

# Neighborhood Groceries: New Access to Healthy Food in Low-Income Communities

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Report prepared by  
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## Table of Contents

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Acknowledgments	i
Table of Contents	iii
Executive Summary	1
I. The Problem of Access to Nutritious Foods	3
II. Elements of Market-Based Solutions	8
III. Evaluating the Feasibility of Market-Based Solutions	13
IV. Nontraditional Approaches	22
V. Feature Case Studies	28
VI. Recommendations	36
Endnotes	41

## Executive Summary

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### **The Problem of Access to Nutritious Foods**

Despite California's legendary agricultural abundance, hunger, food insecurity and obesity are prevalent in staggering numbers. The California Hunger Inventory Survey (CHIS 2001) identifies 2.24 million adults below 200 percent of the federal poverty line as being hungry or food insecure. The US Department of Agriculture's most recent food insecurity survey found 5.1 million Californians to be hungry or food insecure. At the same time, the US Surgeon General has estimated that more than 60 percent of the nation's adults are obese or overweight. And according to studies by the UC Berkeley Center for Weight and Health, approximately 1 in 4 children in the state is overweight or at risk of overweight.

While poverty is the main cause of malnutrition in California, lack of access to nutritious, affordable food is also a critical element. The flight of supermarkets to the suburbs, inadequate public transportation, and a paucity of healthy foods at corner stores are all factors that contribute to lack of healthy food access in low-income neighborhoods. However, recent studies and experiences indicate that this same deficiency also may represent an opportunity for development of small-scale grocery stores, designed to match specific demographics and other criteria, to provide healthy foods to residents of low-income neighborhoods and to be financially self-sustaining.

### **Elements of Market-Based Solutions**

Key factors to consider in identifying the appropriate market-based strategy in a specific low-income neighborhood include certain community characteristics, such as population density, ethnic composition, household income, and geographic isolation. Considerations affecting market segment include store size, location and accessibility, merchandise mix and regulatory barriers as well as factors affecting economic, financial and operational feasibility.

### **Evaluating the Feasibility of Market-Based Solutions**

These elements are applied to test the feasibility in low-income communities of various traditional market-based business models, including supermarkets, independent grocers and corner stores. Less intensive scrutiny is given to other, less frequently encountered models, including farmers' markets, public markets, cooperative grocery stores, mobile stores, community supported agriculture, subscription farming, and a variety of joint ventures involving neighborhood corner stores.

### **Featured Case Studies**

Three markets in the San Francisco Bay Area profitably furnishing healthy food to residents of low-income neighborhoods are showcased in order to identify the factors involved in their success.

## Conclusions

As a mounting volume of studies attests, residents of many low-income communities lack access to a supermarket within reasonable walking distance. Because they often do not drive their own automobiles and public transportation is inadequate, the absence of nearby supermarkets often represents an inability to purchase nutritious, affordable food, particularly fresh fruit and vegetables and other perishables. Healthy diets therefore are compromised, contributing to a high prevalence of hunger, food insecurity and obesity. These conditions, in turn, contribute to severe consequences affecting health and well-being.

As recent examinations and experience disclose, the combination of supermarket flight and inadequate transportation has created a discernible opportunity for market-based neighborhood groceries to provide, at a minimum, perishables and the other essential items that run out between infrequent supermarket visits. A spectrum of business models, from grand new supermarkets to modest corner stores, is available, with a series of important criteria to guide the proper selection of a market-based solution.

One promising model, among others, that has emerged involves the conversion of existing corner stores, typically depending upon sales of alcohol, tobacco and sodas, into neighborhood groceries selling healthy foods. Because so many of the necessary costs — rent, utilities, space, and management possessing some degree of both business skills and familiarity with neighborhood preferences — already are present, the conversion can be relatively inexpensive and, in fact, provide the store with additional opportunities to be profitable. A viable neighborhood grocery store represents multiple policy gains, including food access, nutrition and fitness, transportation, community development and crime reduction.

## Recommendations

### **Public Policy Recommendations to Stimulate and Assist Development of Neighborhood Grocers**

**For Local Governments:** Offer financial incentives, such as grants, loans and tax benefits; give priority to planning, zoning and community economic development conducive to the growth of small grocers; streamline licensing and permit processes; offer technical assistance; improve transportation and ensure safety precautions.

**For Private Funders:** Provide loans, grants, business advice and technical assistance to potential and existing grocers and support community planning and development.

**For Community Organizations:** Provide ownership and partnership in grocery development; advocate on grocers' behalf and promote the stores within the neighborhood.

### **Issues for Further Study**

The feasibility of various combinations of grocers, to gain economies of scale and other benefits for neighborhood grocers, should be tested; additional sources of public and private support should be pursued, and local policies that can streamline small business development should be explored.

# Neighborhood Groceries: New Access to Healthy Food in Low-Income Communities

## I. The Problem of Access to Nutritious Foods

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Despite an abundance of food in this country and particularly in California, increasing numbers of Americans suffer from hunger or food insecurity.<sup>1</sup> For most Californians with limited incomes, food insecurity is a long-term condition of poverty and usually takes the form of skipped meals, limited portions or poor quality foods. The consequences of a chronic lack of food are chilling — more frequent and severe sickness, reduced ability to concentrate and learn, and impaired social functioning.<sup>2</sup> At the same time, many of the people who are experiencing hunger or food insecurity also are caught in the newly recognized and rapidly intensifying obesity epidemic. According to the United States Surgeon General, more than 60 percent of the U.S. adult population is obese or overweight.<sup>3</sup> And UC Berkeley's Center for Weight and Health reports that approximately 1 in 4 California children is overweight or at risk of being overweight.<sup>4</sup> The consequences of obesity are very significant as well — exorbitant costs and dislocations to our society, a distressing proliferation of illnesses, and lost opportunities for the victims.<sup>5</sup>

The numbers of people suffering from food insecurity are staggering. The California Health Interview Survey estimates that in California at least 2.24 million adults below 200 percent of the federal poverty line are food insecure.<sup>6</sup> The United States Department of Agriculture finds that approximately 5.1 million people, including over two million children, are food insecure and lack the resources to obtain nutritious food.<sup>7</sup> Food insecurity — and, at times, even hunger itself — is prevalent in inner cities, in households with children, in female-headed households, and among African-Americans and Latinos.<sup>8</sup> This section explores some of the factors that lead to a lack of access to nutritious and affordable food in many low-income neighborhoods and the consequences of a lack of wholesome foods.

### What is Causing Food Access Problems?

Poverty, or the lack of resources with which to acquire food, is the primary source of food insecurity in the United States. However, extensive documentation shows that the lack of access to food in low-income urban neighborhoods — the simple inability to buy it there — is an important additional factor. Compared to people living in higher-income areas, residents of low-income urban neighborhoods have very limited access to high quality food, enjoy fewer options in the variety of goods that are available to them, and pay higher prices for their groceries when they are available. Recent economic development studies also demonstrate that

a lack of inner-city markets has resulted in lower sales and property taxes as well as increased blight for local governments, lower revenues and profits for retailers and fewer real estate possibilities for developers.

This paper is concerned with identifying market-based, financially self-sustaining solutions to the unique problems created by inadequate access to nutritious food in low-income communities. Several common problems, described below, have emerged as major contributors to the lack of access that, in turn, exacerbates the food insecurity caused by poverty.

### **Supermarket Flight**

The disappearance of supermarkets over the last 40 years from the inner cities has been well documented.<sup>15</sup> In the 1960s and 1970s, supermarket chains began to leave the inner cities because urban populations shifted to the suburbs — leaving lower densities and reduced purchasing power in the central cities.<sup>16</sup> The new supermarkets — and their requisite large parking lots — necessitated both expansive land parcels that often are not available in inner-city neighborhoods and easy automobile access for a significant portion of their customers. Crime and the perception of crime also led supermarket chains to abandon their inner-city stores.<sup>17</sup> This trend continued in the 1980s and 1990s as the major chains, faced with low profit margins, expanded the size and format of their suburban stores to increase sales volume and developed new profit centers within their stores, such as banks, pharmacies, bakeries, deli counters, and prepared meals, that typically generate higher profit margins than conventional groceries.

The result of these changes in the supermarket industry is fewer supermarkets in low-income communities. A report issued in 2002 by the Urban and Environmental Policy Institute at Occidental College found middle- and upper-income neighborhoods to have 2.26 times as many supermarkets per capita than in low-income neighborhoods.<sup>18</sup> Similarly, a 1995 nationwide study by the University of Connecticut found 30 percent fewer supermarkets per capita in the lowest-income zip codes than in the highest-income zip codes.<sup>19</sup>

### **Transportation Barriers**

An excellent new report, *Roadblocks to Health: Transportation Barriers to Healthy Communities*, published by the Transportation and Land Use Coalition of Oakland, available at [www.transcoalition.org](http://www.transcoalition.org), provides an extremely helpful analysis of the inadequacy of transportation access to nutritious food that residents of low-income neighborhoods experience. Examination of walking access to a supermarket in three California counties — Alameda, Contra Costa and Santa Clara — shows that only 52 percent of the people living in low-income areas lived within a half mile of a supermarket. Public transit was found to be meager. Besides the obvious deficiencies of buses for transporting large, heavy bags of groceries, buses ran infrequently, often at 30 to 60 minute intervals, during the evenings and weekends when working families had the time to shop. The report's mapping analysis also confirmed the paucity of other (than supermarkets) grocery stores in low-income communities and the problems detailed in the present report of reliance upon corner stores (see, in particular, pages 37-46 of the *Roadblocks* report).

In addition, supermarket sites that are near freeways and in suburban centers have made food access more difficult for inner-city residents who do not have cars or do not drive. Low-income families have much lower rates of automobile use and access to autos than higher-income families. In California, more than one in five households with incomes under \$25,000 does not have a car for work-related travel.<sup>20</sup> In the Bay Area, 69 percent of households without a car have annual household incomes below \$17,500. The problem of limited automobile access for the elderly poor is even more severe. In the lower-income Fruitvale district in Oakland, for example, 30 percent of the seniors do not have a driver's license, and most of the license-holding seniors do not drive due to mobility limitations or safety concerns.

Inner-city residents without cars must depend on public transit, taxis, or friends to travel to grocery stores if there are no stores in the immediate neighborhood. This limits the frequency of their trips and thus their opportunities to purchase fresh produce and other nutritious perishable foods. Even when available, public transit, taxis, and friends are inferior methods of travel for food shopping. Residents using bus transit can manage only limited quantities of groceries on their return trips, particularly when they are accompanied by young children, when transfers between bus lines are required, or when the walk to their residence after disembarking the bus is long.<sup>21</sup> Taxis are expensive and often difficult to procure in many low-income neighborhoods. Friends are not always available or reliable. Moreover, whenever children are involved, the additional time required for car-less grocery shopping could be a serious barrier. For seniors and others who must walk to bus stops, safety concerns often make food shopping unattractive.

### **Restricted Shopping Options**

At the same time that supermarket access has become more difficult for inner-city residents, many corner grocery stores in their neighborhoods — which used to feature meat, dairy, produce, and other foods — have become primarily alcohol, cigarette, and convenience food outlets. The shift in the nature of these corner stores has occurred for a variety of reasons. Many small storeowners find it difficult to sell fresh foods because they lack sufficient experience with produce or other perishables. Corner stores also rely more on non-perishable foods that have long shelf lives because their stock turnover is generally slower than in larger markets that draw customers from a wider area. These same items require little sales experience, too — they do not spoil and they do not need care. Moreover, corner stores with limited space must focus on selling products that have the strongest demand — and unfortunately alcohol, tobacco and snack foods are high on the list.

