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Local Food Systems and Interactions with Entrepreneurship

Zia Taqueria: Building a Local Supply Chain in Southwestern Colorado¹

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Abstract

Zia Taqueria is a full-service restaurant in Durango, Colorado whose owners have steadily increased the proportion of local vegetables, grains and meats they source and serve to their customers. They created new supply chains that add value to heritage products grown in the Four Corners area, invested in building capacity in local farming operations, and created a restaurant brand known for its commitment to serving high-quality, reasonably priced meals. In addition to operating a profitable and energy-efficient business, they support other local businesses and community events and have become leaders in developing a vibrant local food economy in Southwest Colorado.

Keywords: supply chain development, local sourcing, production planning

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Business Profile

Zia Taqueria is a restaurant and catering business that serves fresh Mexican cuisine in southwestern Colorado (see Figure 1 below). Zia was initially launched in 2005 by Tim Turner, a former bakery owner from Massachusetts, and his wife Becky, who is a silversmith. Tim originally moved to Durango in 2001 to become a partner in Bread, a Durango bakery. Inspired to open his own business after several years, Tim travelled to San Francisco to research recipes and menus for high-quality Mexican fare. He subsequently opened Zia's first location on May 5, 2005 on Main Avenue in Durango. He opened a second location on South Camino del Rio in Durango in April 2013 adjacent to Ska Brewery. The second restaurant initially operated out of an Airstream trailer, but now has its own location. The restaurant name is symbolic of the owners' business philosophy. A taqueria is a restaurant or stand specializing in Mexican dishes, such as tacos and burritos, while the Zia sun symbol originated with the Indians of the Zia Pueblo. The Zia Sun was often referred to as the "Giver of all Good Gifts," and Zia Taqueria's owners are involved in a wide range of community food systems outreach and activities.



Figure 1. Southwestern Colorado region

What makes this business unique is how their value proposition infuses every aspect of their food sourcing and service. They state, "Our commitment to local food stems from our belief in the benefits of eating nutrient-dense food, which is grown locally. Supporting local farmers and ranchers is central to building a healthy and sustainable community. Purchasing local food keeps dollars in our regional economy, reduces our carbon footprint, and offers healthier food options to our patrons." As this study illustrates, Tim Turner's desire to create more direct, localized supply chains from which he sources food for his restaurant and catering businesses, has served as an example to other local businesses to reconsider where they purchase their inputs and the manner in which those inputs are produced.

The restaurant concept is to serve fresh, mostly local food in a way similar to Chipotle restaurants--customers can see the ingredients that will become their meal and choose from a variety of beans, rice, meats, vegetables, cheeses and salsas. Both restaurant locations are open seven days a week for lunch and dinner, year-round. Zia also serves daily specials for those who

don't want to construct their own plate. They have gluten-free offerings, as well as "Smart Meal" options which were developed under the Colorado Smart Meal Restaurant and Eating Establishment Program, where restaurants can be designated as having menu items that meet calorie and nutrition criteria for healthy eating.

Business Location

Both Zia Taqueria restaurants are located in downtown Durango—a growing city with significant tourism, a small undergraduate student population, and a competitive food service environment. Durango is the seat of La Plata County and its most populous municipality. La Plata County lies in the Four Corners area whose states—Colorado, Utah, Arizona and New Mexico—are often linked in regional food systems transactions. The city of Durango holds one-third of the county's total population of 52,506, and was estimated at 17,269 residents in 2012 (State Demographer's Office 2014). Fort Lewis College is located in Durango, with a student population of 1,736 in 2012. In addition, Durango sees considerable tourist traffic as it lies 35 miles from Mesa Verde National Park, and is known for whitewater rafting, fishing, the Durango & Silverton Narrow Gauge Railroad and many other sites. In fact, La Plata County consistently receives more than one-third of all traveler spending in its nine-county region—estimated at \$251.6 million per year for 2012 (Dean Runyan Associates 2013). The median income for La Plata County residents is \$73,400—higher than the state average of \$72,100 for 2013 (BEA 2013). The county's 2012 median income estimate was equivalent to the state median of \$74,100.

Durango and the surrounding area have a substantial base of potential resident and visitor restaurant customers, and it has become a rich location for eating and dining establishments. Labor Market Information data for La Plata County list 77 full service restaurants as of March 2014 (by 6-digit NAICS code) (BLS 2014), with most of these located in Durango (61 total, or 79%). In addition, there are nine restaurants in Bayfield (population, 2,416), and six in Ignacio (population, 705). Overall, there are twice as many restaurants per 10,000 residents in La Plata County than there are in Colorado overall.

