to pick up their own products at a cash and carry or warehouse club.

**WHAT ARE LAST MILE DELIVERIES?**

This is a supply chain term used to describe transportation and logistics that move goods and services to the final leg of their destination. The “last mile” is frequently the least efficient and most costly step in the supply chain.
SMALL STORE PURCHASING STRATEGIES

There are at least four means by which small-store owners/operators make food purchases. While three of the models listed below feature supplier-coordinated logistics, it is important to note that for urban corner stores owners, the often time-consuming operator-driven model is commonly adopted.

Specialized Distribution Companies
Distribution companies that specialize in small stores and cater to their inventory and delivery needs.

Direct Store Delivery (DSD) Vendors
Also referred to as self-distributing manufacturers who deliver and sometimes stock their own products in retail locations (e.g. soft drink companies).

“Jobbers”
Typically an independent middleman (or wholesaler) without affiliation with a larger business or company. These small, informal delivery services can drop orders to either individual stores or a cluster of stores—most commonly in dense urban areas.

Operator-Driven Logistics
Some store owners make the decision not to use an intermediary to supply their store with products, instead purchasing and transporting products (packaged appropriately for resale) from cash and carry warehouses, or from other supermarkets or wholesale clubs like Costco.
The Research: Preliminary Findings

Through in-depth interviews and a multi-sector expert convening held in October 2015, The Food Trust conducted a national scan of small store distribution models to document common practices, challenges and opportunities to increase purchasing and sales of healthy foods. Interviewees included retailers representing independent small stores, convenience store chains, rural grocers, grocery delivery services and superstores/supermarkets; industry associations; wholesalers and distributors; and government, academic and nonprofit organizations representing public health, agriculture and nutrition interests.

The following early findings are intended to inform future discussions and tactics for increasing the variety and quantities of healthy foods available in small stores, both urban and rural.

Retailers of all sizes are seizing the business opportunity to sell healthier foods and are adjusting their business strategies to align with this trend. Some small stores — particularly convenience store chains — are finding ways to adapt their current inventories to capture some of the nationally cited growing consumer demand for fresh, healthier foods. These stores are increasingly identifying strategies to merchandise and promote healthy foods within their retail operations in an effort to compete with larger retailers for shoppers’ healthy food purchasing demand, while identifying means to capture higher profit margins off these items.

Traditional supply networks are not always compatible with needs of small stores. This includes ordering, inventory and other logistical needs. For small distribution companies, terminal markets and online grocers, small stores represent a customer category that could be significant if leveraged correctly with a price structure and product mix appropriate for those customers. The network of suppliers with whom small stores partner for purchasing involve varying types of logistical arrangements. With over 152,000 convenience stores in the country, 63% of which are one-store operators, there may be sufficient market opportunity to specialize in distribution to small stores and rural grocery stores. These specialized suppliers, whether distributors or cash and carry wholesalers, have often created successful businesses through meeting the needs of these underserved retail stores.

Small stores face several challenges in providing consistent access to affordable, healthy food. Interviews provided additional evidence that builds on The Food Trust’s previous research and programming in small stores, identifying known challenges to small stores and suppliers in providing healthy food. The following case studies are not intended to reflect all small stores, but represent thematic concepts learned during the interview process.
DC Central Kitchen (DCCK) is a nonprofit organization located in Washington, D.C., whose mission “is to use food as a tool to strengthen bodies, empower minds, and build communities.” In addition to the organization’s revenue-generating programming, including workforce development, catering and school food programs, DCCK’s Healthy Corners initiative partners with corner stores to deliver fresh produce and healthy snacks to D.C.’s lower-income communities. In 2011, DCCK received a D.C. Small and Local Business Development Grant, allowing the organization to start working with 30 corner stores that had been previously identified as strategic locations for improving food access.

