



North Dakota Association of Rural Electric Cooperatives
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January 26, 2023

To: Senate Agriculture and Veterans Affairs Committee

Re: Support of Senate Bill 2273

From: Lori Capouch, Rural development director

North Dakota Association of Rural Electric Cooperatives


Chairman Luick and members of the committee. My name is Lori Capouch and I am the Rural Development Director for the North Dakota Association of Rural Electric Cooperatives. My focus is quality of life for rural people, and I work across the entire state. 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.

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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Your Touchstone Energy® Cooperative 

The Rural Access Distribution Cooperative (see attached infographics) is a pilot project that emerged as we identified the difficulty small stores have 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 was to work regionally, by bringing traditional competitors together. Along with working regionally, we decided it would be good to work more broadly than just conventional grocery, by including locally produced and retailed products as well. Each time this cooperative aggregates products from an additional supplier, cost savings are added through the elimination of delivery fees to the smaller stores.

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 the operation of 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.

After 25 years of leading rural people through grassroots development, I am a firm believer that there is no cookie-cutter. 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. For example:

- We created a path for working with major suppliers to change their business model to be able to sell to stores that do not receive direct delivery. To implement this change, we

needed space with freezers and coolers for sorting product, point of sales systems that could communicate among stores, and a climate-controlled delivery vehicle.

- We included locally produced and retailed products in our plan. By moving locally produced products on the same truck as conventional foods, they are able share in transportation costs to help distribute local products more widely and affordably.
- We marketed to other logical customers. In this case it was schools, but the cooperative could also supply other entities such as restaurants, convenience stores, or hospitals; or assist commodity food programs with their delivery.
- We added online shopping by finding a software developer that was willing to design an online shopping platform for the cooperative, one that could be shared by the independent retailers as a reduced cost. The platform considers the different suppliers and pricing for each store. It took funding to develop and implement this software program.
- And perhaps most unique, were the climate-controlled food lockers. These lockers bring access to food 24/7, reduce employee time, and can provide food access to communities without a grocery store. The lockers are integrated with the local online shopping platform.

Each one of these steps required a commitment of time and most required funding. It will require funding for those who try to develop a similar business.

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; they have met with groups in Illinois, Kansas, Nebraska, and South Dakota who are interested in replicating the work; and they have met with graduate students from major universities such as Stanford, Notre Dame, and Purdue. We are also receiving contacts from other areas across the state who are interested in doing something similar. The problem of rural food access is vast; and information and solutions are hard to come by.

The overarching goal of this project is to improve the affordability and variety of healthy foods in our communities and the sustainability of rural grocery stores. This cooperative has opted to operate at cost so they can hand down the savings to the consumer and keep their communities viable. A grant investment in this type of development benefits the community as a whole. 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 thank you for your consideration and urge your support of SB2273.

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

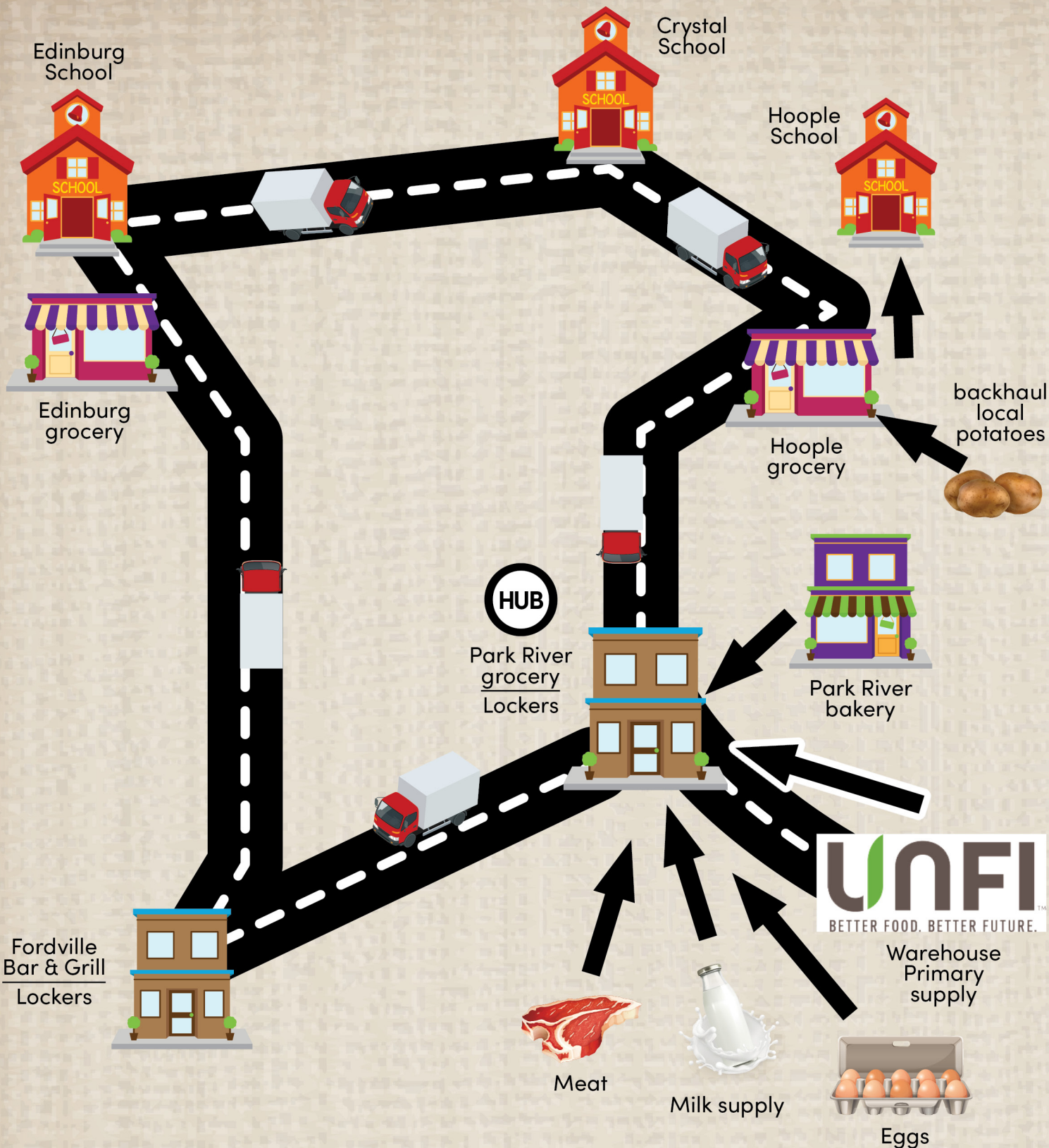


3.

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