

Roadmap for Expanding SNAP Online in Arizona

TECHNICAL REPORT



Roadmap for Expanding SNAP Online in Arizona

TECHNICAL REPORT

Table of Contents

- SNAP Online Purchasing: Where We Are Today** 3
 - Opportunities for SNAP Online Purchasing are Expanding 4
 - Internet Grocery can Improve Access to Healthy Food 5
- Internet Retail and SNAP EBT 101**..... 7
 - “eCommerce” vs “Online Marketplaces” 7
 - What is EBT and How Does it Work With Internet Shopping?..... 7
- Making Internet Grocery Available to Arizonans** 10
 - Independent Grocers 10
 - Pre-Order Produce Boxes 10
 - Farmers Markets 13
- Becoming a SNAP Internet Retailer: Challenges and Key Success Factors.** 14
 - Step 1:** Obtain an Initial FNS SNAP Permit 14
 - Step 2:** Establish an eCommerce Business 16
 - Considerations for Integrating Fruit and Vegetable Incentives Like Double Up Food Bucks 18
 - Step 3:** Work With a Certified PIN-Entry Third Party Processor (TPP) in Preparation to Integrate the EBT Payment System..... 20
 - Step 4:** Apply to Become an FNS Authorized SNAP Internet Retailer 21
- SNAP Online Purchasing: Where We Want to Be** 22
- References** 24

Brought to you by Activate Food Arizona in partnership with Pinnacle Prevention through generous funding provided by Vitalyst Health Foundation.

Report Prepared by Kate O’Neill

SNAP Online Purchasing: Where We Are Today

The COVID-19 pandemic has fundamentally changed the way many people shop for food. Online payment technologies and eCommerce solutions are developing rapidly in order to meet unprecedented demand for online shopping. An estimated 60% of shoppers now purchase groceries online and polls suggest that consumers plan to continue online shopping even as the country opens up.¹ The industry expects online shopping to more than double its market share over the next five years.² Despite this momentum, online grocery options are still limited in rural communities and for shoppers receiving Supplemental Nutrition Assistance Program (SNAP) benefits.

A small number of Arizona retailers are ready to offer online purchasing capabilities to their SNAP customers but face considerable barriers to entry. SNAP retailer requirements are highly complex and unclear due to the pilot nature of the program. Existing eCommerce platforms must be updated to meet a long list of technical requirements including the integration of a US Department of Agriculture (USDA) Food and Nutrition Service (FNS) certified PIN-entry payment system. This requires significant costs for software development or add-on functionality, as well as start-up, annual, and per transaction costs for the extra Third-Party Processor (TPP) PIN-entry system. In addition to investments in technology, successful internet grocery often depends upon investments in workforce, cold storage, and transportation.

Activate Food Arizona, supported by Vitalyst Health Foundation, developed this Technical Report as a first step in creating a *Roadmap for Expanding SNAP Online in Arizona* that charts a path for ensuring a level playing field for diverse grocery retailers and SNAP recipients in Arizona already facing challenges accessing healthy, affordable food. Policy and plans for implementing SNAP online purchasing across diverse types of retailers continues to emerge from the FNS as more pilot programs roll out on the local level. Thus,

we see this *Roadmap* project as an ongoing process of staying informed on policy and best practices, building and informing a network of interested stakeholders, connecting retailers to available technical assistance, and supporting the conditions needed for successful expansion of SNAP online in Arizona.

This Technical Report synthesizes findings from in-depth SNAP online policy research and stakeholder engagement with Arizona internet retailers hoping to offer online purchasing to their SNAP customers.





The number of independent grocers authorized to accept SNAP payments online continue to grow nationwide and it is expected that some farmers markets and direct marketing farmers will be authorized as SNAP internet retailers by 2022.

It provides technical information and case illustrations to inform small retailers interested in accepting SNAP online purchases and highlights areas where decision-makers, healthy food access support organizations, and other champions can advance SNAP online purchasing in Arizona. Key factors for a successful and equitable roll-out of SNAP online are as follows: (a) food products, online shopping and delivery options are co-designed with SNAP customers; (b) all retailers interested in becoming authorized to accept SNAP online have access to quality technical assistance; (c) small retailers have access to cost effective eCommerce solutions with integrated SNAP PIN-entry technology through funding, institutional support or financial incentives; (d) SNAP customers and online retailers have access to affordable and reliable broadband, internet and mobile infrastructure, including in-person Electronic Benefit Transfer (EBT) point-of-sale (POS) devices; (e) crucial food system infrastructure exists to sustain and expand SNAP online enterprises.

Opportunities for SNAP Online Purchasing are Expanding

The USDA launched their first SNAP Online Purchasing Pilot in April 2019. As of late 2021, 47 states and the District of Columbia have retailers offering SNAP payments online. SNAP customers in Arizona can shop online and pay with their Quest EBT card at Amazon, Walmart and Aldi through Instacart. The number of independent grocers authorized to accept SNAP payments online continue to grow nationwide and it is expected that some farmers markets and direct marketing farmers will be authorized as SNAP internet retailers by 2022.

Congress and the USDA have prioritized the expansion of SNAP internet retail and other mobile SNAP technology in order to ensure equitable and convenient shopping options. Through the Consolidated Appropriations Act, 2021, \$3.7 million has been awarded to the National Association of Farmers' Market Nutrition Programs (NAFMNP) "to build out functionality, and provide assistance to Direct Market Farmers and Farmers' Markets to accept SNAP benefits through online transactions."³ NAFMNP's MarketLink program will launch in Spring of 2022 and will walk farmers and markets through the entire process of SNAP authorization, Internet Retailer authorization, eCommerce site setup and online SNAP sales processing. This program will

also provide Direct Marketing Farmers access to one of the four SNAP equipped eCommerce platforms at no cost for one year. Separately, the American Rescue Plan allocates \$25 million for USDA to establish new or expanded technical assistance programs and technology improvements for SNAP and SNAP online purchasing. Plans for how these funds will be implemented are currently being developed by the USDA.

Internet Grocery can Improve Access to Healthy Food

Online shopping with curbside pickup as well as community or home delivery has the potential to significantly improve access to healthy foods among Supplemental Nutrition Assistance Program (SNAP) participants by addressing several of the most common barriers to healthy eating they identify. According to a recent study by the USDA, 19% of SNAP recipients say that distance to stores prevent them from shopping for a healthy diet. This same percentage also reports transportation as the main barrier to shopping for a healthy diet.⁴ Online purchasing with community or home delivery brings food to customers in food deserts without adding expensive brick-and-mortar retail infrastructure. Internet grocery expands shopping and pick-up options which affords shoppers more efficient use of their time, as well as more efficient use of other limited resources needed to cover indirect costs like transportation. Wrights Market of Alabama is the first independent grocery to pilot SNAP online purchasing and provides a good example of customers utilizing online grocery shopping as a strategy to manage resources. According to Wrights Market, the majority of their online shopping orders by SNAP customers with young children are placed at night. Parents and caregivers save time, energy, and avoid the need for childcare by shopping online after children are in bed.

Internet retail also has the potential to improve the SNAP customer experience through new forms of

customer service and engagement. Internet retail requires businesses to develop a more in-depth form of customer loyalty and branding through their eCommerce platforms and the unique services they provide. Most customers still prefer to shop in-person for many items like fresh fruits and vegetables. However, online retailers that offer superior quality, customer choice, and convenience at an affordable price remain the most competitive. For example, Wright's Market takes great pride in their "high quality, high touch" approach to customer service. It is not unusual for Wright's Market to call a customer directly to inform them of produce substitutions based on quality or go the extra mile to help elderly customers put groceries away upon delivery.

