

FOOD HUB CASE STUDY

Kudrinko's

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WILFRID LAURIER UNIVERSITY

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Inspiring Lives.

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**Please note Kudrinko's is co-owned and co-operated by Neil and Martha Kudrinko, however, our interview took place primarily with Neil, and thus quotes can be attributed directly to him. When we use Kudrinko, we are referring explicitly to Neil.



Figure 1: Neil and Martha Kudrinko in front of Westport grocery

Rationale

Kudrinko's is an independent grocery store located on the Main Street of Westport, Ontario, co-owned and operated by Neil and Martha Kudrinko since 2010. With gross sales of \$4.6 million, Kudrinko's represents a diverse and successful business that combines traditional grocery fare with natural foods and local products, offers full-service catering, and (since 2008) operates Rosie Yumski's Fine Foods (focused on shelf-stable specialty local foods and kitchen items). Majority owner (51%), Neil Kudrinko, has garnered numerous awards for employing various innovative practices, including a major retrofit of the building to create a state-of-the-art, energy-efficient facility. Kudrinko is recognized as a leader and innovator within the fast-evolving retail sector: he serves on the Board of Directors of the Food Marketing Institute (FMI), including on the organizing committee of its annual show (the largest grocery trade show in North America), its Energy and Store Development Committee, and its Sustainability Executive Committee. Minority owner, Martha Kudrinko (49%) shares in operational and strategic decisions. This case study examines the roles that a successful food hub must play to bridge gaps in local food distribution. Two key strategies for success, diversification and the cultivation of personal relationships, align across different points in the supply chain – from production to retail. Many of the challenges raised in studying Kudrinko's point to distribution issues in which bricks-and-mortar style food hubs primarily for distribution can be effective in solving. These include issues of: ensuring consistent supply, easing transportation and logistics, educating consumers on seasonality and the growing process, and protecting against the negative impacts of climate change and international trade.

History of Kudrinko's

Kudrinko's has been run under various corporate structures before becoming an independent retailer. In 1990, Neil Kudrinko's father, Ross Kudrinko, purchased the store and opened it as a "Food Town" (a banner owned at the time by the Oshawa Foods Group, and operated as a smaller version of the IGA program) with 3,500 sq. ft. of selling space. (Kudrinko Sr. had worked as a meat manager within the Oshawa Foods Group in the 1960s and early 1970s and made use of those existing connections to open his own store.) Food Town enjoyed a fair bit of control – they set prices, determined product offerings, and configured the store (and line-up of products). In 1992, Kudrinko Sr. expanded the store to 5,200 sq. ft. after the other grocer in Westport closed (due largely to competition from Food Town), and shifted to the IGA program – a "*more aggressive*" program in terms of pricing (i.e., demanding lower retail prices). Kudrinko's followed the IGA program for 4 or 5 years, but failed to generate profit.

In 2000, Kudrinko's switched over to the freshmart program with Loblaws. freshmart proved similar to Food Town in that it allowed for greater autonomy and flexibility with regards to product selection. However, in 2006, when Galen Weston Jr. took over Loblaws Companies Ltd., the company shifted its focus to large stores, and became very aggressive when dealing with smaller retailers such as Kudrinko's; Loblaws began a practice of forcing standard operating procedures on these affiliated independents, restricting every area of their business operations including source of supply. These efforts also impacted relationships enjoyed by retailers with local growers and food producers. Thus, in 2006, Kudrinko's became a fully independent entity, reverting to Sobey's for wholesale goods, and joining an independent buying group called Distribution Canada Inc. (DCI) – a consortium of 95 independent grocers across Canada that have cooperative trade agreements with various vendors. Notably, DCI does not distribute anything other than rebates to its members; rather, it provides a structure to negotiate trade with larger vendors (such as Parmalat and Lassonde Juices [Allen's, Fairlee]).

Background Information

In 2010, Neil and Martha Kudrinko purchased the business from Kudrinko Sr. through a creative financing arrangement. The latter still owns preferred shares, and receives an annual dividend (and, over time, those payments cancel out the remaining shares). By working alongside Kudrinko Sr. for 20 years before the transfer of ownership, always with an eye to their eventual succession, Neil and Martha had an unusual degree of confidence in taking on significant financial risk. Neil explains: *"We had the advantage of knowing the business was sound,*



Neil Kudrinko: "At the time, I was 37 years old, taking on \$2.5 M in debt! I had everything pledged. If my business failed, I would lose everything."

and the books were accurate... Confidence in the business and the experience operating that specific business..." However, even enjoying those privileged insights, the transformation

and future success of Kudrinko's under Neil and Martha required access to private capital (and a corresponding willingness to assume debt and take on risk). In addition to the money the couple owed to Kudrinko Sr. and the bank (for their own personal mortgage), they took on a \$1.4 M loan to purchase the Kudrinko's property and do retrofits. *"At the time, I was 37 years old, taking on \$2.5 M in debt! I had everything pledged. If my business failed, I would lose everything,"* says Neil. Clearly, this sort of propensity for risk takes entrepreneurial vision and a determination to succeed, coupled with a leap of faith!

