

A Co-Op’s Approach to Sustaining a Healthy Community through Equitable Practices

INTRODUCTION

The retailer has two store locations (Stores A and B) with more than 20,000 square feet at each site. Our focus in this report is on both Stores A and B.

- The retailer is food cooperative (co-op), meaning it is run by and for people with democratic governance and profits shared proportionately to use.
- Part of a thriving co-op community across Minnesota with 20 co-op organizations. Store mission: *“To sustain a healthy community that has: equitable economic relationships; positive environmental impacts; and inclusive, socially responsible practices.”*

Store Setting

The co-op’s sites are 2 miles apart in different neighborhoods in Minneapolis, MN. Store B was built in a *“predominantly Black neighborhood”* (leader); whereas the Store A’s neighborhood was described by one community member as *“a very diverse neighborhood... very mixed income, very mixed diversity, very mixed ages.”* Both stores are located in neighborhoods where a quarter or more live in poverty.

Since opening, four large chain, low-priced conventional grocery stores have opened within a 1-mile radius of Store A; whereas, Store B to-day remains the only full-service grocery store within a 1-mile radius.

STORE OPERATIONS (Preceding the Events of 2020)

Organizational Details

As a cooperative, the retailer sells stock in exchange for ownership. The price for full owner equity is a one-time \$75 payment, which has remained the same since 1987.

In profitable years, the co-op refunds the profit to the co-op owners, which occurred regularly until Store B and a restaurant were added; since then, a refund has not been issued. In contrast to stock corporations, every co-owner in a co-op has a single vote, which helps limit the concentration of power and control allocated to a single individual.

Methods	
Data Collection Tool	Number of Data Points
NEMS-S Short Form	2/Store
Sales Recall	3
Monthly Sales Data	2018, 2019, 2022
In-Depth Interviews	
Staff	4
Distributors	2
Community Members/Store Advisors	2
Documents and Websites	36

The organizational structure of the co-op includes leadership from a Board of Directors that articulate the co-op’s vision and goals. The board’s goals and vision are then implemented by the general manager, the only co-op employee that reports to the board. Under the general manager, the organization has three business units, Brand, Support, and Operations. The retailer currently has 267 employees across these business units, 70% are full-time, most live within 1.5 miles of a store location, more than one-third identify as persons of color (POC). Much decision-making is decentralized, often using committees with representation from each business unit and input from stakeholders, board members, and co-op owners.

The co-op is a member of the National Co-op Grocers (NCG), a national cooperative organization serving 147 food co-ops across the US. Like other cooperatives, NCG is based on democratic voting and shared use of profits among participating co-ops.

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Participation in NCG requires co-ops to follow certain contracted operations, such as promoting certain products. Membership also strengthens purchase power through receipt of *“competitive pricing on promotional items so that we could be competing against the Whole Foods and the Lunds”* (leader).

Since 2017, sales have declined, largely attributed to growing competitive pressures from nearby stores and other modalities (e.g., online ordering) as well as a long-term bridge construction project that shifted community travel patterns for Store A from 2015-2017. In addition to sales, the co-op leverages other sources of funding, such as bank loans, co-op owner equity (i.e., co-owners invest in the co-op), and tax credits, for special projects (e.g., building Store B) or to make capital improvements.

The co-op's interest coverage ratio (ICR), which examines how much cash the business is generating from net operating income before interest and taxes to cover its current debt, highlights a concerning picture overtime. Following the 2016 Store B and restaurant expansions, the ICR has been <1—indicating that only a proportion of current debt can be covered from net operating income. Despite this, the co-op has upheld a strong cash position keeping them in a financially stable position to meet short-term obligations.

Food Stocking and Sales

The co-op stores operate as full-scale grocery stores with produce, grocery, deli, meat, bakery, and wellness departments. In addition, each has a café and prepared food and hot bars (the latter closed in 2020). The grocery department covers 55% of the store with ~8,000 products in bulk, box, and frozen sections. Produce is the second largest department with up to 300 produce varieties available across the seasons.

Priorities and Decision-Making

The co-op's mission and values are used to decide which products to stock. One way this is shown is through a promotional label program to identify products aligned with the co-op's values of:

1. Produced in Minnesota, Wisconsin, or Iowa
2. Directly sourced from small-scale producers
3. Produced from cooperative organizations
4. Produced by identities that have been historically underrepresented (e.g., POC-owned)
5. Sustainably produced.

Products meeting at least two criteria receive the label.

Other stocking priorities discussed revealed competing interests. A key example is their natural food standards and being able to offer affordable products. For many years, the co-op used internal purchasing guidelines to prioritize certain product standards (e.g., not irradiated; limiting trans fats & artificial colors). Yet recently the co-op has sought *“the balance of serving the community and interpreting that [document] as intended;”* or, said differently, letting *“go some of our other product standards in order to be more accessible in our community... have a more affordable option”* (leader).