19% of SNAP recipients say that distance to stores prevent them from shopping for a healthy diet.

The affordability of healthy foods remains the most common barrier to achieving a healthy diet among SNAP customers. Fruit and vegetable incentive programs, like Double Up Food Bucks Arizona, address affordability by providing customers with discounts on healthy food, or by matching the amount of SNAP dollars spent, offering twice the amount of fruits and vegetables for the price. Arizona is home to more than 30 retail locations where these incentives make healthy eating more affordable and accessible. Community grocers, farmers, farmers markets, mobile markets, and food hubs in Arizona have missions to make healthy foods more affordable and accessible to limited resource customers, making them uniquely positioned to develop online shopping models and healthy food products that are SNAP customer driven.

The affordability of healthy foods remains the most common barrier to achieving a healthy diet among SNAP customers.



Internet Retail and SNAP EBT 101

“eCommerce” vs “Online Marketplaces”

“Ecommerce” refers to the buying and selling of goods or services using the internet, and the transfer of money and data to execute these transactions. In most cases, an “eCommerce business” is an individually-owned and operated internet business. Business owners develop and run their own internet retail platforms or purchase a subscription-based software service like Shopify, Freshop, or Local Food Marketplace, to name a few. Many of these eCommerce platforms offer seamless links to secure third party processors (TPP) for online credit card and debit card payments. Many also offer “add-on” services to assist businesses with things like marketing, inventory, and delivery logistics.

An “online marketplace” is an internet retail platform run by a third party that brings multiple retailers and buyers together on one webpage. Etsy is one of the most recognized online marketplaces. These retail platforms offer varying levels of service for retailers and buyers. Some simply link shoppers to retailers and leave it to each individual business to handle transactions, whereas other retail platforms may provide all payment services and even delivery logistics. Shop Arizona Marketplace, or “ShopAZ”, is an online marketplace by Local First Arizona that offers its Arizona-based independent business members an individually branded eCommerce platform, online payment services, marketing, eCommerce business consulting, and technical support. Online marketplaces, like ShopAZ, provide small and start-up retailers with affordable access to internet retail, as well as an existing network of online shoppers.

What is EBT and How Does it Work With Internet Shopping?

EBT or “Electronic Benefit Transfer” is an electronic system that allows federal Supplemental Nutrition

Assistance Program (SNAP) benefits to be issued on a magnetically encoded payment card. Benefits are administered in Arizona by the Department of Economic Security who “deposits” funds each month onto SNAP recipients’ EBT or “Quest Cards”. SNAP customers use their Quest Card just like a debit card to purchase groceries at USDA Food and Nutrition Service (FNS) approved stores, farm stands, or farmers markets. Customers swipe their card at the point-of-sale, usually a cash register, mobile device, or card terminal. The customer enters their unique PIN number to authorize the sale. This information is then electronically sent to the state contracted EBT processor and issuing banks to verify the PIN and the availability of funds. When these are verified, the transaction is approved, and the payments are routed back through the EBT processor to the retailer’s bank account within two banking business days.

(See Figure 1. What is EBT and How Does it Work?, Page 7)

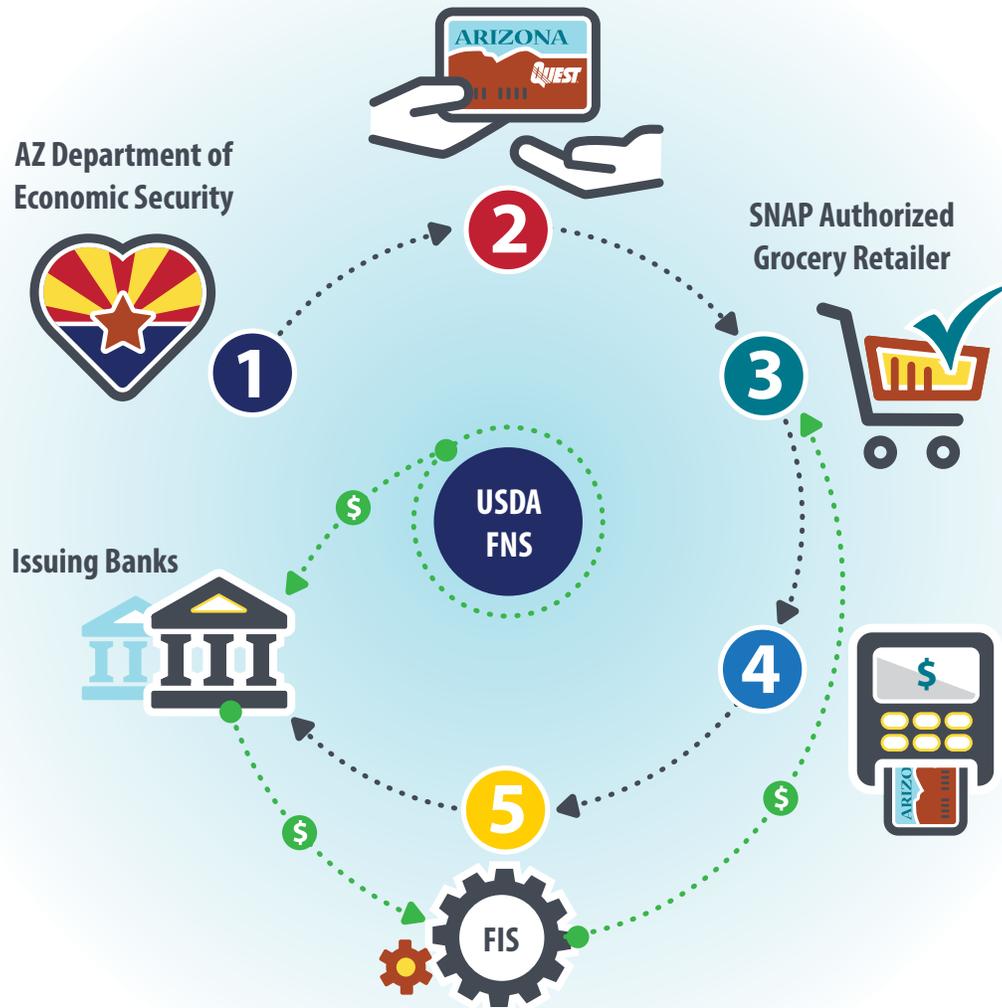
Online shopping with a Quest EBT Card works similarly to shopping with a debit card, except that the internet store must distinguish between SNAP eligible items and non-eligible items. Additionally, the eCommerce site cannot allow the customer to pay for delivery, transaction fees, or any other non-eligible item with their Quest Card. The most important difference is the secure PIN-entry payment method at checkout where the customer enters their personal PIN to authorize each transaction. Successful integration of this USDA FNS certified SNAP EBT PIN-entry payment system into the web platform, a service which is currently offered by a very small number of third-party processors, has been noted as one of the biggest challenges to accepting SNAP online purchases.

(See Figure 2. How Does SNAP EBT Work Online?, Page 8)

Figure 1.

What is EBT and How Does it Work?

EBT or “Electronic Benefit Transfer” is an electronic system that allows federal Supplemental Nutrition Assistance Program (SNAP) benefits to be issued on a magnetically encoded payment card.