Prior to investing in the existing real estate that Kudrinko's occupied at 22 Main Street in Westport, Neil and Martha gave serious thought to starting anew on the outskirts of town in a newer and larger building. However, they quickly realized

how dramatically (and negatively) that would have impacted the community. They wished to preserve the “walkability” and “mixed-use feel of the downtown area.” Moreover, from an environmental perspective, they viewed the existing infrastructure as a “carbon store” – full of embodied labour and materials that “could [still] be put into good use for an extended period of time.” In fact, renovations and retrofits began in 2007, while still under the ownership of Kudrinko Sr.

Taking both the “carbon store” of the long-standing Kudrinko’s location and ever-increasing energy costs into account, Kudrinko retrofitted the entire building to ensure the business would be economically viable over time. The investments were paid for by bank loans, and the energy savings alone ensured a financial return. While Kudrinko has an undeniably strong environmental ethic, he argues that the choices he has made that garner positive attention, can be made solely for financial reasons. “So I get all the kudos for being sustainable and environmentally conscious, but I could take the biggest climate change denier and show them economically why I did it and get them to make the same type of investment.” In fact, Kudrinko can be thought of as somewhat of a stealth environmentalist – unwilling to characterize himself as such, and acutely aware of the limits of framing things: “There are some words that are lightning rods, and ‘environmentalist’ is still a lightning rod. So we need to trick people into becoming environmentalists.”

Along with improvements in sustainability to counteract rising energy costs, growth in profitability was also necessary to secure success in the food retail business. Changes had to be made to the product line-up, changes that spur profitability. As Kudrinko explains: “I had to completely change our supply chain in order to add profitability to the business.” Emphasis on shelf-stable niche products, local meat and produce, and an expanded deli quickly improved the profitability of the store. These strategies are discussed further in the following section.

Finally, Kudrinko’s employs between 16 and 26 staff (produce, bakery and grocery managers, meat cutters, cashiers, etc.) – numbers that fluctuate seasonally with lows in the winter and highs in the summer (due to increased traffic with area tourists and cottagers). Because the business operates in a small town, there exists a relatively small pool of workers to draw from. Further, because of its seasonal nature, they run the risk of facing high turnover and training costs. Thus, to retain well-trained people throughout the year and not have to deal with turnover and onerous training costs, Kudrinko’s guarantees their full-time employees a 2,000-hour work year (~40 hours per week). Kudrinko’s employs students and other part-time employees as well. When asked if they avail themselves of the \$2 per hour provincial government subsidy for student employment, Kudrinko muses: “it is not worth the time to fill out the paperwork!”

Strategies for Success

A natural entrepreneur with a keen business sense, to begin, Kudrinko employs several sound (and traditional) business practices that have resulted in success. As a small retailer in an increasingly large retailer's game, Kudrinko must find ways to mitigate risks and ensure the long-term profitability of his business. He has accomplished this in two ways: lowering (energy) costs and re-organizing the supply chain to maximize profitability. Retrofits to improve energy efficiency have dramatically lowered energy costs. From 2000 to 2007, energy costs for the store went from \$50,000 per year to \$75,000 per year. After the major energy retrofits [including a new Heat, Ventilation and Air Conditioning (HVAC) system, a move to LED lighting, retrofits to freezers and dairy cases, and replacement of inefficient compressors] (Kwon 2013) they dropped to \$50,000 again. In 2013, energy costs were down to \$67,000 (energy prices in Ontario rose 24.7% between 2007 and 2013 and so without the retrofits, Kudrinko's would have been looking at approximately a \$94,000 energy bill in 2013).¹

In 2016, energy costs were further reduced to \$62,750 with continued investment in energy efficiency ("*coupled with cheaper propane*" – as Kudrinko jokes: "*thanks' to fracking!*"). In fact, Kudrinko's became the first grocery store in Canada to be certified through Manomet's Grocery Stewardship Certification program – a comprehensive framework to increase operational sustainability (Sherman, 2015; Manomet 2015).

