

People's Grocery Tent Market Project

People's Grocery of Oakland, California received \$78,051 to establish a mid-sized and accessible food retail outlet for local residents (who lacked adequate access to fresh and affordable foods), and for local farmers to expand their access to markets. Funds were used to purchase needed infrastructure for the market in the West Oakland community.

[Final Report FY09](#)

2009 Farmers Market Promotion Program People's Grocery Fresh Food Market Project (12-25-G-0917) Final Performance Report, 2012

Project Summary:

West Oakland is a low-income urban community with a population of 23,545 (US Census 2006). In 2006, the median household income was \$25,104 a year, with 61 percent of families earning below \$35,000, compared to Oakland's overall median household income of \$46,433 (Experian, 2006). According to American Factfinder section on the US Census, unemployment in West Oakland was over 18 percent in the same period that the city of Oakland was 8 percent. In addition, 36 percent of West Oakland adult residents have no vehicle, compared to 15 percent in the city of Oakland. West Oakland currently does not have a full-service grocery store. Consequently, many residents shop at over 50 convenience stores that carry mostly processed and poor quality foods. In 2000, a USDA Economic Research Service (ERS) study found that 19 percent of low-income households bought no fruit or vegetables in any given week, compared with 9 percent of higher income households.

Although West Oakland is known today as a lower-income neighborhood, it has a rich and diverse history. Before the 1950's there were numerous grocery stores and supermarkets located throughout the neighborhood that offered a variety of groceries, produce and prepared foods. Many of these stores had a unique Southern character and catered to the special food desires of local customers. These stores also provided places for people to get together and socialize. But, beginning in the 1950's, many of the grocery stores in West Oakland shut down or relocated to new suburbs that could offer more profits and cheap land for bigger stores. It became virtually impossible to buy fresh produce or quality food products in the neighborhood. This problem persists today.

The annual expenditure for groceries for West Oakland residents is over \$58 million. Despite this sizable buying power, there are few food shopping outlets in West Oakland. As a result, 70% of the annual grocery expenditures of West Oakland residents takes place outside of the community at stores in surrounding cities. But West Oakland residents (many of whom do not own a vehicle and rely on public transportation) must travel far to get to distant supermarkets. The inconvenience, time and cost of these shopping trips leads many residents to regularly shop at nearby corner stores that carry mostly processed, poor quality foods sold at high prices.

Inadequate access to fruits and vegetables has contributed to diet related health problems such as obesity, diabetes, heart disease, and cancer. West Oakland is in the 67th percentile for diabetes hospitalization in Alameda County and 48% of residents are obese or at an unhealthy weight. Children in low-income and minority communities such as West Oakland show even greater increases in obesity rates than those of the general population. In one large study cited by the CDC, more than 60% of overweight children had risk factors for heart disease and more than a quarter had two or more risk factors for the disease. Overweight children have a 70% chance of being overweight as adults, as well as for the accompanying increased risks of cardiovascular disease, type 2 diabetes, stroke, and some cancers. These limited food choices are contributing to high rates of diet-related chronic disease in the community.

However, even as the rate of diet-related chronic diseases increases in the community, many West Oakland residents are beginning to make the connections between their diet and health and are increasingly demanding healthier food choices, information about healthier eating, and social settings that support healthier lifestyles. A 2006 survey of People's Grocery's clientele showed a strong desire for PG to develop a grocery store in the community. Responding to this desire, and to a sizeable market opportunity, People's Grocery requested and was awarded a FMPP 2009 grant to develop a low-cost retail model of an open air "tent market" to serve this inner city marketplace and unique ethnic mix. Through the "tent market" Peoples Grocery would incorporate the knowledge and experienced it has acquired working with the community to provide a community-oriented and culturally-diverse shopping experience that connects food to health and to community building.

