



CAPITAL IMPACT
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Ken's Fruit Market

Stabilizing a Family-owned Grocery Chain

In this series of case studies Capital Impact Partners profiles three transactions to highlight the Federal Government's Healthy Food Financing Initiative (HFFI), which was created to fund efforts that confront food deserts in underserved communities. **This story illustrates how Capital Impact leveraged the HFFI to help stabilize a family-owned chain by delivering business assistance and a financing package that met its needs.**

The Healthy Food Financing Initiative: Bringing Healthy Foods within Reach



The Healthy Food Financing Initiative

Launched in 2010, the Healthy Food Financing Initiative (HFFI) is the federal government's first coordinated effort to confront the challenge of food deserts. The Community Development Financial Institutions Fund (CDFI Fund), an agency of the U.S. Department of the Treasury, plays a central role in managing this important effort. The initiative provides funding to enable community-based nonprofits, such as Capital Impact Partners, to finance healthy food projects in underserved communities that lack access to credit, capital, and other financial services from traditional banks and lenders. These projects not only expand access to healthy foods but also strengthen the local economy by starting new businesses, creating and retaining jobs and generating state and municipal tax revenues. Learn more [here](#).



The Food Trust, its work in HFFI, and the Center for Healthy Food Access

The Food Trust, a nonprofit founded in 1992, strives to ensure that everyone has access to healthy, affordable food and information to make healthy decisions. With support from the Robert Wood Johnson Foundation, The Food Trust has launched The Center for Healthy Food Access, a national collaborative effort working to ensure that every child in the United States has access to nutritious, affordable food. The Center serves as a catalyst to test groundbreaking ideas and share lessons learned. Also, The Center for Healthy Food Access funded this case study. Learn more at: www.thefoodtrust.org and www.thefoodtrust.org/centerforhealthyfoodaccess



Capital Impact Partners and its work to leverage the HFFI

Capital Impact Partners has emerged as one of the leading Community Development Financial Institutions (CDFIs) in the healthy foods movement. The organization has received a financial assistance award in each of the first four rounds of the HFFI and has leveraged its \$9 million in HFFI awards with philanthropic and private-sector funding to provide \$112 million in financing for 76 grocery stores—thereby expanding access to fresh foods for more than one million Americans. Capital Impact Partners also has funded a variety of other innovative projects such as mobile markets and distribution centers. The organization is committed to supporting enterprises throughout the entire food system—from food producers to aggregators, distributors and retail facilities—in order to meet the healthy food needs of underserved communities. This holistic approach also includes offering an intermediary lending program through which Capital Impact Partners makes loans to selected intermediary microlenders that finance small food enterprises. Learn more at: www.capitalimpact.org

The Story behind Ken's Fruit Market

Since it first opened its doors in 2010, Ken's Fruit Market (KFM) has been committed to providing fresh, local produce and meat for the Grand Rapids community at affordable prices. At its stores, **the majority of floor space is devoted to produce and local products.** While the smaller grocery retail and produce-centered store concept is increasingly popular, owner Ken Courts says, "This is what we've always done," noting that their stores are like downtown farmers markets that are open all year long.

Ken has worked in the grocery retail industry since he was a teenager, having learned the ropes when he was taken under the wing of a local storeowner. Ken previously operated a successful fruit market in Ionia, MI with his wife Gina, who also comes from a family of storeowners and has a background in finance. Now, their son Alex is their produce buyer, so this business has become their family livelihood.

KFM goes out of its way to bring in products that residents request, tailoring the offerings of its three stores to meet the cultural tastes of customers at each location.

Quality is paramount. Store staff members sort produce every morning to make sure everything is fresh. Affordability is also key. Like most Americans, KFM customers are price-driven. By monitoring produce pricing at larger supermarkets, KFM matches or beats area pricing to maintain a competitive advantage. "Our goal is to let everyday people, anybody, afford healthy food," says Gina Courts.

Many store customers also receive federal food assistance. **Up to 15 percent of overall store sales come through the Supplemental Nutrition Assistance Program (SNAP;** formerly known as food stamps). Starting this year, KFM stores offer Double Up Food Bucks, Michigan's statewide healthy food incentive program. Developed by MGFF core partner Fair Food Network, Double Up matches SNAP dollars spent on fresh produce. This puts more healthy food within reach of low-income customers while driving demand for fresh produce. Double Up started at farmers markets and has since expanded to a variety of retail outlets. To maintain its benefits to local growers, Fair Food Network works with participating grocers to ensure strong local sourcing.



This aligns with KFM's philosophy as well as customer demand. "Ever since the recession, customers are loyal to local," says Gina Courts. **KFM sources produce from local and regional farmers.** The team also travels across the state three times a week to visit Detroit's Eastern Market produce terminal. KFM also finds niche products like frozen Michigan fruits or vegetables, buying from local vendors and suppliers who cannot supply to a superstore like Meijer's. Even its Christmas trees are sourced locally from a farm an hour north of Grand Rapids.

