Appendix F: North Dakota Rural Grocery Initiative Testimony, October 2018

NORTH DAKOTA RURAL GROCERY INITIATIVE

Walsh County, ND Distribution Model Analysis

Grocery Glory Days

Image credit: Vintage illustration, via Retroarama

Consumer Delivery Expectations

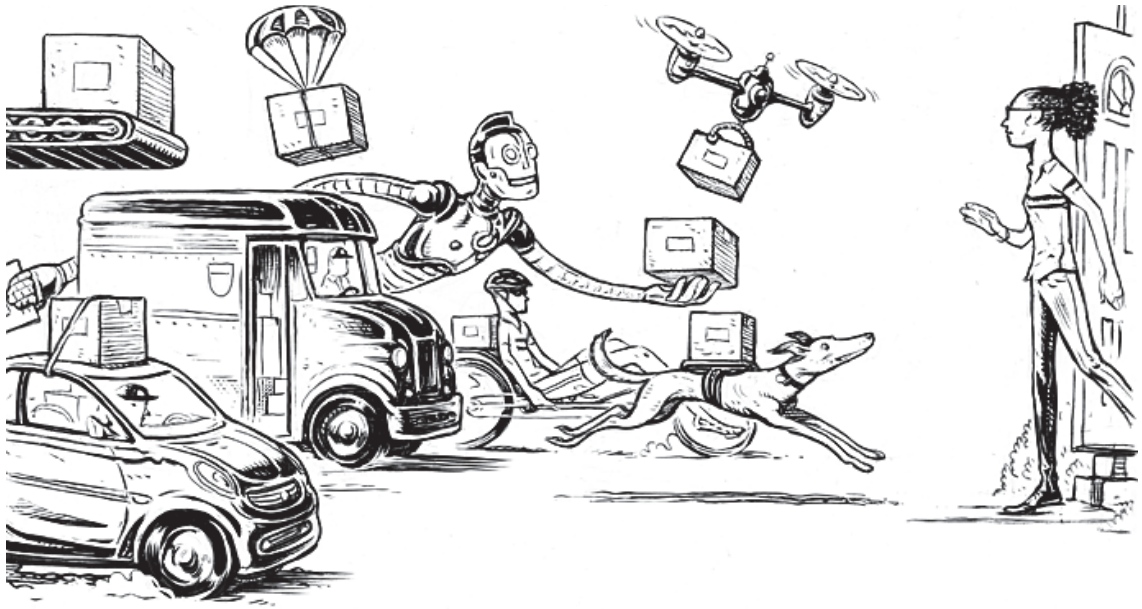
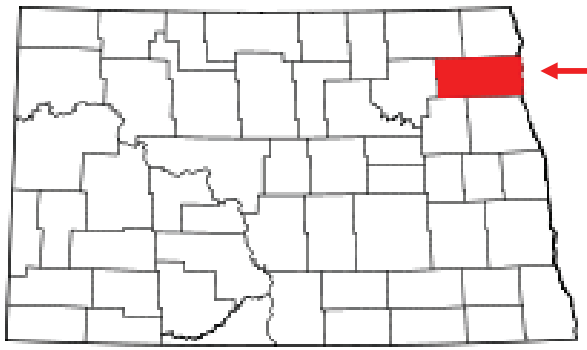


Illustration by Lars Leetaru

Now it's Convenience, Speed, and Quality

North Dakota Rural Grocer Survey Objectives

1. Identify ways to improve rural grocer access to current and future food distribution resources
2. Identify if there are pockets across the state where all favorable conditions converge to show an optimal location to conduct a pilot study
3. Collect and input data into a software mapping system to show current distribution routes and make future predictions



Selected Walsh County, ND to Test
an Alternate Food Distribution Model

Independent Rural ND Grocer Facts

- Independent Rural Grocers Often Do Not Achieve Minimum Purchase Volumes
- Independent, Small Rural Grocers Pay a Premium for Goods (14% Based on Data)
- Independent Rural Grocers Require Improved Net Margins
- Improved Net Margins are Available with Increased Purchase Volumes
- Collaborative Purchasing Among Grocers Can Increase Purchase Volumes