The re-organisation of the supply chain was necessary for Kudrinko to branch out from what he calls the "*most vulnerable section*" of his store – the shelf-stable products in the middle, typically composed of products offered at big box stores such as Costco, Wal-Mart, Canadian Tire, and (online) through Amazon. "*I'm not going to get bent out of shape trying to figure out how to compete against Wal-Mart... I've stopped even worrying about that aspect of the business,*" says Kudrinko. Today, the strength and profitability of Kudrinko's lies in produce, deli, bakery, and meat – foods sold on one side of the store, and around its perimeter, where he has developed rich and stable personal and professional relationships.

While products in the middle aisles of Kudrinko's come from all over the world and are delivered through centralised supply chains, the perimeter of the store offers opportunities to build strong personal and business relationships, most often amongst small businesses in the food sector. Kudrinko stresses the "interconnectedness" of small producers and retailers, explaining: "*My producers are trying to build a business and once they have that business, they are counting on repeat business in terms of building their business models. They may try to add new customers, but if they lose one, it becomes very difficult to replace that customer. So I'm very sensitive to the needs of those producers.*"

¹ Calculation adapted from: Statistics Canada. *Table 326-0021 – Consumer Price Index, annual (2002=100 unless otherwise noted)*, CANSIM (database). (Accessed: September 29, 2015).

Neil likens the situation to the case of Vlasic Pickles and Wal-Mart: Wal-Mart decided not to carry gallon-sized jars of whole dill pickles anymore, and Vlasic went bankrupt overnight. So, he remains acutely aware of the interconnections, and his responsibilities therein.

In terms of his produce section, Kudrinko strives to offer a higher quality product. Interestingly, produce now accounts for 20% of total sales, while it previously



Neil Kudrinko: “We focused on quality, because we figured that's the game we could actually win!”

accounted for only 12-13% prior to becoming independent (i.e., while buying from the terminal in Toronto). Kudrinko

explains: *“We have focused on variety and quality. In fact, we upped quality and saw increased sales, even with higher prices... We focused on quality, because we figured that's the game we could actually win!”*

Higher quality and locality go hand in hand for Kudrinko, who champions local products for their superior freshness and hence, quality. To this end, local fresh and processed food accounts for approximately 7% (a figure that increases annually) of Kudrinko's purchases (a value of ~\$320,000 of \$4.6 M in gross sales) – clearly bolstering in a significant way income for local producers.

However, Kudrinko still sees room for improvement: *“Everyone always says that we have so much local stuff. I feel like we don't have enough.”* He also describes customer support for local as increasing, noting (anecdotally) the popularity of social media posts that depict the pick-up or delivery of local produce.

Kudrinko's shift to local is possible in part due to his fully independent status. Kudrinko explains that large supply chains make their franchisees sign a contract that binds the franchisee to using the supply chain for a large percentage of the goods in the store (typically 2% of a franchisee's purchases can be out of the supply chain). *“So [as a franchisee] you really... [must] pick and choose, ‘what am I going to use that 2 percent for?’ ... Allowing [franchisees] to go directly to the farmers makes no money for [the large grocery chain] and it doesn't put a return to the shareholders.”* Large chains entice franchisees to accept limits on purchases because they can bankroll million dollar renovations for the franchisee. The renovations are recorded as a loan to the franchisee, a portion of which is forgiven for each year of an entire franchise contract (often 10 years). In exchange, the franchisee must order through the central supply chain. *“I always took the approach that my wholesaler was not my banker, because I always thought that it was a conflict of interest,”* says Kudrinko. He adds that franchisee protection is one area that could be improved to boost the sales of local food in Ontario's groceries: *“The number one thing that we could do in order to support local agriculture is put more rights in legislation for franchisees and re-writing franchise legislation to soften or to somewhat impede the power of the large wholesalers.”*

Kudrinko also stresses the need to discover non-local niche markets, citing frozen Nova Scotia blueberries as an example that is always in high demand. He now orders a full skid directly from the farm, shipped to CYR Distribution (his meat supplier, in Ottawa), and delivered directly to him in Westport.

Another strategy used to branch out from the middle section of a grocery is the diversification of income streams. Kudrinko sought to diversify income streams for greater economic resilience, thus opening a full-service catering business, as well as Rosie Yumski's Fine Foods (focused on shelf-stable specialty local foods and kitchen items).

The shift to local and niche foods and commitment to sustainability was reinforced by positive reaction from consumers. *"People in an agricultural or a rural community understand that money spent within our community stays in our*



Neil Kudrinko: *"People in an agricultural or a rural community understand that money spent within our community stays in our community..."*

community, and farmers have always spent most of their income and their revenues from their farms within their own communities. So I think they also respect the fact

that as a business I try to do the same in making local products available." The retailer stopped selling tobacco in 2011. Not only was tobacco inconsistent with a focus on healthy, sustainable and local foods, it also had the lowest profit margin. *"It was insignificant enough that I could afford to walk away from it! Plus, it generated good will with most of our customers,"* explained Kudrinko. Interestingly, in an earlier (and equally successful) test of his values, the tobacco industry offered to pay Neil's university tuition in 2001 – an enticement he refused.