Some other ways stocking decisions are made include:

- Responding to what the community asks for
- Obtaining regional market data on what natural, organic, and specialty products are selling well
- Attending food shows to interact with producers
- Seeking a balance between local versus national producers

However, beyond the natural food standards, product healthfulness was not centered as a key stocking priority.

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Sourcing and Vendor Strategies

The co-op has a dynamic vendor strategy. They work with both national and local/regional distributors as well as directly with local producers. In general, each co-op department has a merchandizing coordinator that develops ordering guides for product buyers at each store. This guide helps buyers know which products to buy based on distributor prices/sales, availability and/or whether the product is a staple product (e.g., WIC product). While there are differences in sourcing strategies by department, all described trusting relationships with their distributors including frequent and transparent communication.

The grocery department does most of its sourcing through a national natural food distributor via a contract with NCG. Working with the distributor provides operational efficiency but can conflict with the co-op's commitment and values around local producers as most of products are not produced regionally.

The Minneapolis store also works with several local and regional distributors. One local organic distributor is heavily used, particularly given their mission to support the local food system by working with many local farms in the Midwest.

Another unique vendor strategy in the produce department is the co-op's grower commitments, or annual commitments to local farmers to give *"reassurance to the farmer and with us that we'll be buying that product, and we can count on them to deliver that product"* (Leader). The co-op typically holds commitments with 12-14 mission-aligned farms. These local farmers supply upwards of 70-80% of items during the growing season and 20% in the non-growing season.

Pricing Strategies

Pricing is largely *"Driven by what is in the marketplace, what is a reasonable price; and there's some things that are sold well below cost and always have been... so you have to make that up in other areas"* (leader). The co-op quarterly evaluates prices of market basket items to their competitors—both nearby co-ops and conventional stores.

Consistently reported throughout interviews was the common customer and community complaint of the co-op having too high of prices. The price of products reflects the co-op's product standards; the higher cost of natural foods; their goals of prioritizing products from local, small, new businesses that are not up to scale; as well as the co-op's intention to try *"to make sure there's less exploitation in the food supply chain and that people are fairly compensated"* (leader).

To find a balancing point, the co-op has attempted to make their prices more accessible to low-income groups. First, they stock and highly promote a set of staple products promoted as *"pantry basics offered at a low price everyday"* (website). Prices are consistent and the margin is lower than other products in that category (e.g., 30%). The retailer is also SNAP and WIC authorized, despite the difficulties of getting required conventional products distributed to their stores. Finally, any customer with a financial need can also sign-up for a needs-based (10%) discount.

Promotion Strategies

The co-op:

- Largely uses shelf labeling programs and other promotions (e.g., signage, newsletters, videos) to tell the stories of local producers.
- Avoids setting up contracts with producers for product placement.
- Provides product sales in two monthly cycles
- Being supportive in the promotions of local versus national producers (e.g., sharing the promotion costs with local vendors).

COMMUNITY ENGAGEMENT

Serving the community is a top priority of the co-op.

- The co-op encourages member ownership, which includes benefits like: voting rights; owner-only sale prices and other routine discounts (e.g., 10% quarterly discount); and in profitable years, a refund based on the amount spent at the co-op.
- The co-op also provides a needs-based ownership discount.
- Socially inclusive practices for customers and employees were consistently described.

Concerns around reaching low-income communities is a distinct challenge for the co-op to balance with their concurrent values to support other community members (i.e., employees, local producers).

Another way the co-op demonstrates community commitment is via local outreach. For example, its flagship program, the Community Program, names a community organization as the beneficiary of the co-op's "round-up" practice for the month. At checkout, customers are asked if they would like to "round-up," and organizations regularly receive \$20,000. The program demonstrates a way to use the co-op structure to support the community rather than a direct donation from the co-op.

The co-op also:

- Provides smaller grants and donations to other community organizations; sponsors and supports local events (e.g., gift card donation)
- Performs advocacy work (e.g., supporting the \$15 minimum wage Minneapolis ordinance);
- Pays employees for community service work.
- Offers educational classes and meetings/ community conversations. Both stores have community classrooms with several classes offered monthly, including cooking and health classes.
- Has an extensive website of resources (e.g., recipe videos) and a quarterly newsletter.
- Provide an annual public report of the co-op's financial status and mission alignment.

IMPACTS OF 2020 EVENTS

Overview of 2020 Events

While numerous events impacted the co-op in 2020, two were particularly salient—the COVID-19 pandemic and the murder of George Floyd. While the nation experienced the impacts of COVID-19, the close proximity of George Floyd's murder and following unrest was particularly difficult for the co-op and its community. These events impacted the store operations and community engagement in diverse and contextually dependent ways.

