

Common Market: Smart, Sustainable Sustenance

Liz McKenna 24 September 2011

Summary

The Common Market is a values-driven food distribution organization in Philadelphia. The Common Market's dual goals are to broaden access to local food to diverse communities and to enhance the viability of family farms in the Philadelphia region. The Common Market recognized that farmers, in need of selling product, and procurement staff at institutions such as hospitals, schools and retail stores, in need of purchasing product, were having a difficult time connecting with one another. Where connections were successfully made, the supply of local food was unreliable and prices varied widely. The Common Market determined that the root of the problem was the dominance of the mainstream global supply chain, and sought to radically shorten the supply chain to return more of the profits to the farmers while simultaneously providing procurement staff with reliable, affordable access to local food. While the Common Market is a young organization, its initial successes and trajectory toward sustainability make it a promising model for national replication.

Introduction

Despite growing demand for local food nationwide, mid-sized family farms are disappearing at a rapid rate, and access to local food remains limited to high-end and specialty markets. In Philadelphia, despite an abundance of rich farmland and close proximity to the third largest market in the United States, farmers struggle to get their product to sale—the result of a fragmented distribution system. Low-income communities with limited food access are particularly impacted by this fragmented distribution system and rarely have access to fresh, local food.

The Common Market seeks to address the needs of both producers and consumers with a specific focus on under-resourced, minority communities. The Common Market was founded to create a regional food system that is fair to farmers, farm workers, consumers and the environment. This article will discuss the issues that brought the Common Market into being, the problem the organization is trying to address, the solution it offers, and what makes it different from other food distribution businesses. The article will then consider the Common Market's social impact and social return on investment and financial model, and conclude with policy implications.

The Issues: What Brought the Common Market into Being?

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Farmers in the Philadelphia region have limited opportunities to bring their product to market. Small farms are able to sell directly to consumers through farmers' markets or in some cases to restaurants, but cannot compete with cheap global food that is sold wholesale through mainstream food distribution networks. Mid-sized farms, on the other hand, are typically too large to sell directly to consumers and do sell their product in mainstream food distribution networks. These farmers are hurt, however, by global price competition and a loss of farm identity, which represents potential lost earnings from marketing and branding opportunities.

Purchasers at retailers, restaurants and institutions such as schools, hospitals and elder-care facilities struggle to purchase local food, despite both a desire on behalf of the institutions and demand from their customers, because local food networks are not streamlined, reliable and affordable. Additionally, farmers are not able to thrive in a system that does not maintain farm identity or pay farmers a fair price for their product. The inability of producers and purchasers to connect represents a major reason for the lack of local food availability on a large scale throughout Philadelphia.

The Problem: A Fragmented Food Distribution Network

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In aiming to create a regional food system that is fair and equitable, the Common Market is trying to solve the problem of the fragmented food distribution network in Philadelphia. The Common Market realized that the various systems of farmers' markets and direct-to-retail operations currently relied upon to get local food to market were insufficient to meet the demand for local food on a large scale.

Additionally, the mainstream food distribution network and supply chain are not designed to support local food. In mainstream networks, the value of local products is obscured among a sea of global products. Also, because of the length of the global supply chain and the number of hands that touch the product, farmers receive a lower percentage of the profits.