Project Approach:

People's Grocery is a community-based organization founded in 2002 by three residents who saw that limited access to nutritious and affordable foods in West Oakland was having significant impacts on the health and quality of life of low-income residents. Seeking to reduce diet-related chronic diseases and improve the quality of life in the community, People's Grocery's mission is to build a local food system that improves the health and economy of the West Oakland community. For ten years the organization has developed and operated dozens of programs and projects in food enterprise, urban agriculture, nutrition education, leadership development and community advocacy.

People's Grocery has long believed that an entrepreneurial and economically-oriented approach is essential to solving food insecurity in West Oakland and that enterprises are essential to addressing the complex needs of the community. To this end the agency has developed various entrepreneurial projects designed to increase access to fresh, healthy foods can simultaneously spur job creation and economic development. Additionally, these enterprises have helped to validate the demand for healthy foods among low-income consumers and assisted in creating an informed consumer base through nutrition education and social marketing.

Based on its years of experience in developing small-scale food enterprises and building social capital in the West Oakland community, People's Grocery's leadership decided in 2008 to pursue the creation of a larger-scale, direct-marketing retail model in the form of a 12,000 sq ft semi open air "tent market". The primary purpose of the "tent market" was to address financial, operational and infrastructural barriers that have disallowed the establishment of food retail in inner city neighborhoods for decades. These barriers include: limited land availability and readiness, site preparation costs, lack of financing, prohibitive regulations and zoning, high costs of insurance and security, complex cultural markets, and shopping patterns that don't support larger footprint stores preferred by supermarket chains. Through this project People Grocery proposed to develop, test and refine an innovative food retail model that is adapted to resolving the common barriers to successful food retail in inner city areas by implementing a low-cost and low-tech enterprise with significantly less barriers to entry than a traditional brick-and-mortar grocery store.

Thus, People's Grocery requested and was awarded funding from FMPP in 2009 to develop the "tent market" to serve West Oakland's inner city market and unique ethnic mix, as well as develop a supply chain and distribution network centered on sourcing from local farmers and producers. This

project was intended to enable PG to implement a larger-scale, direct-marketing retail model to offer a selection of healthy, high quality foods in the categories of fresh produce, grocery and bulk dry goods. PG would utilize its agricultural production, combined with an expanded network of local farmers/producers, to ensure a reliable supply chain in which at least 20 percent of products are locally sourced and 20 percent of products are ethnic foods. The "tent market" would integrate People's Grocery expertise and methods of nutrition education and outreach to EBT eligible families to increase its customer base and support healthy choices among those vulnerable to chronic disease. The "tent market" would also provide jobs and training to a pool of local residents.

In August 2009, after consultation with legal and tax attorneys, the People's Grocery Board of Directors determined that the effort of planning for, developing and operating the "tent market" retail store would be spun off from the nonprofit into a separate for-profit C Corporation. The two primary reasons for this decision were A) that a separate for-profit would be the simplest way to address tax concerns with regards to the level of sales volume project for the venture and B) that the scale of the proposed project merited its own dedicated focus.

In March 2010, a separate corporation was formed, called People's Community Market (PCM), to undertake the effort of planning for, developing and operating the retail store. In conjunction with the creation of a separate entity to lead the development and operation of the store, People's Grocery's co-founder and Executive Director, Brahm Ahmadi, stepped down from his position in order to lead the new company, People's Community Market. Thus, the responsibility of the development of the market was transferred from the nonprofit organization People's Grocery to the new corporation called People's Community Market.

A request for approval from FMPP for the replacement of the Project Lead (PL) for People's Grocery's project was submitted and approved in which the former PL, Brahm Ahmadi, was replaced as PL by Nikki Henderson, who was employed full-time as the new Executive Director of People's Grocery. Brahm Ahmadi was employed full-time as the CEO of People's Community Market. Additionally, it was communicated to the FMPP staff through the PL change request that, while People's Grocery would retain the FMPP award, the organization would subcontracting the implementation of the project to the former PL's new organization, People's Community Market. People's Grocery would continue to monitor the activities and progress of the subcontracting organization in completing the project and would submit all reports and communiqués with the FMPP agency. A memorandum of understanding was executed and submitted to FMPP.