Through its Healthy Corners program, DCCK now delivers fresh produce and healthy snacks to 67 D.C. corner stores in quantities and at wholesale prices that are compatible with stores’ needs. Because the organization already purchases case quantities of produce for other programs, DCCK is able to offer the corner stores smaller volumes of these perishable goods (by the each, or by splitting cases), minimizing waste and risk for store owners. Participating stores within the program may also receive merchandising and marketing support from DCCK, which can range from training on how to display fresh and healthy products to the provision of free in-store infrastructure (shelving units, reach-in refrigerators, baskets, newsletters, window clings, posters and signs) to ensure products are stored properly and attractively for customers.

Grubb’s Pharmacy, located within a professional office complex in the Anacostia section of Washington, D.C., offers specialized medicines in addition to having 700 square feet of food retail. Store owner Bill Fadel has partnered with DCCK for the past three years to ensure that the food segment of his business can provide opportunities for area residents to access fresh produce at an affordable price—something he would not be able to do via conventional suppliers. Fadel believes that providing healthy, affordable food in this lower-income, low-access neighborhood is a way he can help deliver positive health outcomes to the community and feels there is no better place to facilitate this goal than a pharmacy. The partnership with DCCK has made it possible for Fadel to have healthy offerings within his store’s inventory, including whole fresh fruits and vegetables, fat-free yogurt, protein shakes, low-calorie foods, soups and fresh-cut produce. According to Fadel, DCCK’s Healthy Corners is a good program, which is good for business and good for the neighborhood.

Most Successful Healthy Food Item: Fresh-cut fruit cups, specifically those including melons and pineapple

One Goal for Your Store Within Five Years: Grubb’s Pharmacy is interested in trying to integrate more health prevention services within its business model to help create more healthy lifestyles within the community.

Advice for Other Stores:
“Having fresh and healthy offerings is something that a store owner has to want to do, and they have to be in it for the long run. Finding a partner that can support you, like DCCK, can help make your program successful.”
— Bill Fadel, Grubb’s Pharmacy
Kwik Trip is a Midwestern chain of fuel-based convenience stores with locations in Wisconsin, Minnesota and Iowa. The company is the first of its kind to sign a Memorandum of Understanding with the Partnership for a Healthier America (PHA), demonstrating the company’s commitment to offering fresh and healthy products in an effort to improve food access within the communities where their stores are located.\textsuperscript{8} Within this agreement, the company has designated part of their stores’ square footage for healthy options, which includes fresh whole and packaged cut produce, low-fat dairy, whole grains and 28 different healthy snacks ranging from nuts to meat snacks. To help merchandise these healthy offerings, the company launched its ‘EATSmart’ program, which promotes products and meals that are 600 calories or less and controlled in salt and fat.

Jim Bressi, director of food research and product development, described how Kwik Trip has a long tradition of carrying fresh produce since the opening of its first store. This commitment to offering a wider variety of fresh and healthy foods to customers is a new milestone. Now operating 440 stores, Kwik Trip has always seen the benefits, for both the company’s bottom line and its customers, of having fresh and healthy food items within all its store. The company has also experienced a positive reputational advantage in stocking these items.

The company has had great success with its healthy and fresh procurement, in part due to its vertically integrated distribution network with a central commissary in La Crosse, WI. This network allows Kwik Trip to purchase large volumes of healthy food for all stores, and then redistribute products in smaller-than-case-sized units to individual stores. Without an internal distribution system, it would be far more difficult for each store to be able to offer such a wide array of healthy options. Kwik Trip’s central commissary also allows the company to produce food items according to its nutritional standards, like its three different whole grain breads (certified by the Whole Grain Council) and its grab-and-go salads. This convenience store chain is now even selling fresh meats, with products that change seasonally, to ensure that customers are able to purchase a range of products.

Most Successful Healthy Food Item: Grab-and-go salads

One Goal for Your Store Within Five Years: Kwik Trip would like to secure a larger percentage of market share from traditional grocery stores. The company sees the potential to offer more grocery items within its stores’ footprints.

