What’s Distribution Got To Do With It?

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Wholesale Grocery Distribution Study for Rural Kansas

A report conducted by New Venture Advisors LLC
Prepared for the Sunflower Foundation: *Health Care for Kansans*
What is the Sunflower Foundation and why does it care about wholesale grocery distribution patterns?

• “Food deserts in farm country” paradox
• Lack of grocery stores put physical health at risk (nutrition) as well as economic vitality and community resilience
• Sunflower, other health foundations, other usual partners (USDA) have been working together to help communities address grocery needs
• Reoccurring theme: concern about not being able to meet MPR’s (Minimum Purchasing Requirements)
Does Kansas Need a Statewide Alternative Distribution System?

- Growing concerns – or perceptions thereof – since merger of two major retailer-owned, wholesale grocer co-operatives
  - Merger of Associated Wholesale Grocer with Affiliated Foods Midwest, retaining AWG name
- Concerns that $20K/week MPR would present insurmountable obstacle to any newly established rural grocery stores
- Also concerns that grandfathered terms of $10K/week MPR for existing stores would soon cease
- Meetings to discuss rural grocery issues often floated the idea of some sort of statewide alternative system
The Sunflower Foundation Decided to Study the Issue

• Foundation contracted with New Venture Advisors LLC, food business consulting firm, to objectively assess the landscape of rural grocery distribution in Kansas

OBJECTIVE 1: To better understand what challenges store owners face following the AWG/Affiliated merger, specifically around delivery minimums

OBJECTIVE 2: To gauge interest in alternative distribution solutions or strategies
Details of the Study

• New Ventures Advisors (NVA) worked with staff at Rural Grocery Initiative (RGI) to compile list of interviewees: grocery store owners, managers and other stakeholders/partners across KS.

• Collaborated with North Central Kansas Regional Planning Commission (USDA study to assess local growers, grocers, consumers)

• NVA and RGI did in-depth interviews (phone or onsite) with 24 interviewees:
  • 2/3 grocery store reps, 1/3 other
  • Questions: store operations, finances, purchasing patterns, relationship w/distributor, perceived challenges/threats, etc

• Study took place July 2017 to December 2017
Small stores: town population < 500 people

Medium stores: town population 501 – 1000 people

Large stores: town population > 1000 people (but most < 8000)

Other criteria for store size: financial health of store, amount of purchases from distributor each week
So what did we find out?
NOT surprising:
Stores in very small, rural, remote towns (esp western KS) have toughest time turning a profit.
SURPRISING:
Majority of stores interviewed did not have trouble meeting the mandatory minimums nor were they worried about their "grandfathered status" ($10K/wk) going away.
Data Suggest Stores Have More Pressing Challenges Than Distribution

- Aging and diminishing customer base (de-population)
- Cultural practice of people driving long distances to big box store
- Lack of dependable workforce supply
- Increase in online grocery delivery competition (esp dried goods)
- Proliferation of “dollar type” stores (e.g., Dollar General)
SURPRISING:
All stores but one were NOT interested in participating in some sort of alternative distribution system. Only interest was from larger stores that would have capacity to serve as a “hub.”
Other Findings (surprising or not)

• Even smaller stores reported they are currently able to secure enough groceries from AWG/other... and the concept of another distribution system was perceived as logistically/economically challenging.
• Stores report the transition from Affiliated to AWG was very rocky, especially for smaller, more rural stores.
• Larger stores indicated interest in serving as a redistributor, provided it would contribute to economic health of their store.
• Some stores already organically figuring out hyper-local redistribution strategies.
Take-Aways

• At this point, research indicates that philanthropic (and other) investment to develop a statewide grocery distribution model is probably not warranted.

• Assistance with hyper-local projects (bottom-up, community-driven) might have potential for more impact.

• Example: Anchor Mobile Market in Cowley county
Take-Aways

• And again, research also indicates the most pressing (and perplexing) problems rural grocers face...
• Hint – It’s not grocery distribution.
Rural America Is Aging and Shrinking

Technology and diverging values widen the gap between small-town USA and cities.

By Justin Fox

Americans in rural areas and small towns see the world a lot differently from those living in and around cities, according to a that the newspaper has

Dollar General Hits a Gold Mine in Rural America

In the poorest towns, where even Wal-Mart failed, the little-box player is turning a profit.

By Mya Frader
Gaps in Study:

Not enough representation from SWK and NWK

SWK – many serviced by AWG in OK or TX

NWK – Opportunity to intersect with another study conducted by Northwest Kansas Economic Innovation Center, Inc
If you’d like to receive a high-level, redacted version of the study results, please contact Elizabeth Burger, PhD, MBA
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Growers, Grocers & Distribution Study

NWK Grower-Grocer Map