Goals and Outcomes Achieved

Under the leadership of People's Grocery's former Executive Director, Brahm Ahmadi, the project gained momentum quickly, in part because of the planning conducted by People's Grocery prior to the commencement of the project period. Since 2008, People's Grocery (the nonprofit) employed the services of professionals (both paid and pro-bono) in the fields of marketing, finance, operations, business law, real estate, architecture and information technology to assist in planning for this retail store. Thus, a large body of knowledge, research and planning has been created for this venture, which would soon be expanded upon to create a business plan and financial model.

Once Brahm Ahmadi was engaged full-time on the project, now known as People's Community Market (PCM), he set out to fulfill the subcontracted obligations of People's Grocery through the

FMPP grant award. The first step taken and accomplished was to recruit an experienced and knowledgeable team of food industry professionals to PCM's board of directors and management to provide expertise and guidance necessary to complete the planning process, to recruit additional management team members, secure the required startup capital and site lease, and to launch the venture toward success. Over the course of approximately 18 months PCM successfully recruited the following leadership team as either Directors and Officers or as management team members:

- David Guendelman, CFO: Brings years of experience as a CFO with start up companies and has had a leading role in several early stage equity financings.
- Anthony Gilmore, Store Manager: Has 33 years of experience as a supermarket executive at national chains including Safeway and Whole Foods.
- Rene Cage, Deli Manager: Has 35 years of experience in the restaurant, deli and food service industry including as Executive Sous Chef at Le Coq Au Vin.
- Bill Fujimoto, Produce Manager: Has 40 years of experience as a green grocer and produce buyer and was the store manager at Monterey Market for three decades.
- Joni Wong, Grocery Manager: Has 10 years of experience as a grocery buyer and manager including at Common Ground Food Co-op and Trader Joe's.

The next step taken and accomplished was to develop a business plan and financial model for the business. The PCM team spent 6 months drafting a 35-page business plan that documented all of the key business concepts and strategies for the market. PCM received business planning assistance from a team of MBA students at Presidio graduate School. The business plan was reviewed by three senior managers in the food retail industry who provided critical input and data to the plan.

PCM secured pro-bono and paid assistance from various financial planners to assist in the development of a financial model that could produce reliable pro forma financial statements. This financial model became instrumental in refining the venture's assumptions and strategies and enabled the leadership to determine how a realistic operational and managerial model must be developed in order to ensure financial viability of the retail store. Based on feedback from prospective lenders and changes to the overall cost structure of the project, PCM further revised its pro forma forecast and key pro forma assumptions. Additionally, financial planning assistance was secured from two independent CPAs: Ronald Leeflang and Jean Selkirk. Mr. Leeflang assisted in refining PCM's tax expense assumptions and financing structure. Mrs. Selkirk assisted in revising PCM's assumptions for inventory payables and amortization schedule. The end result is that PCM's financial forecast is much more defensible and thorough.

Based on PCM's market study, business plan, and financial forecast, the "tent market" was projected to reach \$2.0 million in revenue by the end of the first year of operations. This was an estimated \$38,461 in weekly sales volume, or \$500 in annual revenue per square foot (RPSF). People's Grocery believed that these are realistic and achievable sales targets. The business was to be designed so that the cost structure of the project could generate 35 percent gross profit in order to cover all operating costs of the "tent market" and its related programs.

Ackland International was engaged to conduct a boundary and topographic survey of the project site as requested by the architects and contractors and necessitated by the guidelines for the Building permit application of the City of Oakland.

A discounted engagement with the Store Development Services Department of United Natural Foods Inc. has resulted in complete floor plans and Fixtures, Furnishings and Equipment (FFE) plans. Numerous revisions and iterations of the floor and FFE plans were made based on the architectural plans and construction plans (see below). While additional minor adjustments are expected, the floor and FFE plans are sufficiently finalized for use in construction. Additionally, a refined FFE cost estimate has been produced in which the total cost is estimated at approximately 30% below the typical cost for FFEs for food stores.