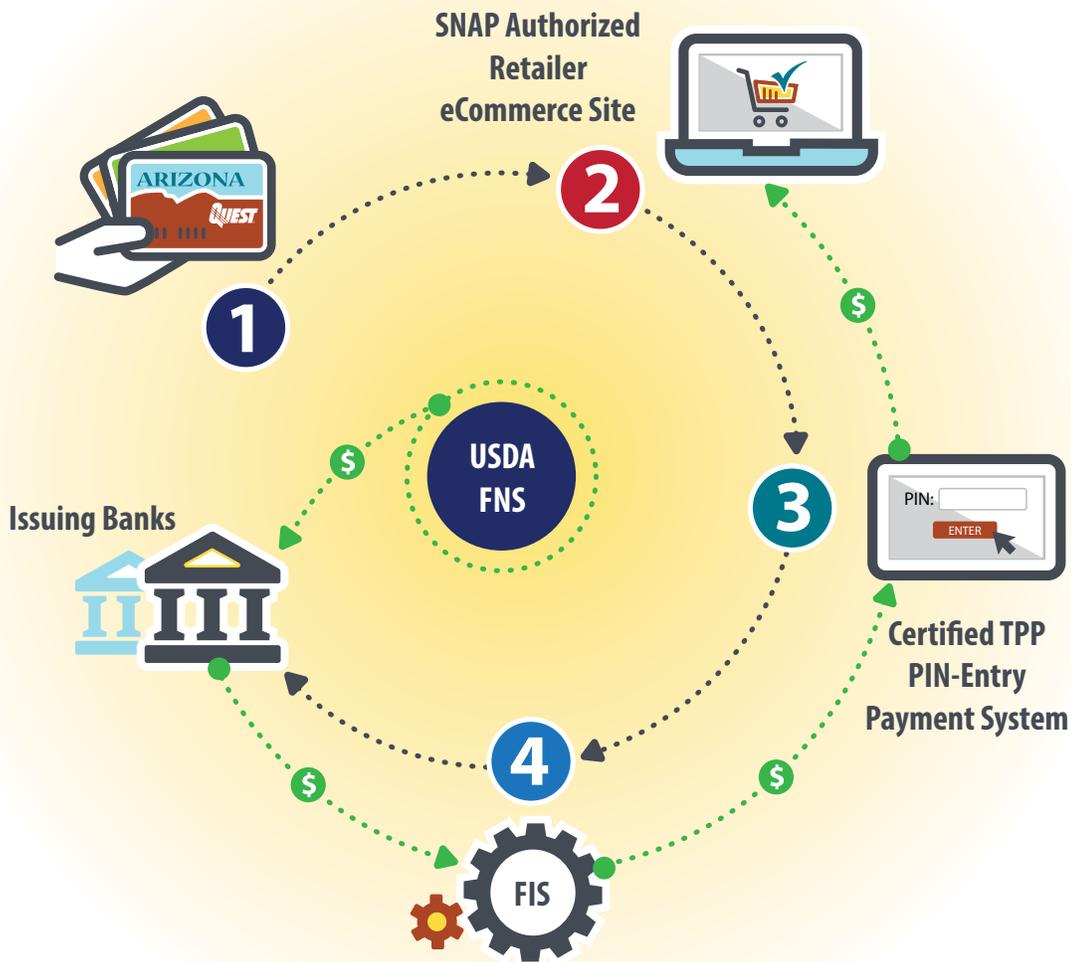


- 1 Benefits are administered in Arizona by the Department of Economic Security.
- 2 Funds issued each month on to SNAP EBT or Quest Cards.
- 3 Shoppers use their magnetically encoded payment card and their personal PIN to shop at USDA FNS Authorized food retailers.
- 4 Point-of-sale device sends an authorization to FIS, the current state contracted EBT processor.
- 5 FIS routes the authorization request to the appropriate issuing bank, where the PIN is confirmed and funds are verified and reimbursed to the grocery retailer.

Figure 2.

How Does SNAP EBT Work Online?

SNAP EBT online purchases require a certified and secure PIN-entry payment system in order to authorize payments.



- 1 SNAP shoppers can use multiple forms of payment when shopping online (credit, debit and SNAP EBT).
- 2 The SNAP Authorized Retailer eCommerce site allows customers to split their transaction across different forms of payment at checkout.
- 3 For SNAP eligible purchases, the customer authorizes the dollar amount to be debited from their SNAP benefits using their unique customer PIN. This PIN-entry payment system is operated by an FNS certified Third Party Processor (TPP) (e.g. FISERV PaySecure™ or FIS WorldPay) which sends the authorization request to FIS or the current state contracted EBT processor.
- 4 FIS routes the authorization request to the appropriate issuing bank, where the PIN is confirmed and funds are verified and reimbursed to the eCommerce retailer.

Making Internet Grocery Available to Arizonans

SNAP mission-aligned retailers in Arizona made a dramatic conversion to eCommerce sales systems and transactions to ensure healthy food access throughout the pandemic. Farmers, food hubs, farmers markets, food banks, and independent grocers invested in new eCommerce technology, cold storage, and transportation infrastructure. They impressively shifted staff resources to conduct research on eCommerce models while rapidly developing and testing new multi-vendor online sales, aggregation, and pick-up and delivery systems. Virtual sales strategies ranged from menus posted on social media to fully integrated eCommerce systems that create pick-and-pack lists or even map the most cost-effective delivery routes. And yet, SNAP customers are still required to pay in-person, and oftentimes must use a separate internet purchasing system to utilize most online shopping options.

Independent Grocers

Moving into the online grocery market is a heavy lift for most independent grocers. The development of an eCommerce site for a full-service supermarket means that high quality images and descriptions for all products must be created, requiring significant up-front costs and time. New and cost-effective order management, product aggregation, as well as customer service and fulfillment systems must be developed and sustained. Some of Arizona's independent grocers partner with a third-party grocery shopping and delivery service like Instacart to run the internet side of the grocery business for them. Instacart has partnered with Aldi in Arizona to make SNAP EBT online payments available, and Instacart is expected to expand that service to other independent grocers soon. However, third-party grocery shopping and delivery services are not always available or ideal for small community grocers, which means many independent grocers in

Arizona are on their own to figure out how to enter into the internet grocery market while competing with large online retailers like Amazon and Walmart.

The National Grocers Association (NGA) is committed to supporting member grocers interested in expanding into the online grocery market and accepting SNAP payments in-store and online. NGA has developed a "SNAP Online Purchasing Toolkit" outlining all the steps retailers must take depending on their eCommerce platform. Since start-up costs represent the biggest barriers for independent grocers, NGA is working on proposed legislation to address eCommerce start-up and SNAP payment integration costs in the form of a tax credit for qualifying retailers.

Pre-Order Produce Boxes

Many farmers and grower cooperatives in Arizona offered online ordering and community delivery before the pandemic through pre-order and pre-assembled fruit and vegetable boxes. These existing online market channels helped insulate many growers from pandemic-related supply chain shocks while also bringing a steady stream of convenient, safe, and affordable healthy foods to communities of need. Pre-assembled food boxes also proved to be a good pandemic response strategy for many Arizona farmers markets and wholesale fresh produce distributors.