This local commitment has created benefits down the value chain. For instance, KFM started carrying a small local tortilla chip manufacturer who could not get into Meijer's. Today, this supplier has grown and is able to accommodate larger purchase runs. Says Gina Courts: **"We feel a sense of pride being able to support Michigan-made. We have relationships with our vendors and from day one sourced most of our products locally. And now it's the thing to do!"**

KFM also has a strong connection with its employees. Every one of KFM's 100 staff members lives in the communities where the stores are located. Many employees, who represent a range of ethnic and religious backgrounds, walk to work. KFM offers professional training and advancement opportunities for all staff members, 60 percent of whom are full-time employees. Staff turnover is low; a significant number of employees have worked at KFM for years and report positive workplace morale.

Three Ken's locations in Grand Rapids, MI

Each of the stores serve a diverse base of clientele, including low- and middle-income, white, black and Latino populations. The median household income within a mile of each site is 83-90 percent of the national average, and roughly 15 percent of KFM sales are paid for with food assistance programming through SNAP.

- ▶ **2420 Eastern Ave | 12,000 sq. ft.** This was the first KFM store, and it opened its doors in August 2010. The store is situated in a retail strip that includes a bank, a beauty supply store, a pet grooming store and a hardware store. It is surrounded by 130,000 households, many of which are African-American and low-to-medium income. According to Ken, 50 percent of store customers are African American; there is also a sizeable Hispanic clientele. Ken and Gina work the floor of this location all day long, most

days of the week. They say: "Our store is like a European market—we see the same people shopping every day!"

- ▶ **3500 Plainfield Avenue | 17500 sq. ft.** This location opened in 2012. While this store competes with a larger full-service Meijer Supermarket, many residents in this middle-income neighborhood prefer shopping at Ken's because of its accessibility and competitive pricing. Some customers travel significant distances to shop here. This location experienced a fire in August 2016 and reopened to much fanfare in April 2017.
- ▶ **830 28th Street SW | 17500 sq. ft.** Opened in 2016, this location was previously a grocery store. It is located in a low-access, low-income area and serves a larger Latino and African-American community.

Project Background and Financing Need

As a small, family-run business, KFM had trouble securing financing from banks in its early years of operation. The Courts secured high-interest rate loans from various banks and individuals to infuse the business with the capital it needed to sustain and grow, and KFM sought to refinance 11 of those loans. Due to relatively high interest rates and short amortization periods, **a consolidation of this debt would reduce debt service payments by nearly forty percent. This cost savings could benefit the business by being reinvested back into employees, operations, and small improvements at the store.**

Ken and Gina first learned about the option to consolidate their debt through Capital Impact's Michigan Good Food Fund at a Double Up Food Bucks grocer meeting held by independent retailer industry group AFPD in collaboration with Fair Food Network.



The Transaction

Since the third KFM location was still new at the time when Capital Impact representatives met Ken and Gina, the first two KFM locations were the source of historical financial performance, and they showed strong growth in the prior two years. **There was an average annual increase in sales by 11 percent even though independent grocers typically only see single digit increases in sales of 1-3 percent per year.** Gross margins were consistently 23-26 percent at both stores, which is in line with the industry average of 25.45 percent for multistore grocery operators. Operating profits, however, were uneven due to expenses: repairs and maintenance at one location and development at the third store location. In addition, the high level of debt service did not permit for very much allowance in cash flow.

Capital Impact Partners reviewed KFM financials and determined that the company balance sheet showed high levels of debt with a disproportionately low level of assets. With several equipment breakdowns and expansion-related expenses in early years, expenses had grown disproportionately fast. KFM's financial condition was reflective of many other operations in the first several years with high leverage and growth.

Revenues had grown more than 10 percent each year, placing KFM in the top decile for multi-store operators. **Yet KFM became more leveraged as it took on new debt to support improvements for the third store** with its current ratio fluctuating from 1.29 to 0.98 as it ramped up operations. The current ratio shows the ability of a company to meet its short-term obligations with its current assets and is an important measure of liquidity. The industry's overall current ratio is stronger at 1.90, and this comparison shows KFM's discrepancy with standards in this measure.



There were three primary risks Capital Impact considered in underwriting:

- ▶ **Collateral Risk:** In order to reserve cash for inventory and equipment, independent grocers often do not own their real estate. Aside from assignment of the leases at each of the three locations, Capital Impact’s only real collateral on this transaction will be business assets, equipment and inventory. Although it was considered a risk to many lenders, Capital Impact believed this condition was mitigated by KFM’s historically strong growth and projected cash flow.
- ▶ **Leverage Risk:** Another risk of the transaction is that the KFM owners had little equity in the organization and had been dependent on debt to finance its growth. If KFM was unable to attain equity, it may be unable to pay for any repairs necessary or future expansion. At the same time, the MGFF announced availability of Catalytic Investment Awards, which were intended to catalyze larger scale investment with the goal to grow their capacity to secure financing successfully. In November 2016, KFM was selected as one of the six Catalytic

Investment Award winners in a competitive selection process. The \$75,000 award provided KFM a much-needed equity infusion, strengthening its balance sheet and bolstering its overall financial health.

