

Access to Healthier Foods: Opportunities and Challenges for Food Retailers in Underserved Areas

**Food Marketing Institute
July 2011**



Table of Contents

Introduction	1
Access to Healthier Foods: Defining the Problem	2
The Grocery Industry: An Overview	4
The Impact of Supermarkets on Low Access Areas	4
Barriers to Grocery Store Development in Low Access Areas.....	5
<i>Inadequate Demographic Base</i>	<i>5</i>
<i>High Investment Costs.....</i>	<i>6</i>
<i>Higher Operating Costs</i>	<i>6</i>
<i>Food Assistance Program Policies</i>	<i>7</i>
<i>Additional Barriers.....</i>	<i>8</i>
Factors that Encourage Store Development in Low Access Areas.....	9
<i>Economic Incentives and Grants.....</i>	<i>9</i>
<i>Support of Local Government.....</i>	<i>10</i>
<i>Utilization of Local Champions</i>	<i>10</i>
<i>Communication of Success Stories and Innovative Ideas.....</i>	<i>10</i>
<i>Nutrition Education of Customers</i>	<i>11</i>
Innovative Ways to Provide Healthier Food in Underserved Areas	11
<i>Smaller Store Formats</i>	<i>11</i>
<i>Alternate Grocery Delivery Systems</i>	<i>11</i>
<i>Enhanced Transportation Options.....</i>	<i>11</i>
Success Stories	12
Bibliography.....	13

Access to Healthier Foods: Opportunities and Challenges for Food Retailers in Underserved Areas

Introduction

Since the first supermarket opened its doors in 1930, the business of food retailing has remained consistent: sell a wide variety of foods at a reasonable cost. Over the years, food retailers have adjusted and adapted their formats, services and products to accommodate the needs of their customers. Like all businesses, food retailing is a for-profit enterprise, but unlike other businesses having larger profit margins, the typical grocery store's profit after taxes is approximately 1.3% with the average store taking in approximately \$6,000 per week in profit (based on median annual sales of \$466,000). Although supermarkets provide an essential service to the communities they serve, they are businesses which must produce profit to stay viable. The lack of a supermarket in a community can have many consequences affecting the economy, health and social structure of the surrounding areas. However, encouraging supermarket development where it is needed is a multi-dimensional process requiring community support, financial investment and creative partnerships.



FOOD MARKETING INSTITUTE

Feeding Families and Enriching Lives

2345 Crystal Drive • Suite 800 • Arlington, Virginia • 22202

<http://www.fmi.org>

Food Marketing Institute (FMI) conducts programs in public affairs, food safety, research, education and industry relations on behalf of its 1,500 member companies — food retailers and wholesalers — in the United States and around the world. FMI's U.S. members operate approximately 26,000 retail food stores and 14,000 pharmacies. Their combined annual sales volume of \$680 billion represents three-quarters of all retail food store sales in the United States. FMI's retail membership is composed of large multi-store chains, regional firms and independent supermarkets. Its international membership includes 200 companies from more than 50 countries. FMI's associate members include the supplier partners of its retail and wholesale members.

July, 2011

Access to Healthier Foods: Defining the Problem

There are more than 36,000 grocery stores across the United States. However, in some rural and urban areas of the country, convenient access to a local grocery store carrying a wide variety of fresh foods, such as milk, eggs, meat or poultry, bread, fruits and vegetables at a reasonable cost is not available. In some places, access to healthier foods may be available from other sources, including farmers markets, home delivery mechanisms, community gardens or other types of fresh food vendors. Since farmers markets are seasonal and sources of food other than grocery stores can be difficult and expensive to measure without conducting individual household surveys, indirect measures such as the presence or absence of full-sized grocery stores are typically used to assess access to healthier foods.