Impacts of COVID-19 Pandemic: General Store Operations

Safety from COVID-19 was a top priority for the co-op in 2020. In mid-March, the co-op had their first employee with COVID and closed Store A for several days. The co-op also closed their restaurant. They implemented several changes, including:

- Following state mandates and public health guidance of requiring masks, social distancing, shuttering hot bars and salad bars, limiting customer traffic, and cueing customers outside.

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- Adding plexiglass, ropes, social distance prompts to the cashier area.
- Reserving the first hour of each day for immunocompromised and older customers.
- Maintaining customer capacity limits lower than other retailers
- Providing masks, etc. to employees
- Ensuring strong PTO for employees through their PTO Donation Pool, supplemented with the CARES Act emergency leave and donations from the round-up program.
- Being transparent in reporting COVID among employees with weekly website updates.
- Providing winter shelters as customers waited to enter the store.
- Rapidly offering curbside and eventually delivery services.

Product Availability and Sourcing

As well-documented, customer demand at food retail skyrocketed nationwide at the start of the pandemic. Distributors had to figure out their operational capacity, dwindling inventory, and other unexpected logistics. At times, the co-op lost priority for national/ regional product distribution because distributors were balancing all retailers' needs. Local distributors and producers helped fill some supply gaps. Over time, supply stabilized, as shown in availability, quality, and pricing observations in 2021 (Table 1).

However, other problems surfaced, especially early on. For instance:

- Some farmers stopped serving the co-op due to increasing demand for their community-supported agriculture boxes;
- Product packaging, pricing, and placement became challenging due to store layout changes;
- Like other retailers, throwing “*out a lot of produce... because stuff went bad. People weren't sure if we had a clean product;*”
- Temporarily modifying their bulk products to eliminate customer self-service; and,
- Experiencing unstable pricing for certain departments, like produce and cheese.

Community Response, Sales, and Store Finances.

Despite increased customer demand experienced by many food retail outlets during the pandemic, this was not necessarily the case for food co-ops. As one local newspaper article explained, “*Conventional supermarkets saw sales increase about 12% in April and in May... Co-ops, on the other hand, experienced a 5.7% decrease nationally in April and a 1.4% decrease in May*” (Star Tribune, June 2020).

Interviewees consistently reported declines in co-op sales since the pandemic. Perceived sales data demonstrated these changes and the consistency of reported declines across products, except meats.

Table 1: Healthy Food Availability, Quality, and Price

	Store A		Store B	
	Outside SNAP (Feb 2021)	During SNAP (March 2021)	Outside SNAP (Feb 2021)	During SNAP (March 2021)
Availability (range: 0 to 25)	27	27	28	28
Quality (range: 0 to 6)	6	6	6	6
Price (range: -7 to 16)	3	0	0	3

Sources: Store observation performed by same data collectors using the Nutrition Environment Measures Survey short form. SNAP, US Supplemental Nutrition Assistance Program benefit deposit monthly cycle in

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The loss of customers and sales was attributed to numerous factors, including: (1) customer capacity limits that resulted in people waiting outside the store, (2) the loss of commuting traffic; and (3) people shifting their shopping patterns to limit their exposure (e.g., make one weekly trip to a single store, shop online). Some of these factors are reflected in the varying sales patterns by store in **Table 2** (e.g., Store A lost commuters versus Store B being the only full-service grocery in the area).

While customers expressed approval for the co-op's COVID response, store finances were significantly impacted by the declines in sales, which were further complicated by the co-op's commitment to their staff.

"We decided to keep people. When we closed our restaurant, we did not lay off people." (leader). The co-op also provided employees with the \$2/hour hazard pay throughout 2020 into Winter 2021, *"I think we're one of the only grocery stores still paying hazard pay"* (leader). In response, the co-op had to renegotiate bank loans (e.g., to interest only) to preserve cash and manage their debt. They also received additional support via a \$2 million Paycheck Protection Program (PPP) loan from the Small Business Administration, which has placed them in the strongest cash position since the expansion projects in 2015.

Table 2: Change in Sales by Department and Store Comparing 2019 to 2020. Months capture onset of COVID, George Floyd's Murder, and Violent Protests.