Pre-order food boxes are inspired by the Community Supported Agriculture (CSA) approach to selling farm fresh local food. In CSA models, a community of individuals pledge support to a farm operation or collective of growers by pre-purchasing a portion of the harvest, thus sharing the risks and benefits of food production with the farmer. Cash, credit, or debit card paying customers secure their weekly or bi-weekly boxes at the beginning of the season by paying for all of their boxes up front, or by subscribing for weekly auto-payments on their credit or debit cards. Pre-order food boxes are seen



Norm's IGA

Myra Warren operates Norm's IGA in Kearny, Arizona with her husband, Norm. Their online supermarket, shop.normsiga.com, took the better part of a year to develop and refine. Norm's IGA uses Local Express for their eCommerce platform and noted that they have been very pleased with how Local Express has "walked them through every step of the process" and remains committed to their success. "It was a no brainer for us to make this service available to our community," says Myra, "and it is a no brainer for me to make sure our SNAP customers can also pay online". Fortunately for Norm's IGA, Local Express is one of the few grocery eCommerce providers that has worked with FNS to integrate SNAP online purchasing, and they look forward to walking Norm's IGA through the SNAP online integration and authorization process in the coming months.

as a win-win for producers and customers since they ensure a steady stream of capital for growers and offer the best value for customers. Members have consistent access to seasonal fresh fruits and vegetables delivered to convenient community drop off sites, often at a discount. Current USDA policy does not allow SNAP recipients to purchase a season of shares up front or enter into a subscription service with auto-payments. Instead, retailers currently offer an alternative pre-order model for their SNAP customers where in-person payments can be made up to 14 days prior to delivery, or on the day of delivery.

According to a recent FNS SNAP request for applications to assist direct market farmers and farmers markets in accepting SNAP online, the 2014 Farm Bill gives FNS the authority to "establish a reasonable timeframe for advance payment" for online purchasing.⁵ For most SNAP internet retailers, the current acceptable timeframe for prepayment is seven days before delivery. At this time, it is unknown exactly how the FNS plans to implement online purchasing with CSAs. CSA operators and their customers hope that FNS will maintain the 14-day prepayment window for online purchasing that is currently used by in-person SNAP payment CSAs. Arizona CSA operators interviewed for the *Roadmap* shared that many of their SNAP customers with young children and those with chronic conditions or disabilities prefer to pre-pay for multiple shares in advance because it helps make food budgeting easier and pick-up more convenient. With Double Up Food Bucks participating "buy-one, get one" CSAs, SNAP customers can order up to a full month's worth of fruits and vegetables delivered weekly or bi-weekly with a one-time SNAP payment, while remaining in compliance with FNS regulations. Retailers and SNAP customers feel that online purchasing within this 14-day prepayment window would make distribution, customer fulfillment, and access to fresh fruits and vegetables more convenient and cost effective than weekly orders and payments.

CSA retailers hope to continue their commitment to serving their SNAP customers; however, the need to develop separate business models for SNAP customers

and the inability to offer SNAP payment online creates many challenges for both retailers and SNAP customers. Until online EBT payments are possible, SNAP customers pre-order their boxes online and authorize each purchase in-person on the day of delivery, or no more than 14 days in advance. When SNAP customers fail to show for pick-up when payment is not made in advance, the grower(s) are

forced to cover the costs or donate the perishable food boxes. Even small losses are significant for Arizona farmers and grower cooperatives, making it very risky for them to plan for and set-aside pre-order boxes for SNAP customers, thus threatening retailers' ability to sustain equitable fresh produce options for all.



Rosebird Farms

Rosebird Farms offers a CSA-style subscription and delivery service that supplements their farm produce with products sourced from a collective of growers located in and around Mohave County, Arizona. Partnering with other growers provides customers with a greater diversity of local product options in their CSA box than single grower models can provide. Also, Rosebird's eCommerce platform allows individuals to log-in using their username and password from anywhere to customize their box each week and purchase additional products through an "add-on" feature. Since SNAP customers are unable to purchase subscription services or activate auto-payment capabilities typical to most CSA models, Rosebird allows SNAP customers to sign-up for free as members of the CSA's "community of buyers", granting them access to a personal online account to customize their weekly boxes and receive a 50% discount on fresh produce through the Double Up Food Bucks incentive program. While SNAP customer no-shows and no-payment do happen, Rosebird Farms attributes their consistent SNAP customer base to their highly customizable and affordable boxes, their user-friendly eCommerce system, and the convenient pick-up location in Downtown Kingman, AZ.

Partnering with other growers provides customers with a greater diversity of local product options in their CSA box than single grower models can provide.

SNAP online payment capabilities would allow Rosebird to bring their affordable, healthy food boxes to SNAP customers in Golden Valley and Yucca, Arizona. These two communities are home to high concentrations of low-income residents, many of whom must travel over 20 minutes to the nearest supermarket. Online SNAP payment capabilities would make it significantly easier for all of Rosebird's SNAP customers to customize and secure their healthy food boxes in advance for convenient, contactless pick-up or delivery, while ensuring a consistent and predictable market for Rosebird and their grower collective.

Farmers Markets

When Arizona Governor Ducey declared farmers markets as essential businesses, many markets made an impressive shift to virtual sales and contactless delivery to keep vendors and customers safe. Online farmers markets dramatically expanded the role of market operators, requiring them to create complex inventory, order packing, and fulfillment systems. Pre-assembled produce boxes have been one cost-effective strategy to pre-sell and aggregate fresh produce. Since SNAP customers must pay for their orders in-person at pick-up, these online farmers markets have had to ensure that their eCommerce platforms communicate this to SNAP customers and embed “manual” payment options at check-out or require customers to send an email to the market operators letting them know they will be paying with SNAP EBT.

Online farmers markets increase the number of days and times customers can shop. However, “most customers and vendors still prefer the in-person farmers market experience,” says Colin Dueker, Downtown Phoenix Farmers Market Manager. Not all markets plan to continue virtual sales as risks from the pandemic subside. The added costs and people power needed to run a farmers market online is too much for some to justify.