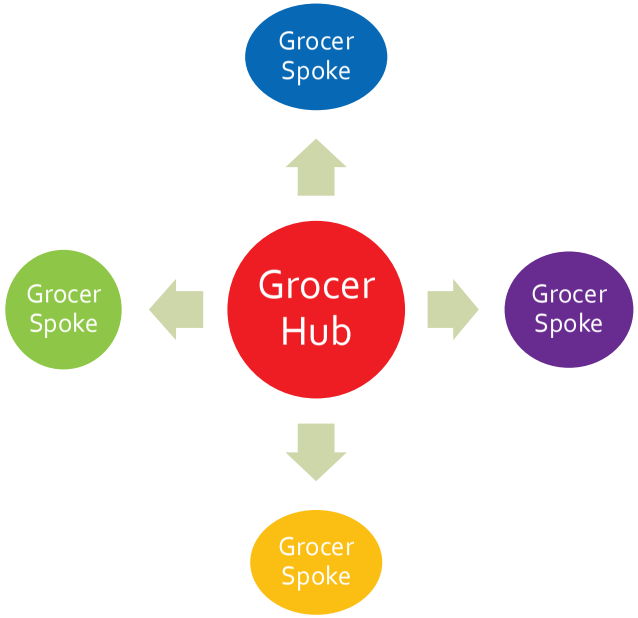
Walsh County ND Rural Grocery Distribution Models

- Discussions Held With:
  - 4 stores
- Larger store– Currently Using Large Grocery Distribution Company
- Two small stores– Currently Using C Store Distributor Company

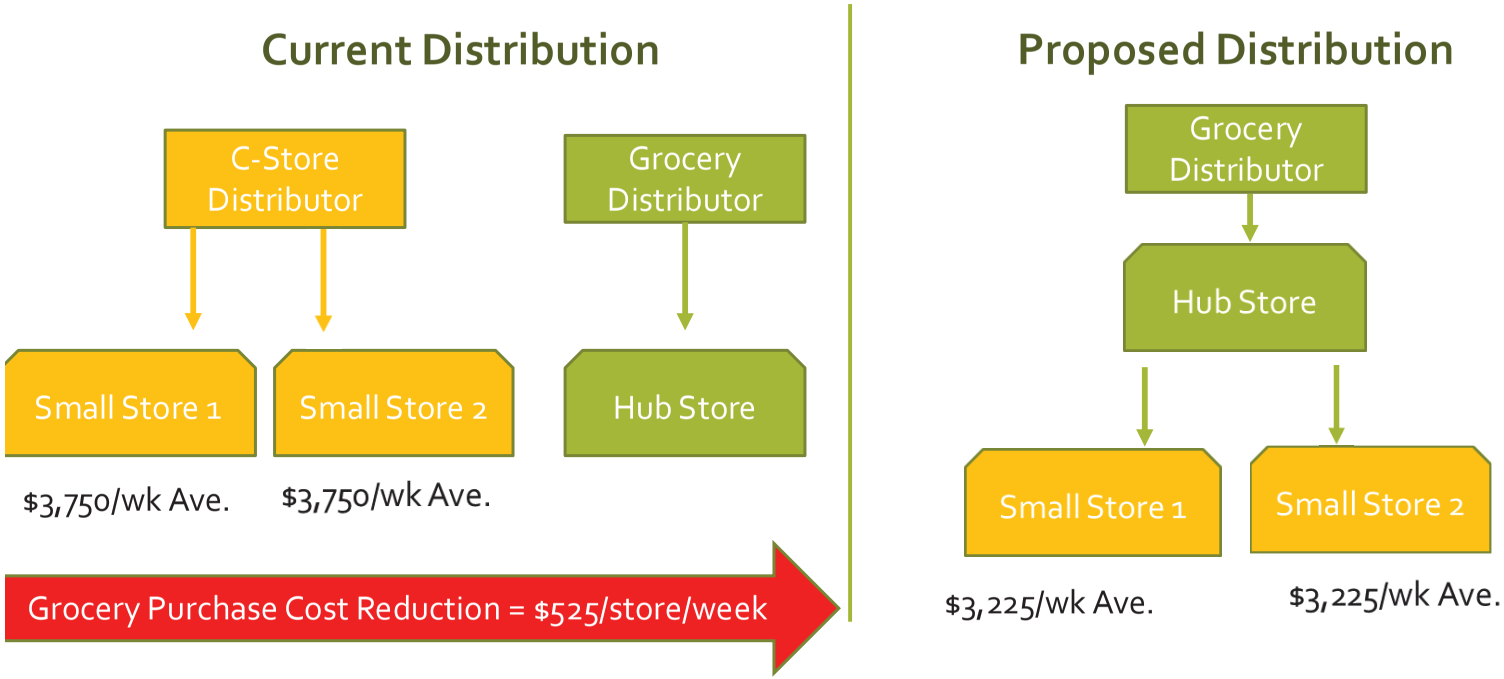
Walsh County Grocery Distribution Model #1

