



North Dakota Association of Rural Electric Cooperatives
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March 9, 2023

To: House Agriculture Committee
Re: Support of Senate Bill 2273
From: Lori Capouch, Rural development director
North Dakota Association of Rural Electric Cooperatives

Chairman Thomas and members of the House Agriculture committee, my name is Lori Capouch and I am the Rural Development Director for the North Dakota Association of Rural Electric Cooperatives. I operate a rural development center that specializes in grassroots development to create the services and businesses needed in rural areas. In this capacity, in 2014, I began witnessing the alarming trend of declining rural grocery stores in North Dakota and their struggle for sustainability. We recognized this trend from a higher number of phone calls from grocery operators seeking assistance and subsequently documented the issue through statewide surveys that detailed a combination of issues leading to the decline and the closure of stores.

In 2019, our surveys indicated there were 104 remaining grocery stores¹ in communities with 2,100 people or less. As of today, that number has dwindled to 87. Of those remaining 87 stores, 14 are now structured as some sort of nonprofit² and two are in the process of transitioning to a nonprofit model. Over the past three years, we have patched together various forms of financial assistance for 12 of the remaining stores. The struggles have not gone away.

The Rural Access Distribution Cooperative (see attached infographics) in Walsh County is a pilot project, now in operation, that emerged as we identified the difficulty small stores have

¹ An official system for tracking active grocery stores in the state of North Dakota does not exist. This list was compiled through phone calls and internet searches and verified by County Extension Agents.

² Nonprofit grocery or quasi-nonprofit grocery can be in the form of a 501c3, community-owned, or cooperative. In many cases, the community will own the building (and sometimes the equipment) and lease to an operator at a greatly reduced cost to assist with cash flow.

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when trying to buy in a large enough volume to get a decent wholesale price, a price that allows for the product to be affordable for consumers and for a profit margin for the grocers. A way to achieve a higher volume in our sparsely populated state is to work regionally, by bringing traditional competitors together.

To start this pilot, a financial feasibility study was conducted that compared the wholesale costs of grocery stores 15-20 miles apart. The average difference in cost was 14% based on store volume. Using that savings, we approximated a hub operation by estimating how much it would cost for workers to sort product, to use backroom space for aggregation, and to operate a climate-controlled delivery vehicle. The study revealed that each grocer could have \$10,000 annually added to their bottom line simply by purchasing from their primary supplier together.

This may sound like peanuts, however, in 2017 the average net profit margin for a rural grocery operator in North Dakota was only \$18,200. The data from the study was used to build a business model and to encourage regional cooperation.

RAD is a shared services cooperative that provides a structure for independent grocers to purchase together for a larger volume. By doing so, the stores achieve a lower wholesale price and better variety. Suppliers drop the product off at the backroom of the Park River store (the hub) where product is sorted for delivery to the two smaller stores. Local producers can also benefit from this system when they deliver their product to the hub where it can be aggregated and distributed with conventional foods. Every time the cooperative aggregates product from an additional supplier, cost savings are added through the elimination of delivery fees to the smaller stores. You can see by the infographic below, they are now aggregating their primary supply along with meat, milk, eggs, bakery, and local produce.

This cooperative has also been able to pick up the slack when traditional supply channels were struggling. They now supply the school lunch programs in Fordville, Crystal, Hoople, and Edinburg.

RAD is currently rolling out its technology. They have implemented an online shopping platform that is shared by the cooperative members even though they have different pricing and suppliers. The shared cost makes it affordable for a rural retailer. And, they have installed two climate-controlled grocery lockers, one in Fordville which is a community without a grocery store and one outside the Park River store to be able to extend grocery access without the need for manning a store. (A picture of the lockers is attached.)

The lockers are ambient, refrigerated, and frozen. The online shopping is like any other online shopping experience. The orders are fulfilled by the Park River store using a credit card transaction. The store then delivers the orders to the lockers and the customer will receive a text or email with a code, informing them their order is ready. Once they have the code, the customer will go to the lockers and enter their code in the kiosk. The doors holding their orders will then pop open so they can retrieve their groceries. Once the doors are shut, the retailer is notified that the transaction is complete. They are monitored 24/7 for temperature for food safety.

So far, this project's success has been measured by increased sales volumes, lower wholesale prices, larger purchases per customer, better variety and quality, greater access to suppliers, and the availability of a distribution channel for locally produced foods. After one year of operation, the Hoople store has experienced a sales increase of 23 percent and the Edinburg store 16 percent.

After 25 years of leading rural people through grassroots development, I am a firm believer that there is no such thing as cookie cutter models. Communities have personalities that are formed by their size, their economies, and the people who live there. As we rolled out this pilot project, we were thoughtful of including elements that could be replicated in various manners.

To our knowledge, nationally, this is the first attempt to shift distribution for the benefit of rural. This group has presented their work at the National Rural Grocery Summit this past summer and to the national USDA Interagency Working Group; we have met with groups in Illinois, Kansas,

Nebraska, and South Dakota who are interested in replicating the work; and we have met with graduate students from major universities such as Stanford, Notre Dame, and Purdue. The problem of rural food access is vast; and information and solutions are hard to come by.