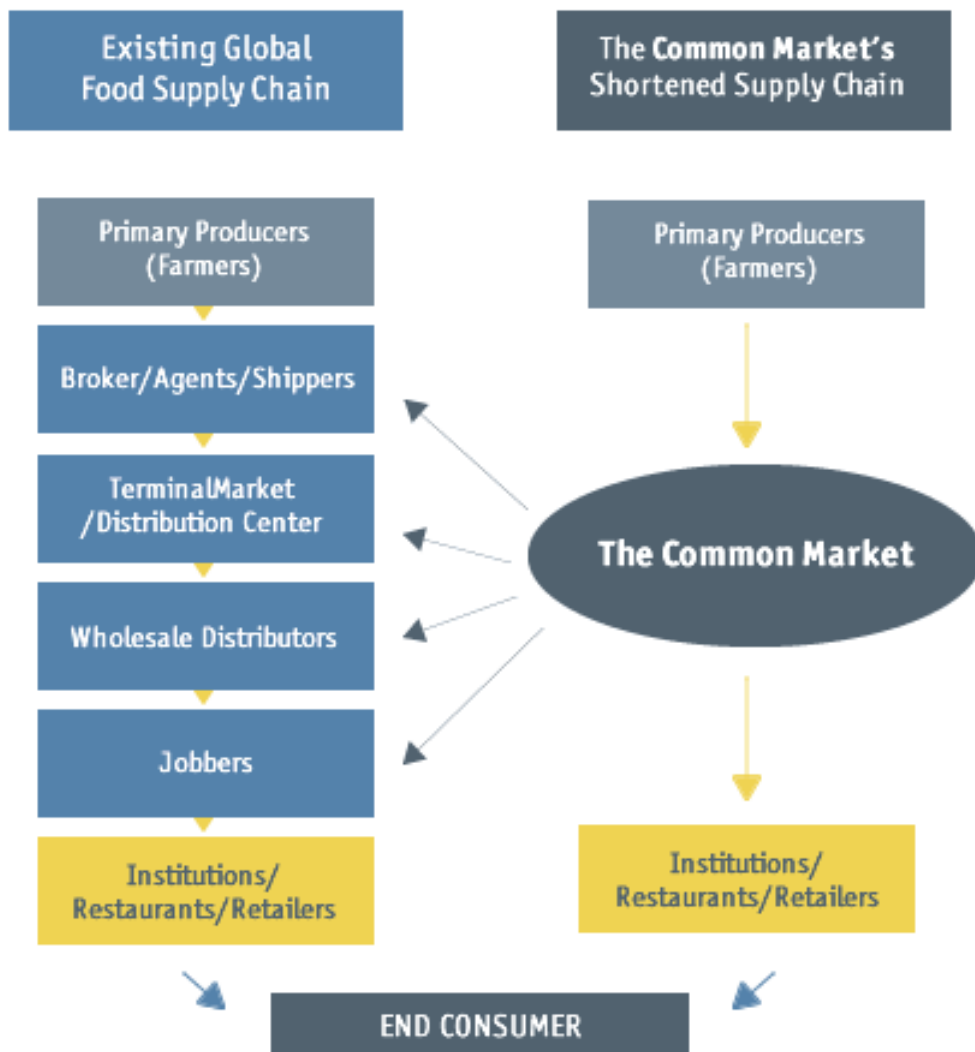
The Solution: A Radically Simplified Supply Chain

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To address the problem of a fragmented local distribution network and the inability of mainstream distribution networks to support local food or serve vulnerable communities, the Common Market proposes a new

regional distribution system with a radically simplified supply chain that returns more profits to farmers while simultaneously allowing farmers to expand to new markets that reach institutions, restaurants and retailers. These new markets include institutions and retailers that serve low-income populations in Philadelphia with limited food access.

The global food supply chain, on which the region's mid-sized farmers rely, operates through a series of middlemen to bring product to market. At each point in the supply chain, the percentage of the wholesale price to farmers is reduced. The Common Market reduces the length of the supply chain to return more of the wholesale price to farmers while keeping food affordable for its customers. Figure 1 shows the existing global food supply chain alongside the Common Market's shortened supply chain.



As the figure demonstrates, the Common Market eliminates the middleman, consolidating the distribution chain to return a larger share of profits to the farmer while keeping food affordable. The Common Market has figured out a way to reduce the margins for food distribution on the local level. While a farmer might earn 12 percent of the profits in the existing global supply chain, that same farmer can earn 70 percent of the profits through the Common Market. The Common Market is still taking a fee for their consolidation service and anticipates reaching breakeven scale in the next two years.