Embracing core values

Aside from the good business practices described above, Kudrinko further differentiates himself by embracing core values: honest representation of what constitutes local, recognition of interconnectedness, and a demonstrated commitment to food access.

Kudrinko has strong views on what constitutes local food, taking issue (as so many others do) with the Ontario government's definition of 'local' as product coming from the province of Ontario. Instead, Kudrinko opts for a regional definition of local – from Eastern Ontario – products originating from farms with a *"K postal code or a 613 area code"*. Moreover, he asserts: *"I try to make sure that I include the name and location of the farm, so that we're being clear about who we're buying from and where it's coming from."* As a counter-example, he argues: *"selling Niagara peaches [as local food] in Thunder Bay is not being*

honest." For Kudrinko, it is about the *"freshness, yield, and provenance of the food."* To this end, Kudrinko's signed on with Localize – a shelf labelling system that allows customers to scan a QR code to learn more about a product's origins – ostensibly informing their choices at the point of sale (Kudrinko's 2015). However, the program failed to boost sales, and thus proved too costly to continue.

Kudrinko also implicitly recognizes interconnectedness through practices that might be described as cooperative capitalism – particularly when it comes to cooperatively setting prices. Of course, when local producers and independent grocers set prices, both sides must do their due diligence in surveying market prices, and then, as Neil explains: *"If the prices match (which they seem to often do) the transaction is made."* However, there is also sometimes a bit of leeway, whereby Neil might offer to pick the product up if he is going that way anyways or if the farmer's truck is broken down that day, and vice versa. He has also worked with growers that have an overabundance of product, cutting price to move volume. *"Rather than just taking it as margin I'll often work with them to help them clear their backlog of product."* Finally, he also establishes informal contracts, consulting with area farmers on a regular basis to plan for crop harvest the coming season.

Kudrinko's involvement with food access programs is exemplary. The business used to participate in a good food box program, whereby Neil would shop the market to build a box based on unit cost. However, he ran into a few challenges, explaining: *"People who access the food bank don't necessarily have extensive cooking abilities... They don't necessarily know what to do with zucchini, and, as a result, they are going to chuck it!"* Preparation of the boxes also proved intensive in terms of both time and labour. Thus, cooperating with the local food bank in Westport, Kudrinko moved to a voucher system in which approximately 20 families receive a voucher for fruits and vegetables, and another for dairy and eggs. Not only did the voucher system prove cheaper, but people also had greater choice over what they received (and in terms of produce, they typically selected potatoes, broccoli, celery, lettuce, apples, bananas, oranges, and grapes). The only challenge with the voucher system lay in cashiers knowing which families rely on the food bank, so some sensitivity training was required. Moreover, Neil donates 25-30 percent of food bank purchases (staples such as potatoes, broccoli, lettuce, bananas, apples and oranges) – effectively selling at cost. He asserts: *"I've always been of the mindset that if I need to make money off the food bank, [then] why am I in business? ... We do believe in giving back to the community. We donate a lot to the community... It is just the right thing to do... Food should be accessible to my customers, and sometimes they cannot afford to pay for everything they need."* However, Kudrinko balances this commitment to community well-being and social cohesion with a dose of pragmatism: *"If I am not profitable, it doesn't matter how virtuous I am."*

As an aside, Neil doesn't donate perishables directly to the food bank, since they are only able to pick up twice a month, making it difficult to match need with available inventory. He notes that in a city, the food bank might be open every day and then it would be possible to assist in that manner.

Ultimately, in all these innovations, Kudrinko's remains anomalous within the category of independent grocers. As Neil summarizes: *"Large chains and Whole Foods are doing innovative stuff, but they have the budgets to support it. For my size, I am pretty unique."*

Stories from Up and Down the Supply Chain

Sun Harvest Greenhouse and Garden Centre

<http://www.sunharvest.ca>

Figure 2: Tomatoes Growing on Vine in the Sun Harvest Greenhouse



As a fully independent grocery that prioritizes local product, Kudrinko's benefits from a multitude of different suppliers. One of the store's most trusted suppliers for fresh produce is Sun Harvest Greenhouse and Garden Centre. Sun Harvest supplies Kudrinko's with cucumbers, tomatoes and floral arrangements. Located just north of Kingston in Glenburnie, ON, Sun Harvest started producing in 2002 with 13,500 square feet of greenhouse space for wholesale tomato production. By the spring of 2003, Sun Harvest's owners, Allison and Greg Shannon, quickly realized that the wholesale market in Kingston was extremely crowded, with several large grocery chains including: Costco, FreshCo, Food Basics, No Frills, Loblaws, and Wal-Mart. The centralized supply chains of these major retailers dominated the wholesale produce industry in Kingston, leaving little room for small, local producers like Sun Harvest. Given the challenges of accessing the wholesale market, the Shannons knew that they had to diversify their operations in order to remain viable. The couple sought to increase farm-gate sales by adding cucumbers and lettuce to the greenhouses