A team of MBA graduate students has been engaged in a supply chain planning process in which primary and secondary suppliers have been identified and ranked through a supplier scorecard. The suppliers include both established distributors and producers who can direct ship. A database of suppliers has been created in which detailed supplier information such as products, fees, schedules, minimum orders, etc, are being documented.

The firm Songbird Agency has been engaged at pro-bono and discounted rates in brand development. Thus far, a template and brand book for central branding elements such as logo, color scheme and typography has been created. While additional refinements are being made the primary components of the branding strategy have been agreed upon. The firm Wakingstar has been engaged at pro-bono and discounted rates in marketing and messaging strategy. A "story board" has been produced which provides the parameters and direction for subsequent marketing and messaging campaigns.

With assistance from People's Grocery, PCM secured an engagement with Architecture for Humanity to produce a preliminary conceptual architectural design. This design analysis that resulted from this engagement concluded that PCM's facility strategy of housing the retail market in a tent structure was not feasible due to several concerns including: 1) that a tent structure could not be adequately secured against potential forced entry and theft during after-hours, which is a significant issue and concern in the West Oakland community, and 2) that a tent structure could not adequately maintain the humidity and temperature levels of the internal store environment necessary to ensure product quality and to protect mechanical components of the refrigeration equipment. Thus, a very significant decision was made to shift the design of the retail facility from a tent structure to an enclosed steel structure. This change in the design and build of the retail structure has been the most significant change in the project plan to date. It immediately presented substantial increases to the timeline, costs, complexity and forms of expertise required for architectural, engineering and construction.

Following the engagement of Architecture for Humanity, PCM secured the pro bono architectural services of Lowney Architecture, a reputed firm in Oakland that has extensive experience in food retail planning including the celebrated Whole Foods in Oakland. PCM continued working with Lowney Architecture to use the basic conceptual renderings produced by Architecture for Humanity to develop a set of architectural plans for permitting. As People's Grocery's goal was to demonstrate a low-cost method for constructing a food market in a low-income urban area, PCM and Lowney Architecture determined that a pre-fabricated steel shell would be the most cost-effective and secure option for housing the market. PCM then engaged the services of Pankow Builders to produce a cost

estimate for the construction project. Pankow received estimates from several manufacturers of pre-fabricated steel shells, which indicated that, while a pre-fabricated steel shell will be more costly than a tent structure, it is still significantly less expensive than constructing a brick-and-mortar building. All expense line items in the FMPP project budget that were pertinent to the tent structure in the original budget were reallocated to the acquisition of the pre-fabricated steel shell.

With assistance from People's Grocery, PCM secured an additional \$55,000 in loans in support of the planning and predevelopment costs of the project. Upon completion of the planning documents and the determination of a new project cost of \$3.3M, the leadership of PCM began to pursue additional financing for the project. The organization was able to establish a relationship with a new loan fund called the California FreshWorks Fund (CFWF), which is a \$240M fund dedicated to financing the creation of healthy grocery stores and fresh food markets in underserved communities in California. The senior staff at CFWF communicated to PCM that they had a strong interest in providing a low-interest loan to the organization in an amount up to 2/3's of project financing. The CFWF staff agreed to draft a conditional letter of interest that would outline the specific terms and conditions of the loan. A central condition of CFWF in proceeding with a loan application was that PCM secure the remaining 1/3 of its financing as equity capital. Thus, PCM's leadership put its primary focus on securing equity financing in order to take advantage of this loan opportunity.