Common Market as a Disruptive Innovation

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Disruptive innovations are technologies, processes or products that disrupt the status quo by engaging customers that are ignored or shut out of current markets for a particular product or service. Disruptive innovations are typically cheaper, easier to use and more convenient than existing products and solutions. Walmart is an example of a disruptive innovation: Walmart made goods and products available to a segment of the population that was overshot by department stores (Innosight LLC n.d.). The Common Market can be considered a potentially disruptive innovation because it serves wholesale markets for local food that have been ignored by mainstream distributors such as Sysco and US Foods.

Moreover, the Common Market supplies a wide range of customers while remaining intentional about also working with institutions that serve low-income populations. Low-income populations are typically both priced out of markets for local food and have challenges in accessing locally grown food. The Common Market is engaging these non-consumers—those consumers that the market has ignored—by supplying institutions that serve low-income populations and working with retailers, such as FreshGrocer, which have a presence in low-income communities. As Haile Johnston, co-founder of the

Common Market, states, "We are creating a demand that retailers didn't even know they had."

While the Common Market's prices are competitive with those of US Foods and Sysco, their product is frequently more expensive than the lowest-cost option because the food is higher-quality in terms of freshness and nutrient content as well as being grown sustainably. It is important to note that the Common Market is branding their product as local. Studies have shown that consumers were willing to pay 31 percent more for local Pennsylvania applesauce in a retail setting than for non-local applesauce (Park and Gomez 2011). It can be theorized that, while the Common Market may be priced out of certain markets for purchasers looking for the lowest cost option, they will be competitive in markets where purchasers have a commitment to supply local food. The Common Market's experience with supplying local hospitals, schools and elder-care facilities has demonstrated that these institutions have made a choice to purchase local food instead of the lowest-cost option.

The Common Market is on the cusp of becoming a disruptive innovation, but is currently too small to measurably disrupt the status quo. For the Common Market to truly be disruptive, it would have to increase its market share to a tipping point where the organization's model of distribution can work at scale in one of the largest markets in the country. This may mean scaling to a point where the Common Market has 10 percent of the

market share of the food distribution business in Philadelphia. The Common Market could also attempt to change the practices of other distributors, incubate or merge with other like-minded organizations.

What would it take?

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To truly disrupt the mainstream food distribution system, the Common Market (or other Common Market–like models) would need to consider the following:

- A strong policy and advocacy presence on the local, state and national levels to combat mainstream food distribution interests legislatively.
- Access to capital to scale as demand increases. This may happen quickly, or demand may increase steadily over time. Regardless of the growth model, access to capital is crucial to the success of the Common Market and its peers.
- A branding and PR strategy that promotes local food in retail and consumer settings as well as on the wholesale level.
- Leadership that is able to build coalitions and bring together regional decision-makers and stakeholders.

How the Common Market Is Different from Other Solutions

The Common Market is creating a new model of local food distribution that is holistic, sustainable and market-driven. The company is distinct from other solutions for several reasons, including the organization's social purpose, urban roots, women and minority leadership, holistic approach, institutional focus, and intentional work with minority and under-resourced farmers and consumers.

Other alternative distribution networks in Philadelphia typically focus on either organic food or retail and restaurants; the Common Market's focus on wholesale of local food to institutions is unique in Philadelphia. When the Common Market's founders, Haile Johnston and Tatiana Garcia-Granados, began to research what it would take to found an organization such as this, there was very little publicly available information about models of food distribution with a social mission. The Common Market's dual mission is "expanding the accessibility of local food to populations in urban Philadelphia and helping the viability of family farms in the countryside surrounding Philadelphia." This mission drives the choices that the Common Market makes about producers and consumers to work with, rather than simply a profit motive.