Business Situation:Interface with Local Food Systems

Although there is a lot of competition for customers among Durango's many eating and dining establishments, there are opportunities for differentiation among businesses. The region has growing public and private support for its local foods community through an umbrella organization known as Growing Partners of Southwest Colorado. In addition, there are some unique opportunities for building a differentiated business based on sourcing local products and featuring seasonally available and appropriate menu items. Leveraging these assets allows Zia Taqueria to capture a market share of regular lunch and dinner patrons, and generate catering clients who are drawn to the restaurant's menu, philosophy of service, and willingness to work with local organizations.

Of particular interest is the manner in which Zia Taqueria's operations create a supply chain for locally grown and processed foods in Southwestern Colorado—even beyond the restaurant's own market. Not only does Tim Turner purchase fresh produce, grains, beans and meats, but he creates both backward and forward supply chain linkages that are anchored in the Four Corners region. Ultimately his goal is to bring new suppliers and processors into La Plata County,

support existing ones within the county, and center these purchases within a 30-mile radius of the restaurant. Tim's vision is to be a leader in demonstrating that many different types of buyers can support local food production—retail (direct to consumer) and wholesale buyers alike. This creates more consistent demand for his suppliers' products which allows them to engage in more deliberate and economically viable production planning. For example, Tim works with growers before they plant their crops so he can let them know what his needs will be over the season, both in terms of varieties grown and quantities needed. His investments in season extension techniques (he has purchased greenhouses and high tunnels for three growers, and small-scale field equipment for another) means that he lengthens the supply period for local produce and creates new capacity among those growers so they can seek other sales outlets for the produce they grow in using Zia's investments.

Furthermore, by working with local and regional meat, grain and bean processors, he has more influence over the origin of the raw product and the quality of the processed product. For example, he purchases locally raised beef and pork and has it processed at Sunnyside Meats, a USDA certified slaughter and processing facility outside of Durango. He can work directly with the processor on the cuts he needs, and obtain lower processing prices because he can use flexible scheduling (off-peak processing warrants a discount with that facility).

Product Sourcing

Zia is known for its menu offerings based on locally raised beef, pork, beans, tomatoes, tomatillos, peppers, cabbage, salad mix, lettuce, squash, zucchini, potatoes, cilantro, and other products. The Turners have defined local for their business practices as originating with a 30-mile radius of their restaurants, while any regional product they select comes from either La Plata or neighboring Montezuma County. The business also supplements its local sourcing with food products from two mainline distributors: Shamrock Foods (which has distribution centers in Commerce City, Colorado and Albuquerque, New Mexico, among other locations), and Labatt Food Service (a Texas-based company that distributes food and related products from distribution centers in San Antonio, Dallas, Lubbock, and Houston, Texas and Albuquerque, New Mexico).

Zia obtains its fresh produce from a variety of small farms located around Durango and Hesperus that grow summer and winter vegetables. The majority of Tim's purchases are based on long-term relationships and production planning with 6 growers, but he also purchases some produce from vendors in the Durango farmers market. He purchases meats from several area livestock growers. While local beef is relatively easy to source, pork and poultry are more difficult to procure. Pork is in short supply since local demand has been increasing. Tim is usually only able to buy residual quantities of wholesale pork that vendors can't first sell through retail channels. He has also purchased animals through the county 4-H program to support emerging livestock producers.

Zia's mainline distributors play an important role in supplying products that Tim cannot source locally. For example, there is no chicken meat available for retail distribution since there is no poultry processing in the region. In fact, the closest in-state poultry processing facility was in Northern Colorado; however, it too recently closed. Lastly, Tim is able to source a variety of dry beans and spices from Dove Creek in nearby Dolores County, and he buys white and blue corn near Shiprock, New Mexico from Ute Reservation farms.

Product Processing

In addition to purchasing fresh, local foods, Tim tries to have those foods processed to his specifications in the region. In the case of meats, whole animals are processed at Sunnyside Meats, a USDA-inspected and custom livestock processing plant outside of Durango. Tim purchases the Ute Mountain corn by the pallet, and ships it 270 miles to be made into masa and tortillas in Clifton, Colorado, east of Grand Junction. The masa is then returned to Durango and made into gluten-free corn chips at the Chip Peddler, using seasoning obtained from Adobe Milling in Dove Creek. Although this processing arrangement entails larger than ideal transportation and handling costs, it is the only way to process heritage corn varieties and use them in Zia's food service.

Marketing

Zia Taqueria engages in both direct and indirect marketing. The restaurant reaches its current and potential customers through its web site, Facebook page, intermittent articles in local publications (Edible San Juan Mountains, Durango Herald), and a YouTube promotional video. The web site informs visitors of the business's values, menu, and outreach activities in the community. The restaurant's Facebook page helps to connect its community of regular diners and those who participate in broader community activities through frequent posts and photos.