Currently, the lack of access to healthier foods has been defined by the US Department of Agriculture (USDA) as the absence of a grocery store, which conducts more than \$2 million dollars in annual sales and is within one mile of a census tract in which more than 40% of the population has an income at or below 200 percent of the federal poverty threshold (ERS 2009). According to this definition, approximately 4.1 percent of the U.S. population or 11.5 million people – located in both rural and urban settings - have low income and live more than one mile from a supermarket. Figure 1 shows the map developed by the USDA to show areas of the United States that have been designated as “food deserts.” Other organizations such as The Reinvestment Fund (TRF) have also estimated the lack of access to healthier foods using different methodologies and while their numbers and locations differ (see Figure 2), the problem remains the same: there are very few grocery stores in certain rural and urban areas of the United States.

Factors such as the presence or absence of poverty, car ownership, distance from a grocery store, the fact that people may access food in a variety of ways in different locations, whether a grocery store is present or not, can all make it challenging to accurately measure food access. Both the USDA’s Food Desert Locator and TRF’s Low Access Areas map may serve as tools assisting grocery retailers, community developers and city planners in identifying potential areas for grocery retail development, but neither resource paints the whole picture. It should be noted that each area possesses unique needs and specific characteristics which must be taken into account when determining a course of action for providing access to healthier foods.

Figure 1: USDA Map of Food Desert Locations in the United States.

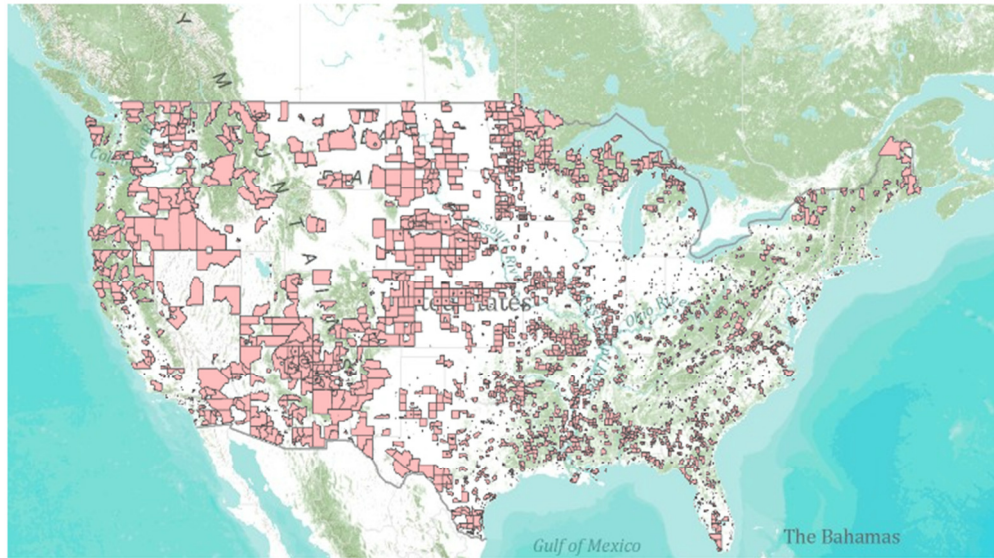
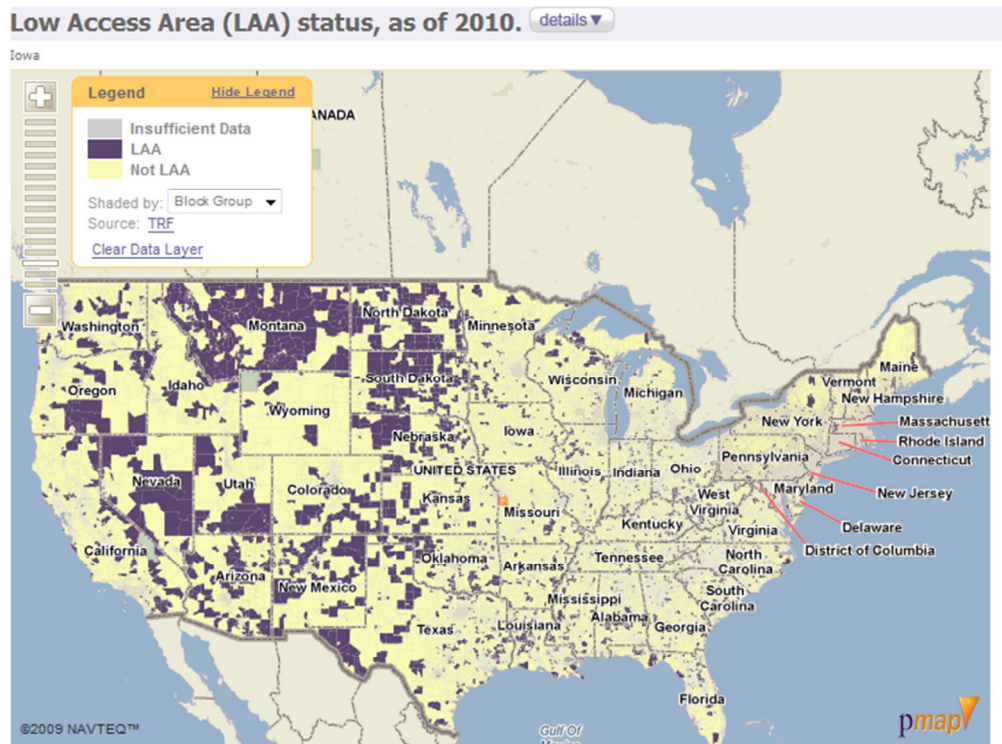


