

Customer Base and Pricing Strategy

In a relatively crowded marketplace for restaurants, Zia Taqueria stands out as the only retail dining establishment in Durango that continues to build its supply chains for local product sourcing, while maintaining price points that are affordable to most Durango residents. In fact, affordability of good, locally sourced food is a priority for Zia Taqueria's owners, who price all dishes under \$10. Two other area restaurants feature local foods on the menu in approximately the same price range, but these establishments have not engaged in the extensive supply chain development that has been Zia's hallmark. The other establishments that source locally and actively promote their product sourcing include: El Moro (small plates from \$7, and large plates from \$14); Mahogany Grille (vegetarian dinner options start at \$18); Cyprus Café (\$10 lunch to \$34 dinner plates); and Ore House (dinners begin at \$22), among others. Therefore, Zia occupies a unique niche in the Durango restaurant scene and maintains a solid following of regular clients. As a result, Tim estimates that 75% of his customers are regular patrons, and approximately 80% are from the local area.

Zia's stable menu pricing is also remarkable given that consumer prices for food away from home have risen by 9.4% since 2010 (Federal Reserve Bank of St. Louis 2014). Zia Taqueria's last price increase was in spring 2010—which likely represents another customer retention strategy. The restaurant's loyal customer base relies on Zia for high quality and affordable offerings. Although Tim indicated that he will likely raise the prices of some items in the face of rising ingredient costs, he will not increase the prices on all menu items in an effort maintain affordable dining for the community.

Limitations to Local Sourcing

Zia does encounter some significant barriers to growing its local sourcing of raw agricultural products and increasing regional processing of corn into value-added products. These barriers are both external to the business (beyond its control or influence) and internal to the business (within its control or influence). External barriers include the small number of vegetable growers who are located within La Plata County (from whom purchases would reduce the distance the food travels) and who can reliably grow the products that Tim needs. The limited number of growers is due to a wide range of factors, including:

- **Location.** The high desert elevation limits the growing season to 90 days in some areas, while other areas have as many as 130 days in their growing season. This means that more expensive investments in season extension and year-round growing technologies are critical to increasing the supply of local foods.
- **Prices for land.** Since Zia opened in 2005, the population of La Plata County has increased by 10% (based on 2012 estimates from the Colorado State Demographer) which has led to the development of agricultural land for residential housing. The scarcity of suitable ag land has, in turn, increased land prices. This not only attracts some farmers to sell their land for development (meaning there are fewer and fewer farmers in agriculture); but it also makes it difficult for new farmers to purchase or lease land for agricultural production.

- **Water scarcity.** A lack of water in some areas has limited crop irrigation, livestock watering and forage production, which has increased costs of production and, in some cases, led farmers to leave farming and ranching.
- **Limited food processing facilities.** Lack of poultry processing means locally-produced chicken cannot be used in the restaurant. There is also no proximate location for processing fruits and vegetables in the region.

Internal barriers to purchasing more local products include the higher costs of sourcing local, many of which are hidden costs. For example, buyers like Tim purchase local foods at wholesale prices, but after first incurring the additional cost of researching and contacting growers, and then repacking and storing any food that is purchased in small lots, and often doing additional cleaning and prepping of field-fresh produce (especially lettuces), above what would be required were the produce purchased from a mainline distributor.

Tim believes a wholesale clearinghouse would reduce some of the costs of local sourcing by locating producers and aggregating product into bigger lots for purchase. At this time, there are two avenues that assist local food buyers. First, there are two electronic guides for those searching for local foods in the region: Mesa Verde Local Foods (<http://ocs.fortlewis.edu/localfood/>) which lists 12 produce and 4 livestock growers in La Plata and Montezuma Counties; and Colorado MarketMaker (www.comarketmaker.com) which lists 7 produce and 4 livestock growers for the same geographic area. However, a regional producer distribution cooperative did form in March 2014—Southwest Farm Fresh. The new cooperative currently has 20 producer-members across 3 counties who will offer meats (tilapia, bison, beef, pork and lamb), and vegetables and fruits (salad and micro greens, broccoli, cucumbers, kale, spinach, carrots, tomatoes, apples, squash, and other produce). The activities of this distribution business may well help Zia increase its local sourcing to nearly 50% well before its target year of 2020.