- Grocery Hub – Weekly Deliveries from grocery distributor
- Two Small Stores to be serviced by the Hub Store using grocery distributor
- Two Small Stores, together, had purchased $7,500 on average per week from C Store Distributor
- Grocery Distributor pricing vs. C Store Distributor could lower Two Small Stores grocery costs by 14% per week
- Grocery distributor weekly deliveries to Hub Store can increase by $6,450 on average
- Weekly average purchase savings by Two Small Stores = $1,050

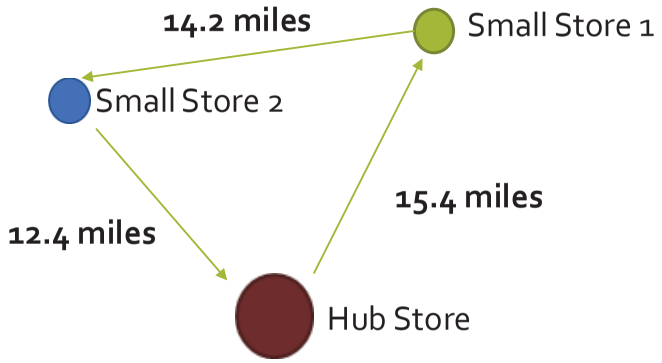
North Dakota Rural Grocery Initiative
Hub and Spoke Distribution Model



Walsh County Grocery Distribution Model #1



Walsh County Grocery Distribution Model #1



Route = 45 Miles

Hub Store Weekly Distribution Costs

Mileage = $90/week
$2.00/mile

Labor = $240/week
$20.00/hour

Admin/Warehouse = $80/week

Overhead = $50/week

Weekly Distribution Costs to 2 Stores = $460

Walsh County Hub and Spoke Savings per Week

$1,050 Cost Reduction/week for 2 Stores

$460 Hub Distribution Costs/week for 2 Stores

$590 Savings/week to be shared by formula to be developed among:

- Hub Store
- Small Store 1
- Small Store 2

Expanded Distribution Analysis

Savings Shared Equally by Hub Store and Participating Grocers

Assumptions																		
	Store Sales Average - $3,750 per year																	
	Mileage Costs - $2.00 per mile																	
	Labor Costs - $20.00 per hour per employee																	
	Administration/Warehousing Costs - $20.00/hour																	
	Overhead Costs - $25.00/hour																	
		Mileage		Labor Hours		Admin/ Whse		Overhead		Total		Store Cost	Hub Spoke		Per Store		Mileage Cost
Stores	Mileage	Cost	Labor Hours	Cost	Admin/Whse	Cost	Overhead	Cost		Cost		Reduction	Savings		Savings		Per Store/wk
2	45	$90.00	12	$240.00	4	$80.00	2	$50.00		$460.00		$1,050.00	$590.00		$196.67		$30.00
3	90	$180.00	15	$300.00	5	$100.00	2.5	$62.50		$642.50		$1,575.00	$932.50		$233.13		$45.00
4	135	$270.00	18	$360.00	6	$120.00	3	$75.00		$825.00		$2,100.00	$1,275.00		$255.00		$54.00
5	180	$360.00	21	$420.00	7	$140.00	3.5	$87.50		$1,007.50		$2,625.00	$1,617.50		$269.58		$60.00
6	230	$460.00	24	$480.00	8	$160.00	4	$100.00		$1,200.00		$3,150.00	$1,950.00		$278.57		$65.71