Figure 2: TRF's Low Access Area Map of the United States



The Grocery Industry: an Overview

Solutions that will allow greater access to healthier foods must be considered within the context of the supermarket business environment. According to the U.S. Department of Agriculture, 52% of money for food is spent on foods purchased and eaten at home while 47% is spent on those eaten away from home. Data from *Trends 2011* show that approximately 57% of grocery shoppers consider full service supermarkets as their primary store (FMI 2011). Another 29% report their primary store to be a supercenter (combines general merchandise with groceries such as a Super Target or Walmart Supercenter), while the remaining 14% report their primary stores to be discount stores (e.g., Target or Walmart), club stores (e.g., Costco or BJ's), limited assortment stores (e.g., Aldi or Save-a-Lot) and dollar stores. For two-thirds of shoppers, price is the primary motivator for selecting their primary store, particularly for people with low incomes. Most shoppers are less than five miles from their primary store and only 9% of those surveyed indicate that location drives their primary store choice.

Grocery stores are often centers of economic activity within their communities. Many supermarkets are located near other businesses within retail developments with all entities benefiting from the cross traffic. In addition, some store formats include additional services such as an in store pharmacy and banking or dry cleaning services. Stand-alone supermarkets can also succeed but it is much more attractive for busy customers to be able to take care of several needs at once when grocery shopping. Full service supermarkets have remained the predominant retail format despite the growth of many different types of grocery retailers.

The Impact of Supermarkets on Low Access Areas

According to both the USDA Food Desert Locator map and The Reinvestment Fund Food Access data map, low access to supermarkets occurs in both urban and rural settings across the country. Although these settings are quite different, the reasons for limited access to supermarkets can be similar. For example, rural and urban areas often lack the customer base necessary to support a supermarket. In rural areas, low population density makes it difficult to capture market share. In urban areas, which are typically more densely populated, people living in the surrounding areas near a supermarket must be willing to shop there.

Transportation issues can also be problematic for both rural and urban customers who do not own cars. While urban locations may have better public transportation

or taxi cab options available, it can be highly inconvenient to transport large quantities of groceries by public transportation and expensive to do so by taxi.