Beyond the mission, the Common Market is unique in that the organization has urban roots. Many alternative food distribution networks such as farm cooperatives are created to serve producers in rural communities. The Common Market, on the other hand, was founded in response to a lack of access to local food in urban

communities. With its deeply urban ties, however, the Common Market was also founded to address the needs of both the producer and consumer. The organization's dual mission to serve both producers and consumers has led to a focus on wholesale distribution. More specifically, the organization is focused on the schools, hospitals and grocery stores where most people in urban Philadelphia get their food. Common Market is creating an infrastructure that helps the viability of family farms by providing "consolidation, distribution and marketing support," which will enable family farms to serve these large-scale buyers.

The Common Market is not only unique among solutions in Philadelphia and across the country; the organization's focus on changing the supply chain makes it disruptive to the status quo and potentially threatening to the mainstream food distribution system. The Common Market's founders believe passionately in changing the global food supply chain. As demonstrated in Figure 1, the global supply chain obscures the relationship between food and farms. Most consumers never know where their food comes from, or at what environmental or human cost. Food often travels more than 1,000 miles to reach its final destination. On that journey, food is touched by many hands and treated with harsh chemicals to ensure that it is safe to eat once it arrives. Frequently farmers and farm workers receive artificially low prices for their product that do not reflect the true cost of growing, harvesting and

shipping that product.

In recent years, demand for local food has increased. Tatiana Garcia-Granados theorized that this increase in demand is due to consumer concerns about food safety. In the second half of the decade, food safety issues have moved front and center as news stories reported outbreaks of E. coli in spinach traced to California, and salmonella in tomatoes from Florida and sprouts from Idaho. Perhaps in response to these concerns, the market has demonstrated a real demand for locally produced food; in some cases consumers are willing to pay twice as much for the same product that is locally produced. The Common Market is meeting an emerging desire for locally grown product that in some cases is more expensive but remains competitive with global suppliers. As the Common Market's rapid growth demonstrates, this alternative supply chain—one that utilizes a new distribution network to provide locally sourced food to wholesale clients at scale—is emerging as a viable supplement, if not a complete alternative, to the mainstream food distribution system for both producers and consumers.

Before the Common Market incorporated as a nonprofit, the organization considered a variety of business models, including a for-profit model. Ultimately, the Common Market determined that a nonprofit was the best business model for the following reasons:

1. A nonprofit would allow the organization to stay true to its values, to ensure that low-income populations were included in the food system and help sustain family farms in our region.
2. There was no real profit motive for the Common Market. The founders want to put all of the profits back into the mission of expanding food access in low-income communities and helping family farmers.
3. Access to capital (discussed below) was an issue for the Common Market starting out as a nonprofit but would have been practically impossible under a for-profit structure. Food distribution has high fixed costs and thin margins. The Common Market was an unproven model in a business dominated by global players.

While the Common Market was ultimately founded as a nonprofit, the organization is applying best practices of management that are the hallmarks of any well-run organization, nonprofit or for-profit. These characteristics of a strong organization include being competitive, customer-driven, results-oriented, enterprising and market-oriented.

Social Impact

Social Impact

The Common Market's direct social impact can be evaluated by examining the organization's stated goals:

- Create an alternative supply chain model to better serve both producers and consumers.
- Build economies of scale for local food distribution by acting as the consolidator and distributor for local food at a wholesale level.
- Create an identity for local food at the wholesale level.
- Develop farm identity into brand equity.
- Expand food access to low-income communities by intentionally serving institutions that work with vulnerable communities.
- Support farmers with developing the capacity necessary to bring product to wholesale markets, including food safety certifications and marketing assistance.

As a young organization, the Common Market has anecdotal evidence to support the outcomes associated with its goals:

- The Common Market has created the first iteration of its alternative supply chain. Recent investments have allowed the organization to increase its ability to serve additional producers and consumers. The Common Market's current capacity is unable to keep up with market demand, and the organization anticipates continued demand for products sourced through its alternative distribution system.
- The Common Market is able to point to early successes in its role as consolidator and distributor

as the number of participating farms and purchasers continues to grow. The Common Market currently works with over 100 farms and 170 customers.