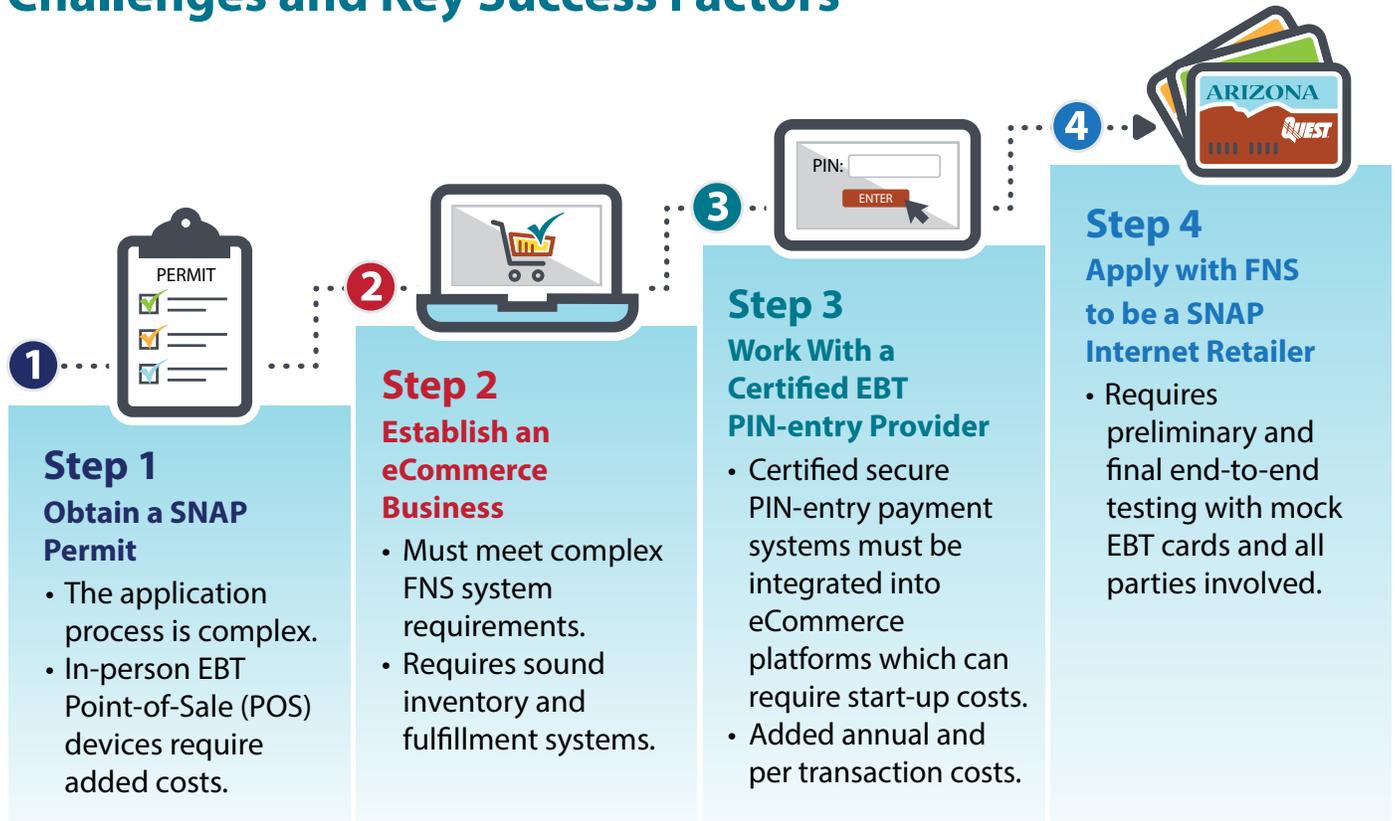
Uptown Farmers Market

Uptown Farmers Market is one of Phoenix’s most robust community markets, offering customers a large variety of fresh and value-added food vendors once or twice each week. The online farmers market, Uptown Market AZ, launched in 2020 and now has over 900 products online including customizable produce bags. The convenient curbside pick-up or \$5 home delivery service has allowed senior and at-risk customers to continue shopping at the market throughout the pandemic. Busy customers credit the flexible shopping times for enabling them to take advantage of the local products they love.

Uptown Market AZ’s “personal touch” approach to coordinating inventory and orders, while also providing stellar customer service, is what sets them apart from larger online retailers. “We are always asking for feedback”, says Market Manager Rachel Manley. In addition to regular check-ins with vendors and customers, Uptown Market AZ seeks feedback through emails and their Shopify-powered eCommerce platform. Customers have taken advantage of these opportunities to negotiate affordable delivery and request weekly order reminders. For other farmers markets thinking about moving into online sales, Uptown Market AZ notes the importance of considering the amount of time needed to run an online market. “It takes a great deal of technical manpower, as well as patience when coordinating vendors and providing good customer service,” says Rachel.

Uptown Market AZ knows that SNAP online purchasing would make shopping even more convenient and time saving for SNAP customers and market staff. Online SNAP payments also opens up the option for SNAP customers to take advantage of refrigerated home delivery through DiLandry Family Foods, Uptown Market AZ’s delivery partner.

Becoming a SNAP Internet Retailer: Challenges and Key Success Factors



Steps to become a SNAP Internet Retailer



Step 1

Obtain an Initial FNS SNAP Permit

A food retailer interested in offering SNAP purchases online must obtain a traditional USDA FNS permit to accept SNAP benefits before applying to become a SNAP internet retailer. In addition to brick-and-mortar stores, other types of SNAP permitted retailers include direct marketing farmers, farmers markets, delivery routes, and non-profit food buying cooperatives. This application process establishes the eligibility criteria and basic legal requirements that must be met by each retailer. Once permitted by FNS, retailers receive information on how to acquire a point-of-sale (POS) EBT device specific to their retail type. Devices range from cash register-integrated systems to wireless and mobile card swiping machines. All require access to the internet in order to authorize the EBT transaction and confirm the location of the payment. Many internet grocery retailers interviewed for this report plan to offer both in-person and online payment options for SNAP customers; however, both payment systems may not be required by FNS depending on the internet retailer permit.



Affordable EBT POS devices have been critical components of success for many small retailers just starting out.

The application process can be onerous and confusing for some retailers. Access to quality technical assistance for both the application process and SNAP retail operations have been critical components for success. FNS offers in-depth training and technical assistance tools to brick-and-mortar retail stores on their website. Farmers market support organizations like MarketLink, run by the National Association of Farmers Market Nutrition Programs, offer considerable technical support for market operators and farmers. However, there is much less information and technical support available for delivery routes, non-profit food buying cooperatives, and other innovative food retailers like grower

cooperatives and CSAs. Members of the National Good Food Network Food Hub Collaboration share examples of being denied SNAP permits because their models do not fit a traditional retail store, direct marketing farmer, or farmers market definition. Arizona can ensure that all types of retailers have the information they need to apply for and operate successful SNAP grocery enterprises by connecting retailers to national technical assistance providers based on their retail type. Arizona can also fill gaps and offer high quality, customized technical support to small diverse retailers through a state-level SNAP technical assistance program.

The additional costs needed to purchase and operate EBT point-of-sale (POS) devices, including transaction fees not supported by SNAP benefits, can be a challenge for many small healthy food retailers. Fresh food businesses operate with thin margins and product loss due to spoilage. In the past, national and state EBT equipment programs provided free EBT equipment and covered first-year fees for many farmers and farmers markets offering SNAP payments. Affordable EBT POS devices have been critical components of success for many small retailers just starting out. According to the USDA, “FNS’s goal is to gradually move [farmers and farmers markets] from a subsidized equipment program to a more cost-efficient application-based solution that enables processing via smart devices that are owned by a [farmer or farmers market].”⁶ Arizona can support retailer access to cost effective EBT devices by participating in pilot and demonstration programs to test more affordable SNAP payment technology. Federal funding provided by the American Rescue Plan is expected to support such mobile SNAP technology programs. Arizona could make preparations to apply for these funds and secure any state or local match dollars. Alternatively, Arizona could fund its own mobile application-based SNAP payment demonstration project in tandem with federal projects.



Step 2

Establish an eCommerce Business

In order to be eligible to apply to be a SNAP internet retailer, the enterprise must have an eCommerce or online marketplace presence using an internet platform that meets a long list of FNS operational system requirements. Some of those requirements include:

- Error handling and other messaging displayed to customers.
- Handling of estimated pricing for items that are variably priced based on weight.
- Matching refunds back to the original purchase through automatic PINless refunds that are integrated into the FNS certified PIN-entry TPP interface.
- Having only one SNAP card provisioned to a customer account.
- Ensuring only eligible foods can be purchased with SNAP benefits.
- Not charging sales tax on SNAP purchases.
- Allowing split tender transactions for the payment of non-SNAP eligible items and delivery fees.
- Requiring the customer to enter or choose pick-up or delivery locations in order to provide the first line of the address and zip code to the FNS certified PIN-entry TPP provider.