The absence of supermarkets in underserved areas is thought to affect the health, economy and social well-being of people living in that region. For example, observational studies have associated low access to healthier foods with higher obesity and disease rates. (It should be noted that two-thirds of Americans are overweight and most have high access to grocery stores). Both food insecurity and easy access to food have been linked with higher obesity rates, regardless of the food's source (ERS 2009). There are few studies of food intake before and after grocery stores become available. The few studies that have been conducted show only a small increase in fruits and vegetables consumption. Consumption of healthier foods (e.g., fruits, vegetables, low-fat dairy or whole grains) will not reduce obesity without changes in other eating behaviors (e.g., consuming fewer calories) (ERS 2009). Clearly, there are no guarantees that simply providing access to healthier foods changes people's eating habits; additional steps are required to change behaviors.

There are economic costs to neighborhoods that lack grocery stores as well. Foods available through corner markets are usually more expensive, and travel costs in both time and money to distant grocery stores can be higher. Also, neighborhoods without grocery stores have fewer local job opportunities. The average supermarket hires 90 people or more directly from the areas where they operate. This can be a huge benefit in urban and rural areas with lower levels of economic development.

Socially, supermarkets can directly impact their neighborhoods as well because economic development can reduce poverty and crime, attracting additional businesses to the area.

Barriers to Grocery Store Development in Low Access Areas

Inadequate Demographic Base

Most grocery retail chains have well-defined store formats that they have developed to successfully serve a certain number of customers and achieve profitable sales volumes. Depending on competition from other types of grocery outlets in the area, attracting a sufficient customer base to successfully sustain a grocery store can be challenging. Typically, grocery chains look for areas capable of supporting their format rather than redeveloping their store concepts to fit a particular

geographic or demographic area. For example, if a chain typically builds 48,000 square foot supermarkets designed to serve 20,000 people, it makes little sense to offer that format in a county of 2,000 residents. Similarly, a store located in a low income urban area will have a greater chance of success if they are able to attract customers from surrounding neighborhoods possessing other economic demographics.

High Investment Costs

It is time consuming and expensive for grocery retailers to redesign their core store formats. To do so means higher investment costs and requires modification of business models, hiring practices and inventory requirements. While some chains do have flexibility in their store formats and approach, from a business standpoint, retailers need a fairly high confidence level that the store will succeed since most tend to avoid financial risk.

There are many initial costs involved with building a new supermarket, including but not limited to the initial purchase of real estate, site preparation, construction, acquisition of permits for operating, equipment and shelving as well as workforce training needs. These costs are magnified and investments are jeopardized if there are delays in any of these areas. The typical supermarket takes between five and seven years before its initial investment costs (\$8 to \$25 million dollars) are recovered.

Higher Operating Costs

Insurance and Security Costs In high crime areas, insurance for damage and loss and providing extra security are necessary for store operation. Whether the security issues are real or perceived, the additional costs are necessary to address customers' need to feel safe while shopping. Additional security may be supplied by the city or local government as part of an incentive package for store development. Some stores have community policing sub-stations near or in their shopping areas. However, other retailers find it necessary to hire their own additional security officers.

Recruitment and Training Recruitment and retention of supermarket employees is an ongoing challenge for many grocery retailers. Grocery store employees require a variety of different abilities including being customer service savvy, having good communication skills, being capable of problem solving, possessing a strong work ethic and having an earnest capacity to learn on the job. Since most retailers hire directly from the surrounding neighborhoods, it is important that there be a reliable pool of potential employees. The time and cost associated with

training employees dictates that the closer the community is to being “workforce ready,” the better. However, in communities with high chronic unemployment rates, workforce training needs can be extensive to overcome established patterns.

Food Assistance Program Policies

Timing of SNAP benefits Food assistance benefits via the Supplemental Nutrition Assistance Program (SNAP) can be a significant income stream for grocery stores serving populations of lower income customers. However, the timing of benefits issuance frequently creates cash flow, inventory and staffing difficulties for retailers. For example, in nearly all states (48 out of 50), benefits are released during the first two weeks of the month; only two states (Illinois and Missouri) release benefits throughout the maximum 20 allowable days in the month. Nine states release all SNAP benefits on a single day, and another nine release benefits over the course of two, three or five days. When benefits are released over the course of just a few days, stores have to be able to meet the high demands for inventory and staffing needs during that time. However, there may be very little business during the last few weeks of the month after benefits are spent, yet the store must continue to provide the additional inventory and staff.