Advice for Other Stores:
“Be patient and make sure your store can absorb the cost of any initial waste of testing a new product. Most importantly, clean your bathroom; no one will buy fresh products from you if your bathroom is dirty or outdated.”

— Jim Bressi, Kwik Trip
Gummer Wholesale serves convenience stores, offering grocery items for wholesale, in addition to food service products for any prepared foods made on-site. This 125-employee business has a central warehouse in Heath, Ohio, with a satellite warehouse in the northwestern region of Ohio. Gummer distributes throughout Ohio, northwestern West Virginia and in northern Kentucky. Because Gummer Wholesale has specialized its business to serve small stores, everything for sale to stores is available by the each, in addition to the case.

Recognizing the financial benefits for store owners who offer and successfully merchandize fresh produce, Steve Tufo, Gummer Wholesale’s food service director, offers interested stores free technical assistance to help them take advantage of this opportunity. Tufo has identified several criteria necessary for a store to have a successful fresh food program. These include having a good location for strong demand and consistent foot traffic, and having a store owner who champions the sale of fresh produce. Once a store is identified, Gummer will provide the store owner with merchandising materials and assistance with ordering to help stores begin sourcing produce.

In order to mitigate the challenges associated with launching a program featuring fresh produce, Tufo recommends the following to store owners: First, stores should start ordering fresh products that can also be utilized by either a food service operation within their store (e.g. a deli counter) or by the store owners’ own households. If a store has a deli, they should consider minimizing shrink by turning unsold produce into a value-added item, like a fruit cup, smoothie or packaged salad. If a store does not have any in-house food preparation, store owners can use any unsold produce for their personal use, allowing them to purchase their household groceries at a wholesale price. Tufo also advises that stores launch their new fresh offerings during a time of the year when their customer volume is the highest. Lastly, it’s important to have fresh produce for at least 30 days prior to analyzing the financial success of this offering.

Gummer Wholesale not only provides business support for their customers, they have also seized a specific business opportunity by serving a customer base that does not typically meet the delivery minimums of many conventional suppliers. Suppliers that can serve small stores and offer technical assistance for store owners play a critical role in ensuring healthy food accessibility within a diversity of retail formats.
Jetro Cash and Carry is a leading national wholesale cash and carry serving food retail and food service establishments with operator-driven logistics, or businesses that have internalized the transportation of their products within their operation. Jetro’s leadership views its relationships with small stores as a market opportunity for their business. To strengthen relationships with customers and capitalize on their interactions with these store owners, Jetro offers store-level technical assistance for these small-business owners. Davis Ortiz, Jetro employee, works with store owners to help them successfully integrate fresh foods into their current product selection. Specifically, Davis offers merchandizing and inventory management support for small stores, as well as being an in-person customer service arm for the store—a role in which he excels because his family owns a bodega in the Bronx in New York City. Mango Grocery and Meat, a family business, has given Davis the unique perspective of operating a small store while being intimately familiar with the challenges associated from the supply side.

Jetro has created a unique advantage over its competitors by offering store-level support as a way of ensuring that its customers develop successful businesses, which, in turn, create more loyal small store customers. Rebate checks, based on quarterly purchases, help Jetro monetize the importance of this relationship and allow the stores to be rewarded for their purchases with the company. Ortiz’s store outreach also plays a critical role in ensuring the relationship is mutually beneficial by giving stores advice about top-selling produce items as well as equipment suggestions that would be appropriate for their store. For example, Jetro offered store owners free rotisserie chicken roasters in exchange for a promise that stores would purchase their chicken through Jetro. This innovative partnership was ideal for both parties as well as the communities at large, as it enabled small stores to sell a healthier cooked protein—an otherwise difficult item to stock. Davis has noted that a key challenge in working with stores is identifying the store owner, and finding time to work with that individual given the onerous demands on their time. He knows first-hand how important it is to take the time to be educated on how to do business differently, to explore partnerships, and to be assured that profitability will follow after a period of implementation.