Affordable eCommerce platform options that meet FNS requirements while offering quick start-up, as well as tailored functionality, are key factors for successful SNAP internet retail. Small healthy food retailers face significant start-up costs when establishing an eCommerce business. Online stores require high quality inventory images and product descriptions. This inventory must continuously and accurately reflect what is available for purchase while also meeting the criteria for FNS SNAP stocking requirements. For stores with extensive inventory, this can be a major investment. Arizona can advocate for upcoming federal legislation supported by the National Grocers Association to provide small independent grocery stores with a tax credit to help offset the costs of developing an eCommerce platform that meets FNS requirements. MarketLink's SNAP Online program provides qualifying Direct Marketing Farmers access to one of four SNAP equipped eCommerce platforms at no cost for one year. Arizona



According to Wright's Market, "you're essentially creating and operating a second business" and should consider staffing needs, inventory tracking, product substitutions, packing, cold storage, and fulfillment logistics, be it curbside, pickup, or delivery.



could provide similar start-up funding to make SNAP Online eCommerce more affordable for other small healthy food retailers.

Ecommerce solutions that offer “add-ons” or additional fee-based services to expand functionality have also been essential for success. Retailers interviewed for this *Roadmap* noted that auto-renew payment capabilities⁷, integrated marketing, product pick lists, inventory tracking, and delivery logistics were valuable features. The eCommerce solution’s ability to integrate fruit and vegetable incentive programs is also important, which is discussed in detail later. The more an eCommerce platform service can do for a retailer, the less time is needed for staff to develop and manage systems on the ground. Since not all retailers can afford expanded functionality, the option to “build as you go” is appealing for many first-time internet retailers. Popular eCommerce solutions that have successfully integrated SNAP EBT purchasing include Shopify, Freshop, and Local Express. Local Food Marketplace, Farmigo, CSAware, Fellow Farmer, GrownBy and WhatsGood are expanding to meet FNS technical requirements for SNAP online purchasing.

Choosing the right eCommerce solution is key, but there are many additional behind-the-scenes features that make for a successful internet grocery enterprise. According to Wright’s Market, “you’re essentially creating and operating a second business” and should consider staffing needs, inventory tracking, product substitutions, packing, cold storage, and fulfillment logistics, be it curbside, pickup, or delivery. Larger supermarket chains and Amazon are able to offer free or discounted delivery which makes it difficult for small retailers to compete in the grocery delivery space. SNAP benefits cannot be used to pay for delivery fees. Either the cost of delivery has to be subsidized to make it more affordable or SNAP customers must elect to pay for home delivery or pick-up for no additional cost. Many internet grocery retailers interviewed recommend starting off with curbside pickup or offering free community delivery to convenient pick-up locations such as schools, worksites, health care facilities, and businesses. Other FNS requirements that impact how an internet retail business is designed and operates include placing no minimum purchasing requirements for SNAP customers and ensuring product fulfillment

no more than seven days following SNAP payment. This means that SNAP customers are not able to “subscribe” to auto-renew payment models. SNAP customers must always have the option for making a one-time purchase which must be clear on the eCommerce website. Retailers currently using “subscription” models that are interested in offering SNAP online purchasing are encouraged to move away from using “subscription” language in exchange for “free membership” language or “signing-up to be a member”. These retailers are still allowed to require credit and debit paying customers to sign-up

SNAP customers are not able to “subscribe” to auto-renew payment models. Instead, SNAP customers must always have the option for making a one-time purchase which must be clear on the eCommerce website.



for auto-renew or prepay for shares in advance, but membership terms and buying process must be able to accommodate SNAP customers through pay-as-you-go purchase options.

Access to quality technical assistance in the establishment and operation of SNAP internet grocery is essential, but engaging with SNAP customers to co-design products, internet shopping experiences, customer fulfillment, and how incentives are structured is even more critical to success. As Cherilyn Yazzie of Coffee Pot Farms in Navajo Nation notes, “one of the best things you can do as a business is research who your customer is and then work to develop that relationship. Never assume you know what your customers’ needs are.” Arizona can fund and develop simple market research strategies for small retailers to engage with SNAP customers in order to co-design online shopping opportunities.

Considerations for Integrating Fruit and Vegetable Incentives Like Double Up Food Bucks

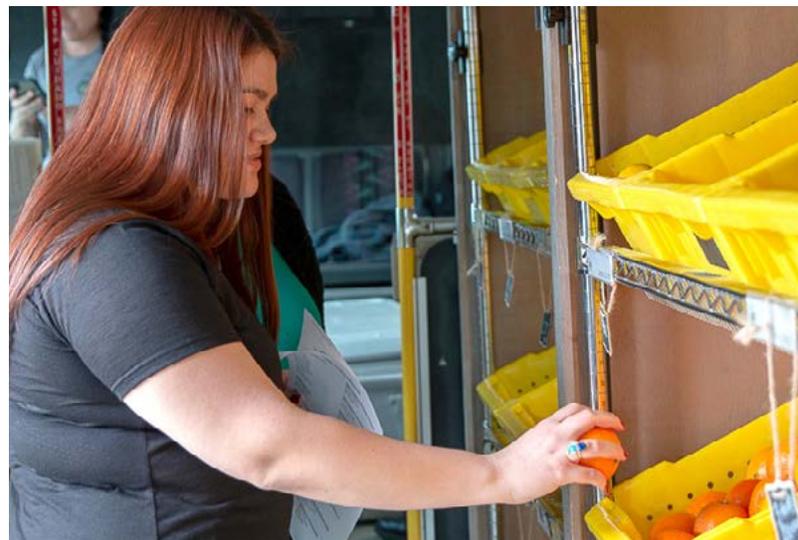
Various forms of fruit and vegetable incentives are available to customers who have limited access to healthy foods. Double Up Food Bucks Arizona (DUFBA) is a SNAP incentive program, offering a dollar-for-dollar match on SNAP EBT purchases of fresh produce, dried beans, and edible plants/seeds. How these incentives will be integrated into online SNAP purchasing is one of most common questions and concerns noted by current internet retailers interviewed for this report. For retailers approved to accept these incentives, there are various options for integrating vouchers, tokens, discounts, or buy-one get-one models. It is advisable to work with the incentive implementing organizations Pinnacle Prevention or International Rescue Committee Phoenix to make sure the particular incentive can be utilized in internet retail situations, and which option for integration is an ideal match for your eCommerce business model.

Many eCommerce platforms can integrate “promotion codes” entered by the customer at checkout which triggers the incentive discount or “buy-one get-one” offer. With SNAP matching incentives like DUFEB, the customer is eligible for the offer only when SNAP EBT is used to purchase groceries. Ultimately, verification of SNAP EBT payment and determination of the earned incentive must be done by a staff person during the payment and fulfillment process. In other words, the eCommerce system and PIN-entry system does not yet verify the SNAP EBT purchase. Instead, a person reviews the order, the payments (either online or in-person), and the promotion code for eligibility.

Some eCommerce platforms offer a “loyalty program” add-on functionality to allow customers who create individual accounts or profiles to accrue and spend rewards with online purchases. Some platforms can also integrate individual loyalty cards or gift cards that accrue rewards and allow the customer to pay with those rewards in-person and online. For those who can afford the extra functionality of a loyalty program, these “add-ons” are highly customizable and, in theory, could integrate e-token, or digitized DUFEB token models. Again, the challenge is validating the actual SNAP EBT purchases which qualifies the earning of e-tokens or loyalty rewards. As technology develops, the PIN-entry payment system will communicate back to the eCommerce platform to authorize the earning of e-tokens or rewards. Otherwise, a staff person verifies the SNAP EBT dollars spent and either manually enters the earned incentive e-tokens into the customer’s individual profile or verifies that the earned amount is accurate. Loyalty programs with e-tokens are ideal when they provide easy incentive tracking and reporting capabilities as well as optimal freedom for the SNAP customer in choosing how to spend e-tokens. E-token or reward systems are even more efficient and cost effective when electronic e-token or loyalty cards are available and integrated for seamless online and in-person

use. This level of eCommerce functionality comes at a higher cost than other models, which will be a challenge for many start-ups and smaller retailers.