WIC Promotion Rules Some states allow retailers to develop materials to promote WIC-eligible foods such as produce, while other states allow stores to use only state-generated materials for WIC-eligible products. Shelf-talkers for WIC approved items are allowed by most but not all states, but if used must be applied to all WIC approved products in the store. In the produce section, this can mean that all items must have shelf-talkers which can create clutter and be difficult to keep in place. These approaches to policies and marketing rules complicate efforts to encourage WIC participants to take full advantage of their WIC benefits. For example, some WIC benefits have recently been expanded to include fresh fruits and vegetables. However, WIC recipients may avoid redemption of fresh items if they do not want to exceed their benefit allowance. Without educational efforts, WIC recipients cannot be sure how much they have spent if they are not comfortable calculating the unit cost times the weight of the produce.

Figure 3: Shelf Labels for WIC-Approved Products in Minnesota



The Minnesota Department of Health provides WIC-authorized food retailers with labels to display on the shelves to promote certain WIC-approved items. Figure 3 shows labels for fresh fruits and vegetables (Minnesota).

WIC Licensing Moratoriums and Delays Stores operating in underserved areas must be able to redeem WIC and SNAP vouchers. California, Texas and Georgia, have declared moratoriums on new WIC licenses (as of June 2011). Only retailers that already have licenses can redeem WIC benefits when they open new stores. In other states, obtaining a WIC license can take months. For example, in New Jersey, wait times for new licenses have taken as long as 18 months. The economic recession may be responsible for some of the delays and moratoriums since many states are currently understaffed at the state level. Regardless, the lack of a WIC license may cause stores to turn away vouchers upon a WIC recipient's first (and potentially only) store visit and can make it nearly impossible for new stores to successfully operate in predominantly low income areas.

Additional Barriers

Union Opposition Not all food retailers have unionized workforces which can cause tension with local unions. In some cases, local unions with strong ties to local government (city or county councils, etc) can block project development or impede approval and permit processes.

Regulatory Permits States, counties, cities and local jurisdictions all have different processes and procedures required for the construction and operation of businesses. Each permit, license and approval can slow down a project. Exceptionally long delays can completely stall or force the collapse of a project. Too many hurdles can mean that a store will be forced to seek another location.

Transportation infrastructure While different, both urban and rural locations face transportation challenges. In urban areas, transporting goods in congested areas is more expensive and time-consuming. Trucks and delivery vehicles must maneuver in tight spaces and heavy traffic and cope with the challenges of inadequate unloading situations. Customers in urban settings require adequate parking, and streets and sidewalks that are in good repair. In rural areas, grocery stores located further from distribution centers encounter greater transportation costs for inventory, particularly when fuel prices skyrocket. Effective access via highways and roadways and enhanced energy-efficiency incentives will be important to keep trucking costs manageable for the rural food retailer.

Factors that Encourage Store Development in Low Access Areas

Economic Incentives and Grants

A major hindrance to opening stores in low access areas is acquiring the financial resources to initiate and support the project through the first five to seven years (or longer) that it may take before the store recoups start-up costs. Financing needs can be met or offset through:

- **Community Development Corporations (CDCs)** In many lower income areas, CDCs strive to improve economic development, enhance training opportunities for residents, and can generally provide insights into a community's needs and challenges. They can be instrumental in working through local politics. As non-profit organizations, they can access financing that is not available to for-profit businesses.
- **Financial Incentives, Tax Credits and Grants** In some areas, financial initiatives have been developed to encourage businesses to operate in low income areas. Through these initiatives - offered on the federal level (New Markets Tax Credit), state level (Fresh Food Financing Initiative) and local levels (Community Development Corporations) - retailers can obtain private loans to help finance projects that would otherwise be too risky. However, some of these tax credits have very specific criteria that prevent stores that serve food deserts, but may be located just outside the food desert from qualifying.