and building an attached retail space. *“[We needed] more retail because the wholesale was tough. Dealing with the big multinationals ... [is difficult] because their hands are tied, they couldn't take our product,”* explains Greg Shannon. The Sun Harvest retail space has since turned into a full-service garden centre, with beans, raspberries, sweet corn and ornamental flowers added to the fields surrounding the greenhouse. The garden centre offers fresh produce grown on site as well as colourful floral arrangements in containers, hanging baskets and window boxes. Indeed, in 2014, the retail store constituted the biggest part of Sun Harvest's business. Greg Shannon alludes to the difficulty of building the retail business after initially establishing a wholesale outfit: *“people thought that we were the tomato people ... so that was a hard thing to shake.”*



Figure 3: Garden Centre

Notwithstanding the success of the garden centre, the Shannons persevered with the wholesale market. *“We're fortunate enough to have evolved the [wholesale] business to the point where we work mostly with independent retailers because they see the value in selling our product and we are able to [cultivate] good business relationships so that it's a win-win,”* explains Allison Shannon. Because independent retailers are not limited to purchasing from centralized supply chains reliant on large producers and low prices, they can offer products that, with respect to quality (taste) and community ties (support for the local economy), are qualitatively different than the products found in large supermarket chains. Kudrinko clearly appreciates the quality of Sun Harvest's product: *“If I was solely interested in cheaper tomatoes, I know how to find cheaper tomatoes [i.e., at the Toronto Food Terminal]. That's not hard to do. It got to the point with [my]*

customers ... that I'd have to explain to them, 'yes, you're right. I could find cheaper, I just couldn't find better quality.'" But, as Greg Shannon explains, because the large supermarkets dominate the retail grocery industry in Canada,² there are limited growth opportunities in wholesale for producers like Sun Harvest. "I'd say there's limited growth opportunities just because there's not enough independents, from a wholesale perspective." He continues, "[t]he world would be a better place if there were more independents... There's a little more of that starting up, you know. You see more of that, it's hopeful. People want to support it because it's a community hub... It's not just a store, it's a place where people meet their neighbours and see people and get caught up on things. So it's quite important from that social aspect as well." When asked if a bricks and



Allison Shannon describes diversity as a strategy to “hedge our bets and minimize risks.” Charlie Forman adds that a diversified business model “keeps my people working 365.”

mortar distribution centre for local producers would help improve wholesale opportunities for small farmers, Allison Shannon replies positively, at least in terms of getting local

food into large institutions like hospitals, schools and prisons. However, she expresses reservations about the leadership and governance structure of such an initiative: “Can all independently-minded farmers come up with one plan and make it work? I’m skeptical.” Private ownership is another option, however, Allison stresses that there would have to be some mechanism to ensure transparency and accountability. In fact, the Shannons are unsure whether they would work with a conventional food hub (should one open up in Kingston). They feel pretty “dialed-in” to their business – able to deliver a fresh, high-quality product to customers that are close by, with little spoilage. Greg Shannon suggests that working with a food hub might even mean that Sun Harvest would lose control over inventory and that their product would inevitably sit in a warehouse for some time before delivery, rather than being picked ripe and delivered the same-day. He explains: “We don’t want to eat that shrink and we don’t want our product wasted.” All that said, should Sun Harvest seek to expand their wholesale business, a food hub would be one way to help overcome the challenges associated with wholesale distribution for small producers.

² George Condon (2013) of *Canadian Grocer* magazine, citing data from 2012, reports that corporate stores have a market share of 60.7% in Canada, with the rest of the market left for independent franchisees and fully independent retailers. Condon adds that, relative to 2011, corporate stores saw a 1.8% increase in sales in 2012, while franchisees managed a 0.4% increase and fully independent stores saw sales drop 4.4%.