What about internet retailers who offer both in-person SNAP sales and incentives with coin tokens? Until all incentive systems are electronic, retailers using hard tokens could consider operating two separate token systems with the ability for customers to exchange tokens. For example, SNAP internet customers could cash in e-tokens online by purchasing hard tokens to be picked-up and spent at the farmers market.



Retailers using the most simple and affordable eCommerce systems often offer separate product choices for SNAP EBT customers that are priced at the incentive discounted rate. This is largely due to the fact that SNAP customers are still required to pay in-person. Providing differently priced selections for SNAP customers is not the preferred method in that it works against the goal of ensuring SNAP beneficiaries have access to the same customer experience as those using other forms of payment. Ideally, the customer experience should seek to be inclusive and not pose the potential to perpetuate stigma, such as shame or added anxiety, because of separate or more complex systems.

A few eCommerce solutions allow for different menus and pricing depending on market channel when individual buyers log-in using their account information. For example, a wholesale buyer can log-in to their profile on a food hub's eCommerce site and purchase from inventory priced at their wholesale rate. Different online shopping menus could be used to integrate discount incentives like Double Up Food Bucks in cases where SNAP customers are willing to "sign-up" and "sign-in" to their profile. For retailers interested in offering SNAP online purchasing for products marked at the discounted incentive rate, it should be clear and easy for new SNAP customers and FNS preliminary testers to navigate. It is also important that inventory availability must remain equitable for SNAP paying customers and other retail customers using other forms of payment.

The challenge of cost effectively integrating SNAP and other incentive programs into SNAP online purchasing further demonstrates the critical need and opportunity for Arizona to participate in technology pilot and demonstration programs, either in partnership with federally-funded initiatives or independently. Until useful and cost-effective technology is readily available, retailers should be cognizant of keeping diligent records associated with all transactions. Again, it is critical to work with the SNAP incentive implementing agency from the beginning of the SNAP online journey in order to prioritize interoperability between in-person and digital currencies whenever possible.



Step 3

Work with a Certified PIN-Entry Third Party Processor (TPP) in Preparation to Integrate the EBT Payment System

One of the most crucial operational system requirements to accept SNAP online is the integration of secure PIN-entry payment technology offered by an FNS certified Third Party Processor (TPP). This is a separate and/or additional TPP to credit and debit card payment systems. As of October 2021, limited FNS certified PIN-entry TPPs exist and include Fiserv PaySecure™ or FIS WorldPay. Forage Technology Corporation is working with FNS to offer certified SNAP PIN-entry payments with Shopify and other eCommerce service providers.

Successful integration of the approved PIN-entry payment system with the existing eCommerce software along with state-level EBT transaction systems has been identified by early SNAP online adopters as a major challenge. Integration requires additional software development costs on the part of the eCommerce platform provider and significant coordination with PIN-entry TPPs.

FNS strongly recommends that internet retailers work with eCommerce providers who have integrated all SNAP requirements including the certified PIN-entry payment system. Freshop and Local Express eCommerce solutions are highly recommended subscription options for independent grocery and specialty retail offering full integration of FNS SNAP requirements and PIN-entry payment. Additional eCommerce providers that have been working to offer SNAP functionality include: Shopify, Local Food Marketplace, Farmigo, CSAware, Fellow Farmer, GrownBy and WhatsGood. Qualifying Direct Marketing Farmers can get access to Local Food Marketplace, Fellow Farmer, GrownBy or WhatsGood at no cost for one year through the MarketLink SNAP

Online program. Farmigo and CSAware are also expanding to offer SNAP payments online. Similar to previous free in-person EBT POS equipment programs, Arizona can ensure equitable and expanded access to SNAP online purchasing by subsidizing the cost of online TPP PIN-entry payment systems. Perhaps one of the most effective ways to support access to both FNS qualifying eCommerce platforms and integrated TPP SNAP PIN-entry payment systems is for Arizona to develop and operate a Healthy Food Online Marketplace for very small retailers that meets FNS requirements, consistently integrates incentive programs like Double Up Food Bucks, and offers all possible payment options including SNAP EBT. An online marketplace designed solely for enterprises offering pre-order and pre-assembled food boxes with optional product add-ons would be the most affordable marketplace to develop and operate. If such a marketplace were operated by a non-profit, there are likely many federal funding

options available to develop it. Additionally, an online marketplace run by a non-profit may provide opportunities for SNAP authorized retailers to structure their business models like non-profit buying clubs which could ensure access to a 14-day SNAP pre-payment window as opposed to the seven day online prepayment limitation for most other retailers.



Step 4

Apply to Become an FNS Authorized SNAP Internet Retailer

As of October 2021, retailers interested in applying to accept online SNAP payments must submit a letter to FNS outlining that Steps 1-3 have been completed or are in process. Retailers should visit the USDA FNS SNAP online purchasing website for up-to-date information on what is required for this step. FNS strongly recommends that interested retailers work with a technology provider that has already gone through the process and made its SNAP eCommerce solutions repeatable and scalable. FNS will conduct a preliminary test of the retailer's eCommerce site and respond with any issues. Upon initial approval, retailers will engage with their eCommerce provider and the TPP PIN-entry provider to amend or establish new contractual agreements, if they have not already done so.

FNS then works with the Arizona Department of Economic Security, the state EBT processor, certified SNAP PIN-entry TPP, eCommerce provider, and the retailer to conduct in-depth end to end testing using a mock SNAP EBT card and pin. The testing process by FNS has been said to be the most time consuming process for retailers and technology providers. Working with an experienced eCommerce provider and having access to quality technical assistance are key success factors for this step.

SNAP Online Purchasing: Where We Want To Be

Most Arizona internet retailers interviewed want to continue their eCommerce presence and offer SNAP online purchasing for customers. Many hope to expand home and community delivery options with the intention of significantly increasing healthy food access to individuals and families with limited resources. Organically Raw Produce, for example, works with regional farmers and wholesale distributors to offer pre-assembled fruit and vegetable boxes for home delivery throughout Yavapai County, Arizona. Organically Raw Produce serves a delivery route where there is a concentration of low-income households with limited vehicle access and no full-service grocery store within 10 or even 20 miles. Aubrey Gehring, who operates Organically Raw Produce, has received almost 100 separate requests from SNAP participants to accept SNAP payments. She is currently working on becoming SNAP authorized to accept in-person payments as a delivery route. In order for Aubrey to offer SNAP payments online, at minimum, she needs a cost-effective eCommerce site that meets all of the system requirements outlined by the USDA Food and Nutrition Service (FNS), including the integration of an affordable SNAP PIN-entry payment system operated by an FNS certified Third Party Processor (TPP).

Current internet grocery retailers in Arizona demonstrate considerable strengths in their ability to expand access through online purchasing. Most are committed to serving SNAP customers and regional food producers as shown by their missions to make healthy, local food more accessible and affordable. Many continue to adapt and remain flexible when designing and operating their eCommerce enterprises. Those internet retailers who optimize customer choice and meaningfully utilize SNAP customer feedback will be the most successful. Arizona is fortunate to have many

healthy food access support organizations as well as statewide and local collaborations working to create conditions necessary to ensure access to healthy foods for all Arizonans.