- The Common Market has recently begun working with a local grocery store chain, FreshGrocer. The store manager reports that product sourced through the Common Market has been flying off the shelves despite a slightly higher price point and a display position in the store next to identical but non-local product. This anecdotal evidence supports progress toward the goals of creating farm identity and translating that identity into brand equity.
- The Common Market tracks the number of institutions it supplies and has recently begun to focus on increasing the number of public schools that use the Common Market. In 2009-2010, the Common Market worked with five public schools. That number increased to 25 schools in the 2010-2011 school year. In 2011-2012, the Common Market plans to serve between 50 and 55 schools in the School District of Philadelphia and South Jersey.
- The Common Market is committed to hiring from the communities it is intentional about serving. The organization currently employs 4 full-time and 12 part-time employees. Eleven of the 16 total employees are minorities.
- The organization has recently partnered to create additional interventions to improve access to good foods. With Farm to City they have launched a

workplace Community Supported Agriculture called Farm to Philly and a launched a pilot program to get food into communities of faith called Farm to Faith.

More broadly, the organization has the potential to have a significant positive impact on the regional economy by providing farmers with the opportunity and support to bring their product to new markets as well as influence the ways in which institutions and retailers purchase food by appealing directly to customers' desire for local food and meeting the supply needs of institutions and retailers.

The Common Market model has experienced early successes, rapid growth and an accelerated pace toward sustainability. There is great potential for replication of the Common Market model in cities nationwide. It can be argued that the Common Market's true social impact will come from the adoption of its supply chain and distribution model by organizations across the country, which will strengthen regional economies and improve access to local food nationwide. For successful replication, organizations will need the following conditions and partners to be in place:

- A willing group of partners made up of both producers and purchasers.
- Proximity to rich farmland with small and mid-sized family farms.
- Philanthropic, government or private support for start-up and initial operating costs.

- Leaders who are able to build coalitions and possess business savvy.
- A team with strong business acumen, entrepreneurial spirit and unfaltering commitment.
- A Community Development Financing Institute or nonprofit lender willing to extend a revolving line of credit to cover outstanding accounts receivable.

Social Return on Investment

Social Return on Investment

For purposes of this calculation, social return on investment is measured along the producer (farmer) side, not for the end consumer. The outcomes that the Common Market is seeking on the producer side include increased profits for farmers, developing brand equity and increasing market share. As an initial benefit of the streamlined supply chain put in place by the Common Market, farmers can count on increasing their profits from the approximately \$.12 per dollar they receive on the open market to \$.70 per dollar. An estimated value of branding opportunities for farmers created by their participation in the Common Market is \$5,000 per farmer per year.

If a farm does \$50,000 in production, based on the returns above, the farm would earn \$6,000 by going through mainstream networks ($\$50,000 \times .12 = \$6,000$). If a farm sells through the Common Market, they will earn \$35,000 ($\$50,000 \times .70 = \$35,000$), and an additional

\$5,000 is imputed from branding opportunities, for a total of \$40,000. Assume it takes \$30,000 a year to operate a family farm that has been operating for 40 years.

Subtracting the costs from the revenues, farmers can earn \$10,000 through their involvement with the Common Market as opposed to netting a \$14,000 loss in the mainstream market. If the Common Market works with 15 farmers annually, \$150,000 per year goes to individual farmers.

Additional benefit to society comes from both potential job creation and increased tax revenues. For example, a farm intern or apprentice typically works 60 hours per week and earns minimum wage (\$5.25/hr), for a total annual income of approximately \$16,380. Assuming that Americans spend about 80 percent of their income each year, that equates to an additional \$13,958 being returned to the economy through each farm intern job created, with additional revenues generated by supplying through the Common Market. It can be assumed that much of that revenue will be spent locally, which helps to strengthen the regional economy. Figure 2 provides the calculations for social return on investment.