### **Additional Factors**

Other factors contribute to the general lack of access to nutritious and affordable food in low-income communities. For example, a report issued in 2002 by the Urban and Environmental Policy Institute found 52 fast food restaurants but only one sit-down restaurant in a two-mile radius in one South Central Los Angeles neighborhood. While the abundance of fast food restaurants in low-income neighborhoods may provide a source of convenient and relatively cheap food, these establishments typically do not offer nutritious foods such as fresh fruit and vegetables. Similarly, while inner-city neighborhoods are becoming more ethnically diverse, residents often find few stores that offer culturally appropriate foods.

Poverty clearly remains the leading cause of food insecurity. Yet, even food stamps — which supplement low-income families' earnings and boost food purchasing power — are not enough by themselves to eliminate food insecurity. In many inner-city neighborhoods, food stamp recipients are still at risk for food insecurity because they have few or no places to spend their food stamps on nutritious and desired food.

## **The Consequences of Food Insecurity and Inadequate Food Access**

Food insecurity commonly leads to a deficiency of nutrients and energy.<sup>9</sup> This can result in serious problems that include extreme thinness, loss of muscle tissue, short stature, and increased risk of infection and disease.<sup>10</sup> In particular, insufficient intake of fruits and vegetables has been linked to cardiovascular disease and some forms of cancer. Vitamins and minerals — including vitamins A, C, D and E, iron, zinc, selenium, copper, and magnesium — are essential for a healthy immune function. Insufficient intake of these nutrients also may lead to increased susceptibility to infection, a compromised immune system.

A lack of access to nutritious foods may also produce obesity.<sup>11</sup> Studies are beginning to show that some segments of the population who may be food insecure — African-Americans, Latinos, and especially low-income minorities — have a high prevalence of obesity, which is increasingly associated with a poorly balanced diet. Obesity is now linked to several health risks and chronic diseases that include cardiovascular disease, hypertension, diabetes, some forms of cancer, gallbladder disease, respiratory problems, gout, and arthritis. While obesity is influenced by a variety of factors — such as heredity, eating habits, and a sedentary lifestyle — nutrition experts believe part of the problem among the urban poor is their limited access to stores that sell healthy foods.

Within low-income populations, three groups — infants and children, pregnant women, and older adults — are at heightened vulnerability to the effects of food insecurity because of their increased nutritional needs for growth and healthy immune function. The consequences of undernutrition or malnutrition in children are especially serious. Numerous studies now show a close positive link between adequate nutrition and cognitive skills and academic performance.

Children who are undernourished may be unable to participate fully in learning experiences.<sup>12</sup> They may have trouble with concentration, experience disruptive behavior, and face the risk of poor mental development, slow cognitive growth, and poor social-emotional growth.<sup>13</sup> Children with insufficient nourishment may also have unexpected fatigue and be unable to sustain prolonged physical effort.<sup>14</sup>

Women who are undernourished and underweight prior to pregnancy — or who gain inadequate weight during pregnancy — have a higher risk of delivering low birth weight babies. These babies have more complications, developmental delays, and illnesses than babies born at higher weights, and are at greater risk of stillbirth. Seniors who face food insecurity are at risk for more health complications and, often, serious health problems. Malnutrition can exacerbate disease, increase disability, lower resistance to infection, and extend hospital stays among the elderly. It also raises the cost to caregivers and inflates national health care costs; studies have shown that seniors who experience hunger have up to 100 percent longer hospital stays and compile hospital costs of up to \$10,000 per stay.

## The Opportunity: Market-Based Solutions

At the same time that nutritious food outlets were vanishing from inner cities, urban development studies documented a growing underserved consumer market for food and other products in these same areas. For example, the Initiative for a Competitive Inner City (ICIC) and Price Waterhouse conducted consumer research in 1997 in 12 inner cities in the U.S. and found that inner-city households in the U.S. represent more than \$86 billion in annual retail expenditures, and an unmet consumer demand existed in many inner-city neighborhoods.<sup>22</sup> For example, total retail demand in inner-city Oakland neighborhoods is estimated at \$1.132 billion annually, while total retail supply in these neighborhoods is only \$962 million.<sup>23</sup> The resulting \$170 million gap — 15 percent of the retail demand — constitutes a dramatic unmet demand. In the retail food market, the gap is even greater. A 1992 study in Oakland's Fruitvale district by students at the Walter A. Haas School of Business at UC Berkeley found nearly 80 percent of the neighborhood's \$44 million potential food expenditure was lost to food stores outside Fruitvale.<sup>24</sup>

Equally important, the ICIC study found that inner-city grocery stores could be successful.<sup>25</sup> Existing inner-city stores actually outperform regional averages for sales per square foot in Oakland, Boston, New York, Chicago, Miami, Atlanta, and other cities.<sup>26</sup> The inner-city markets in this study enjoyed the marketing advantages of both a concentrated nearby consumer base and a large unmet demand.

Inner-city residents in the ICIC study also said that food selection was vital in their choices of where to shop.<sup>27</sup> The top factors in choosing a market were high quality produce, high quality meat, and a wide selection of products. In rating the importance of factors affecting the shopping experience, inner-city shoppers said cleanliness, convenient locations, and having products in stock were essential. For inner-city retail stores in general, the ICIC found the flexibility to tailor to inner-city consumer demand, the overall reputation of the company, and previous experience in inner-city retailing were key factors in retailers' success. The biggest challenges retailers faced were shoplifting, vandalism, and the greater need for operational flexibility.<sup>28</sup>

Research also shows that low-income individuals want to buy healthy foods such as fresh produce. Surveys at "whole health" food stores — where 30 percent of the shoppers had incomes of less than \$35,000 — found no distinction between income levels among health-conscious shoppers seeking highly nutritious food. Similarly, a focus group of low-income women conducted for the Berkeley Youth Alternatives Garden Patch project found a strong preference for high quality, fresh produce.

The unmet consumer need in low-income communities suggests that market-based solutions that creatively address existing barriers will succeed as businesses and reduce food insecurity. Not surprisingly, several retail models operate successfully in a variety of low-income neighborhoods. However, the barriers to success are significant. Individuals and organizations interested in market-based solutions must identify an appropriate model for each specific situation.

## II. Elements of Market-Based Solutions

There is no single right way to provide access to nutritious food in low-income neighborhoods. Matching the right business model to the needs of a particular low-income neighborhood involves analyzing a number of standard business variables. In reality, these variables are no different from those used to do any market, or financial, feasibility analysis. The major difference, however, for low-income neighborhoods is that the spending power of potential consumers is lower than that in higher income areas. Stores must either precisely target their services to a sufficiently unmet demand, or reach a larger customer base to succeed. Key factors to consider in identifying the appropriate market-based strategy in a specific low-income neighborhood include the following:<sup>29</sup>

- ▶ Population density: the number of customers within accessible range, whether by foot, public transit or car (if car ownership is common and parking available), will dictate the size and type of store likely to succeed. Such information should be examined in light of income levels and the prevalence of poverty. In general, the poorer the area, the greater the density required.
- ▶ Ethnic composition: catering to prominent ethnic groups can be an important component of a successful grocery store and influence the choice of products offered, as well as some operational details. Communities comprised of several diverse groups may have cross-cultural differences that must be sensitively addressed in issues like merchandise selection, marketing and hiring practices.
- ▶ Level of community trust: community relations are essential. For historical reasons, including overt redlining and corporate abandonment of neighborhoods, some communities may be resistant to outside interests seeking to establish a retail business.
- ▶ Severity of poverty: factors like the number of people on public assistance (especially food stamps) and car ownership (which expands a customer's shopping options) will affect the depth of unmet need.
- ▶ Geographic isolation: the success of a grocery enterprise may depend on the ability of customers to reach it, as well as the ability of customers to shop elsewhere. Freeways and stretches of industrial or vacant land can isolate a community; the availability of reliable public transit can connect residents to the rest of the city and other shopping options.
- ▶ Proximity to higher-income neighborhoods: some studies note that proximity to higher-income areas improves the success rate of all retail developments in a lower-income area. This could affect the merchandise mix of some stores. Additionally, neighborhoods transitioning up or down the socio-economic ladder should be carefully analyzed for future market demand.
- ▶ Existing supply of grocery stores: the degree of unmet need should be carefully documented. Many smaller neighborhood stores may, together, adequately serve most of the population.

Bay Area Economics, Berkeley, California-based planning consultants, identified the key variables to use when evaluating the range of potential food delivery models in low-income areas in its report, *Low-Income Neighborhood Retail Food Store Feasibility Analysis* (1996).<sup>30</sup> Part II of this report will discuss these variables, which are organized into four basic categories: market segment and type; market feasibility issues; financial feasibility issues; and business operations issues. Naturally, the particular characteristics of the low-income neighborhood and its population will dictate the weight to be accorded any given variable.

## **Market Segment and Type**

Many factors must be considered when a merchant seeks to define the market segment (customer type) or niche that the proposed store will fill. Issues of store size, location, accessibility, and merchandise mix will help determine both the type of store and the market segment that will be attracted to the store.

### **Store Size**

Food stores can vary significantly in size. Very small corner stores in dense urban areas can be as small as 2,500 square feet, while suburban superstores are typically in the 45,000 to 55,000 square foot range, with some stores as large as 80,000-100,000 square feet. The difference in store size will affect the total number of shelf-keeping units (SKUs) available, the types of services offered, and the overall store configuration, such as aisle widths and the number of checkout lanes.<sup>31</sup> However, a “full-service” grocery store — defined as having a produce department and a butcher counter as well as other typical food items — can be as small as 7,500 square feet, though 10,000-12,000 is somewhat more typical.

### **Store Location and Accessibility**

As with any other type of commercial venture, location is critical to the success of a food store. Location criteria used to establish where a store might be successful may vary considerably depending on the type of store, its location, and the market niche being served. While stores must be in appropriate locations to maximize their ability to effectively serve the target trade area, the ability to obtain such a location can be very problematic. Issues related to real estate can vary depending on whether a new store is being built or an existing space is being utilized.

### **Merchandise Mix**

Food stores must sell merchandise geared to their specific customer base. Most large grocery chains, though, are programmed to serve relatively homogeneous trade areas. While the overall mix of foods is typically targeted to a white middle class population, these stores may vary somewhat in the price ranges of their goods. These chain stores may thus have difficulty in adjusting their merchandise mix to meet the needs of low-income neighborhoods that tend to be ethnically diverse.

## **Regulatory Barriers**

Constraints to operating food stores in certain locations may also be based on zoning or other regulatory requirements. Thus, such requirements must also be considered in any feasibility analysis.

## **Market Feasibility Issues**

Market feasibility determines the extent to which sufficient residual demand of potential customers can exist within a particular trade area to support a particular type of store. The key issues in configuring gross demand for a particular store are (1) the general demographic characteristics of the community surrounding the proposed store, and (2) the specific demographics and size of a projected trade area from which the store expects to draw customers. However, to determine residual demand for a particular store, the extent and nature of existing competitive supply in the neighborhood must be ascertained. Any competition from other stores that are already filling the gross demand for grocery products will significantly impact the market feasibility of a proposed new store.