Those internet retailers who optimize customer choice and meaningfully utilize SNAP customer feedback will be the most successful.

Still, there are many factors that threaten the equitable expansion of healthy internet grocery with online payment capabilities for SNAP customers. First, the complex and cumbersome nature of USDA FNS SNAP retailer and SNAP internet retailer requirements present significant obstacles for small retailers. Maintaining the additional costs needed to set-up and operate SNAP online purchasing while ensuring access to affordable food and profitable sales models is a challenge. Lack of consistent and equitable access to critical infrastructure, including broadband and wireless technology, cold storage, a skilled workforce, transportation, and agricultural land and water, will doom any small internet retailer.

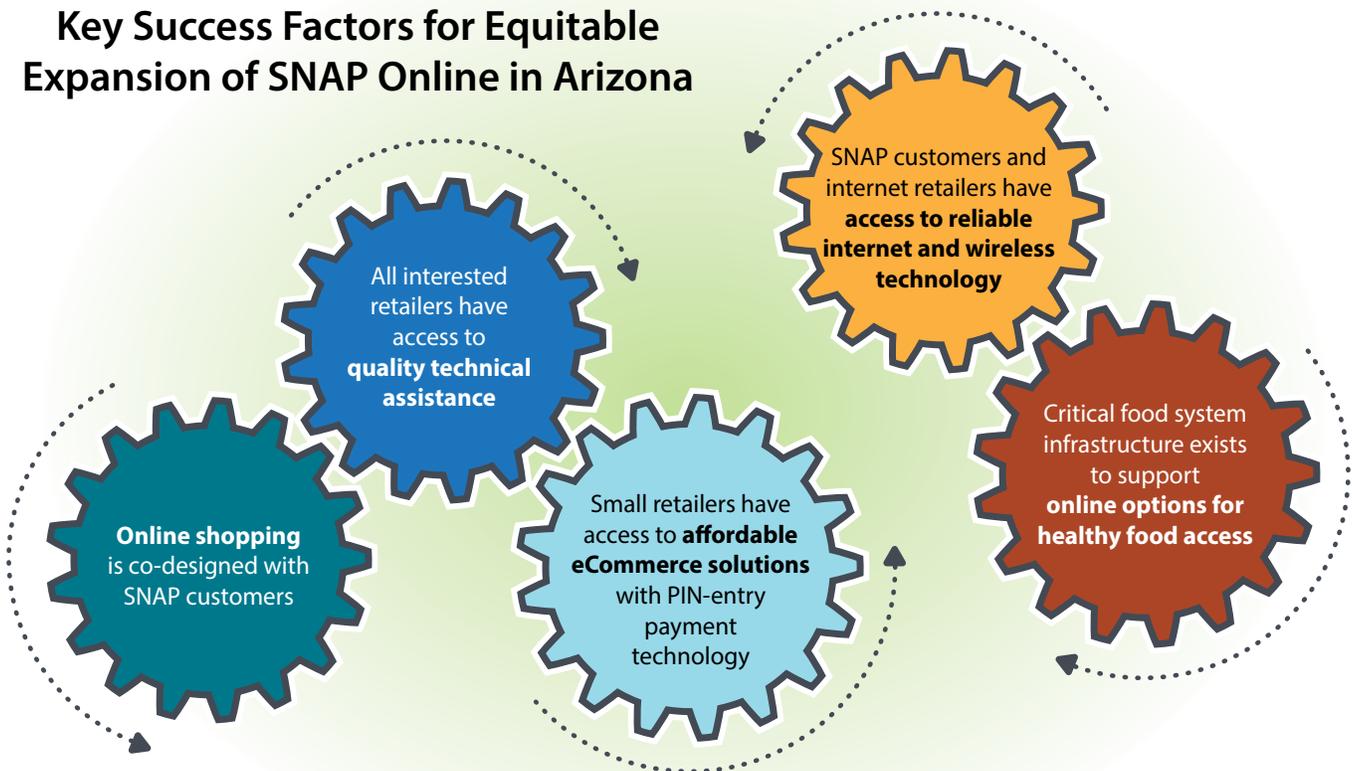
Activate Food Arizona's (AFA) mission with the *Roadmap to Expand SNAP Online Purchasing in Arizona* is to ensure a level playing field for both retailers and SNAP recipients. Plans for implementing SNAP online at the federal and local levels are still in development, as are available funding and technical support opportunities. AFA plans to update this Technical Report in 2022 to include key changes and developments. AFA is also committed to making sure Arizona decision makers, food access support organizations, and

collaboratives receive basic information on USDA’s SNAP online purchasing program and what it takes for small retailers to accept SNAP online payments. Advocates should understand that retailers must meet strict and complex requirements including the integration of secure PIN-entry technology for SNAP customers to authorize transactions. This means that there are many more third-party providers and payment processors involved in SNAP online capable enterprises than in other eCommerce models. This extra level of complexity and added merchant fees tip the balance in favor of large retailers and create significant barriers to entry for community grocers, farmers, farmers markets, and retail grocery distributors.

There is a great need and opportunity for our collective efforts to mitigate the challenges and threats outlined in this report. Future collective efforts in Arizona should focus on reducing the technical challenges facing retailers by connecting

them to national technical assistance providers while filling gaps at the state level through customized SNAP technical assistance programs. Arizona can help offset some of the costs related to technology by offering funding or financial incentives for SNAP online start-up, while sharing best practices for covering merchant fees and providing competitive services. Funding and market research tools can help maximize SNAP customer engagement in designing the internet shopping experience. Collective efforts should also support the expansion of critical infrastructure, including broadband and wireless technology, by implementing federal and state-level programs in communities of need. The equitable expansion of SNAP online purchasing is also an opportunity to bolster food system infrastructure, ensuring that Arizona has a skilled food system workforce, cost effective storage and transportation infrastructure, and affordable agricultural land and water.

Key Success Factors for Equitable Expansion of SNAP Online in Arizona





References

¹ www.supermarketnews.com/online-retail/online-grocery-shopping-grows-amid-pandemic-induced-channel-stickiness

² www.supermarketnews.com/online-retail/online-grocery-more-double-market-share-2025

³ USDA FNS. SNAP Online Purchasing Participation Assistance for Farmers and Farmers Markets- Request for Applications. June 2021. Archived in Grants.gov www.grants.gov/web/grants/view-opportunity.html?oppId=334298

⁴ Maeve Gearing, Sujata Dixit-Joshi, and Laurie May. *Barriers that Constrain the Adequacy of Supplemental Nutrition Assistance Program (SNAP) Allotments: Survey Findings*. Report prepared by Westat, Inc. for the U.S. Department of Agriculture, Food and Nutrition Service, June 2021. Project Officer Rosemarie Downer. Available online at www.fns.usda.gov/research-and-analysis

⁵ USDA FNS. SNAP Online Purchasing Participation Assistance for Farmers and Farmers Markets- Request for Applications. June 2021. Archived in Grants.gov www.grants.gov/web/grants/view-opportunity.html?oppId=334298

⁶ www.fns.usda.gov/snap/ebt-equipment-resources

⁷ Auto-renew payment models are not allowable for SNAP EBT purchasing but are popular for credit and debit card customers ordering pre-assembled food boxes from subscription or membership enterprises.