Equation

Benefits to Individual + Benefits to Society – Investment Costs	Calculations
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= SROI	
Benefits to individual	<p>Farm does \$50,000 in production Earns \$6,000 in mainstream market Earns \$35,000 in Common Market + \$5,000 for Brand identity = \$40,000 Less operations for operating an established family farm (\$30,000)</p> <p>Net benefit to individual farmer \$10,000 (vs. negative \$14,000 in mainstream markets) x 15 farmers = \$150,000/year</p>
Benefits to society	<p>Strengthen regional economy</p> <p>Create 1 farm apprentice job at each farm who earn about \$16,380/year. Americans spend about 80% of what they earn, returning \$13,958 to the economy.</p>
Less investment costs	<p>Raise a total of \$195k in operating subsidy before breakeven point (funded)</p> <p>Capital expenditure of \$440k in grant funds to grow (funded)</p>
Total enterprise value	<p>\$150,000 to 15 farmers in year 1 \$250,000 to 25 farmers in year 2 \$350,000 to 35 farmers in year 3</p> <p>\$750,000 for farmers over three years</p> <p>Year 1: 15 farm apprentices = \$209,370 Year 2: 25 farm apprentices = \$348,950 Year 3: 35 farm apprentices = \$448,530</p> <p>\$1,006,650 over three years for farm apprentices</p> <p>\$1,125,000 + \$1,006,650 (estimating from breakeven point) = \$2,131,650 over three years</p>

The Common Market clearly provides a social return on investment, has a substantial benefit to society and is accomplishing its goals of supporting the viability of family farms and strengthening the regional economy.

Financial Model

Financial Model

The food distribution business has narrow margins and requires high volume in order to be profitable. The Common Market's business plan requires supplemental funding until the breakeven point of sales when the organization will become financially sustainable. Figure 3 shows the Common Market's six-year financial plan to achieve financial sustainability.

Common Market: Trajectory to Sustainability

Year	Year 1 (2008)	Year 2 (2009)	Year 3 (2010)	Year 4 (2011)	Year 4 (2012P)
Sales	\$105k	\$310k	\$580k	\$1.065m	\$1.7m
Operating Income (Loss)	(\$55k)	(\$90k)	\$(55k)	\$(30k)	\$130k

The Common Market needed two major investments for start-up and to expand in its fourth year to reach the breakeven point of sales. In the first three years, the

Common Market relied on operating subsidies in order to continue operations. Figure 4 shows the critical philanthropic investments made in the first four years that allowed the Common Market to succeed in the difficult start-up period.

Common Market: Critical Philanthropic Investments

Type of investment	Time frame	Amount	Organization
Start-up	Planning phase (2007)	\$100k	PA Department of Economic and Community Development (PA DCED), First Industry Grant
Operating support	Year 1 (2008)	\$40k	Claneil Foundation
		\$38,500	DCED
		\$10k	Jefferson University Hospital
	Year 2 (2009)	\$40k	Claneil Foundation
		\$25k	Anonymous donor
		\$10k	Fels Foundation
	Year 3 (2010)	\$15k	Barra Foundation
		\$20k	Philadelphia Urban Food and Fitness Alliance
		\$35k	St. Christopher's Foundation for Children
		\$15k	Claneil Foundation
\$2.5k		Union Benevolent Association	

		\$40k	Anonymous donor
		\$10k	Samuel Fels Fund
Expansion investment	Year 4 (2011)	\$1.1m	Kellogg Foundation
		\$15k	Claneil Foundation
		\$45k	1772 Foundation
		\$15k	Geraldine R. Dodge Foundation
		\$20k	Philadelphia Urban Food & Fitness Alliance

Beyond these investments, access to a line of credit to pay farmers for their product was crucial to the success of the Common Market. An initial line of credit provided by The Reinvestment Fund allowed the company to meet its obligations to farmers while waiting for payments from customers. Moving forward, the Common Market has secured an additional line of credit from RSF Social Finance, a social financing firm based in California.