## **Demographics**

Basic demographic characteristics of the population within the trade area will be critical to a store's success. Important demographic considerations include the total number of people within the trade area, the age distribution of this population, median household incomes, and race or ethnicity. Each of these defines not only the total volume of the people served by the store, but the types of merchandise necessary to serve the shoppers' needs.

## **Trade Area**

The trade area is the primary area from which a store will draw customers. Trade area size is linked to the size of the store, the type of goods being sold, and the characteristics of competing stores.

## **Existing Competitive Environment**

The ability of a store to operate successfully depends in part on the nature of the competition. Too many stores already serving the same market area or market niche will make it very difficult for any but the strongest units to be successful. Any new store located in a market area that is already well served must clearly differentiate itself from the existing stores. On the other hand, if there is no competition, a store can garner enough sales to be profitable even if it is not particularly well managed.

## **Synergism With Other Stores**

Any small retail store is likely to be more successful if it is located proximate to other stores rather than by itself. Such location may be an especially crucial factor for the success of small-scale food stores.

## **Overall Neighborhood Quality**

A broader component of the synergism issue is the overall character of the neighborhood surrounding the store. Assessing the quality of the neighborhood includes the mix of land uses, the overall condition of the buildings, the actual and/or perceived crime rates, and the stability of the neighborhood.

## **Customer Acceptance and Expectations**

The success of any store requires the support of its target market. In some cases, however, the store model most appropriate for a given place or neighborhood may not be the type of store that consumers want to support. This may be an especially significant problem in low-income neighborhoods. While an independent food store might be the only type of store that can operate profitably, low-income shoppers might not support such a store because it is not as desirable as a large chain. To some extent, this problem is one of misperception. Thus, consumers may think (mistakenly) that independent stores tend to have higher prices, lower quality goods, poor service, and unclean or unattractive facilities.

## **Financial Feasibility Issues**

While financial feasibility is often measured as a return on investment, many factors affect the potential return that a business owner may enjoy. The financial feasibility of a retail food and beverage business depends on such factors as access to sufficient start-up capital, access to sufficient operational capital, gross revenue potential, and the percent of gross revenue that must be dedicated to operating expenses on an on-going basis.

### **Capital**

Start-up and operating capital for a grocery store can be a significant barrier to launching the business. Starting a full-service supermarket store can run anywhere from \$200,000 to \$2 million for needs such as outfitting the store, stocking it with initial inventory, and capital for operations during the period in which expenses exceed gross revenue. This barrier may make it more advantageous to modify and remodel an existing grocery store instead of building a new store.

### **Operating Costs and Expected Revenues**

Assessment of market feasibility requires a determination of the typical operating costs incurred by a store. These include the costs of inventory, insurance, staff, and utilities. An accurate estimate of revenues to be expected from total gross sales will also play an important role in this analysis, as well as any information about typical operating margins.

## **Business Operations Issues**

Operating a retail food and beverage store represents a considerable challenge. Thus, many management-related issues must be considered in evaluating the potential for success of that store. These include the skill, experience, and energy of the entrepreneur undertaking the venture, the management characteristics and organizational structure of the business, and the

access to wholesale distribution networks that enables stores to present their consumers with an appealing range of product variety and quality at reasonable prices.

### **Entrepreneurship**

The grocery store business is extremely competitive. While success requires sufficient capital for starting a business and an on-going understanding of how to merchandise and manage effectively, stamina and commitment to work hard over very long hours are indispensable. Most food stores are either large chains that have both entrepreneurial skill and capital or smaller stores that are financially very marginal and struggle, despite managerial skills that often must be self-taught, to serve the community.

### **Store Management and Organization**

Low-income neighborhoods are often more difficult business environments than suburban locations. A higher percentage of shoppers, of course, in low-income communities are dependent on income supports, such as food stamps, and are living from check to check. This can result in stores' having very significant swings in customer volume during different times of the month. Moreover, stores in low-income locations may experience a higher level of "shrinkage" (i.e., shoplifting) than their suburban counterparts. Issues related to employee acquisition, training and retention could also create significant management and organizational challenges for store operators in low-income areas.

### **Access to Wholesale Distribution Networks**

Due to such considerations as lower volume and higher costs of transportation, independent food store operators typically may not be able to meet the prices of the larger supermarket chains because they must pay more to their distributors for the same goods. This in turn may lead the independent food stores to stock only convenience items that have a very high turnover rate. Customers will buy these goods, even at a higher price, when they cannot go to a major store, but transactions of this nature at the independent stores tend to be small. When people want to buy larger volumes of food, they will go to stores that have cheaper prices.

### **Business Alliances and Relationships**

In the grocery industry, the relationship between the distributor and the individual merchants can be key. This relationship can include financial elements, in which the distributor actually invests money in the individual business. Distributors may also offer other services that include assistance with merchandise selection and access to benefits like health care and business insurance. Distributors can also provide the organizational capacity to help groups of merchants work together on such activities as cooperative advertising and buying programs.

### III. Evaluating the Feasibility of Market-Based Solutions

Public and private entities have implemented a variety of market-based approaches to address food access issues in inner cities. Most have the potential to succeed, but only in certain circumstances. In particular, large-scale undertakings, like supermarkets and independent markets, require such high levels of capital and large parcels of land that they are unlikely to succeed in low-income, urban environments. This section of the report focuses on two steps in the process of determining what market-based approach might succeed in a particular neighborhood. First, it describes the main types of market-based approaches — supermarkets, independent groceries and corner stores — each in some detail. Then it goes on to identify and examine those feasibility factors that are most relevant for each approach in the context of a particular neighborhood's conditions and circumstances.

#### **Supermarket Development**

As supermarkets fled the inner city, they expanded in size and content — becoming superstores, in some cases, ranging in size from 120,000 to 170,000 square feet, with expanded services such as pharmacies, delis and photo development. This growth reflects the industry's understanding that convenience and price competitiveness are the major considerations that determine where people shop for the goods sold at these centers.

In response to the flight of supermarkets from inner-city neighborhoods, new supermarkets — both chain and full-service independent ones — have been developed in some low-income urban neighborhoods across the country. Community development corporations (CDCs) have been central to these supermarkets' development, either as sole developers/operators or as partners in a joint venture with a supermarket chain.<sup>32</sup> Highly successful supermarkets have been developed in low-income areas in a number of cities that include New York, Washington D.C., Brooklyn, Philadelphia, Detroit, and Los Angeles.

One of the most successful examples is the 48,000-square-foot Pathmark Supermarket in Newark, New Jersey, which anchors the New Community Neighborhood Shopping Center.<sup>33</sup> Pathmark and the New Community Corporation (NCC), a local CDC, opened the center in 1990 after a market study discovered 93,000 residents within a half-mile radius in which there was no supermarket competition. NCC owns 66 percent of the supermarket and 100 percent of the franchises and other businesses in the center. Profits from the center are used to help fund the NCC's programs for housing, employment, children, and elderly and homeless people. Surveys conducted by NCC show that local residents — who previously had to leave the area to do their grocery shopping — now save not only time but also as much as 38 percent on their food bills by shopping at Pathmark.

The success of the Pathmark store in Newark, however, is rare. For example, after the 1992 riots and unrest in South Los Angeles, Rebuild L.A. — the non-profit group created to help rejuvenate the area — emphasized supermarket construction as one means to address crucial needs in the region. In response, executives with Vons Cos., Ralph's Grocery Co., Food 4 Less,

and Smart & Final Inc. vowed to build as many as 32 new supermarkets in the central city and in nearby low-income areas that also suffered from limited access to fresh meats and produce.<sup>34</sup> Yet, this vow was not fulfilled. Ten years later, only about half of the full-service grocery stores promised for the riot-torn stretch of Los Angeles and other low-income communities in the South Los Angeles region have been built.<sup>35</sup>

Because the necessary customer base is quite large, and opening a new supermarket requires rarely available large parcels of land and lots of capital, the traditional chain supermarket is not a viable model for most low-income urban neighborhoods.<sup>36</sup>

## **Supermarket Development: Key Feasibility Factors**

### **Demographics**

While a supermarket can serve large numbers of people, it needs a large service area and significant population density to expect success. In the case of Pathmark, the market analysis identified 300,000 potential customers in the store's trade area based on surrounding population and store size. There was no major supermarket already in that area.<sup>37</sup>

### **Location**

Following a market analysis that identifies sufficient unmet need, an appropriately located and sized parcel must be identified. The parcel must include sufficient parking and loading areas.<sup>38</sup> In inner city areas, parcels large enough for supermarkets are hard to find.

### **Business entrepreneurship**

Because a supermarket is an extremely complex, sophisticated operation, the commitment of an experienced and dedicated manager to operate the business is necessary. However, a supermarket chain can be expected to support its branch managers with centralized, corporate-headquarters-based resources that supply much of the necessary business expertise and training that branch managers typically need.

### **Capital**

A significant amount of capital for both start up and operating costs is required. The Retail Initiative (TRI) has been one such source. TRI, established within the Local Initiatives Support Corporation (LISC), is a for-profit entity with a \$24 million fund to invest in inner-city grocery store developments.<sup>39</sup> Yet, as of 1999, only two projects had been financed, with an additional four to six in the pipeline. The low number is attributable to investors' demand for returns at a level that disqualified many potential projects, the large size required for a supermarket lease, and a limited ability of community development corporation partners to lead the development projects.<sup>40</sup>

### **Regulatory Barriers**

When land assembly is necessary, as it often is for large supermarkets, city government will likely be involved. Many cities will insist upon environmental and traffic impact studies and

there are often elaborate zoning and permit requirements.<sup>41</sup> Depending on the complexity of the effort, the process can take years before it is time to begin operating.

### **Access to Wholesalers**

Supermarkets usually have excellent access to food wholesalers — in fact, in some cases, the chain may act as a wholesaler with regard to some of the stock a branch store carries. Because chain supermarkets can purchase large quantities, and have a consistent, predictable demand, they are able to obtain excellent long-term supply contracts.

### **Merchandise Mix**

Supermarkets provide a wide variety of foods, and can offer low prices due to buying power and high sales volume.<sup>42</sup> In addition, they can provide ethnic or specialty foods, also, if they are willing to undergo the steps required to solicit the neighborhood's food preferences and to meet them.

### **Synergism with Other Stores**

Supermarkets can provide anchor support, in a neighborhood or in a mall, for other needed stores and services.

### **Customer Acceptance**

With the participation of a community development corporation, a supermarket can create a feeling of ownership in a community's residents, which in turn leads to higher patronage, lower theft rates, and other community benefits.<sup>43</sup>

## **Independent Grocery Stores**

Large independent markets, ranging from 25,000 to 50,000 square feet, have succeeded by targeting specific neighborhoods and making customer service a priority.<sup>44</sup> A study by Rebuild Los Angeles found 32 major supermarket chains and 23 independent supermarkets of more than 10,000 square feet in the lower-income areas of Los Angeles. Historically, there have not been many major independent full-service supermarkets in lower-income areas of the Bay Area, and many of those that do exist have limited stock, poor quality goods and tend to be poorly maintained. With smaller sales volume, the independents, which must purchase in smaller quantities than supermarkets, cannot enjoy their price breaks, on the one hand, and, on the other, face many of the problems facing corner stores.

