Fresh Starts Conference for food co-ops

Presented by:

Northwest Cooperative Development Center

Food Co-op initiative

September 12, 2013 * Portland, OR
Economics of the Food Supply Chain

Matt Mylet, Vice President
One PacificCoast Bank
One PacificCoast Bank

- Sustainability focused Community Development Bank
- Foundation Owned
- Commercial Lender
- Interest in supporting underserved urban and rural communities
Beneficial Banking™

We envision a banking industry that is fair to the person with the least bargaining power; provides access to financial services for all our communities, particularly the traditionally underserved; results in the long-term prosperity of responsible consumers; promotes financial system stability; and contributes to the sustainability of the environmental commons.

We call this vision beneficial banking™
Food Chain Members

- Growers
- Distributors
- Manufacturers/Processors
- Retailers
Financial Characteristics:

- Seasonality is a way of life.
- Use cash from prior season combined with outside income and loans to plant crops in Spring.
- Major expense items are land and equipment.
- Are generally paid in cash within 12-20 days
- Inputs include fertilizer, seed, labor, fuel, taxes, and property insurance.
Growers

Economic Challenges:

• Making regular loan payments in seasonal & volatile industry.
• Land appreciation and increasing equipment cost
• Thin profit margins for all but the largest farms
• USDA classifies: 5% of farms vulnerable, 25% of farms marginal.
• Adverse weather risks and volatile raw material costs
Growers

Industry Trends:

• Farm Bill cycle
• Climate change
• Declining Honey Bee population
• Aging farmers – average age of farm operator is 57
• Diminishing premium for organic production
• Search for new higher margin outlets
Distributors

Financial Characteristics:

• Low margin, high volume business
• Tend to have leveraged balance sheets due to capital investments
• Focused on maximum turns on inventory, particularly produce.
• Average food distributor employs less than 30 and has annual revenues of roughly $25 million out of a single location.
Distributors

**Economic Challenges:**
- Changes in manufacturer pricing
- Manufacturer direct sales and sourcing
- Fuel prices
- Customers with credit risk
- Infrastructure constraints
- Recalls and quality
Distributors

Industry Trends:
• Consolidation on both sides
• Shifting consumer trends
• Slow but consistent movement towards local
• Increasing reliance on automated supply chain systems
Processors

Financial Characteristics

• Large fixed asset investments
• Significant marketing budgets
• Crucial pricing decisions
• Production capacity constraints
Processors

Economic Challenges:

• Commodity and raw good prices
• Energy prices
• Machinery replacement and tenant improvements
• Competitors eroding margins
• Quality control and recalls
• Branding and packaging expenses
Processors

Industry Trends:
• More attention to sourcing
• Consistent consolidation of major and organic brands
• Food safety and allergens
• Movement up and down the supply chain to improve profits
• Innovators selling to operators
Grocers

Financial Characteristics:
• Cash or credit card sales (quick payment)
• Low margins (2-3% on average)
• Significant labor expenses
• Inventory and Fixed Assets dominate the balance sheet
Economic Challenges:

- Inventory turns and risk of new products
- Efficient cash management
- Government changes regarding minimum wage, health care, and payroll insurance
- Remodeling and updating equipment
- Shifting location demographics
Industry Trends:

- Walmart, Costco, and Target
- Consumers moving away from local grocers to superstores and specialty stores (opposite directions?)
- Changing promotional channels (advertising to direct)
- Increased reliance on automated point of sale and inventory systems
Local Challenges

- Establishing a local supply chain in an industry consolidating
- Multiple small players and timing of cash
- Low cost out of market competitors
- Definition of local
- Communicating importance up and down the supply chain
- Accelerated growth of certain entities
- Collaboration
Questions?  Ideas?
Thank you very much!

For any follow up questions:
Matt Mylet
mmylet@opcb.com
(503) 200-5507