The Common Market's greatest challenge when the organization was founded in 2008 was access to capital. Without the grant from the Pennsylvania Department of Economic and Community Development, the Common Market would not have gotten off the ground, and without support from the Claneil Foundation in its first two years, the organization would not have been able to continue operating. The investment from Kellogg to support the Common Market's expansion represents a major step for the organization, particularly in the foundation world.

When the Common Market was founded it was an unproven model. Its rapid expansion, demonstrated by a growth of 84 percent in 2010 sales, is drawing new philanthropic investors who had initially taken a wait-and-see approach. Many potential philanthropic investors held off until the organization found its way and began proving that its supply chain model and distribution system would work.

For investors, the most important opportunities for investment come early in the trajectory of Common Market-type models. Models that plan for sustainability need more support on the front end to achieve their back-end goals of financial sustainability. While the fixed costs in the food distribution business are high initially as the organization increases sales volume, the fixed costs remain the same while the revenue increases, making it easy to cover those fixed costs as the organization grows.

While the Common Market intentionally chose a nonprofit business model and is focused on attracting philanthropic investors, other organizations that may want to replicate the Common Market as a socially responsible for-profit enterprise can point to its successes to attract initial venture capitalists and investors. If these for-profit enterprises can attract investors, the potential to scale socially conscious food distribution may truly disrupt the way food distribution happens nationally.

Policy Implications

Policy Implications

The Common Market has been both enabled and threatened by policy. The organization was created from an initial planning grant from the Pennsylvania Department of Economic and Community Development's first industries grant program. Without this initial government planning grant, the Common Market might not exist. Additionally, on a federal level, the 2008 Farm Bill enabled the Common Market to make inroads into schools through the Farm-to-School program. On the other hand, as the company continues to grow and increase its market share, lobbyists for mainstream food distribution companies may try to enact policies that are harmful to smaller distributors. The Common Market is very conscious of this threat and is careful to meet all mandated food safety standards.

The policies that the Common Market is most interested in, however, are those related to procurement and purchasing at the municipal, local and state levels. These procurement policies and preferences have the greatest policy impact on the Common Market's work. If procurement policies favor locally grown sourced food, the Common Market can continue to grow and flourish.

Conclusion

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The Common Market's business model is just, sustainable and scalable. The organization is well on its way to having broad social impact in the Philadelphia region, and there is great potential for national impact as well. If philanthropic investors support the Common Market in building an infrastructure to supply locally, there is no limit to what it can bring to consumers in the Philadelphia region and beyond. The Common Market is a model that can be scaled to other cities.

The potential is great for Common Market-like models to return our food system to one with a much greater emphasis on local distribution. If Common Markets begin cropping up across the United States, and work together on policy issues and best practice-sharing, our food system and the way we purchase and procure food could change radically. Eventually this means that, as a nation, there is the potential to move back to local distribution for a sizeable percentage of our food distribution system.

About the innovators

The seed for Common Market was planted when Haile Johnston and Tatiana Garcia-Granados wanted to start a farmer's market in their Strawberry Mansion neighborhood. Fast forward four years, and the Common Market is a flourishing wholesale local food distribution business. Garcia-Granados, who grew up in Guatemala, and her husband, Haile Johnston, who grew up in the Germantown section of Philadelphia, are both Wharton School graduates. Both are interested in food justice for

underserved farmers and consumers. Haile Johnston has recently been named a Food and Community Fellow by the Institute for Agriculture and Trade Policy to work on food and racial-equity issues.

Liz McKenna is Special Projects Manager for Mastery Charter Schools, where she manages large-scale initiatives for the central office including a significant grant from the Bill and Melinda Gates Foundation. Prior to Mastery, Ms. McKenna trained the first cohort of Teach For Australia teachers in Melbourne, Australia and worked at a New Jersey–based nonprofit and for a member of Congress; she started her career as a Teach For America corps member in the Rio Grande Valley. Ms McKenna is currently completing her Master of Public Administration degree at Cornell University and is pursuing a certificate in nonprofit management from the Fels Institute of Government at the University of Pennsylvania.

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