Two types of independent grocery stores are commonly successful.<sup>45</sup> One, the specialty store, provides a focused selection of high quality, perishable items and is aimed at capturing the more frequent, small-volume grocery store trips for fresh produce and specialty items, including prepared foods. The second, the ethnic market, aims to serve an ethnic community, usually of recent immigrants with lower incomes, by providing specific, often exotic, types of food and services. Many stores share qualities of both types, and the factors affecting their feasibility are similar, and therefore discussed together below.

## **Specialty Store**

Benefiting from the supermarket exodus, independently owned stores, both small and large, have been profitable in inner cities. Small food stores, ranging from 800 to 4000 square feet, that feature fresh, perishable products — such as produce, dairy, fresh meats, and baked goods — are increasingly popular in urban, commercial areas of middle-income neighborhoods.<sup>46</sup> These specialty stores can provide high quality foods on a limited basis, even in the presence of supermarkets, and may be able to provide specific items in response to the specific demographic characteristics of the neighborhood. While many of these stores cater to higher-income households who are willing to pay higher prices for quality and convenience, some excellent, successful specialty stores do exist in lower income neighborhoods.

## **Ethnic Store**

Ethnic markets are succeeding in many urban neighborhoods. Markets catering to Asian, Latino, Middle Eastern, and African households have carved out niches that are growing as immigration and population expansion fuel the boom in U.S. ethnic communities.

La Tapatia in Vallejo, California, is a good example of a successful ethnic store, providing a complete line of Mexican and Central American food products.<sup>47</sup> Opened in 1985 with 1,200 square feet on Sonoma Boulevard, La Tapatia is now an 8,500 square-foot grocery store on a major thoroughfare in Vallejo. The market features meat and seafood picked specifically for the ethnic preferences of its customers, and the produce department is stocked with fruits and vegetables that are staples of Mexican meals. Corn meal, rice, tortillas, hominy, and beans are sold in large quantities. In addition to the grocery, La Tapatia's owners operate a prepared-foods counter where customers can purchase ready-to-eat tacos, burritos, or Mexican dinners for take out or for eating in a small dining area.<sup>48</sup>

## **Independent Grocery Stores: Key Feasibility Factors**

### **Location**

The best location for these stores is near the center of a primarily residential neighborhood.<sup>49</sup> However, one of the most prominent limitations is the availability of an appropriately sized site (up to 10,000 square feet, with more if parking is made available). Since parking is rarely associated with specialty stores, they depend on customers from their immediate vicinity, particularly within a comfortably walkable, one-half mile radius. They can be very successful even if located in relative proximity to full service supermarkets. Convenience is the most important factor. Most ethnic stores can succeed in the small store spaces available in many neighborhoods with high immigrant populations.

### **Business Entrepreneurship**

The commitment of an experienced, well-capitalized and dedicated entrepreneur to operate the business is essential.<sup>50</sup> Owners must have excellent business and customer service skills to survive in the highly competitive grocery market business. Owners must be willing to work very long hours and become involved directly in the community where the store is located,

often putting in long days during the six-month (or so) start up period and beyond. Even when storeowners have good employees and a sound management structure, direct involvement by the owner is required for continued success. In addition, produce stores require that the storeowner or manager make daily purchasing trips at dawn to the fresh produce markets in the area.

### **Demographics**

One produce operator reported a functional, profitable store that operated with a regular customer base of 150 people, although this seems an exception. Demand for ethnic foods will continue to grow as ethnic populations increase.

### **Capital**

An advantage of produce specialty stores is that they can be capitalized for as little as \$40,000. However, it can cost up to \$80,000 to capitalize a fresh meat store because of the necessary equipment and installation costs.

### **Operating Costs**

Traditional specialty stores require operational capital of between \$20,000 and \$40,000, since such stores typically take two full years of operation before the store's cash flow stabilizes enough to generate profits. However, some specialty stores in low-income neighborhoods that have few other options for food purchases have reported an ability to reach break-even operations within six months of opening.

Profit margins can be sufficient for sustained operation. Produce stores can operate with expenses as low as 40 percent of gross revenue. Meat stores may have costs of as much as 80 percent of gross revenue. Gross annual revenues ranging between \$365 per square foot (\$1 per square foot per day) and \$500 per square foot are necessary to provide these types of stores with sufficient profit margins. Most specialty stores can succeed in the small store spaces available in many urban neighborhoods.

### **Management/Organization**

Success of specialty stores is usually dependent on customer service, quality of the store layout and product selection.<sup>51</sup> Among the benefits for the customers who shop in a small specialty store are the relationship that can be established between the storeowner and the customer and the ability of the store to cater to a customer's needs. This will be especially true if the storeowner responds to customers by shifting product lines or providing a particular ethnic product or other personalized service.

A store's cleanliness as well as its aesthetic layout and display of products is very important. Although direct experience in the industry is not a prerequisite for owning, operating or working in a specialty food store, there needs to be some level of training. Potential owners and employees with the right attitude and willingness to work can be trained in approximately 80 hours to operate a simple business venture such as a produce or dairy store. Fresh meat and bakery stores require higher skill levels and training.

### **Access to Wholesalers**

Distribution networks for specialty stores vary depending on the product lines being presented. While produce stores do not require distributors, the storeowner or manager must go to the produce district on a daily basis and establish a relationship with sellers directly. Dairy and meat specialty stores can rely on a few key distributors to reduce the store's need to maintain delivery schedules, storage and stocking facilities, and accounting attention. Bakeries are more specialized, since the food products are produced on site and require the delivery of raw products for processing.

### **Merchandise Mix**

The range of food products may vary widely. In specialty stores, premium perishable products may be more costly than in a traditional supermarket or corner store. In addition, specialty produce stores must emphasize freshness, with a small inventory and short shelf life. While in some areas customers expect to pay a premium in specialty stores, ethnic stores will likely have to compete with larger chains. Ethnic stores usually serve lower-income customers and place more emphasis on price and culturally appropriate foods.

### **Synergism with Other Stores**

Successful stores are often based on "retail synergy" created by a set of complementary specialty stores. Without appealing neighboring stores, even a good specialty store may have trouble attracting enough customers. Although some independents have been located as anchors in neighborhood commercial centers, most are located on commercial arteries in stand-alone buildings central to neighborhoods.

### **Overall Neighborhood Quality**

In a neighborhood with substantial demand for the food products provided, a specialty store can improve neighborhood quality.

### **Customer Acceptance**

Independent food stores can help to make communities more attractive to specific ethnic groups and discerning shoppers. On the other hand, ethnic store identification can be perceived as uninviting to some potential customers. In addition, changes in a neighborhood's ethnic makeup can leave an ethnic market without its target customers.

### **Corner Store Enhancement**

Inner-city neighborhoods typically include a surprising number of small, independently owned and operated stores that sell a mixture of alcohol beverages, sodas, tobacco and a limited selection of convenience foods.<sup>52</sup> These stores are commonly called corner stores because of their location. In some cities, corner stores are increasingly opposed by residents and local officials because they have become *de facto* liquor stores and because the liquor stores have been shown in epidemiological studies to be magnets for violence and crime. These stores nonetheless fill an important role in low-income neighborhoods, as they often represent the

only available food resource for residents without access to cars.

Corner stores, ranging from 400 to 4000 square feet, are usually located on prominent neighborhood corners and rarely have any parking.<sup>53</sup> While historically providing a full range of goods sufficient to supply most shoppers' daily needs, they have increasingly become liquor, cigarette and snack food outlets, selling little more than a few dry and canned grocery goods. These stores generally charge higher prices than supermarkets, because of the higher wholesale (or, in some cases, simply retail) prices they are forced to pay, based on lower volume. The higher prices also may reflect that they have a captive market of customers unable to shop elsewhere. The national chain stores — 7-11, Stop N Go and increasingly, gas station stores — charge a higher price than supermarkets for the premium of convenience shopping.

## **Corner Store Enhancement: Key Feasibility Factors**

### **Location**

Existing corner stores have the advantage of being centrally located and accessible to a pedestrian population and people using public transportation. They are often integrated into the urban fabric of the neighborhood. The convenience of proximity allows these stores to charge a premium for their services, even if they provide lower quality products and a limited selection. Because so many low-income people are transportation-deprived, the stores' location nearby is not merely a convenience; it often is a necessity for them to shop there, at least between infrequent supermarket trips.

Corner stores can benefit from being in proximity to other services such as dry cleaners, a café, a bank or a post office. However, the success of a corner store is more dependent on location relative to residential areas than proximity to other stores.

### **Business Entrepreneurship**

Although operating a corner store requires some knowledge of the food industry, more importantly, an owner must be a strong and determined entrepreneur who is able and willing to put in exceptionally long working hours. Most corner storeowners typically work 12-15 hour days with few days off. Moreover, few have the technical skills to properly display and market their products and to run a store that becomes "part of the neighborhood." A successful store requires an understanding of the nature of the neighborhood and what types of products are most appropriate for the clientele. Already over-worked owners may balk at "extra" work to sell produce and other fresh foods.

### **Demographics**

Corner stores have an existing, steady source of customers, especially seniors and others with limited mobility, who may make smaller fresh food purchases to supplement their infrequent (often just monthly, when cash assistance checks arrive) trips to supermarkets. While corner stores reach only a small geographic area, they can survive if enough customers within a half-mile radius provide sufficient business. In general, a corner store located in an urban

neighborhood will have sufficient business even if there are large supermarkets within a one-mile radius. Lack of parking prevents corner stores from attracting customers from a broader area.

### **Capital**

Corner stores require relatively little capital or other investment. The financial feasibility of a corner store is dependent on the availability of capital for start-up needs like equipment and initial inventory, and capital for operations for the period in which operating expenses exceed gross revenue. It is estimated that the start-up capital for a store of average size, under 2000 square feet, in the Bay Area would be approximately \$100,000. Obtaining initial capital is easier for an already existing business or an operator with a track record. A new business with an operator with limited experience can expect to borrow only 40 percent of the required capital outlay. They often lack sufficient capital, therefore, to maintain adequate inventories.

### **Operating Costs**

Corner stores are very labor-intensive. They generally do not receive bulk price breaks or partial cases. They also have a need for operating capital of as much as \$40,000 a year until gross revenues can cover expenses, which can take up to three years. Operating expenses can vary between 27 percent and 40 percent of gross revenue. Gross revenue required to cover expenses and generate a sufficient profit margin ranges between \$400 and \$800 per square feet. The profit margin is also affected by the turnover and perishable nature of the stock.

### **Management/Organization**

While the owner can benefit from hiring community residents to help staff the store, employee training is required to ensure a reliable staff that treats customers well. Existing corner stores often have under-used space that can be turned into productive areas.

### **Access to Wholesalers**

Another problem for corner stores is developing relationships to the food and beverage distribution network. Because distributors typically specialize in a limited range of product types or labels, a storeowner may have to deal with a significant number of distributors to acquire the right mix of products to offer the store's customers. Establishing relationships with the right mix of distributors can be very time-consuming, since a typical store can average 20 deliveries per week from a variety of distributors. The magnitude of the distribution network requires careful organization to schedule deliveries, maintain paperwork, assess needs and storage capacity, and pay invoices on time. There is an inherent difficulty in persuading distributors to absorb the cost of deliveries to small stores that sell, and therefore, can accept only limited quantities of whatever is being offered.

