

Figuring out Food Hubs:
Food hubs and their role in healthy food systems

Margaret Lund and James Barham

CDFI Training Webinar
July 19, 2012

US DEPARTMENT OF THE TREASURY
CDFI FUND
CAPACITY BUILDING INITIATIVE

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Introduction

- CDFI Fund's Capacity Building Initiative
  - Financing Healthy Food Options
    - Workshops
    - Technical Assistance – individual and group
    - Resource Bank

Today’s Webinar Topic

- Review national food hub survey data to understand models of operation, industry landscape, and impacts.
- Challenges and tips for underwriting food hubs.
- Case studies of diverse food hubs.

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Presentation Overview

Regional Food Hubs

- Definitions
- Scope of activity
- Underwriting issues
- Economic and social impact
- Case studies

Regional Food Hub Definitions

Definitions vary from narrow market efficiency functions to those related to visions of building a more sustainable food system

Working Definition

A business or organization that actively manages the aggregation, distribution, and marketing of source-identified food products primarily from local and regional producers to strengthen their ability to satisfy wholesale, retail, and institutional demand.

Regional Food Hubs:
defining characteristics

- ✓ Carries out or coordinates the aggregation, distribution, and marketing of primarily locally/regionally produced foods **from *multiple producers* to *multiple markets*.**
- ✓ ***Considers producers as valued business partners*** instead of interchangeable suppliers and is ***committed to buying from small to mid-sized producers whenever possible.***
- ✓ ***Uses product differentiation strategies*** (e.g. identity preservation, group branding, sustainable production practices, etc.) **to ensure that producers get a good price for their products.**
- ✓ ***Works closely with producers*** to ensure they can meet buyer requirements by either **providing direct technical assistance** or finding partners that can provide this technical assistance.
- ✓ ***Aims to be financially viable while also having positive economic, social, and/or environmental impacts within their communities.***

The Mid-Tier Market

- Value-added production
- **Food aggregation and distribution**
- Waste management

Why Regional Food Hubs?

Demand

- Local food sales were estimated to be $4.8 billion in 2008, and are projected to climb to $7 billion in 2011 (USDA-ERS report)
- In 2011 National Grocers Association survey, 83 percent of consumers said the presence of local food is "very important" or "somewhat important" in their choice of food store (up from 79 percent in 2009)
- 89 percent of fine dining restaurants surveyed by the National Restaurant Association in 2008 reported serving locally sourced items
- Seven of the top 10 food retail chains in US now promote local sourcing (USDA-ERS report)

Why Regional Food Hubs?

Supply

- **Farmers continue to be challenged by the lack of distribution, processing and marketing infrastructure** that would give them wider market access to larger volume customers

- **Particularly acute for operators of mid-sized farms**, who are too large to rely on direct marketing channels as their sole market outlet, but too small to compete effectively in traditional wholesale supply chains independently

  - Between 1992 and 2007, the number of U.S. farms selling between $50,000 and $499,999 of farm products per year dropped by 21 percent
  - Their share of overall farm sales declined from nearly 25 percent of the value of agricultural products sold in the U.S. to under 17 percent