A grant investment in this type of development benefits a region as a whole. Cooperatives have been used by independent businesses for years in North Dakota to get access to the services they need but still maintain their independence, such as electricity, farm supplies, or telecommunications. This shared services cooperative is no different. It can provide greater, more affordable access to wholesale and locally produced food for independent grocers, restaurants, or convenience stores. There are other regions in the state that have inquired about the possibility of doing something like Walsh County. We, among others, are willing to help them.

I thank you for your consideration and urge your support of SB2273. This business sector does not have the human or financial capital it would take to do this on their own, the grant funds are needed. I will stand for any questions.

PURCHASING



Schools

- Hoople
- Crystal
- Edinburg

1.

Purchasing through grocery stores



RAD Co-op Grocery Stores

- Park River grocery
- Hoople grocery
- Edinburg grocery

2.



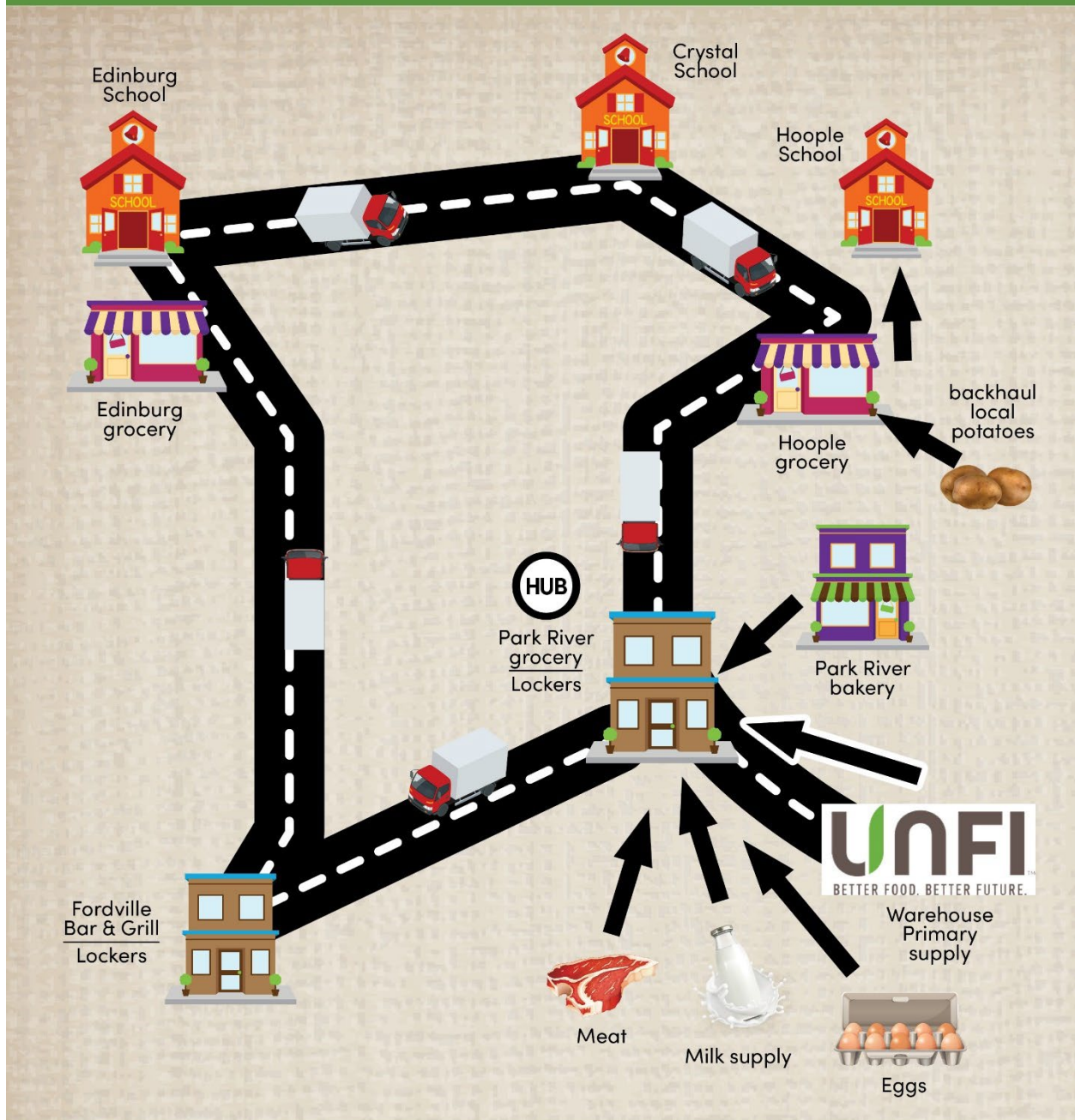
Orders whole cases through

3.



Products delivered to Park River Grocery to distribute.

DELIVERY MAP



1. Cooperative purchasing for larger volume = better price, better variety and better quality
2. Aggregating conventional and locally produced products
3. Distributing – multi-suppliers on one truck from hub to smaller communities