### **Merchandise Mix**

The typically very small size of the corner store — and its associated warehouse space — limits the range of products that the store can present. Although, as noted elsewhere in this report, corner stores often contain wasted space — used, for example, for nothing more important than storage — that can be reclaimed for display of salable merchandise. Owners

must limit their purchases of products to the amount that can be stored and displayed. Since distributors usually price products based on the amount of purchases and bulk sales are typically priced lower than smaller volume sales, corner stores must charge higher prices than traditional full-service supermarkets. The disadvantage of higher prices is aggravated by the greater likelihood that merchandise in corner stores may become dated or damaged from extended shelf time. This problem is a function of the generally slower stock turnover in corner stores compared to larger markets that draw customers from a wider area. The result is that storeowners tend not to buy a broad merchandise mix, but rather stock the items they know will sell well in their neighborhood.

### **Regulatory Barriers**

Corner stores can experience a faster start-up if there is no required permitting process, construction, or other time-consuming factor.

### **Synergism with Other Stores**

Corner stores can benefit from being in proximity to other services such as a local dry cleaner, café, bank or post office. However, feasibility is more dependent on location relative to residential areas than proximity to other stores. Though corner stores do not need to have other viable businesses nearby, they can help to enhance commercial and residential development.

### **Overall Neighborhood Quality**

Corner stores are sometimes plagued by crime and vandalism.

### **Customer Acceptance**

Consumer acceptance is heavily dependent on the perception of quality as evidenced by the cleanliness of the store, friendliness of the staff and availability of product choices. Neighbors may avoid corner stores that have been associated with public drinking, drug dealing, or other criminal or nuisance behaviors. Corner stores have an excellent potential to know the needs of their customers and tailor the store to meet them.

*Note:* Distinct from the model involving startup of a new corner store is the circumstance, described in detail in the School Street Grocery case history that follows in this report, of a conversion of an existing corner store. The important discovery detailed in the case history is that virtually all of the costs associated with operating a corner store that offers fresh fruit and vegetables and other healthy foods already are present in the currently typical corner store that operates without those healthy foods. Rent, utilities, insurance, labor and other expenses already are built into any corner store. Conversion to selling healthy food involves relatively little added cost — refrigerated fixtures, inventory of new items and the time required to purchase, handle and display the new, perishable items are the main items — and takes advantage of management that has some operating skills and experience and knows, and is well known by, the neighborhood from which its customers come.

## IV. Nontraditional Approaches

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In addition to the traditional store-based approach to the retail food market, a number of alternative enterprises exist. These are briefly described below. Many have unique circumstances that will affect their feasibility for low-income communities, and some are not self-sustaining (so not promoted in this report on market-based enterprises).

### **Farmers' Markets**

Farmers' markets, where growers sell directly to the public in a temporary or limited-days sales space, have become increasingly popular in certain areas. In some cities, farmers' markets are playing a major role in providing access for low-income individuals to high quality food at affordable prices. For example, more than 70 successful farmers' markets now operate in the nine-county San Francisco Bay Area. In some cases, under-served urban neighborhoods have become excellent sites for farmers' markets offering fresh produce and other nutritious foods. Many municipalities and community-based organizations have supported the development of farmers' markets.<sup>54</sup>

Farmers' markets typically operate weekly during the local growing season. The direct farm-to-market connection usually means that market produce is fresher than that found in urban supermarkets. Farmers' markets also help to sustain local and regionally based agriculture. Many small and medium-sized local growers survive only because they can market their products directly. Farmers' markets allow these growers to earn as much as 50 percent more than they would by selling wholesale as well as by reducing their packing costs. Farmers' markets can also provide an outlet for organic and other environmentally concerned growers.

San Francisco's Heart of the City Market, located in the Civic Center, and the Old Oakland Market in that city's downtown are excellent examples of large, successful farmers' markets that serve low-income customers. The San Francisco market is on the border of the Tenderloin district, long a low-income neighborhood and a culturally diverse community including thousands of Southeast Asian immigrant residents. The Oakland market abuts both Chinatown and West Oakland, the city's most economically depressed area. While the San Francisco and Oakland markets are within walking distance of thousands of customers, both are also well served by public transit.

### **Farmers' Markets: Key Feasibility Factors**

#### **Location**

Customers who live beyond walking distance and do not have cars must be able to handle groceries on a bus or take a taxi.

## **Management/Organization**

Most farmers' markets operate only one or two days a week, and thus will not be a regular, reliable resource for many households. They often do not operate during the winter.

## **Merchandise Mix**

A variety of foods for sale results from the number of different sellers. Direct farm-to-consumer sales can generate lower prices and higher quality foods. Certain farmers' markets cater to higher income clientele, featuring more exotic and higher priced produce and other food items. Customers must still usually make a weekly trip to the supermarket for meat, milk, and other staples.

## **Customer Acceptance**

Customers can develop satisfying first-person relationships with their favorite growers. The market can be a good social opportunity, especially for seniors and other low-income individuals who may have limited mobility.

## **Public Markets**

Public markets involve vendors selling fresh produce and other foods from open stalls in municipally owned and operated facilities. The Main Street Market in Hartford, Connecticut, which began operation in 1992, is a typical public market. As a multi-cultural urban marketplace consisting of two barn-like structures that enclose 25 vendor stalls, it is open Monday through Friday from 10 a.m. to 3 p.m. during the months of April through October. Local farmers sell fresh produce every other day. The Main Street Market is an attractive option for low-income Hartford residents, especially since it redeems more Women, Infants and Children (WIC) and senior coupons than any other outlet in the state. In fact, when the Main Street Market distributed special farmers' market coupons to 8,000 WIC recipients, 2,500 low-income senior citizens and 1,000 food pantry clients, more than 70 percent of the coupons were redeemed.

Other successful public markets include Seattle's Pike Place Market, El Mercado in Hartford, the French Market in New Orleans, New York's Union Square Greenmarket, and La Marqueta and the North Market in Columbus, Ohio.

Baltimore also has a long history of thriving public markets. A splendid example is the venerable Cross Street Market, located near Federal Hill, on the south side of the harbor (away from the commercial downtown area) near the Science Museum. This market is open all week, has gorgeous selections of produce, fresh fish and seafood and features a famous raw bar that is heavily patronized on Friday nights. Like the other public markets in Baltimore, such as Broadway Market, Northeast Market and historic Lexington Market, it is in an enclosed space — this being Baltimore, the weather would not favor an open-air setting

## **Cooperative Grocery Stores**

There are two main types of cooperatives, employee co-ops and customer co-ops. Rainbow

Grocers in San Francisco is an excellent example of successful employee ownership. Rainbow reflects its employee-owners' strong social mission: the food is carefully chosen and promoted to encourage healthy choices, with particularly appealing produce, at low prices; prices are kept as low as possible to appeal to low-income customers; and consistent efforts are made to assume leadership in the broader community, by mentoring smaller neighborhood grocers, for example.

Remington Food Co-op in Baltimore, Maryland, closed after nearly a decade of service in the '90s to a lower middle-income neighborhood without a nearby supermarket, illustrates the pluses and minuses of a customer co-op. The store started because people in the neighborhood had nowhere to shop — the nearest food store was close to a mile away and people wanted some local alternative. And the store closed recently, not long after a large supermarket opened a few blocks away.

Remington Co-op relied upon local people to work there, including one full-time paid employee and a number of volunteer part-time employees who came for a few hours a week and helped to re-stock the shelves. The Co-op had 976 members. The store was about 50 feet by 25 feet — 1,250 square feet, very neat and clean, with mainly staples and canned goods, refrigeration for dairy products and soft drinks, and a small, staffed meat department that had mainly deli and processed meats. There was very little produce, nor were there signs of community-building efforts, and the inventory was so limited that no one would go there who could easily go to a bigger market — it would be more a matter of necessity in terms of transportation or time.

## **Mobile Stores**

If the shoppers can't go to the market then let the market go to them — that is the basis for the Mobile Market Program in Toledo, Ohio. Started in 1984, it now serves 48 sites a week and carries 900 grocery items, including meats, produce, dairy, baked items and canned goods. It carries no cigarettes or alcohol. The van was purchased from LifeLine, a manufacturer of specialty vans, for an initial cost of \$155,000, fully operable. Program expenses run about \$220,250 per year and, although it is designed to run at breakeven, it has required about \$15,000 per year in subsidy from the United Way. The program is not labor-intensive and requires only two full-time positions and one part-time position. Substitute drivers are sometimes needed in addition to volunteers who deliver groceries to homebound residents at some of the stops.

The Mobile Market Program serves mainly seniors and the disabled, and is based on the recognition that grocery-shopping assistance, not only help with meal preparation, is needed if certain people are to remain free of institutional care. The program does, however, include home meal delivery for frail or otherwise not ambulatory residents. In addition to the market the program collaborates with several local agencies to provide other services, such as medical screenings, nutrition education and information, and other health services. The van typically makes 7-9 stops per day from Monday through Friday, 9am to 5pm.

The items carried are priced competitively with local supermarkets and food stamps are

accepted. Weekly specials, special promotions, double coupons, and quantity buying discounts are all available on a regular basis. Inventory is purchased from local grocery stores that sell the items to the program at wholesale. This ensures that the program can get affordable prices for smaller quantities. The special appeal of this particular kind of program is that it promotes independent living, especially for seniors, and makes fresh, nutritious, affordable food available on a regular basis without the need to access transportation, which is often lacking in low-income areas.

## **Online Grocery Services**

Since the widely publicized demise of Webvan, the financial dangers of online grocery shopping are well understood. Currently, online grocery services are utilized by only about one-tenth of 1 percent of American households, most of which are two-career households earning over between \$45,000 and \$75,000 a year. These services offer non-perishables as well as perishables for prices that are competitive with supermarkets. Most of the companies offer delivery services, either from a local supermarket (Safeway's and Albertson's current model) or from centrally located warehouses (Webvan's model). The feasibility of these services in low-income communities is untested. Online services currently target higher income customers, but the services could be made available to low-income people with access to computers and the Internet. Group ordering and delivery to a central site might contribute to financial feasibility of the option in low-income areas.

## **Community Supported Agriculture**

There are about 600 community supported agriculture (CSA) programs nationally in which urban residents purchase shares of a season's produce harvest grown by nearby farmers. The residents thus essentially become members of that farm or network of farms. Each member pays a certain amount based on the total number of members and the projected farm production costs for the year. During the growing season, CSA members receive fresh produce from the farm or farms they are supporting. CSAs could be beneficial to low-income residents if the up-front costs of membership were spread over the growing season, or if a church or community organization paid a group rate and was later repaid by individual members.

## **Subscription Farming**

Subscription farming is similar to CSA, but an urban resident pays a set amount to a nearby farmer, who in turn delivers a package of fresh produce each week. This model requires the consumer to pay only a certain retail price for the produce, and not a share of farm production costs. Though so far aimed mainly at middle to upper middle class consumers, subscription farming can combine some of the advantages of farmers' markets with the convenience often associated with consumer buying clubs. Besides providing farmers with a guaranteed outlet for their products and consumers with a guaranteed source of fresh and desirable food, the program can educate urban dwellers about farmers, growing seasons and the like.

Although extending subscription farming to low-income persons will pose many obstacles, the benefits of such a program for both individuals and the community are sufficient to merit its

further study. Some modifications — for example, farmers delivering weekly food supplies to centralized locations in the community, such as schools or residential homes — would lead to obvious cost savings. As with other market-based solutions suggested in this report, the program could lead to job opportunities, perhaps through hiring young people in the neighborhood to deliver the food to local residents. Moreover, food stamps and WIC coupons could be used as payment devices in a subscription farming arrangement, thus making the program more accessible to low-income customers.