Expanded Distribution Analysis

Savings Shared Equally by Hub Store and Participating Grocers

Walsh County Distribution Analysis #1 Summary

1. Purchasing from a Large Grocery Distributor Can Deliver Lower Grocery Costs Compared to Purchasing from C-Store Distributors.
2. A 14% Reduction of Weekly Grocery Costs is Significant
3. Redistribution Costs from the Hub Store Would Absorb Approximately ½ of the 14% Purchase Savings.
4. The Hub Store Would Invoice Distribution Costs to the Two Smaller Stores to Cover Distribution Costs.
5. The Two Smaller Stores Would be Invoiced for Groceries at the Reduced
6. Nearly $200 In Grocery Purchase Savings per Week Could be had for the Two Smaller Stores.
7. The Hub Store Could Obtain an Income Increase of $200 per Week for the Hub. (Assuming all savings amounts after subtracting distribution costs are split 3 ways.)

Walsh County Grocery Distribution Model #2

Hub Store Delivering Groceries to T4 Solutions Locker in Small City, ND

Increase store volume and market area without adding additional locations - ***at a fraction of the cost***. Our Lockers are Frozen, Refrigerated and Ambient to insure the freshest delivery and food safety.

A 7-Unit Locker Cost = $65,000 includes Delivery and Installation

Walsh County Grocery Distribution Model #2

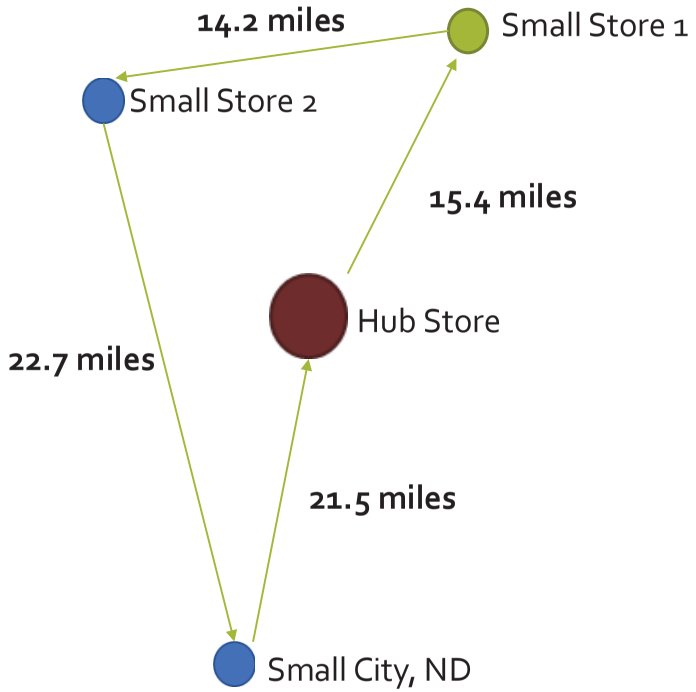
- Grocery Hub – Weekly Deliveries from Grocery Distributor
- Hub Store purchases and operates a T4 Solutions Locker in Small City, ND
- Hub Store projected purchases for Small City T4 Solutions Locker at $3,225 per Week
- Weekly Average Net Margin for Hub Store from Small City Locker = $806
- Weekly T4 Solutions Locker Costs by Hunb Store = $620.00
  - Mileage - $100/week (one delivery per store per week – 50 miles/week @ $2.00/mile)
  - Labor - $160/week (8 hours/week @ $20/hour)
  - Administration/Warehousing - $60/week
  - Overhead Costs - $300/week (Includes Purchase of $65,000 Unit)
- Weekly Distribution Model #2 Savings = $186.00

Walsh County Distribution Analysis #2 Summary

1. Placing a T4 Solutions Locker in a Community that can Generate Increased Grocery Sales May Be a Viable Option
2. Assuming Weekly Sales Volume of $3,225 at a 25% Gross Margin at $806
3. T4 Solutions Locker Weekly Costs Estimated at $620
4. The Hub Store Could Obtain an Income Increase of $186 per Week

Park River Distribution Hub Potential Distribution Route

Two Grocery Stores and One T4 Solutions Locker



A Combined, Weekly Distribution Route from the Hub Store to the Two Small Stores and to the T4 Solutions Locker in Small City, ND Could Generate Nearly $400 per Week in Profitability for Hub and Also Provide nearly $200 per Week in Purchase Savings for the Two Small Grocery Stores.