Although Jetro as a company does not offer direct distribution to stores, it does offer small-store owners products at affordable prices in appropriately sized units, as well as a customer service program that offers technical assistance to store owners. This business understands the importance of helping to foster success for their customers’ businesses.
Although not necessarily “small” in terms of square footage, rural grocery stores face many of the same distribution challenges as small urban food retail stores. Rural is defined by the U.S. Census Bureau as an geographic area with fewer than 2,500 people, and grocery stores located within these areas often have a difficult time accessing the necessary distribution networks that allow a store to be stocked with fresh, price-competitive items.10 Similar to their urban counterparts, rural grocery stores cannot always meet the minimums placed by large wholesalers and are further challenged by the fact that their remoteness can be outside of the delivery radius set by some distributors.

The Oregon Food Bank distributes food to hungry families throughout the state of Oregon by working with approximately 970 partner agencies.11 Spencer Masterson, community food system manager for the food bank, explained that the organization recognizes the critical role that rural grocery stores can play within their communities, from the provision of food to acting as a community center for their towns. To demonstrate this, the organization has been working to collect the stories of rural grocery stores throughout the state in order to bring attention to common barriers as well as best practices. By working with Kansas State University’s Center for Engagement and Community Development’s Rural Grocery Initiative, the food bank has conducted interviews and surveys with store owners, compiling them within the “Sustaining Rural Communities” report, which details the barriers and opportunities facing rural grocery stores with the hope of fostering collaboration among similarly minded organizations.12

One store featured within this report is Chester’s Thriftway, located in the small town of John Day, OR (population, 1,700). This 30,000-square-foot store has its own 5,000-square-foot warehouse, making it feasible for Chester’s Thriftway to purchase product in bulk, a strategy that is not possible for many rural grocery stores that have limited back-of-house storage space. This storage capability allows the store to also serve other food establishments within its community, including mini-marts and restaurants. Chester’s Thriftway store owner Thad Thompson credits his store’s ability to stock a consistent supply of fresh produce to the handshake agreement he has with his regional produce distributor, Charlie’s Produce. Through a buying commitment that Thompson has made with Charlie’s Produce, the store now receives fresh produce deliveries four times a week. If a store is able to purchase more products, or commit to buying most of or its entire inventory from a supplier, it will be able to secure more frequent deliveries and/or a price break. However, increases in scale typically decrease diversity of product type, which is not always favorable to customers. Small-store owners need to be mindful of that balance, while at the same time maintaining a healthy financial bottom line.

Most Successful Healthy Food Item: Bananas

One Goal for Your Store Within Five Years: To continue to increase scale by opening new locations. Chester’s has a second location in the small town of Pacific City, OR, and they would like to continue to expand their business.

Advice for Other Stores:
“Understand the best ways to display and take care of fresh foods. Travel to other stores to see which merchandizing techniques are used. Find partnerships to help your business succeed, like cooperative supplier and advertising groups.”
— Thad Thompson, Chester’s Thriftway

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Through research, policy and capacity building, we can help improve healthy food distribution to small stores in underserved communities across the country.
Recommendations

Beyond creating new partnerships and making operational changes, there are actionable next steps that stakeholder communities and decision-makers can consider taking in the coming months and years in order to help improve healthy food distribution to small stores.

Assess market demand to better support suppliers and buyers.

Research areas to explore include:

- Local demographic information for small-store owners in order to help predict foot traffic, cultural food preferences and other sales patterns.

- Mapping of healthy small store initiatives regionally to identify potential partners and to share best practices.

- Research and information dissemination for stores regarding how long it takes for new initiatives to become successful, profitable and sustainable after implementation.

- Information for both suppliers and store owners that highlight the factors affecting where people shop and what they choose to purchase, including customer knowledge, store appearance, price, advertising and marketing.
Review local, state, federal and corporate policies to identify leverage points that would ease supplier-buyer logistics and strengthen healthy food purchasing by small stores.