## **Joint Ventures Involving Neighborhood Corner Stores**

### **A Collaboration Between Farmers/Growers and Corner Stores**

Neighborhood corner stores or specialty markets could collaborate with growers who supply farmers' markets, thus benefiting both entities. Corner stores could cut costs by dealing directly with growers and getting access to the freshest produce. Growers could add a new market to supplement their weekly, and often limited-season, farmers' market sales. Growers would naturally need to work with a network of small stores in order to make the driving and drop-off time worthwhile. For the stores, a key issue would be finding an experienced person to set up the farmer-store arrangements and to provide on-going coordination.

### **A Collaboration Between Supermarkets and Corner Stores**

Under this model, a large supermarket (either independent or part of a chain) or specialty store might act as a central "hub" for a network of small corner stores — satellite stores that might carry the supermarket's name or brand or logo — in the surrounding neighborhoods. The larger market would buy produce, perhaps directly from local farmers, and other goods, storing, handling, delivering and re-selling them to local corner stores. An important feature of this model is that the larger market would also act as an advisor or mentor to neighborhood storeowners. While the larger markets could gain customers and revenue, corner stores could increase their sales by drawing on the expertise, buying power and other economies enjoyed by the larger market.

### **A Network of Small Markets**

While small market owners are notoriously independent, they could cut costs and increase sales by participating in a cooperative or franchise-type produce operation. A successful model can be found in the approach used by Ace Hardware stores. Such a cooperative system would be aimed at resolving some of the problems that are associated with distribution limitations faced by small storeowners. This model would enable a number of small stores to establish a "buying group" to purchase products at lower prices from a reduced number of distributors. The storeowners might also advertise under a common, recognizable "umbrella" brand. The model might even enable small storeowners to become competitive in price and product mix with the full service traditional supermarkets.

Corner stores that engage in joint purchasing and marketing would still maintain local control and be able to cater to local food preferences. Establishing such a network of small stores, however, would be a challenging undertaking. To warrant the creation of this kind of network,

Bay Area Economics found that the collective power of at least 50 stores would be needed to generate the volume of sales required to purchase products at prices equivalent to those charged to full service supermarket chains.<sup>55</sup> Creating an organization to handle the buying and distribution for this many stores would be especially challenging in the geography of the Bay Area, where densities of population and stores are fairly low compared to some of the more urban neighborhoods of large East Coast cities.

Cooperative buying structures might also create an added — and undesirable — layer of bureaucracy for storeowners. Owners may perceive an added number of hours demanded from their already overworked schedule to participate in organizational meetings related to a collaborative. In addition, there may be costs associated with a buying collaborative that include management, shipping, insurance, and other incidental expenses. Finally, corner storeowners who are very independent entrepreneurs may balk at the idea of working together with the “competition.”

This collective approach, in which a number of corner stores work together in a loose association, was tried in Hartford, Connecticut. The association eventually fell apart when individual owners were offered lower purchase prices for certain items than they could get as part of the association. The association failed even though there were certain benefits available through the association — group health insurance for the owners, for example — that were unavailable to the owners individually. The association’s organizers continue to believe it is a sound and promising concept, worthy of replication and adaptation.

## V. Feature Case Studies

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At this time, there are only a few operating examples of the most promising corner store conversions. However, those few successful existing businesses show great potential, both in their own long-term viability, and as trailblazers for communities seeking to improve access to affordable and nutritious foods. They deserve being showcased below.

### **Reviving a Corner Store: School Market**

School Market in Oakland's Fruitvale district is typical in many ways of the thousands of corner stores that populate low-income urban neighborhoods across the Bay Area. However, School Market has moved beyond other corner stores by becoming an important source of fresh produce and other nutritious foods for its customers.

Located on busy School Street in a residential neighborhood, School Market is the sole commercial establishment in the surrounding 12-block area. The nearest supermarket is half a mile away, situated on the other side of the I-580 freeway. While the neighborhood — a mixture of multi-unit buildings and single-family homes — is predominantly African-American, its concentrations of Southeast Asians, Latinos and whites reflect Fruitvale's tremendous ethnic diversity. The median annual household income for the Fruitvale district is \$25,866; 19.7 percent of its residents receive some form of public assistance.

#### **Store Profile**

School Market has been owned and operated for the past 19 years by Tom Ahmed and his family. The market, 1,300 square feet in size, is open seven days a week from 7 a.m. to 9 p.m. Like most small urban markets, School Market had long depended on sales of alcohol (primarily beer and wine), convenience foods, and cigarettes as its major income generators. Snack foods had been the market's top-selling food items. While drug dealers congregated on the sidewalk in front of the market in the mid and late 1990s, community pressure and increased police presence have almost completely eliminated this source of friction between the market and its neighbors. The store's location on a well-traveled street and its status as the only market in the neighborhood combine to make it economically viable.

#### **The Project**

California Food Policy Advocates (CFPA) approached School Market in September 2000 and asked if the store would be interested in selling fresh produce and expanding their sales of dairy and other nutritious foods. This project, funded by Food For All, grew out of a 1998 study by CFPA and Bay Area Community Services (BACS) on food access issues faced by Fruitvale seniors.

The study was prompted by reports from BACS' meals-on-wheels drivers that the delivered hot meal was, for some seniors, their only nutritious food of the day. Working with Fruitvale community groups, BACS and CFPA identified four strategies for improving the food access

**Before**



**After**



of seniors:

- ▶ Expanding and improving public transportation to nearby supermarkets.
- ▶ Initiating a shopping service that would match a homebound senior with a volunteer shopper.
- ▶ Improving Fruitvale's system of 10 food pantries and soup kitchens.
- ▶ Starting a fresh produce market, or enhancing an existing market by helping it to sell produce and other fresh foods.

After the first three strategies were implemented during 1999 and 2000, CFPA began the market enhancement project in August of 2000. The project first identified eight corner stores in Fruitvale with good locations, sufficient floor space, and an interest in boosting their sales of fresh food. After interviewing the stores' owners, CFPA selected School Market for the pilot project. The selection was based primarily on Tom Ahmed's interest in the project's potential to increase sales and to improve his store's image in the neighborhood.

CFPA offered School Market technical assistance, training, and equipment. Perhaps the most important of these items, the mentoring, was provided by Nathan Cheng, a remarkably talented and socially committed Berkeley, California, resident who (as will be described at length later in this report) had opened and was operating a successful, free-standing produce market in a low-to-middle income area of Berkeley. In return, Mr. Ahmed agreed to learn the produce business in order to sustain significant fresh food sales after the CFPA training period was over. In addition, Mr. Ahmed volunteered to pay nearly \$3,000 of his own for additional equipment improvements that would facilitate the sales of fresh food.

Mr. Cheng worked with Mr. Ahmed to make more efficient use of floor space and backroom storage areas in order to display fresh foods more prominently. By first moving flats of soft drinks and other beverages to a reorganized storage room, they made room for a large open area at the front of the store. Mr. Chen then purchased and installed a used, but attractive, 12-foot produce display case in the newly opened front sales area. Finally, he worked with Mr. Ahmed to reorganize his grocery and dairy displays, placing them directly opposite the produce area.

**Before**



**After**



After the produce display was installed, Mr. Cheng assisted Mr. Ahmed in redesigning the outside of the store. The store's front and sides were repainted, long-boarded windows were replaced with secure Plexiglas, and the store also benefited from additional natural light. These changes alerted the neighbors that the store was doing something new. Mr. Cheng then trained Mr. Ahmed and key family members in buying, pricing, and selling fresh produce. The training included work at both the Oakland produce market and at School Market. Mr. Cheng bought all the produce for the first few weeks and then gradually increased the roles of Mr. Ahmed and his family; this training was facilitated by Mr. Cheng's existing relationships with wholesale sellers. Mr. Cheng priced all produce in the store for the first weeks, until the family was sufficiently trained. Retail prices were generally set at an average 50 percent markup from wholesale, with weekly specials at lower prices. Once sales of produce began, Mr. Cheng trained the family to promptly cull produce that had passed its peak look and taste.

The market needed significant promotion, since many potential produce customers shopped at the nearest Safeway and Albertson's supermarkets. Mr. Cheng designed weekly promotional flyers in English and Spanish, which were distributed door-to-door in a 15-block area, as well as at a neighborhood church and community meetings. The flyers listed produce specials for the week and gave general information on the store. School Market held an open house in November 2000, after the store had been selling produce for three weeks, and distributed free bags of fruit to over 300 individuals. Produce-related prizes were also raffled out, and information was distributed on nutrition and other health issues.

In another community outreach effort, CFPA arranged for the Alameda County Public Health Department's nutrition education staff to design a fresh produce buying and preparation activity for children in the after-school program at nearby Fruitvale Elementary School. A staff nutritionist brings 8-10 children to School Market, where they buy vegetables and fruits to prepare for an afternoon meal or snack. As an outgrowth of this activity, the school arranged for an attractive, fresh produce mural to be painted by its students on the front of the store. The school and store have forged a strong, mutually beneficial relationship that has helped to embed the store in the neighborhood, overcoming a past in which the store was viewed as a venue for drug dealing and other undesirable activity. And, of course, the new community role

that the store has undertaken has served as effective advertising with which the store can expand its sales of healthy food.

## **Results**

In the first month of the training period, School Market increased produce gross sales from under \$50 per week — typically from a few bags of potatoes — to more than \$500. By the end of the second month of training, the market averaged \$600-700 in produce sales per week. The store sold more than 25 different fruits and vegetables, including some requested by new customers. The biggest sellers included bananas, apples, lettuce, tomatoes, peppers, avocados, greens, onions, and lemons. During the same time period, milk sales increased five-fold.

School Market's initial success has been sustained since the training period ended, and Mr. Cheng's role was reduced to a two-hour "check-in" each week. Produce sales have remained constant, in the range of \$600-\$700/week even in the winter "down" period for fresh produce. Dairy sales have also maintained their higher levels. Mr. Ahmed and his family have now taken over the complete operation and are able to manage this new effort effectively.

More recently, Mr. Cheng and CFPA have collaborated to help with a complete makeover of a second corner store, Jalos Market, in a different section of Oakland's Fruitvale neighborhood. Much the same sequence of events took place there that had occurred in connection with the conversion of School Market into a small grocery featuring nutritious produce and other healthy food. Jalos is now self-sustaining, with periodic visits from Mr. Cheng, offering an assortment of nutritious food to its neighborhood. In addition, there is a good chance that the Alameda County Department of Health will engage Mr. Cheng to convert additional corner stores in other low-income neighborhoods throughout the county over the course of the next several years.

## **Costs**

The cost of the School Market fresh produce project was \$22,520. This amount included staff technical assistance and support (\$16,000), the refrigerated display rack (\$4,000), façade improvements and signage (\$1,075), start-up inventory (\$845), and marketing (\$600).

## **Critical Factors for Success**

The success of the School Market project is primarily attributable to five factors:

- ▶ Mr. Cheng made an invaluable contribution to the success of the project. He provided technical assistance and training, having had extensive hands-on experience in produce markets, and this experience was a huge asset in the project's success. The consultant and the store-owner forged a strong, effective working relationship, which has continued through the weekly follow-up sessions.
- ▶ The owner of the market was interested in increasing fresh produce sales, and store's staff was able to learn the produce business.