From May 2010 through December 2011, PCM's CEO and Directors pursued equity financing through a private offering to accredited investors. At the end of this time period, PCM had secured an amount of investment capital that was too low relative to what should have been raised in that time period. Thus, PCM's Executives and Directors concluded that it was unlikely that PCM could raise sufficient capital through a private offering for the following reasons:

1. The economic recession has negatively affected the confidence of investors to the extent that most investors are uncomfortable with the risks entailed in investing in start up companies.
2. The rate of return preferred by most accredited investors exceeds PCM's financial ability as it is expected to generate relatively slim operating and net margins.
3. The time period for repayment preferred by most accredited investors conflicts with PCM's need to maintain a sufficient balance of capital for ongoing operations.
4. The "liquidity events" preferred by most accredited investors are unsuitable for PCM's likely financial performance and conflict with its desire to retain ownership locally by employees.

With this understanding, PCM's CEO asked its legal counsel for recommendations of alternatives to the private offering that the startup could utilize to raise equity financing. Their recommendation was that PCM conduct a Direct Public Offering – a method that would likely be a more appropriate approach for the stores' expected financial abilities and its goals as a social enterprise. Direct Public Offerings (DPOs) are a way to raise capital by selling securities directly from a company to large numbers of unaccredited investors in the public. In March 2012, PCM submitted its application to the California Department of Corporations for approval to conduct a Direct Public Offering and, as of the date of this report, has not yet received final approval from the State Regulators.

While PCM continues to pursue financing, it has utilized a portion of FMPP funding to make substantial progress in its project planning and has, as a result, developed a set of planning

documents and deliverables that did not exist prior to FMPP funding. Additionally, PCM made arrangements to appropriately expend the balance of the FMPP grant award in a manner that ensures that the grant benefits the final project's outcome. All equipment and materials that have been purchased with the grant have been placed in storage and will remain in storage until the business is ready for launch, at which time the equipment will be placed in the store as initially intended, described and approved. Thus, while the financial factors that have prevented PCM from achieving its initial timeline for store launch due to factors that were largely beyond the company's control, it has taken appropriate measures to ensure that all resources it has garnered, including the FMPP grant award, it used to the fullest extent in order to have maximum benefit and impact on the project.

Beneficiaries:

Although it was a necessary change, the shift in the project's facilities plan from a tent structure to an enclosed steel structure resulted in a significant increase in the timeline, costs, complexity and forms of expertise required for the project. The increased cost to the project made it substantially more difficult to secure the equity financing necessary to proceed with a low-interest loan application with the CFWF. Although PCM's leadership has developed a new strategy for securing the equity capital required by the interested lender, the project has not be able to secure adequate financing to proceed with the construction and launch of the market during the FMPP grant period. Thus, no direct benefits or beneficiaries can be attributed to the grant. However, as stated previously, PCM made arrangements to appropriately expend the FMPP grant award in a manner that ensures that the grant benefits the final project. Thus, while the store has not opened during the grant period, the grant will achieve its ultimate purpose as stated in the grant award and the following intended stakeholders will benefit from the ultimate use of the grant when the store is launched:

---West Oakland families in general and specifically those residents participating (or eligible to participate) in the EBT food stamp program by increasing access to healthy and affordable foods, especially locally grown fresh fruits and vegetables. West Oakland EBT food stamp recipients and their families will improve healthy eating behavior and will have a chance to stem the increasing rate of diet related chronic disease through healthier eating.

---West Oakland residents by gaining valuable job training in entrepreneurship, retail sales, etc, as well as through stable and meaningful employment that supports their development and future economic opportunities.

--Regional farmers and producers will benefit from selling to the business, which will allow local farmers and growers to expand their capacity to produce and market their own products.

-- The projects' and the West Oakland community's ability in becoming financially self-sustaining and not require additional injections of external funding through revenues generated from the market. This will not only ensure the longevity of the project, but reduce the cost and effort required to secure external funding support, which will in turn enable key staff to focus on serving the community and operating effective social enterprises.