Forman Farms

<http://formanfarms.ca>



Figure 4: Christine and Charlie Forman and Neil Kudrinko

Forman Farms is another supplier of fresh produce for Kudrinko's. Forman Farms is a very diverse and innovative family farm operating on 2,400 acres of class 4 and 5 land (typically not suitable for horticulture) in Seeley's Bay, ON, about 30 minutes north of Kingston and an equal distance south of Kudrinko's in Westport. Christine and Charlie Forman have been farming since 1973; they grow everything from soybeans (for export to Japan) to greenhouse tomatoes for the local market. Other crops include: greenhouse cucumbers and flowers, garlic, herbs, sweet corn, zucchini, squash, Brussels sprouts, and even Christmas trees. The Formans heat the greenhouses using biomass made from pelletized scrap wood and waxed produce boxes (which are difficult to recycle) collected from neighbouring businesses (including Kudrinko's), combined with organic matter that is grown on the farm (corn, switchgrass and/or miscanthus). The Formans constructed the greenhouse floor and the growing tables with materials diverted from the landfill. Forman Farms also offers hauling/trucking services, installs field tile drainage systems on other farms, and produces coloured mulch for sale to home gardeners. Like Sun Harvest, diversity has been central to the development of Forman Farms. Producing and selling agricultural commodities is inherently risky, as volatility in prices is a given. Allison Shannon describes diversity as a strategy to *"hedge our bets and minimize risks."* Charlie Forman adds that a diversified business model *"keeps my people working 365."*



Figure 5: Fresh Local Sweet Corn Sign

The Formans supplied Kudrinko with the bulk of his local sweet corn in the summer of 2014. Just prior to the harvest, the Formans found out that two of their previous buyers of corn were no longer interested, opting instead for imported U.S. corn, which was available through the centralized supply chains that the franchised stores had access to. (Interestingly, this situation demonstrates the challenges faced by franchise grocers bound to purchasing agreements, and the resulting ripple effects.) At that point, Christine and Charlie got on the phone to find another buyer – they found Kudrinko. But the relationship established between Kudrinko's and Forman Farms has proven to be more meaningful than merely buying and selling corn. Both share a respect for the earth's resources and incorporate that core value into their business operations – resulting in a mutual respect for all parties, and for each other's businesses. While visiting Forman Farms, Kudrinko listens attentively as Charlie explains how his greenhouses are heated (i.e., using scrap wood and organic matter) and informs Charlie that the solar farm in Westport was about to send 2,000 wood pallets to the landfill. *"Oh my god!"* shouts Christine. *"See, this is terrible, because we're trying to recycle, to keep stuff out of landfills. I'm not really an environmentalist, but I can see where there's a business model there, so it's [driving] another business for us,"* continues Charlie. Kudrinko shares Charlie's sentiment about not being an environmentalist, even though he himself served as Deputy Leader of the Green Party of Ontario back in 2010. In describing the speeches he used to give in that role, Kudrinko says, *"I used to get up there all the time and say,*

'I'm not an environmentalist,' because I'm not. Smart business just has respect for resources." Charlie then promises to take his grinder up to Westport and haul the wood chips back to his farm to make wood pellets for heating the greenhouses.



Figure 6: Corn Arriving from Forman Farms

Everybody got a good chuckle out of the ease at which business transactions occur when parties come together in person and develop personal relationships based on trust and mutual respect. *"The old mindset in this area [Seeley's Bay] is that, well, we were all dairy farmers, so we didn't have to market anything. All we had to worry about was, 'is that milk cheque going to get here on the 20th or the 19th? And how am I going to spend it?' ... [I]t scares small farmers to have to do this kind of stuff, but it's so much fun when you get doing it!"*, urges Charlie. Indeed, Charlie finds that "trust" between actors in the supply chain is what has been missing from farming in the past. With local food becoming a larger and larger part of the food scene today, Charlie not only gets more enjoyment out of his work, but also generates increased profits.

Local Sources of Meat, Dairy and Eggs

Wallace Beef

Burnbrae Farms,

<http://www.burnbraefarms.com>

Kawartha Dairy,

<http://kawarthadairy.com>

Wilton Cheese,

<http://www.wiltoncheese.ca>

Figure 7: Extra Old Cheddar from the Wilton Cheese Factory



Meat and dairy (including eggs) combined make up the majority of local foods purchased by Kudrinko's, and Wallace Beef represents the largest supplier of local beef and lamb. Wallace

Beef is a privately-owned abattoir that leases space from Joycefield Penitentiary in Kingston, ON (and, in fact, is the only abattoir operated within a Canadian correctional facility). Ground beef and stew meat are sold to the penitentiary for consumption, while higher-quality cuts of beef are sold to retailers like Kudrinko's. As for the dairy section at Kudrinko's, much of the cheese is sourced from Wilton Cheese, the eggs from Burnbrae Farms, and the ice cream from Kawartha Dairy (though the latter is purchased through a distributor and not directly).