- ▶ The market had existing space that was not being used efficiently and that allowed room for produce and other fresh food displays.
- ▶ The store was able to market new produce offerings because it had a strong existing base of customers who had patronized the store in addition to shopping at larger supermarkets.
- ▶ The surrounding neighborhood has sufficient population density to guarantee an adequate supply of potential customers within walking distance.

## **Unique Location Opportunity: Green House Produce**

Since 1998, Green House Produce has become a highly successful produce market in Oakland's Auto Row district. The store has emerged as a vital source of fresh food for nearby low- and middle-income residents. Green House is located next to a popular Grocery Outlet supermarket that features discount prices on packaged groceries, but does not carry fresh produce. The Green House Produce site housed a Safeway supermarket until 1995; when Safeway left the area, the neighborhood was without a source of quality produce. The nearest supermarket today is nearly 20 blocks away.

The Green House/Grocery Outlet combination, located at Broadway and 29th Street, draws its customers primarily from the surrounding low and middle-income area. This diverse section of North Oakland is home to African-Americans, Asians, Latinos, and whites. There is also a large senior population, as well as a significant number of recent immigrants from Russia.

### **Store Profile**

Green House is a 400 square-foot produce market, owned and operated by Abdu Ahmed Huray, an Eritrean immigrant who has been in the produce business for 14 years; his first produce market was in Oakland's Temescal district. Green House benefits from its proximity to Grocery Outlet, which has a large customer base because it offers excellent prices on canned and packaged non-perishables, dairy products, and household item, and also has a large parking lot. Green House helps Grocery Outlet's many customers by meeting their fresh produce needs. Green House is seen as a friendly neighborhood store with an owner who knows many of his customers by name and who is committed to improving the community. Mr. Abdu has stated that he would much rather sell fresh produce than higher-profit alcohol because nutritious foods are better for the community.

### **The Project**

Green House came into existence in 1998 as part of the City of Oakland's strategy to save Auto Row by strengthening area businesses and the surrounding neighborhood. The city's approach was to partner with community groups and faith-based organizations to attract restaurants, coffee shops, and other food businesses that would serve the neighborhood.

Charles Brown, a neighborhood resident who shopped at Mr. Abdu's Temescal-area store, first suggested putting a produce market next to Grocery Outlet. A produce stand had briefly been located in the Grocery Outlet parking lot, but this popular business, operated by Fruitvale

Produce, closed after two months due to operational problems, which included a lack of refrigeration and storage space.

When the City of Oakland created a \$3 million community development grant for the Auto Row area, Mr. Brown helped convince the city to put out a request for proposals for a produce market at the Grocery Outlet site. Mr. Abdu submitted an initial proposal and the city — after helping to improve the business plan — eventually awarded him a \$15,000 façade improvement grant. In addition, the city agreed to fund 50 percent of the store’s construction costs (about \$15,000). The work to build and prepare the market was done by Mr. Abdu and Mr. Brown with technical assistance and support from Grocery Outlet.

### **Results**

Green House Produce today offers a wide variety of fruits and vegetables, and serves a vital role in providing fresh foods for the neighborhood’s many lower income residents. While sales and income figures are not available, the market appears to be a stable and profitable enterprise.

### **Costs**

Construction and start-up costs totaled approximately \$60,000.

### **Critical Factors for Success**

The factors behind the Green House Market’s success include:

- ▶ A strong, committed, experienced owner and operator, with a thorough knowledge of the business and a commitment to the neighborhood.
- ▶ An excellent built-in source of customers in Grocery Outlet shoppers.
- ▶ Green House, just next door, is an easy second stop for customers who need produce.
- ▶ Good parking and visibility. Grocery Outlet has a large parking lot and Green House’s store-front sign is visible to passing motorists on busy Broadway. One of Oakland’s most heavily used bus lines, #51, stops right in front of the store.
- ▶ Strong financial and technical support from the city and from Grocery Outlet, and extensive help from a committed community member.
- ▶ Limited competition, since there is no other source of fresh produce within 20 blocks.

### **Starting A New Produce Store: Nathan’s Produce**

Nathan’s Produce was a successful fresh produce store in a low/middle-income area of West Berkeley that operated from 1995 to 2001. The store provided fresh nutritious foods to neighborhood residents and was an excellent source of jobs and mentoring for local high school students.

Nathan’s Produce was located next to one of many liquor stores on Sacramento Avenue, a busy thoroughfare with few retail outlets other than liquor stores. While two popular restaurants — a breakfast café and an Indian restaurant — were across the street, local residents had to travel

seven blocks to an upscale Andronico's supermarket or two miles to the nearest Safeway for groceries. There are more than 18,000 households within a one-mile radius of the store site. The neighborhood, like much of West Berkeley, was for years predominantly African-American, but now is more ethnically diverse and has a significant senior population. Approximately one-quarter of the store's customers used food stamps.

### **Store Profile**

Nathan's Produce was a small, 800 square-foot store, stocking a variety of fresh produce plus dairy products, baked goods, bulk foods, canned goods, rice, and other grains. The produce selections in the store included some organic products.

### **The Project**

Nathan Cheng grew up in Chicago in a low-income, single parent household. After high school, he held a number of jobs until he found success in restaurant management. After years in the restaurant business, Mr. Cheng decided to do something more for his community. Seeing a need for fresh produce and quality groceries in his Berkeley neighborhood and a need for jobs and mentoring among local high school students, Mr. Cheng decided to address both issues by opening a produce store that would employ students.

Like many small businesses, the biggest barrier facing Nathan's Produce's was access to start-up capital. Mr. Cheng wrote a business plan but failed to secure either a private or government loan. Eventually, he used his own credit cards as his start-up capital; shortly after the business opened, several customers provided him with lower interest loans that were used to pay off the credit cards.

Another challenge was purchasing relatively smaller volumes of fresh produce from wholesalers who are organized for high-volume sales and are not prepared to give low wholesale prices to small buyers. At first, Mr. Cheng arrived at the produce markets in the very early morning hours to compete more favorably with the larger buyers. In time, he developed good working relationships with several wholesale distributors who set aside produce for him at reasonable prices.

Mr. Cheng initially hired and trained five high school students from the neighborhood to work part-time in the store. Their jobs were tied to maintaining good grades in school. Mr. Cheng became not only a boss, but also a mentor. He helped the students/employees with school and offered encouragement, while teaching them about fresh produce and healthy eating habits.

Nathan's Produce was known for excellent customer service, with customers greeted by name, fruit and vegetable samples available, and quick responses to customer requests for produce and other items that were not in stock. The store used Berkeley's Pedal Express bicycle delivery service to take groceries to shut-in individuals, with the store picking up half the delivery cost. Nathan's Produce also became the first grocery store in Berkeley to accept BREAD (Berkeley Region Exchange and Development), the local barter currency.

## Results

In six years, Mr. Cheng built his business to an average of 110 transactions per day, serving a regular customer base of 400-500 neighborhood households. The quality of the food was high, and the prices were reasonable. However, in early 2001, rising rents in the neighborhood threatened the store's economic viability. At the same time, Mr. Cheng purchased and started to manage a restaurant across the street from the produce store, and his family began to grow. Given these new developments, something had to give, and Nathan's Produce was closed.

## Costs

\$70,000 for start-up and six years of operations.

## Critical Factors for Success

Nathan's Produce succeeded as a result of six primary factors:

- ▶ **Personal commitment and dedication.** The owner's drive and determination to make a difference in his neighborhood enabled him to overcome two significant operational barriers: under-capitalization and the lack of complementary nearby stores—for over five years.
- ▶ **Customer service.** Like all small business owners, Mr. Cheng understood that a personal connection with his customers was essential.
- ▶ **Good quality food.** Mr. Cheng understood that breaking the stereotype of a small market with poor produce quality and selection was vital to attracting and keeping customers.
- ▶ **Neighborhood connections.** The owner's residence in the neighborhood and commitment to hiring and supporting neighborhood teenagers tied the store strongly to its customer base.
- ▶ **Business knowledge.** Mr. Cheng's sense of "mission" was matched by his excellent understanding of how to create and support a small business. In particular, his experience in the highly competitive restaurant business was beneficial for the produce market's economic success.
- ▶ **Location.** Nathan's Produce was located at a busy intersection (although the lack of parking space prevented Nathan's from capturing much benefit from all the passing traffic). There was also no real competition for groceries within a significant distance.

## VI. Recommendations

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### Public Policy Recommendations

Market-based strategies like those described in the previous section hold great promise for improving food access in low-income neighborhoods. Moving from individual projects to more comprehensive programs, however, will require a coordinated effort among local governments, community and neighborhood organizations, private funders, and other partners.

#### Local Governments

Local government — elected officials, city and regional planners, housing and urban development offices, transportation planners, community development offices, job developers, economic development offices, and public health departments — can play a variety of vital roles in market-based food access programs. These government entities can:

- ▶ Provide incentives — including grants, tax breaks, and the guarantee or facilitation of market-based or interest-free loans — to encourage entrepreneurs and improve their chances of succeeding.
- ▶ Provide leadership in developing mixed-use retail “clusters” in which small food stores can flourish. On a broader scale, local planning agencies should include food access needs in the planning, zoning and development process.
- ▶ Streamline any applicable license and permit processes. Acquire or convert underutilized or vacant land for food market development.
- ▶ Provide technical assistance to entrepreneurs and storeowners who are interested in improving their communities’ access to nutritious food.
- ▶ Improve transportation services to food markets. Public transit routes can be designed to connect neighborhoods that lack healthy food outlets with areas that have such stores.
- ▶ Ensure that police services are available to support market operators.
- ▶ Conduct nutrition education classes and activities, including shopping and food budgeting guidance, in conjunction with small markets.
- ▶ Design and conduct public health campaigns promoting healthy foods and exercise, such as walking to stores, and discouraging alcohol, cigarettes, and low-nutritional foods.
- ▶ Include small food markets as a vital component of neighborhood revitalization projects.

#### Private Funders

Private funders also can play a key role in facilitating the economic viability of food markets in low-income communities. They can:

- ▶ Provide loans that ensure that store operators have sufficient capital to initiate and maintain their businesses.

- ▶ Encourage and assist the development of strong business plans that will create sustainable projects.
- ▶ Provide technical assistance to potential grant and loan applicants.
- ▶ Provide start-up grants and loans that support entrepreneurs' efforts to undertake market-based strategies in under-served neighborhoods.
- ▶ Support community nonprofits that work on low-income food access issues.

### **Community/Neighborhood Groups**

Community support is essential for the ultimate success of market-based strategies.

Community groups can identify, train and support food market advocates housed within local nonprofits, housing associations, community clinics, PTAs or any voluntary association. Such support can:

- ▶ Help operators negotiate local government permits and requirements.
- ▶ Support store operators through publicity and word-of-mouth. Assist store operators in connecting with community and neighborhood groups, as well as with local government services.
- ▶ Advocate with local governments for better policies promoting small food markets and fewer liquor stores in neighborhoods. Educate elected officials about the importance of adequate options for purchasing nutritious food.
- ▶ Provide ownership and partnership with store operators.
- ▶ Recruit colleges and universities to study and evaluate market-based projects and programs.
- ▶ Encourage developers to include food markets in neighborhood and community development projects.