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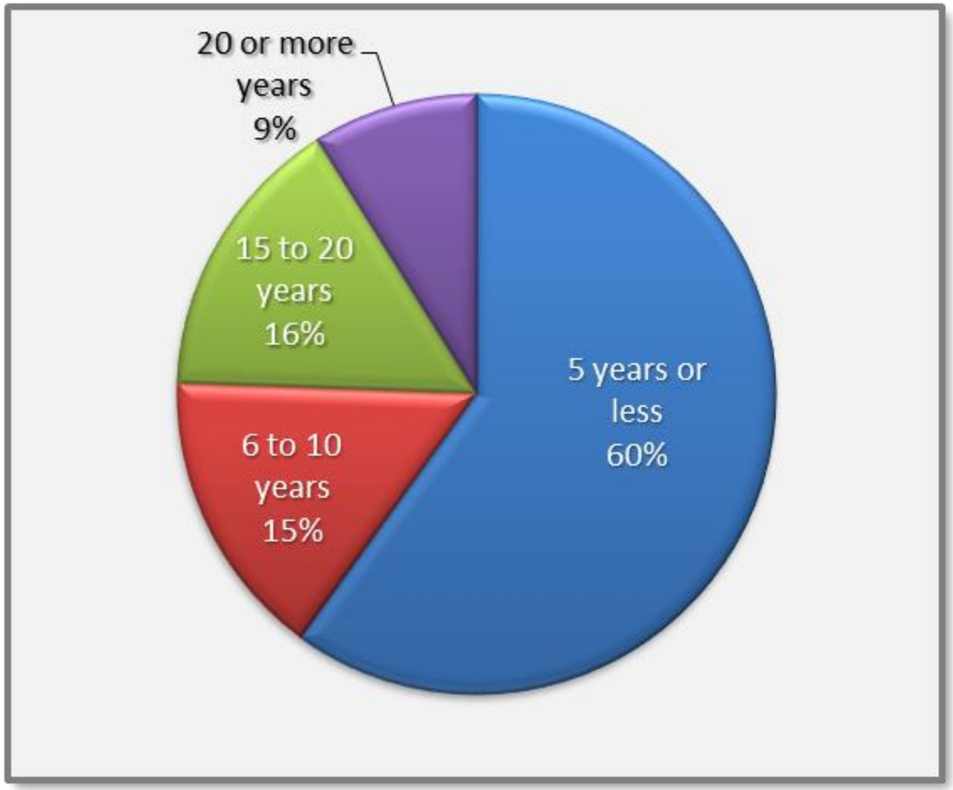
Findings from National Survey of Food Hubs

Food Hub Survey

- Online survey was sent to 72 food hubs
- 45 food hubs completed survey by February 7, 2011