	Mar '20 v. Mar '19	Apr '20 v. Apr '19	May '20 v. May '19	Jun '20 v. Jun '19	Overall 2020 to Overall 2019
Produce Department					
Store A	-22.1%	-11.3%	-16.8%	-11.8%	-10.5
Store B	+21.6%	+21.9%	+15.1%	+6.4%	+9.2%
Grocery Department					
Store A	-11.8%	-11.6%	-16.3%	-12.1%	-9.7%
Store B	+28.5%	+15.2%	+3.3%	+2.7%	+7.1%
Prepared Foods Department					
Store A	-44.9%	-62.7%	-64.1%	-55.1%	-44.4%
Store B	-25.0%	-45.8%	-46.0%	-31.1%	-25.2%
Total Sales					
Store A	-18.8%	-19.5%	-23.1%	-18.7%	-15.0%
Store B	+18.7%	+6%	-2.0%	-1.1%	+2.5%
Both Stores Combined	-3.4%	-8.9%	-14.1%	-11.2%	-7.6%

Impacts of George Floyd's Murder and Civil Unrest General Store Response

On May 25, 2020, George Floyd was murdered by Minneapolis Police Officer Derick Chauvin at a location only a few blocks from Store B. Protests in the Minneapolis communities quickly turned to civil unrest and looting and damage to property ensued, including the burning of the Minneapolis 3rd police precinct building. The co-op was also impacted, as *“Someone smashed in one of our doors at [Store A] to steal an ATM.”* The co-op closed both stores for 2-3 days. With the decision to close, some customers voiced support, while *“Others are saying ‘you’re abandoning the community. We need food.’”* This example exemplifies the 2020 trials they navigated—balancing employee welfare and public food access.

During the unrest, the national guard was called in, curfews were set, and roads were closed to downtown. Stability was reestablished, but a lot of physical and emotional damage occurred. *“Our staff members didn’t feel safe coming to work... We had to board up all of our windows”* (leader). Yet through the trauma,

“there are some really beautiful things that came out of that moment too. We had to board the windows, but then... we had BIPOC-led artist groups do murals on all of our windows...there’s a couple still there... the day was so special...there were 20 artists at each of the stores. It was happening simultaneously, too, and there was music. So, there was a real coming together too in the grieving and also, yeah, the continued struggle.” (leader). [See Appendix 1]

The co-op’s response was viewed favorably by the community as well as by outsiders. Leaders heard examples of customers driving into the city to support their business in response to *“us really being a part of the Black Lives Matter movement...I think we’ve really got the message across of we are here, and we’re here to support the community.”*

Product Availability and Sourcing

Initially during the unrest, due to the store being closed and product about to expire, *“we made a huge rush to get that food out the door to people who needed it”* by

collaborating with their local organizations. The most long-lasting change was the co-op’s decision to bring in a conventional product line. In the wake of the uprising, three low-priced conventional retailers within a mile of Store A experienced significant destruction and closed for months. A recommendation was quickly made to bring in conventional foods beyond the WIC products the co-op already stocked. NCG helped connect the co-op to the conventional distributor—access that the co-op had not previously had.

LESSONS LEARNED AND FUTURE DIRECTIONS

Several lessons were learned by the co-op throughout the events of 2020 and even before, including:

- Their deep commitment to being an equitably oriented community retailer, even more so than maintaining strict natural food standards (i.e., a more traditional co-op model)

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- Their continued navigation in learning to:
 - maintain their commitment to community and affordability in alignment with their other values (e.g., paying a living wage, supporting small local businesses); and,
 - recalibrate the number of employees they can maintain at current sales but do so with worker respect and dignity.

While the current financial situation may make their immediate road ahead challenging, their outlook also appears hopeful. The co-op is charting a unconventional path with human values and intentionality as their compass. There will be many competing needs to continue to balance, but the co-op's unwavering commitment to democracy, community-investment, and equity also suggests a promising future ahead.

IMPLICATIONS

Findings from this case can be used to inform other food retailers' practices as well as policy.

- The co-op model provides an alternative approach to how local neighborhood grocery stores could be conceived going forward. Successful co-ops, like the one in this case, provide an excellent counter to the assumption that there is no other way than the chain for-profit model.
- The co-op shows how partnerships can be made (e.g., NCG) to gain price efficiency in a free market, while maintaining humanistic values.
- This case also provides promising insight into ways co-ops might serve a range of economic groups. Often, retailers target either low-income or high-income customers, but the co-op is attempting to serve both groups.

Policy implications are also evident from this case. While the co-op itself is attempting to 'level the playing field' among different economically resourced customers and pay workers a living wage, they can only go so far. Government incentives and subsidies could help support these efforts. For example, incentives could be used to:

- encourage the provision of a minimum wage and benefits to employees to help address exploitation of food retail workers;
- incentivize pricing structures that further enable access to lower-income shoppers;

Moreover, reconsidering retailer requirements for food assistance benefit programs (e.g., WIC) to expand beyond stocking conventional line products could help provide low-income shoppers a real choice in where to shop and reduce the hurdles the co-op must overcome to offer these products.

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APPENDIX 1: MURALS AND OTHER ART CREATED AFTER GEORGE FLOYD'S MURDER AND CIVIL UNREST