### **Issues for Further Study**

The successes of School Market, Green House Produce, and Nathan's Produce in Oakland and Berkeley demonstrate that relatively small market-based strategies can improve food access — and be self-sustaining. Further testing and development of these models are essential if they are to become an important part of the food network in low-income urban communities. Seven issues appear to be the highest priorities for further exploration:

#### **Economies of Scale**

Since small markets are by their nature at a significant disadvantage in dealing with wholesale produce distributors, the idea of a network of small markets — linked for distribution and possibly other functions — deserves further study.

Small market owners are often fiercely independent, and at least one attempt to create such a grocery distribution network for small markets in Hartford, Connecticut, has failed. However,

if a group distribution approach could be shown to save overworked owners both time and money, they might support the concept.

### **Alliances with Anti-Liquor Stores Advocates**

Local governments, community organizations, and residents in many low-income neighborhoods are fighting to reduce the number of liquor stores in their communities. This is a hot issue in many cities — and a potentially fertile strategic link for food market proponents. Food market advocates can provide strong evidence of successful alternative retail approaches that do not depend upon alcohol sales. Working together, the anti-liquor store and pro-food market forces could be a formidable partnership for change.

### **Identification and Removal of Policy Barriers to Small-Scale Food Markets**

Local government staff and officials, private funders, and others who are key to solving food access problems need to be educated about the potential for small markets. Too often, food access is defined as access to supermarkets, probably because most individuals under 50 years old have little direct experience with corner markets as anything other than convenience food stores. Policy makers, funders, and others, however, must become aware of successful stores like School Market and Green House, understand the place of small markets in improving food access, and promote development of small-scale stores.

### **Building Sustainability**

The effort required to operate a successful small business over time is perhaps the biggest obstacle to market-based food access efforts. Long hours, slim profit margins, crime, and other factors weigh heavily on small food market owners. If small food markets are to succeed on a larger scale, this “burn out” factor must be addressed. Local governments and communities must be assured that small markets are a real, long-term solution to food access problems before they invest significant time and resources in creating such markets.

### **Identify Possible Food Market Advocates**

Individuals within existing networks of charitable food providers or community-based organizations may be able to add the additional organizing, education and mobilization necessary to support food entrepreneurs. Any realistic attempt to increase market-based solutions to food access will need foot soldiers to get the word out, publicize the problem and the solution and support those brave entrepreneurs who express interest.

### **Identify Creative Ways of Providing Financial Support**

The costs of starting any new enterprise are often prohibitive — the costs of starting a successful healthy food store in a low-income market are even more discouraging. Tapping new sources for capital costs, as well as initial operating costs, will be vital to ensuring success in this area. Some possible avenues to explore include the state pension system, Community Reinvestment funds, tax breaks, state grants and interest-free loans and private investments.

Without some up-front identification of possible support, all the encouragement and case studies in the world will fail to create a new cadre of entrepreneurs.

### **Streamline State and Local Policies Impacting Corner Stores**

State laws and regulations concerning business licensing and health and safety requirements, as well as local zoning and land use policies, can represent significant impediments to starting and converting corner stores. Community and statewide advocacy organizations should identify major barriers and advocate for their removal.

## Endnotes

- <sup>1</sup> Food insecurity is defined as the lack of assured access to enough food through socially acceptable means.
- <sup>2</sup> Center on Hunger and Poverty, *The Consequences of Hunger and Food Insecurity for Children: Evidence from Recent Scientific Studies*, June 2002 at 6.
- <sup>3</sup> U.S. Department of Health and Human Services, *The Surgeon General's Call to Action to Prevent and Decrease Overweight and Obesity* (2001), available at: <http://www.surgeongeneral.gov/topics/obesity/call-toaction/CalltoAction.pdf>
- <sup>4</sup> Woodward-Lopez, Ikeda and Crawford, UC Berkeley's Center for Weight and Health, *Improving Children's Academic Performance, Health and Quality of Life* (Research Section, 2000), available at [http://nature.Berkeley.EDU/cwh/PDFs/CewaerPaper\\_Research.pdf](http://nature.Berkeley.EDU/cwh/PDFs/CewaerPaper_Research.pdf)
- <sup>5</sup> Ibid.
- <sup>6</sup> Gail Harrison et al., *Over 2.2 Million Low-Income California Adults are Food Insecure; 658,000 Suffer Hunger*, 2002. Available at <http://www.cfpa.net>.
- <sup>7</sup> M. Nord et al., Economic Research Service, United States Department of Agriculture, *Household Food Security in the United States*, 2002. Available at <http://www.ers.usda.gov/publications/fanrr21>. And see also, *The Contextual Effect of the Local Food Environment on Residents' Diets: The Atherosclerosis Risk in Communities Study*, American Journal of Public Health, Vol. 92, No. 11, 1761 – 1766 (Nov. 2002).
- <sup>8</sup> Center on Hunger and Poverty supra note 2 at 5.
- <sup>9</sup> C.M. Olson, *Nutrition and Health Outcomes Associated with Food Insecurity and Hunger*, Journal of Nutrition 129 (2 Suppl.), 521S-524S, 1999. Available at <http://www.nutrition.org/cgi>.
- <sup>10</sup> Center on Hunger and Poverty, *Statement on the Link Between Nutrition and Cognitive Development in Children*, 1998. Available at <http://www.centeronhunger.org/pubs/cognitive.html>.
- <sup>11</sup> Center on Hunger and Poverty, *The Consequences of Hunger and Food Insecurity for Children: Evidence from Recent Scientific Studies*, June 2002 at 10.
- <sup>12</sup> Id. at 6
- <sup>13</sup> Ibid.
- <sup>14</sup> Ibid.
- <sup>15</sup> See for example, James O'Connor and Barbara Abell, *Successful Supermarkets in Low-Income Inner Cities*, 1992 at 6 and Amanda Shaffer, *The Persistence of L.A.'s Grocery Gap*, Center for Food and Justice, 2002 at 33.
- <sup>16</sup> Id. at 7.
- <sup>17</sup> Id. at 10.
- <sup>18</sup> Amanda Shaffer, *The Persistence of L.A.'s Grocery Gap*, Center for Food and Justice, 2002 at 43.
- <sup>19</sup> Public Voice for Food and Health Policy, *No Place to Shop: The Lack of Supermarkets in Low-Income Neighborhoods*, 1995.
- <sup>20</sup> U.S. Census.
- <sup>21</sup> Public Voice for Food and Health Policy, *No Place to Shop: The Lack of Supermarkets in Low-Income Neighborhoods*, 1995.
- <sup>22</sup> PriceWaterhouse Coopers and Initiative for a Competitive Inner City, *The Inner-City Shopper: A Strategic Perspective*, 1999.
- <sup>23</sup> The Boston Consulting Group and Initiative for a Competitive Inner City, *Business Opportunities in Inner-City Oakland*, 1998.
- <sup>24</sup> Walter Haas School of Business, University of California at Berkeley
- <sup>25</sup> In Oakland, California, the location of two of the three neighborhood grocery stores highlighted in section V of this report, a community-based independent grocery store recently has opened and seems to be flourishing in a low-income, market-deprived section of the city. Gateway Foods, a full-service store, has

reopened under new, ethnically sensitive management, reviving a store that has lain fallow for many years. Gateway Foods is featured in a recent publication of the Community Food Security Coalition entitled, *Weaving the Food Web* (2002), available at [http://www.foodsecurity.org/pubs.html#food\\_web](http://www.foodsecurity.org/pubs.html#food_web).

<sup>26</sup> PriceWaterhouse Coopers and Initiative for a Competitive Inner City, *The Inner-City Shopper: A Strategic Perspective*, 1999.

<sup>27</sup> Ibid.

<sup>28</sup> Ibid.

<sup>29</sup> Bay Area Economics, *South Vallejo Ethnic Food Store Feasibility Study*, 1996.

<sup>30</sup> Ibid.

<sup>31</sup> Public Voice for Food and Health Policy, *No Place to Shop: Challenges and Opportunities Facing the Development of Supermarkets in Urban America*, 1996 at 38.

<sup>32</sup> Public Voice for Food and Health Policy, *No Place to Shop: Challenges and Opportunities Facing the Development of Supermarkets in Urban America*, 1996.

<sup>33</sup> See Food Marketing Institute, *Joint Venture in the Inner City – Supermarkets General Corporation and New Community Corporation*.

<sup>34</sup> Amanda Shaffer, *The Persistence of L.A.'s Grocery Gap*, Center for Food and Justice, 2002 at 39.

<sup>35</sup> Id. at 40.

<sup>36</sup> There is substantial research documenting the market requirements needed for new urban supermarkets and the challenges and opportunities presented by such a market-based approach to food access.

Interested readers are directed to:

- *The Urban Grocery Store Gap*, Ronald W. Cotterill and Andrew W. Franklin, Food Marketing Policy Center, University of Connecticut, 1995 (to obtain a copy, call 203.486.1927 or fax 203.486.2461).
- *The Changing Structure and Performance of the Food Distribution System: Implications for Low-Income Urban Consumers*, Ronald W. Cotterill, Food Marketing Policy Center, University of Connecticut, 1992.
- *Successful Supermarkets in Low-income Inner Cities*, James J. O'Connor and Barbara Abell, O'Connor – Abell, Inc., 1121 Arlington Blvd, Suite 942, Arlington, VA 22209, 1992.
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<sup>37</sup> Food Marketing Institute, *Joint Venture in the Inner City – Supermarkets General Corporation and New Community Corporation*.

<sup>38</sup> Public Voice for Food and Health Policy, *No Place to Shop: Challenges and Opportunities Facing the Development of Supermarkets in Urban America*, 1996 at 40.

<sup>39</sup> National Cooperative Bank Development Corporation, *Grocery Store Development Report [Draft]*, 1999.

<sup>40</sup> Ibid.

<sup>41</sup> James O'Connor and Barbara Abell, *Successful Supermarkets in Low-Income Inner Cities*, 1992

<sup>42</sup> Public Voice for Food and Health Policy, *No Place to Shop: Challenges and Opportunities Facing the Development of Supermarkets in Urban America*, 1996 at 40.

<sup>43</sup> James O'Connor and Barbara Abell, *Successful Supermarkets in Low-Income Inner Cities*, 1992

<sup>44</sup> National Cooperative Bank Development Corporation, *Grocery Store Development Report [Draft]*, 1999.

<sup>45</sup> Ibid.

<sup>46</sup> Ibid.

<sup>47</sup> Bay Area Economics, *South Vallejo Ethnic Food Store Feasibility Study*, 1996.

<sup>48</sup> As pointed out earlier, at note 25, Gateway Foods recently re-opened under new management in a low-income section of Oakland, California, and appears to be doing well in a location where others have failed. A key element in the store's success is its sensitivity to its customers' preferences. As the co-owner says, "We knew if we had the patience and truly listened to and responded to what the community needed, people

would come to the store, and tell their friends, *Weaving the Food Web*, Community Food Security Coalition (200), p. 12, available at [http://www.foodsecurity.org/pubs.html#food\\_web](http://www.foodsecurity.org/pubs.html#food_web)

<sup>49</sup> Id. at 46.

<sup>50</sup> Id. at 48.

<sup>51</sup> Bay Area Economics, *South Vallejo Ethnic Food Store Feasibility Study*, 1996 at 47.

<sup>52</sup> National Cooperative Bank Development Corporation, *Grocery Store Development Report* [Draft], 1999.

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<sup>54</sup> Ibid.

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