Lastly, food processing facilities would also help to reduce the costs of local sourcing since raw agricultural products could be purchased in season and then frozen or canned for later use. Zia has not had a very successful experience with processing fresh product in its own small kitchens, and is in the process of developing its own facility in Mancos, which is 28 miles from Durango in Montezuma County.

Overall Business Growth

Zia reports annual sales growth of 15-20% per year since opening its first restaurant in 2005. Initially, the catering business had a smaller contribution to total sales (1-2% in 2005), but over time grew to 18% in 2013, especially as Zia has become known for providing high quality, fresh offerings for a wide variety of events—from community events to corporate lunches to weddings. It is important to note that the restaurant's strong sales growth has continued since it opened, in sharp contrast to general trends illustrated by metrics from the National Restaurant Association (see Figure 3), whose Restaurant Performance Index showed negative sales, customer traffic and expectations from 2007-2010 (NRA 2014). Both Zia restaurant locations have strong sales and serve approximately 300 meals per day, year round.

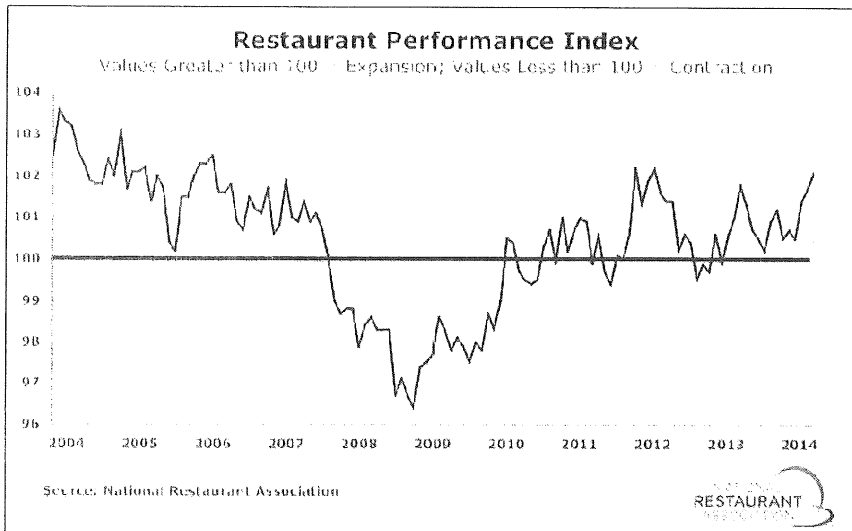


Figure 3. Restaurant Performance Index, 2004-2014

Comparing Zia Taqueria’s cost structure to typical restaurant metrics, one observes that Zia’s food (cost of goods sold) and labor costs are each approximately 32% of total sales, compared to an industry average of 30% (Colwell 2012). Zia’s overhead is estimated at 20%, equivalent to industry standards, while earnings are estimated at 16%—below the industry benchmark of 20% (see Figure 4). Higher labor and food costs may be related to Zia’s emphasis on labor-intensive local food sourcing and preparation. However, lower than average earnings may be an indication of profit foregone resulting from Zia’s direct and indirect investment in human capital (wages and benefits paid to workers hired or retained by Zia and the businesses with which the restaurant contracts), as well as Zia’s investments in the long-term development of local businesses (capital equipment purchases), and generous donations of food and gift cards to support community events (valued at approximately \$70,000 per year).