Food Hub Maturity



Number of Years in Operation		
Average	Median	Range
8 years	5 years	1 – 37 years

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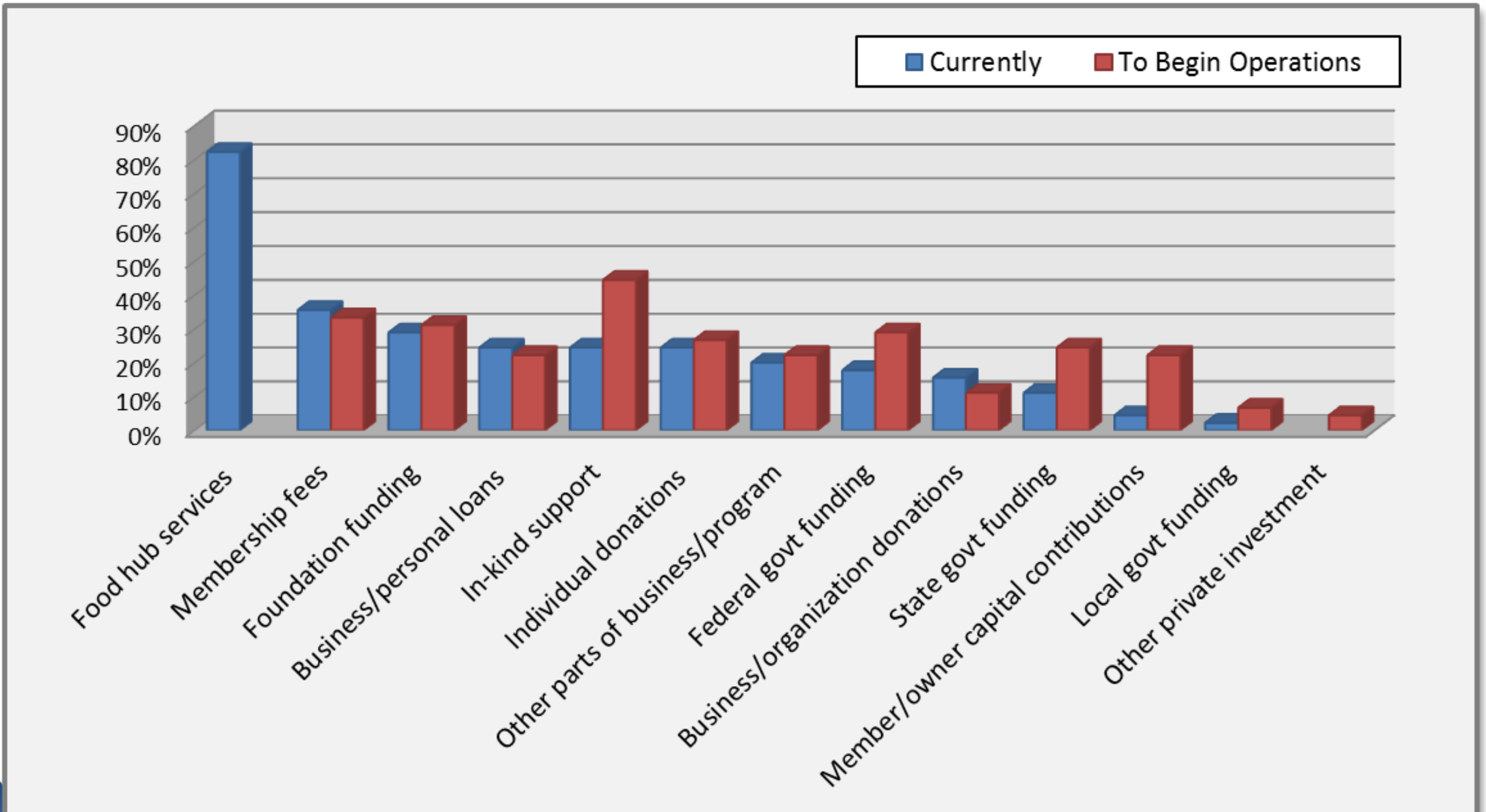
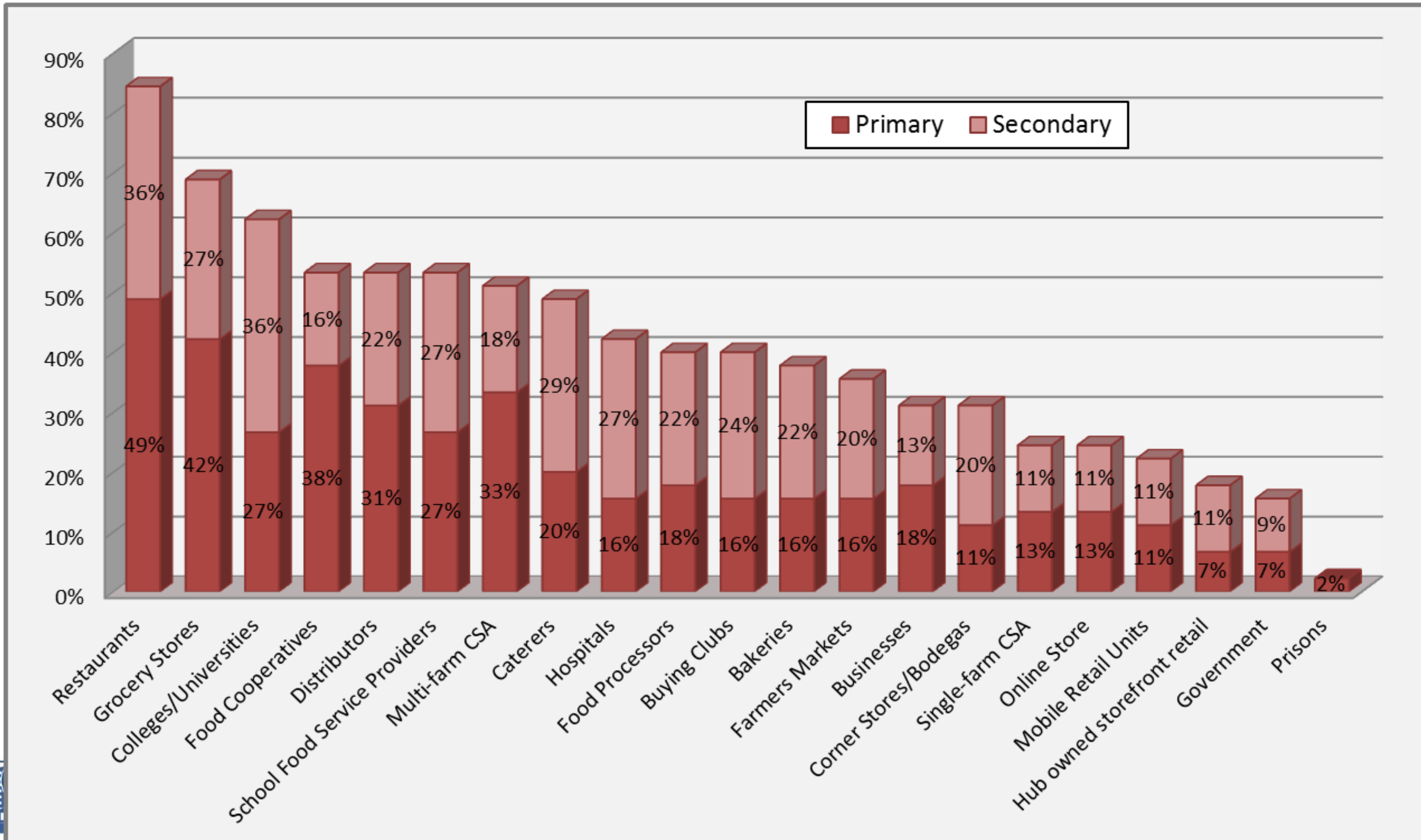
Food Hub Funding