Kudrinko notes that the Burnbrae brand does not exactly fit the description of what a lot of customers would call *"local."* Burnbrae effectively serves as a large marketing board, aggregating eggs from various farms, then grading, packing and selling them. Nonetheless, Kudrinko sees Burnbrae as *"an important part of our local economy."* He explains that the cost of an egg grading station is simply beyond the means of any small- to medium-sized egg producer. Regulations about traceability make companies like Burnbrae an essential link between farmers and customers, and Kudrinko is pleased to see a family-owned and operated company filling that role in Ontario.

Wilton Cheese has been making cheese since Canada's confederation in 1867, using a process that remains largely unchanged. The factory in Odessa, Ontario includes a retail store; and in fact, Wilton's sales are composed of retail, wholesale and sponsored fundraising. With regards to the latter, fundraising groups buy Wilton cheese at a discounted price, to sell it to the community at a mark-up that is roughly equal to the mark-ups in retail stores. Thus, fundraising plays an important role in the community surrounding Wilton, supporting community initiatives while



Dave Larkin (manager at Wilton Cheese):
 “Essentially, rural central Ontario can be thought of as a series of ‘cheesesheds’.”

generating loyalty for the Wilton brand. Dave Larkin, manager at Wilton Cheese, sees cheese factories as important local institutions

throughout central Ontario. Essentially, rural central Ontario can be thought of as a series of “*cheesesheds*,” to play on the more familiar term, “*foodshed*.” Larkin furthers: “*Everyone supports their local cheese factory. If we take our cheese and try to sell it in Belleville [only 65 kilometers to the west]... it doesn't sell. Because everybody up there supports Maple Dale, Empire, [or] Ivanhoe, because [those are] their local producers.*”



Figure 8: Entrance to the Wilton Cheese Factory

While cheese making may not have changed much, the grocery industry certainly has. Larkin explains that 25 years ago, the grocery industry was far less concentrated. Today, the large grocery chains have a great deal of power when it

comes to setting prices. *“It’s challenging for us to meet their requirements. They want a percentage for stocking fees, and you can’t just say ‘okay, milk has [risen] 1 percent this year, fuel has gone up significantly and wages and everything. We’d like to raise prices by 3 percent.’ They say ‘no, you’re going to raise prices by 1 percent, because that’s all milk went up.’ And that’s all they’ll give. And they’re too big of a store to say, ‘no,’ they’ll just drop you. ... They’re like the mafia of grocery stores.”*

Potential benefits of a food hub

Kudrinko cited various potential benefits of a local food hub, and in fact, served as consultant on the Smith Falls’ Two Rivers Food Hub (<http://tworiversfoodhub.com>)(situated only 30 minutes east, though to date they have focused largely on kitchen facility rentals). First, he argued that a food hub would offer *“greater availability, regularity and diversity of products”* – all benefits of aggregation. He used Upper Canada Cranberries as a prime candidate for aggregation through a food hub, and subsequent distribution to a much larger network. Neil currently buys this product through informal means – a friend that regularly makes trips from Ottawa [Greely] to Westport. Otherwise, Upper Canada Cranberries relies a lot on farmers’ markets for sales. Second, he posited that a food hub would serve as *“a place for a discussion about*



Neil Kudrinko: “Food hubs force people to look at our agricultural system in a different way.”

cooperation to happen” – for example, about *“who is growing what”* – thus facilitating relationships between retailers and growers. Kudrinko argues

the food hub would not only create new suppliers, but also encourage current small suppliers to grow their business and offer a more diverse set of products. Kudrinko feels this would represent *“a really positive step towards greater self-reliance for food in Eastern Ontario”* – enabling retailers such as himself to be less dependent on large supply chains. Third, he explained: *“A food hub could have specialized storage to keep food in better shape for much longer, and reduce my requirement to set aside space for storage.”* Fourth, he argued a food hub would enable small farmers to gain a competitive advantage with respect to distance. For example, using a centralized aggregation point, they could reduce the amount of travel required to supply several customers. On the emergent Two Rivers Food Hub, Kudrinko viewed benefits to include access to *“a commercial kitchen for artisanal suppliers and post-harvest processing,” increased supply of local goods, and the potential role for the hub to serve “as an incubator for new businesses”*. Fifth, Kudrinko argued that while local food hubs are not likely going to compete on price with larger global supply chains, they will compete favourably on quality. And finally, he identified traceability as critically important for vegetables, especially considering recent E. Coli contamination: *“We must know where fresh foods come from, and where they get sold.”*

Challenges and Limitations

The biggest challenge Kudrinko faces is limited supply of local product, thus, as mentioned earlier, he engages in what might be characterized as cooperative capitalism – with the following mantra: *“If you grow them, I will buy them.”* He also hopes that local producers will more regularly notify him of potential gaps in supply, so that he can act in advance to fill them. He points out that his customers do not care why



Neil Kudrinko: “If you grow them, I will buy them.”

the product is unavailable, and will not hesitate to seek it out through his competitors (most notably, Loblaws in Perth). Ultimately, he stresses the need for local producers to diversify – to step outside conventional markets to try something different – and to be willing to assume the risk of doing so.