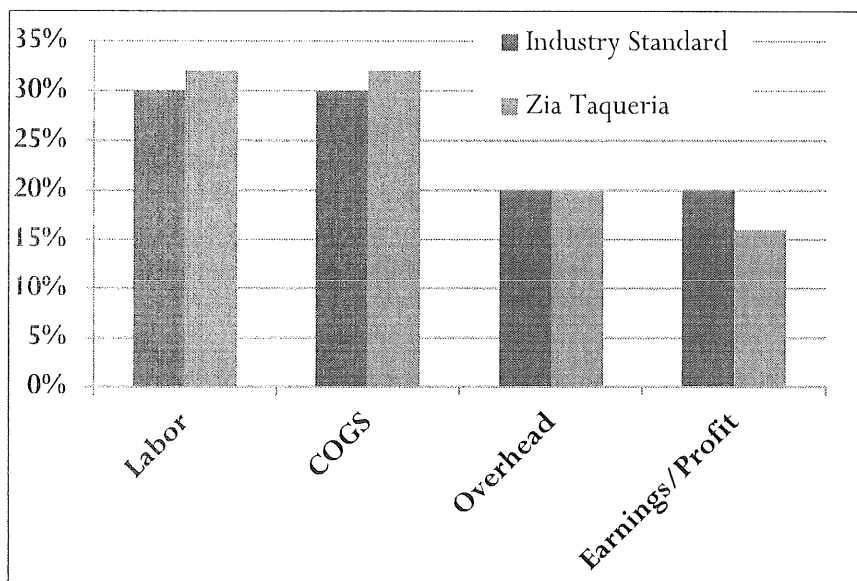


Figure 4. Zia Taqueria’s 2013 cost structure compared to industry benchmarks

Notes. COGS=Cost of Goods Sold. Zia reports its earnings as EBITDA (before interest, taxes, depreciation and amortization).

Positive Outcomes and Benefits to Community

There are several types of impacts that can be associated with Zia Taqueria's role in developing regional supply chain linkages, as well as the way in which it has reduced food waste and energy use in its operations (which likely helps to offset its relatively higher food costs compared to similar food businesses).

First, Zia currently directly sources an increasing amount of food from local farmers and ranchers by regularly buying vegetables from at least 6 local growers and intermittently from multiple vendors in the Durango Farmers Market (which is open from May through October); and meats from at least 3 beef and pork producers, with occasional purchases from 4-H participants who raise hogs. The restaurant processes all meats and beans locally, while purchasing corn within the Four Corners region (in Shiprock, New Mexico) for processing in Colorado.

Employment generation and retention are important indicators of Zia Taqueria's impact in the region. The restaurant itself has two salaried general managers who have been with the business for more than 5 years, and Tim is committed to maintaining a fair and enjoyable work environment that creates employee loyalty and reduces staff turnover. In addition, Zia Taqueria has indirectly contributed to employment in the region. For example, by purchasing corn from the Ute Mountain growers, Tim believes he has either created or retained one position by creating additional demand for Bow and Arrow Brand corn (a non-GMO, traditional variety) which is grown by the Utes on their 7,700 acre irrigated farm. La Milpa in Clifton, Colorado added one position to its workforce to process the raw corn and make masa and tortillas for Zia.

The Chip Peddler in Durango was a small, struggling independent business until Zia began contracting with them to make tortilla chips. Today The Chip Peddler has hired one additional employee and expanded its customer base. Thus Zia Taqueria's direct hiring, as well as its processing contracts with other businesses, have contributed to employment generation and retention in the region's farm, ranch, food processing, and food manufacturing sectors.

Second, Zia has reduced waste and energy consumption, and thus lowered some of its costs, through the following practices:

- Saving all kitchen scraps for the James Ranch who picks them up to feed their chickens. This equates to 50 gallons per week of scraps that are not sent into the waste stream, and that reduce the chicken producer's costs of feed.
- Investing in solar energy by using two 10KW systems for the restaurant which produces about 20% of their electricity. The energy that is required but not produced by the restaurants is purchased through La Plata Energy Association's renewable energy program.
- Using multi-use plates, forks, spoons, knives, and glasses for serving and catering. All paper products are post-consumer products and are pre-cut to reduce consumption.
- Eliminating use of plastic bags, and using buckets and crates for harvesting and storing the locally-sourced food they purchase. Zia sends all cardboard, paper board, paper, glass, tin, and plastic into the Durango recycling stream.

