

Nonprofit Grocery Store Models

DMG Foods

On 7 March 2018, The Salvation Army opened DMG Foods, a non-profit grocery store in northeast Baltimore. The store is designed to provide healthy and affordable food for all members of the community, to double the amount of food that SNAP recipients can purchase, and to create a sustainable store rooted in the community that helps locals eat healthier, smarter, and cheaper.

DMG Foods calls itself the “first grocery store in the nation to combine social service with a traditional grocery shopping experience.” The store’s social services include nutrition advice, shopping education, and meal planning. The Salvation Army chose DMG Foods’ location in Baltimore to focus on solving problems caused by food deserts, or USDA identified neighborhoods that lack healthy food sources within one mile in urban areas or within ten miles in rural areas.

I tried to find more information about how DMG Foods was incorporated and how it was going to accomplish its goal of sustainability. I searched the DMG Foods website (www.dmgfoods.org) and found a donation button that led to a DMG Foods Donation Form which appears to be under the control of the Maryland/West Virginia Division of the Salvation Army. DMG Foods is not yet listed on any of the Salvation Army’s Form 990s, so it is difficult to tell how it is operated (as a separately incorporated entity, or directly by the organization as a business activity related to the mission of the Salvation Army.)

My best guess is that DMG Foods is operated similarly to other Salvation Army community service entities (as opposed to local community spiritual services). These service entities consist of “large social services centers, senior citizens’ housing, domestic violence and children’s shelters, camps and rehabilitation centers” which operate independently of the local church leadership and are administered by larger multi-state regional leadership. If this is the same organizational model used for DMG Foods, then the store probably operates through and relies on Salvation Army subsidies and donations.

Challenges Faced by Grocery Stores

This article considers the challenges of grocery stores and the unique difficulties that face nonprofit grocery stores by analyzing three different non-profit models currently operating. Each of these stores operates to provide food to their communities living in food deserts and each uses a different approach to handle the problems of functioning as a single-location store and at the lowest possible prices without corporate investors to support the endeavor.

Just surviving in the supermarket business is a challenge. Stores operate on extremely narrow margins and handle perishable merchandise that rots into waste if it is not sold timely. Large chains are better suited to handling risk by buying and providing goods in huge volumes to enable lower per-item prices. Additionally, large chains can support underperforming locations

by bigger profits in well performing locations. Still, even these large chains tend to average only 1-2% profit margins and can take up to five years to become profitable.

A single location store is disadvantaged due to smaller volume purchasing and turnover (requiring higher per-item costs and bearing higher risk for unsold perishable merchandise) and lacking a larger network to average out losses.

Nonprofit grocery stores also often try to provide healthy and affordable foods (perishables at low per-item costs) in locations deemed unprofitable by a market economy.

Three Nonprofit Grocery Stores

Daily Table

Doug Rauch, the former president of Trader Joe's, has created a nonprofit grocery store in Dorchester MA. The goals of Daily Table are to "address hunger and wasted food, to reduce both the effects of poor eating habits caused by challenging economics, and the impact that wasted food and its precious resources has on our environment."

Daily Table purchases foods at steep discounts from supermarkets, growers, and manufacturers which are nearing or have passed their "sell-by" dates. This both allows Daily Table to provide quality but marginalized foods at particularly low prices to consumers while keeping these same products from ending up in landfills.

Mr. Rauch has made a goal to fund the store through its own sales, and not to depend on monetary donations to remain functional. Both the Daily Table website and its Guidestar profile explain food expiration and what sell-by dates mean, the organization's measures of success (based on customer numbers, customer frequency, food amounts purchased per visit and cumulatively, and metrics of food products kept out of landfills), and approaches to make shopping at Daily Table a pleasant experience (dignified presentation of products without suggesting participation in a "special program" which might embarrass customers).

Philabundance

Philabundance is a nonprofit organization dedicated to providing free produce to those who self-declare to be in need, about 90,000 individuals, in nine counties in Pennsylvania and New Jersey. Philabundance distributes donated food (given for the purpose of hunger relief) to about 350 different entities like food pantries, churches, shelters and emergency kitchens. This donated food and monetary donations, as well as grants, help to cover many administrative costs. To cover operating costs like gathering and distributing food, Philabundance collects "shared maintenance fees" from these other entities, averaging about 18 and 19 cents per pound of food transferred.

Fare & Square

Fare & Square is a nonprofit grocery store located on the outskirts of Philadelphia in Chester, Pennsylvania with a mission to “provide all Chester-area residents with access to fresh, healthy choices, to ensure that the west end of Chester is no longer a food desert.” Philabundance owns 100% of Fare & Square as a disregarded entity, meaning Fare & Square is tax exempt because Philabundance is tax exempt.

To meet its goal as a charitable §501(c)(3) organization Fare & Square must show that it is serving the poor. It does this by offering membership cards based upon household demographics and a special “Carrot Cash” program to refund 7% of purchases to customers who self-declare that they live on less than 200% of the poverty level.

Fare & Square is reliant on Philabundance to continue operating, as it is running a deficit. It would have to increase profits by another 20% just to break even. Three other entities have contributed to Fare & Square to assist with operations: The Reinvestment Fund, The Nonprofit Finance Fund, and TD Bank are all thanked as “Investors” on the Fare & Square website.

The DMG Foods Advantage

Each of these nonprofit grocery store models use a different approach to provide a service to their communities at different costs. Self-sustainability is not likely to occur for Philabundance or Fare & Square as long as they are operating in a deficit in unprofitable areas. Daily Table might not be able to reach the same neighborhoods burdened by poverty as Philabundance and Fare & Square if it relies on traditional business accounting to remain sustainable.

Because DMG Foods has sustainability and education goals and not poverty alleviation goals, I think DMG Foods is more like the Daily Table model instead of the Fare & Square or Philabundance models. I think that DMG Foods has an advantage for survival (even if it operates at a deficit for a few years) because it is a subsidiary of the Salvation Army and can draw on that organization’s charitable donations. This will allow DMG Foods to experiment with and refine nonprofit grocery operations to become truly self-sustainable and even to provide a more efficient model for more nonprofit stores in the future.

Thomas Christopher Lewis
University of Oregon School of Law
J.D. Candidate 2018