- **60% of the food hubs received govt. funding to begin operations**
- **30% of the food hubs currently receive govt. funding**

Food Hub Buyers/Customers



Food Hub Suppliers

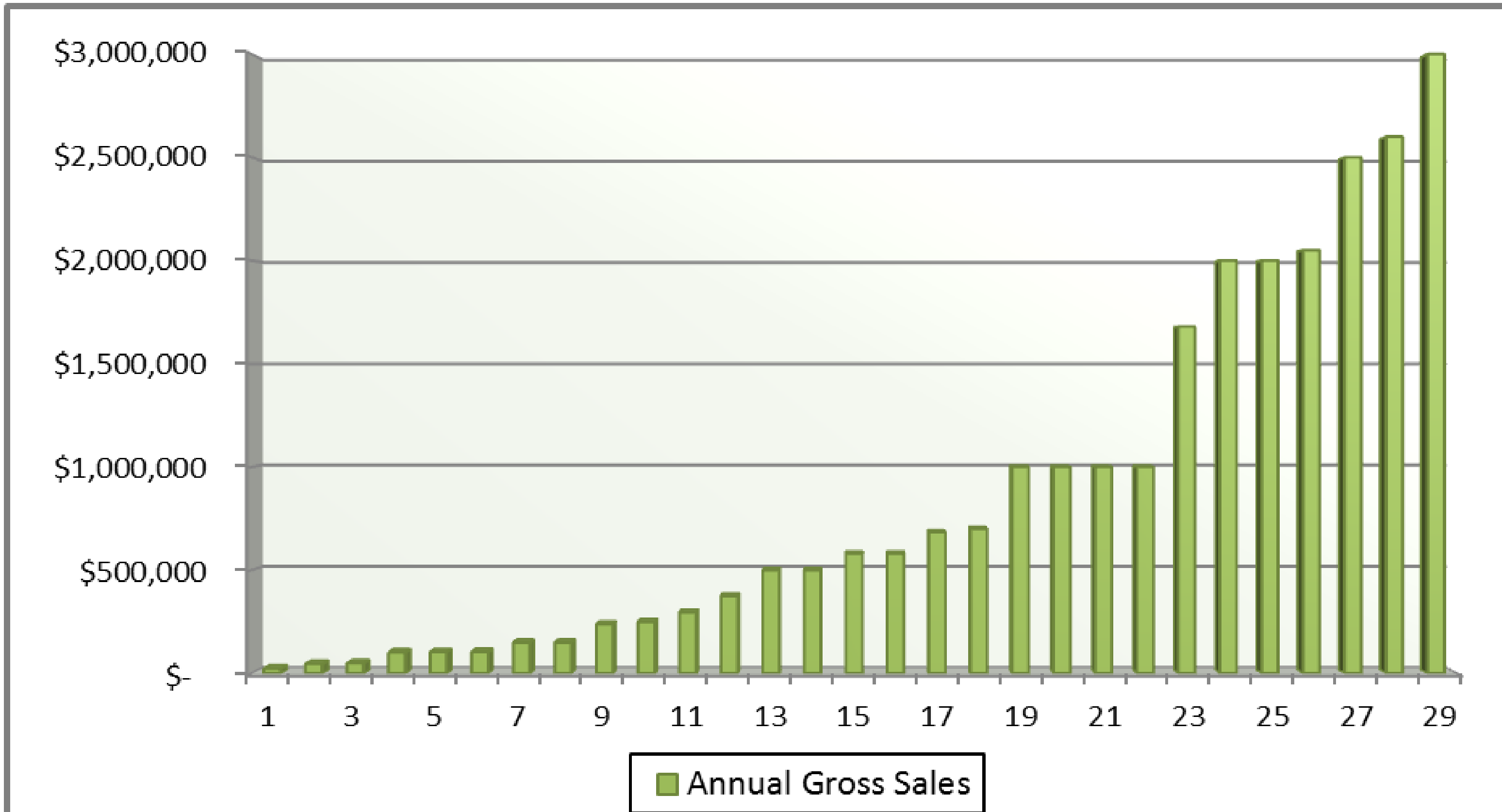
Number of Food Hub Suppliers		
Average	Median	Range
77	40	4 – 450