Examples of each level of policy for consideration to ease the burden of small stores in their healthy and fresh food purchasing goals include:

**Local:** City-led tax breaks or incentives for small stores operating a fresh food program (e.g. subsidized licensing or business tax credits). Local town and city agencies may also consider supporting healthy small store initiatives or networks that include training and technical assistance for participating businesses.

**State:** Lowering or removing sales tax on groceries to increase consumer demand for healthy foods and, ultimately, the buying power of stores to stock higher-quality, healthy and fresh items at competitive prices; providing funding to support a network of healthy small stores.

**Federal:** Reviewing potential administrative barriers preventing small stores from accepting USDA nutrition program benefits (SNAP and/or WIC payments and voucher programs); tapping into existing federal financing for food hubs to support new models and partnerships; and funding enhanced training of WIC stores to learn healthy food handling and merchandising techniques.

**Corporate:** For stores with dedicated healthy food programs, suppliers may lower delivery minimums while programs get up to scale; corporate commitment or policy dedicating some profit to supporting healthy food programs in neighborhood small stores. Alternatively, equipment manufacturers (those providing refrigeration, for example) may consider sponsoring a national effort to support healthy food in small stores. In addition, corporate commitment to programs promoting healthy food access in retail, like those made with Partnership for a Healthier America, is another strategy to consider.
Continue the conversation by providing training, networking sessions and opportunities for stakeholders to both problem-solve and test new strategies.

Specifically, expert stakeholders involved in this project recommended:

- Creating networking opportunities for small stores to share best practices.

- Developing training for small stores on topics ranging from implementation of POS systems, to business planning to include healthy and fresh food programs, to creation of value-added food products to minimize shrinkage.

- Exploring “turnkey” healthy food programs in small stores that (a) involve suppliers as partners; (b) are capacity-making and not capacity-taking; and (c) are economically sustainable.

- Identifying mechanisms for increased consumer/small store/supplier feedback.

- Including public health, agriculture, policy and other stakeholders at supplier and retail trade shows for networking and learning opportunities.

- Researching the feasibility of or evaluate any existing “stores within a store,” where a store owner can lease out shelf space to another entrepreneur. If store owners are not interested in managing fresh inventory themselves, this model could help provide access to fresh foods and help to develop another business.
Conclusion

Stores, distributors, public health agencies and nonprofits across the country are testing innovative new strategies with the end goal of bringing healthy, fresh, affordable foods to consumers in need.

And while affordable access is important, equally crucial to the supply chain is financial sustainability. For communities to benefit as a whole, anchor stores must be able to thrive, suppliers must enjoy good business relationships with their customers, and outside agencies and facilitators should aim to have their program models support all of these players.

Together, we can continue to build on innovative practices that have been gaining traction over the past decade, and take advantage of this moment of engagement across the supply chain to close the distribution gap between healthy food suppliers and the small stores they serve.

FURTHER RESOURCES
For more information about healthy food access and to download this report, please visit thefoodtrust.org and healthyfoodaccess.org.
Together, we can continue to build on innovative practices and take advantage of this moment of engagement across the supply chain to close the distribution gap.
Endnotes


3. Ibid.


5. A “terminal market” is a central site, often in a metropolitan area, that serves as an assembly and trading place for commodities.


11. http://www.oregonfoodbank.org/About-Us


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Ensuring That Everyone Has Access To Affordable, Nutritious Food

Since 1992, The Food Trust has been working to ensure that everyone has access to affordable, nutritious food and information to make healthy decisions.

The Food Trust’s comprehensive approach includes improving food environments and teaching nutrition education in schools; working with corner store owners to increase healthy offerings and helping customers make healthier choices; managing farmers’ markets in communities that lack access to affordable produce; and encouraging grocery store development in underserved communities.

Learn more about The Food Trust: thefoodtrust.org