Support of Local Government

For a retail grocery store to succeed in a low access area, local government must support the project in tangible and intangible ways. Tangible support might include:

- **Providing additional security:** Policing and additional street lights to enhance safety.
- **Infrastructure support** for streets and sidewalks and improved landscaping in public areas around the store.
- **Job Training and placement programs** to increase workforce readiness and promote jobs within the store. Since grocery stores typically hire employees directly from the surrounding areas, local government can help facilitate partnerships with local high school vocational programs to increase workforce readiness and promote jobs.

Intangible support might include:

- **Bureaucratic Gridlock Prevention:** Local elected officials can help retailers navigate local ordinances and politics and provide guidance on how to keep a project moving forward.

Utilization of Local Champions

Development projects require the support of the community to succeed. Finding and working with a local champion can mean the difference between success and failure. A local champion can provide helpful information about the neighborhood's concerns, and they also understand the local social and political networks. Local champions in the form of community leaders, elected officials or other public servants can help facilitate permits and approvals, and facilitate community and business support for the project.

Communication of Success Stories and Innovative Ideas

Publicizing success stories can also help facilitate store development in low access areas. Knowing what has worked elsewhere increases retailers' confidence and can improve the success rate of new projects. Specifics about the project's barriers and challenges and how they were resolved are particularly helpful. Sometimes sharing failures can assist in future successes, so follow-up to store opening is important. If a store opens and shuts down two years later, other retailers can benefit from knowing the factors contributing to the initial failure, if they have been tracked and recorded.

Nutrition Education of Customers

Consumers who value food and understand the importance of nutrition increase the market demand for healthier foods including fresh produce, dairy products and lean meats. Innovative education programs, such as cooking classes and community gardens, can enhance demand for and interest in healthier foods.

Innovative Ways to Provide Healthier Food in Underserved Areas

Smaller Store Formats

Some retailers are designing stores to fit in less than 10,000 square foot spaces. Smaller stores have less inventory and selection than full-scale stores, but do offer all of the essentials households want in terms of fresh and perishable items. In addition, smaller formats have lower operating costs because they require less staff, inventory and have lower utility costs. Several retail chains are experimenting with smaller models (e.g., Hy-Vee and Safeway) and others are planning to open smaller format stores (e.g., Walmart).

Alternate Grocery Delivery Systems

Instead of delivering groceries to homes, some retailers are delivering to centralized locations such as libraries, schools or faith communities. Success requires that labor and transport costs, logistics and storage issues be addressed. One example of how this type of system has successfully worked is *Angel Food Ministries*. Using an online ordering system, customers order pre-packaged food boxes designed to feed a family of four for one week. Orders are delivered once per week to designated host sites (typically churches).

Enhanced Transportation Options

Transportation to nearby grocery stores is a common issue for residents living in low access urban and rural areas. Expanding public or private transportation networks can increase accessibility as can providing or subsidizing transportation in these areas. Through a combination of public and private efforts, it is possible to make accessibility easier for customers without personal transportation to access grocery stores.

Success Stories

Stop and Shop (Far Rockaway, NY)

- In 2010, the Stop and Shop Company opened a 55,000 square foot store in Far Rockaway, NY. There had not been a supermarket in the community for 40 years. The store took eight years to build and required creative financing as well as a great deal of community involvement on the part of the United Way, schools and churches. In addition, the project included the building of a police substation and an extensive training program for employees hired from the community. Approximately 20% of the store's financing came from a \$5.5 million dollar tax-exempt bond made available to the New York City Economic Development Corporation (a CDC) from the *American Recovery and Reinvestment Act* (P.L. 111-5). To meet the needs of the local community, it offers a carefully targeted selection of foods for its ethnic customers.