Lessons Learned:

The following are the primary challenges that were encountered in the project and the lessons that were learned from those challenges:

1. When People's Grocery's proposal was approved for FMPP funding the plan was to house the food market in a tent structure. The outcomes and timeline included in the proposal were drafted under the assumption that the project would be a tent market, which would enable a dramatic reduction in the cost and the time needed to build and launch the market. As stated in the above report, a shift in the plan was made once it was determined that housing a food market in a tent structure was unfeasible. This shift, which was a direct result of planning and analysis that was supported by the FMPP grant, resulted in an unanticipated and significant increase in the cost and time required to execute the project. A new business plan and financial model had to be developed to reflect the change in strategy. And much more fundraising had to be undertaken to cover the increased costs of the new structure that will house the market. Given that the nation was also suffering from a severe economic recession and that the margins of food markets are generally unattractive to most investors, it was much more difficult to secure additional funding than anticipated.

In retrospect, the organization could have taken earlier steps to ascertain the viability of the tent market structural plan before pursuing financing or, alternatively, notified the grantor that the organization would not likely be able to open the store prior to the end of the grant period and requested a change in scope to allow to organization to pursue more achievable deliverables within the grant period. However, it was only through the support of the FMPP grant that the feasibility of the project plan was able to be assessed and the problem in the plan, with regard to the facility structure, identified. Thus, it strategic shift was a direct outcome of the FMPP grant and was ultimately an important and needed change that, in the long-run, will result in a more stable and effective project.

2. As an organization made of community advocates with limited experience in business development, People's Grocery and, subsequently, People's Community Market, underestimated the complexities and time required in executing a project of this scale. While the organization had consulted with experienced advisors from the food industry as to what to anticipate and how much time to plan for the project, those estimations were unable to predict the particular circumstances that could impact the project's direction, timeline and cost. For example, progress was put on hold for nearly three months when the City of Oakland's Planning and Zoning Department threatened to not approve the necessary permits due to a shortage in parking stalls. An unanticipated effort had to be undertaken to secure a parking variance form the agency. Thus, a combination of People's Grocery's inexperience and unanticipated challenges impacted the project timeline.

The greatest impact of the novice status of the project partners was the inaccurate and false assumption that a tent structure could sufficiently house a retail market and provide the various conditions necessary for food retail. With this assumption came the belief that the project's overall cost was low enough to not require significant financing. In retrospect, although the organization could not have foreseen the challenges it would experience in executing the project, it could have framed its project goals around planning and design so

that there was a clearer understanding and a commensurate level of flexibility in allowing for the project team to learn from the project's progress and to revise the project plan as needed.

3. The decision to form a separate entity to develop the food market was not anticipated at the time that People's Grocery's proposal to FMPP was approved. The decision to form the entity was made in August 2009 – after the FMPP grant approval. It was initially assumed that the establishment of a new entity and the transfer of the responsibility of project development to that entity would not significantly hamper the project timeline. This, however, has proven to not be the case as the Executive Director transition, which coincided with the establishment of the new entity, was not completed until the end of January 2010 and the new entity, People's Community Market, was not legally approved by the California Secretary of State until March 2010. This delay resulted in a much later commencement of the project's development than originally planned and anticipated.

In retrospect, the organization could have taken earlier steps to ascertain the appropriate organizational structure for the project before pursuing financing or, alternatively, notified the grantor that, as a result of the transfer of the project responsibility to a new entity, the organization would not likely be able to open the store prior to the end of the grant period and requested a change in scope to allow to organization to pursue more achievable deliverables within the grant period. However, even at the time of that a new organization to the lead the project was formed it was not yet known that the tent market would prove inadequate and that significant change to the project would be made.

Additional Information:

In addition to our website, www.peoplescommunitymarket.com, which was funded in part by FMPP, please find attached the following deliverables that were produced during the course of the project planning process, much of which was funded by FMPP:

1. One-page executive summary
2. Executive presentation
3. Business plan
4. Pro forma
5. Architectural drawings
6. Floor plan
7. Land survey
8. Construction budget
9. Furnishings, fixtures, and equipment budget

Also please find attached the following photographs of fixtures and equipment that were acquired using FMPP grant funding and are currently stored at a nearby warehouse:

- Display cases
- Display tables
- End Caps
- Refrigeration cases
- Shelving

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