- ▶ **Organizational Risk:** KFM operations were spread across three different entities, each a separate legal corporation. Again, this is not uncommon in the small business industry where enterprises expand quickly, forming different organizations for each entity. Capital Impact lenders talked to Ken and Gina about these two areas for improvement, working with MGFF core partner Fair Food Network to offer business assistance. Fair Food Network coordinated and funded legal services, allowing Ken’s to consolidate and streamline corporate structures.

With these major adjustments to mitigate financial and operational risks, the MGFF underwriting team at Capital Impact Partners revisited the transaction, approving a \$455,000 loan to consolidate business debt and invest in equipment that allows KFM to carry more products.

Sources		Uses	
Capital Impact Loan	\$445,000	Outstanding Debt	\$427,000
		Fees and Closing Costs	\$18,000
Total	\$445,000	Total	\$445,000



Michigan Good Food Fund Core Partners

The Michigan Good Food Fund is a \$30 million public-private partnership loan fund. Launched in June 2015, it nurtures good food enterprises throughout underserved communities of Michigan by providing financing and business assistance. It is implemented by four core partners:

- ▶ **Capital Impact Partners**, a nonprofit certified Community Development Financial Institution with a 30-year history of lending to projects in underserved communities, manages the fund. It also leverages public and private investments from sources such as the federal Healthy Food Financing Initiative through the CDFI fund as well as private banks and foundations to support fund financing. Learn more at www.capitalimpact.org.
- ▶ **Fair Food Network** is a Michigan-based national nonprofit committed to pioneering solutions that support farmers, strengthen local economies and increase access to healthy food. It is leading fund communications as well as business assistance and

pipeline development for retail and small-batch processing projects. Learn more at fairfoodnetwork.org.

- ▶ **Michigan State University Center for Regional Food Systems** is a research, outreach and education organization. It is leading business assistance and pipeline development for agricultural production, aggregation and distribution as well as large scale processing projects. Learn more at foodsystems.msu.edu.
- ▶ **W.K. Kellogg Foundation** is one of the fund's supporters and investors. It has made commitments in the form of grants, program-related investments and mission-driven investments across the capitalization structure. Learn more at wkkf.org.



Conclusion and Transaction Outcomes

Capital Impact's investment in KFM helped stabilize a growing independent grocer in west Michigan that offers fresh, locally grown produce to underserved populations. In the months after loan closing, **KFM has shown stable financial performance**. In preparing quarterly financial statements, KFM unearthed and solved several financial inefficiencies — such as wasted product due to loose inventory controls — in various departments, resulting in stronger gross profits in the highest volume categories of meat, grocery and produce.

Critical to this transaction has been the business assistance coordinated by MGFF core partners both before and after financing. Consulting

support has included a **comprehensive grocery assessment providing low- and no-cost solutions to operational inefficiencies across the three stores**. In the wake of the recession, MGFF support is helping spur economic revitalization by making family-owned businesses like KFM stronger and more resilient, as well as supporting jobs and creating outposts of healthy food access.

Says Gina Courts: **"MGFF met all our business needs and then some. Its terms were better than what was on the market and available to us, especially the interest rate. And the additional business assistance has been very helpful. This is not the type of support small businesses like us usually get."**



BUILDING COMMUNITIES OF OPPORTUNITY THAT BREAK BARRIERS TO SUCCESS



Healthy Food Financing Supports Our Larger Vision

Community Capital Impact Partners champions social and economic justice for underserved communities, transforming them into communities of opportunity that foster good health, economic opportunity, and interconnectedness. Through strategic financing, incubating social impact programs, impact investing, and capacity building, we help local communities create equitable access to healthcare and education, healthy foods, affordable housing, and dignified aging for those most in need.



2 MILLION

PATIENTS
receiving health care at
516 community health centers



240,000

STUDENTS
in 235 high-quality
charter schools



1 MILLION

PEOPLE
with access to healthy
food from 86 local retailers



37,000

ELDERS
aging in their community
through 191 projects



36,500

AFFORDABLE HOUSING
units in 239
communities



870,000

COOPERATIVE CUSTOMERS
served by 217
Co-op businesses

WE HAVE DEPLOYED OVER **\$2.5 BILLION** TO SERVE NEARLY
5 MILLION PEOPLE AND CREATE MORE THAN **32,500 JOBS**
NATIONWIDE IN SECTORS CRITICAL TO VIBRANT COMMUNITIES.



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