



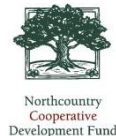
Fresh Starts Conference *for food co-ops*



Presented by:



September 12, 2013 * Portland, OR

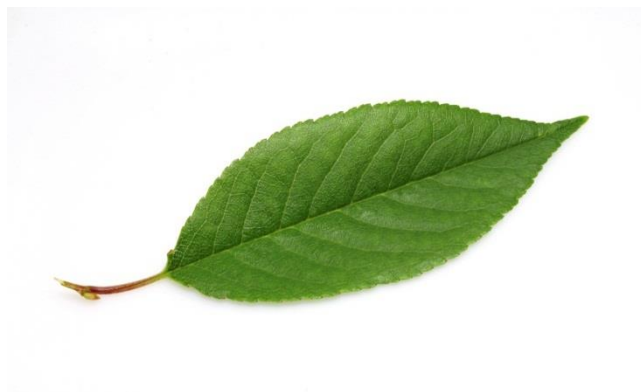


Committed to the future of rural communities.



Economics of the Food Supply Chain

**Matt Mylet, Vice President
One PacificCoast Bank**



Welcome to beneficial banking™



One PacificCoast Bank

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

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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™**

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Food Chain Members

- Growers
- Distributors
- Manufacturers/Processors
- Retailers



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Growers



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.

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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

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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

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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

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Distributors



Industry Trends:

- Consolidation on both sides
- Shifting consumer trends
- Slow but consistent movement towards local
- Increasing reliance on automated supply chain systems

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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

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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

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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



Grocers



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

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Grocers



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



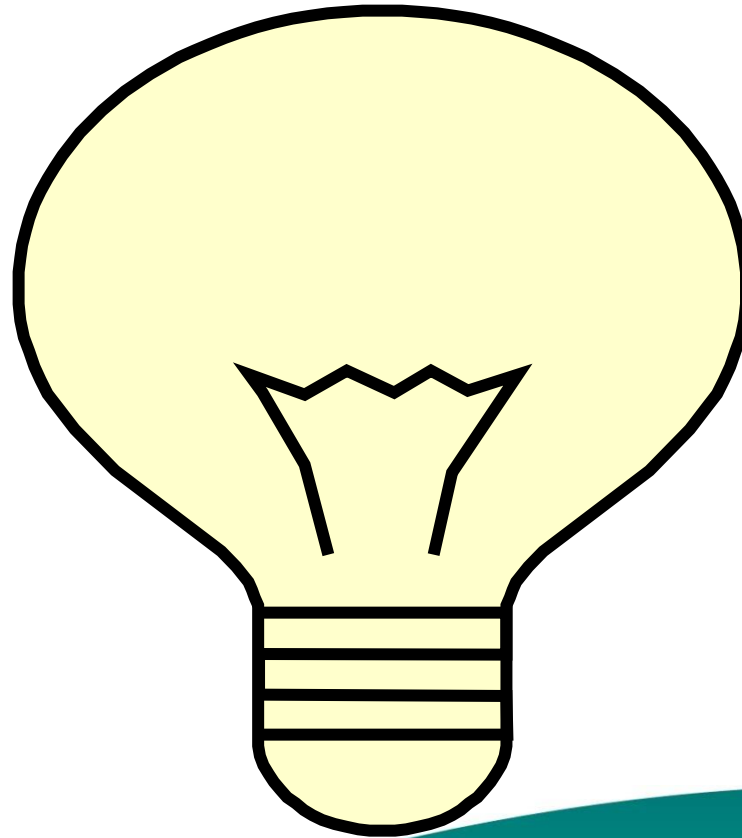
Local Challenges

- 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

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Questions? Ideas?



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Thank you very much!

For any follow up questions:

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