Food Hub Workforce

Food Hub Workforce	Average	Median	Range
Full-time paid	7	3	0 – 112
Part-time paid	5	3	0 – 40
Regular Volunteers	5	1	0 – 30

Annual Gross Sales by Food Hub for 2010

- sample of 29 food hubs grossing $3 million or less -



N	Ave. Sales	Median	Range
29 Food Hubs	$871,000	$580,000	$46,000 to $3 million

The Role of Food Hubs in Healthy Food Access

- 21 out of the 45 food hubs in the survey **(47%) are actively distributing food products to food deserts**

- 4 additional food hubs <u>not</u> actively distributing to food deserts, partner with other organizations that are working to increase food access in food deserts

- **<u>Bottom Line</u>: Well over 50% of the food hubs in the survey are actively involved in ensuring healthy food access to underserved communities**

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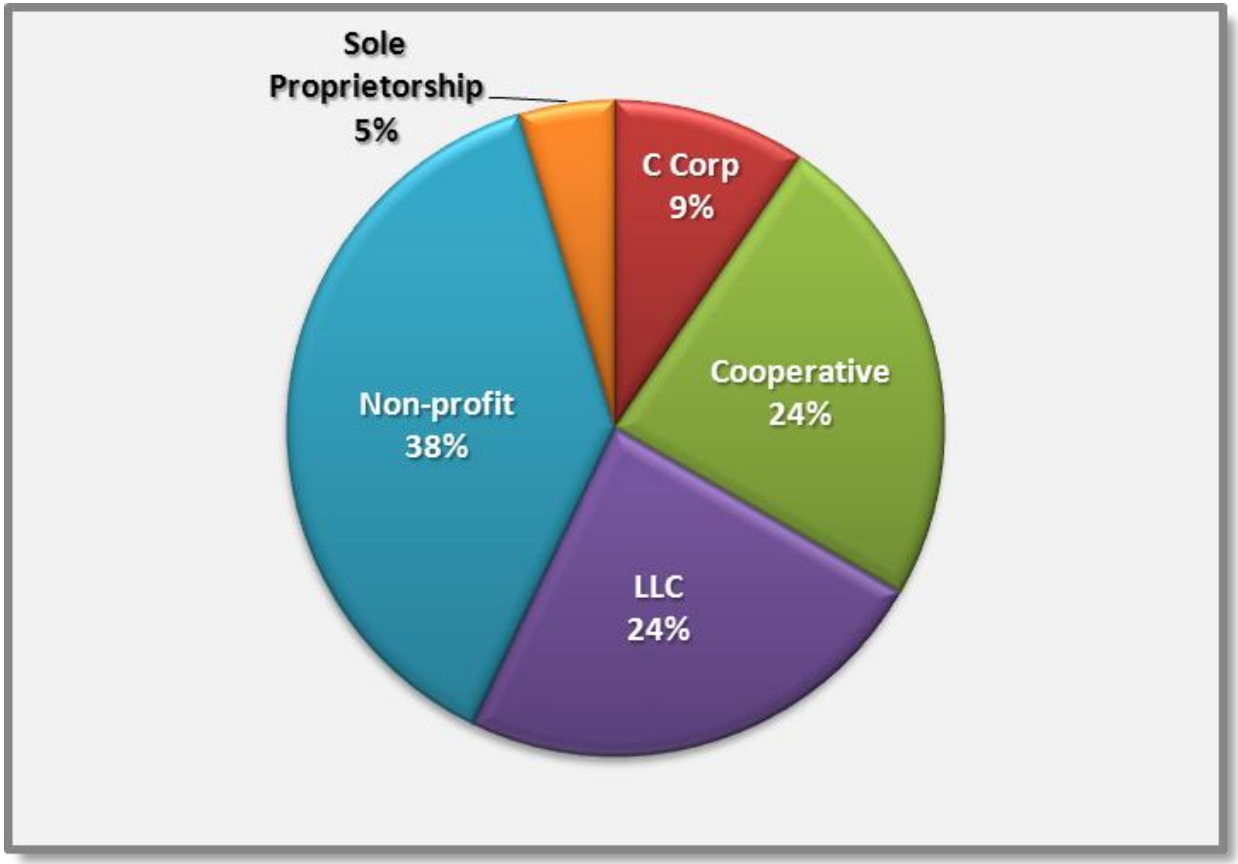
Legal Status of Food Hubs