On the contrary, another challenge retailers face in switching to local producers lies in jeopardizing relationships with larger producers in southwestern Ontario (that always have ample supply of product). As Kudrinko explains: *“So it’s difficult to go back [to larger producers] when you’ve switched the business away [towards local] and then [in a jam] you come back to them and say, ‘okay my local guy didn’t have them, I want yours again.’”* These suppliers would, of course, privilege their more consistent buyers.

A second challenge Kudrinko identifies relates to the logistics of dealing with many different individual producers. For Kudrinko, this means significant transaction costs: individual orders to place, contacts to make, relationships to maintain, and ultimately: *“10 different pickup trucks backing up to my door...”* Kudrinko identifies this inefficiency as *“the dirty side of local food”* – with a greater environmental impact than if shipping were aggregated – something a food hub would mitigate.

He explains further that the food terminal in Toronto offers a large aggregation of product sorted by size, color, etc. In fact, the grading that goes into aggregation has effectively trained the customer to expect perfection (or, at least, uniformity of size and color, and without blemishes). In this sense, Kudrinko asserts: *“Educating the consumer is probably one of the biggest challenges... So you have to really be passionate about the relationship, and be willing to go out and talk about the relationship and why it’s... adding value to the community. Because you have to get the consumer to buy into it. If the quality’s not there, people don’t care if it’s grown right behind the store, they’ll leave a lesser-quality product lying on the shelf because they have certain expectations.”* In the end, Kudrinko helps to support his local economy, providing products that not only meet nutritional and economic needs, but also create an emotional attachment. Neil is selling a product, but also serving as an ambassador to represent the values of the people who produce it.

Kudrinko also remarked on the limits of consumers to support local, identifying a lack of sales of certain high-quality local products that are simply beyond the price point of most consumers. Similarly, small producers are not always able to provide a constant supply. Neil explains: *“My customer doesn’t care why the product is not there. They just know that it isn’t, and they’re going to my competition because I don’t have it.”*

Kudrinko remains ever aware of rising commodity prices and potential disruptions to his supply chains – *“the unpredictability of climate [change] is impacting the movement of goods across the continent,”* he explains. As an example, in winter 2016, if a case of celery from California cost \$84, transportation would have accounted for roughly half of that cost (i.e., \$40). Recent droughts in California and the low Canadian dollar have further exacerbated the price of fresh produce in winter 2015-2016.

Finally, we must flag that Kudrinko has largely not availed himself of government sustainability grants, most of which privilege energy improvements that supplement the grid, and prove less concerned with improvements that reduce the amount of energy utilized (through heat reclaiming systems, more efficient lighting systems, and so on). One exception was an \$80k investment in equipment in spring 2015, for which the manufacturer handled the Save On Energy application in exchange for a 25% rebate (~\$8500). He laments: *“There must have been a hundred emails on my computer attributed to the application. It’s a disgrace and if I had to do it personally, I wouldn’t bother.”*

Conclusion

Kudrinko’s demonstrates the tremendous potential for independent retailers to adopt a strong leadership role in advancing environmental and social justice ethics in the emerging local food economy. Without doubt, significant challenges remain: notably, limited supply of local product, high transactions costs, the ongoing need for consumer education, rising commodity prices, climate change, and potential disruptions to the supply chain. These challenges might be



Neil Kudrinko: *“I’m not going to get bent out of shape trying to figure out how to compete against Wal-Mart.”*

mitigated by the presence of a local food hub. However, our interviews with Neil Kudrinko, and some of his key suppliers, showed that success in this

arena requires a willingness to take on, and actively mitigate, risk. In this regard, diversification results in less risk, greater security and resilience. Kudrinko’s and its trusted produce suppliers, Sunharvest Greenhouses and Garden Centre and Forman Farms, have each had to diversify to ensure success. Success also hinges on: recognition of the interdependent relations of small producers and retailers (and trust between actors in the supply chain); the need for franchisee

protection (and for legislation to mitigate the power imbalance between franchisees and large wholesalers); and more champions like Neil and Martha Kudrinko who perceive these interconnections, and build their businesses with vision and care. Food hub projects and their funders need to determine whether they can help to cultivate these activities for local food producers, distributors and retailers. Kudrinko's, as a hub for local food, has shown this to be possible.

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