Tesco's Fresh and Easy (South Los Angeles, CA)

- *Fresh and Easy* opened its first South Los Angeles store in 2010 and a second one in 2011. Both locations are in areas abandoned by businesses after the 1992 Rodney King riots. The initial store project took five years to complete with the help of a community development corporation as well as community support. The stores are part of larger retail and housing development projects. *Fresh and Easy* has a smaller store format than many traditional supermarkets and offers both fresh produce and ready-to-heat entrees. Since the store format is smaller, it "edits" its product offerings; for example instead of five types of tomatoes, it may only offer three. Additional stores are planned.

Kroger's Dillon Supermarket in Greensburg, KS

- In 2007, when tornados destroyed a Dillon's supermarket in rural Kansas, the company made a commitment to rebuild near the same location even though the store had not been overly profitable. The dwindling population of Greensburg (n = 777) would not support the rebuilding of a full-sized store in a separate location. Instead, the company first enlarged an existing convenience store (Kwik Shop) and then expanded that location into an 8,000 square foot store. The smaller format is similar to an expanded convenience store but carries perishable items like milk, produce and meats as well as frozen items. In addition, it has a deli department with rotisserie chicken and other ready-to-heat foods. Dillon's decision to rebuild provided community members with the confidence to rebuild their homes and businesses.

Bibliography

2008 Facts About Store Development. Washington, DC: Food Marketing Institute, 2008.

Access to Affordable and Nutritious Food: Measuring and Understanding Food Deserts and Their Consequences. Economic Research Service, United States Department of Agriculture, 2009.
<http://www.ers.usda.gov/Publications/AP/AP036/>. Accessed May 20, 2011.

Anderson, Mark. "Dillons makes good on promise of new supermarket." Kiowa County Signal [Greensburg, KS] July 17, 2008.
<http://www.kiowacountysignal.com/news/business/x2050101099/Dillons-makes-good-on-promise-of-new-supermarket>. Accessed June 9, 2011.

Bailey, Jon M. "Rural Grocery Stores: Importance and Challenges." Lyons, NE: Center for Rural Affairs, 2010. <http://files.cfra.org/pdf/rural-grocery-stores.pdf>. Accessed June 10, 2011.

FMI Supermarket Facts. http://www.fmi.org/facts_figs/?fuseaction=superfact. Accessed June 10, 2011.

Garry, Michael. "The Underserved Consumer." Supermarket News [New York] May 10, 2010. http://supermarketnews.com/retail_financial/underserved-consumer-0510/index1.html. Accessed June 10, 2011.

Minnesota WIC Shelf Labels: Information for WIC Authorized Grocery Stores. http://www.health.state.mn.us/divs/fh/wic/vendor/fpchng/shelflabels/grains_frtveg.pdf. Created August 17, 2009.

"The Public Health Effects of Food Deserts: Workshop Summary." Institute of Medicine, Washington, DC: National Academies Press (Washington, DC). 2009. <http://www.iom.edu/Reports/2009/FoodDeserts.aspx>. Accessed June 15, 2011.

"Stop & Shop Supermarket Financed with Recovery Bonds Opens at Arverne by the Sea." New York: NYCEDC October 22, 2010.
<http://www.nycedc.com/PressRoom/PressReleases/Pages/StopAndShopFinancedWithRecoveryZoneBonds.aspx>. Accessed June 9, 2011.

Treuhaft, Sarah and Karpyn, Allison. "The Grocery Gap: Who Has Access To Healthy Food and Why It Matters." Oakland, CA: Policy Link, 2010.
<http://www.policylink.org/atf/cf/%7B97C6D565-BB43-406D-A6D5-ECA3BBF35AF0%7D/FINALGroceryGap.pdf>. Accessed May 17, 2011.

U.S. Grocery Shopper Trends 2011. Washington, DC: Food Marketing Institute, 2011.