Indirectly, Zia promotes its products and values through its many community sponsorships and events. The restaurant caters many special occasions, such as weddings, business lunches and dinners, conferences, and community events. In addition, Zia has contributed to more than 400 events and organizations in the last 9 years through financial gifts or food donations. In fact, throughout 2013, Zia supported all of Growing Partners' events and programs (see Services Provided by Other Community Organizations and Partners). This is not only a powerful marketing tool for the restaurant business, but it also promotes the food producers from whom Zia sources.

Lastly, Zia Taqueria provides occasional meals for two charter schools in Durango—Mountain High Middle School and Animas High School—by offering several menu items for the children to choose from. This has the benefit of showcasing local products to children, promoting healthy eating choices, and reaching the families of those students.

Entrepreneurial Focus

Local Investment

Zia Taqueria's role in effectively developing and supporting a new supply chain for local foods can be evaluated through two metrics:

- 1. The increasing quantity of produce, meat and other food products that Zia Taqueria sources directly from a diverse and growing number of suppliers; and
- 2. Capital investments in suppliers' capacity to increase production and sell their raw agricultural products to Zia Taqueria.

In its initial year (2005), Zia Taqueria sourced 5-6% of its meat and fresh produce locally. By working with growers on production planning to generate output levels that meet Zia's quality standards and desired harvest timing throughout the season, over the last 8 years Tim has been able to increase local sourcing to 18% of all food used in both his catering and restaurant businesses. His goal for 2020 is to increase the proportion of local sourcing to 45% of all food purchases (see Figure 2 below).

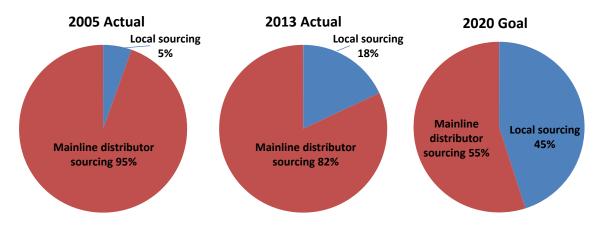


Figure 2. Zia Taqueria's local vs. non-local product sourcing, 2005-2020

Although Tim's goal is to develop long-term procurement relationships with existing businesses, he has found no local facility to cut and freeze or preserve fresh vegetables for year-round use in his kitchens. To mitigate this problem, Tim is planning on constructing a small vegetable processing facility in Montezuma County that will likely be operational in 2015. Although he currently purchases from growers throughout the region, he has considered starting his own farm to provide additional produce for his business. He already has control over some portions of the restaurant and catering business's supply chain by working directly with produce and meat growers, and using tortilla and chip manufacturers that will receive and process his Ute Mountain-sourced corn.

Zia has invested approximately \$45,000 in greenhouses and high tunnels, which includes the cost of labor to build the structures. In addition, he has purchased \$5,000 in small-scale farm equipment that is being used for cultivation in one producer's vegetable fields. These capital investments serve two purposes. First, they help Tim secure a more reliable and higher quality supply of produce that will be available over a longer period of time—especially in terms of extending the production season into early spring and late fall when cold temperatures preclude open field production. Second, they represent Zia's investment in the growers' capacity to produce other products and expand into new markets, since they have the option of selling their produce to other buyers once they fulfill their commitment to Zia. Tim makes the initial purchases and the growers take possession of the structures and equipment. These growers have periods ranging from 4-7 years to pay for the cost of the capital purchases (interest-free), which they do by selling a proportion of their produce to Zia at a 50% discount. Zia retains ownership of all structures and implements until they are paid off, which allows Zia to depreciate these items until their ownership is transferred to the grower.

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); Mahagony 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).

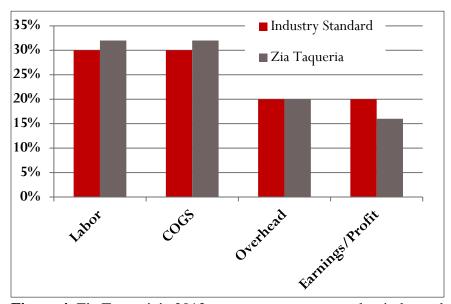


Figure 4. Zia Taqueria's 2013 cost structure compared to industry benchmarks **Notes.** COGS=Cost of Goods Sold. Zia reports its earnings as EBITDA (before interest, taxes, depreciation and amortization).

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 intermittmently 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 precut 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 compactflorescent 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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