- Incorporating recycled materials in their buildings, and using high-efficiency compact-florescent fixtures and bulbs for lighting (which are on timers to reduce energy consumption, and water savers on all water faucets).
- Purchasing bicycles for employees (25 bicycles to-date), for commuting to work and for recreational use.

As a result of its ongoing efforts to reduce waste through conservation, energy production, and local sourcing, in February 2014 Zia Taqueria was recognized for its environmentally-friendly practices by the San Juan Citizen's Alliance Green Business Roundtable and was awarded the 2013 Green Business Leadership Award for leadership in environmentally-based contributions to the community.

Services Provided by Other Community Organizations and Partners

Since its inception in 2005, Zia Taqueria has grown to become a catalyst for new community and business relationships within the region. One anchor regional food systems group is Growing Partners of Southwest Colorado—a partnership of agencies and individuals working together to support a fair, sustainable local food system that reaches all incomes, ages and cultures.

Growing Partners of Southwest Colorado is a coalition of 11 organizations whose goals are to: 1) increase the amount of and access to local, high quality foods; 2) provide beginning farmer support; 3) increase access to growing spaces; 4) facilitate sustainable educational programs and celebrations of local food; and 5) build partnerships and community around food. They produced a community-wide food assessment in 2007, one of the first in the state of Colorado, which called attention to both the opportunities for enhancing the region's food system, as well as the constraints on production and processing.

Growing Partners also supports multiple food-based events each year (Homegrown Food Retreat, Iron Horse Chef competition, Tour de Farms, and Apple Days) in which Zia Taqueria and other businesses and community organizations participate (these include the Southern Ute Community Action Programs, Cooking Matters, The Garden Project of Southwest Colorado, Fort Lewis College Environmental Center, The Old Fort at Hesperus, CSU Extension in La Plata County, Healthy Community Food Systems, Healthy Lifestyle La Plata, La Plata Unity Project, Turtle Lake Refuge, and Twin Buttes Gardens).

These events provide a substantial promotional opportunity for Zia Taqueria, a major sponsor in all of the Growing Partners' events, as well as an opportunity to develop relationships with new growers in the region. For example, in 2013 Zia hosted 3 days where 10% of its restaurant profits were donated to The Garden Project. The Garden Project advertised the fundraising project to its members, partners, and the community at large by posting flyers, sending out newsletters and posting on Facebook. This advertising resulted in increased traffic and sales at Zia Taqueria's locations during the benefit days, which generated the 10% donation, while supporting a cause that is important to Zia's owners.

The La Plata County Building Farmers and Ranchers program and the Old Fort at Hesperus' farm incubator both work with new agricultural producers to teach business planning and

management skills, and enhance market outlets for new entrants to livestock and crop production. Participants in both of these programs graduate with a business plan and more knowledge of how to work with different buyers—from farmers' markets to restaurants to institutional buyers. Zia Taqueria currently buys from 3 producers who are graduates of the Building Farmers and Ranchers program because they have the ability to plan their production to meet Zia's specific requirements for varieties produced, quality and harvest timing. Thus, from food production through to service for consumption, Zia Taqueria's owners consistently leverage the community's food system assets, while also contributing to creating and sustaining its multiple backward and forward supply chain linkages.

Conclusion

Zia Taqueria is a small-scale restaurant and catering business that is creating new linkages in Southwestern Colorado's food economy. These linkages include new supply chains for food procurement and processing, as well as investments in regional businesses that increase their capacity and sustainability. For example, Zia's efforts to use heritage corn varieties in its tortillas and chips has resulted in creating at least 2 jobs, as well as promoting foods that are grown and processed regionally. By investing in season extension techniques such as greenhouses and high tunnels for local produce growers, Zia stabilizes its own supply of fresh produce. However, the restaurant also expands production capacity and potential marketing opportunities for the producers benefiting from those investments. Therefore, even though Zia Taqueria has a small physical footprint, it has a larger impact in terms of bolstering the capacity of Southwest Colorado growers and food processors to meet the regions' burgeoning demand for local foods, and create a more connected food economy, based on investing in sustainable businesses.

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