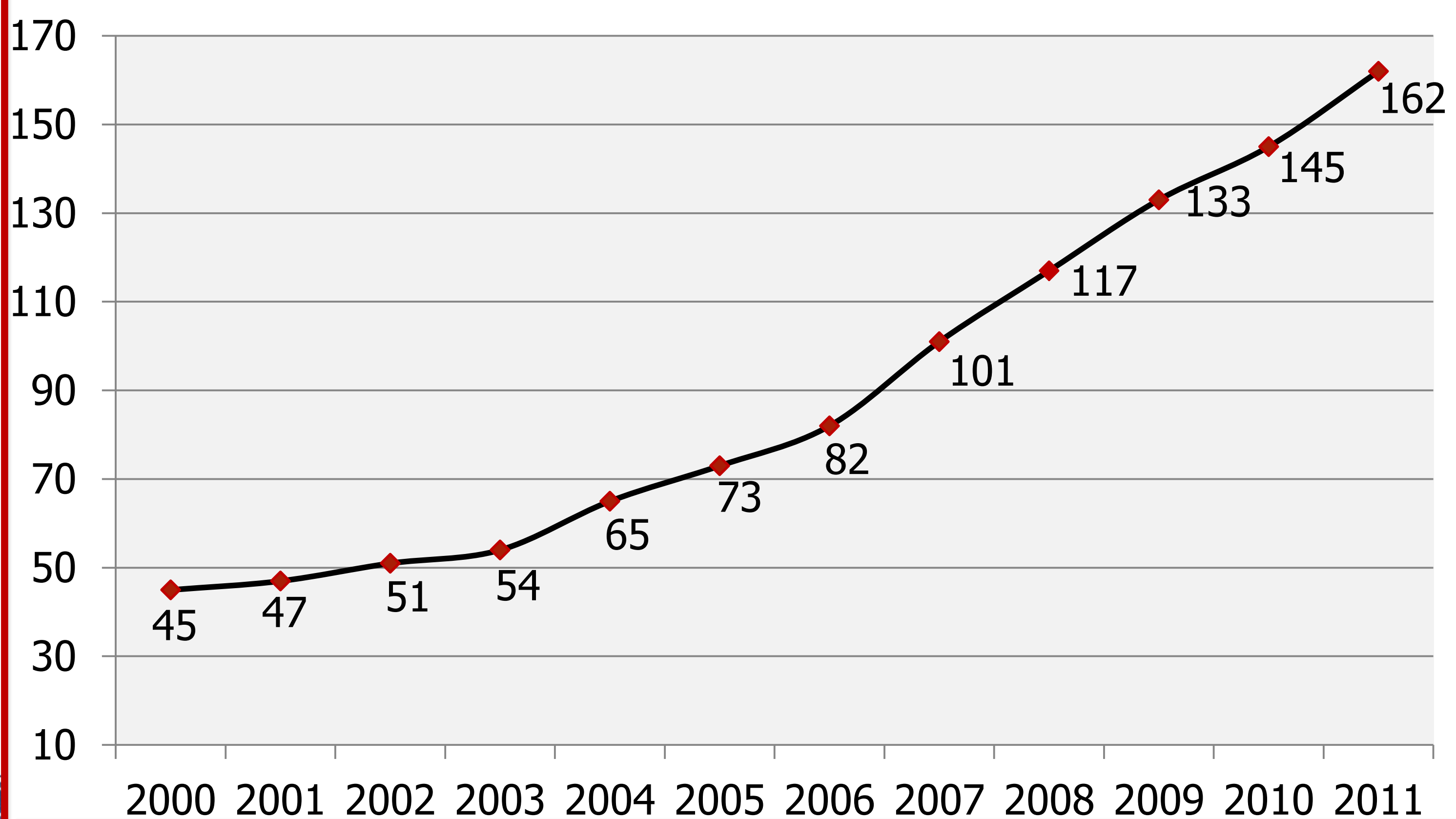
- Distributing to Food Deserts -



- **The majority of food hubs (62%) working in food deserts are either cooperatives or for profit enterprises**

Growth in the Number of Food Hubs

(2001 – 2011)



At least 45 food hubs have started in the past three years (2009-2011), with *at least* 17 food hubs established in 2011 alone

Regional Food Hubs

Based on a working list of 168 regional food hubs identified by the National Food Hub Collaboration

Regional Food Hub Classifications

Food Hub Legal Status	Number	Percentage
Privately Held	67	40%
Nonprofit	54	32%
Cooperative	36	21%
Publicly Held	8	5%
Informal	3	2%

Intermediated Market Model	Number	Percentage
Farm to Business/Institution (F2B)	70	42%
Farm to Consumer (F2C)	60	36%
Both F2B and F2C	38	22%

**Based on a working list of 168 regional food hubs*

Local Food Hub

- Charlottesville, VA -

- **Started in 2009** by two women entrepreneurs, one with a background in retail and distribution and the other in non-profit work

- **Mission:** "Local Food Hub is a nonprofit organization working to strengthen and secure the future of a healthy regional food supply by providing small farmers with concrete services that support their economic vitality and promote stewardship of the land."

Local Food Hub

- Charlottesville, VA-

Non-profit food hub model with two major programs:

- **Local food distributor**
- **Educational farm with a variety of outreach programs**

Food Aggregation

Local Food Hub purchases food from more than 40 local farmers, ensuring a fair price.

Food Distribution

Local Food Hub distributes food to schools, hospitals, institutions, markets and restaurants.

Farmer Services

Local Food Hub provides services to partner producers, including accounting, sales, marketing and education.

Local Food Campaign

Using a savvy marketing campaign, Local Food Hub promotes the value of buying and eating locally.

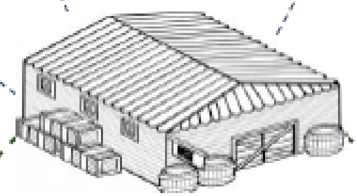
Production Planning

Local Food Hub works with farmers and buyers to coordinate growing and match supply with demand.

Food Donations

Local Food Hub donates more than 5% of warehouse sales to local food banks and community groups.

Distribution Warehouse



Local Food Hub

Educational Farm

Food Production

The farm produces more than six acres of organically grown food for distribution and donation.

Food Donations

25% of the food grown at the farm is donated to local food banks, hunger organizations and community groups.

Farmer Training

Local Food Hub hosts free workshops on organic and sustainable growing methods for participating farmers.

Community Engagement

Local Food Hub engages the community through volunteer programs, events, classes and creative partnerships.

Apprenticeships

An annual eight-month program enables young people to learn sustainable and organic growing methods.

Internships

An annual summer internship brings local high-school youth to the farm where they learn farm training and job skills.

Local Food Hub

- Currently works with over **60 small and mid-sized family farms** (annual sales under $2 million) within 100 miles of Charlottesville

- Includes produce farms from 1 to 30 acres and orchards from 20 to 500 acres

- Offers fresh produce and other food products to **over 100 customers**, which include:
  - 45 public schools
  - 20 restaurants
  - 10 grocery stores
  - 4 senior centers
  - 3 college dining halls
  - 1 hospital (see video at http://vimeo.com/14964949)
  - Several distributors, processors, and caterers

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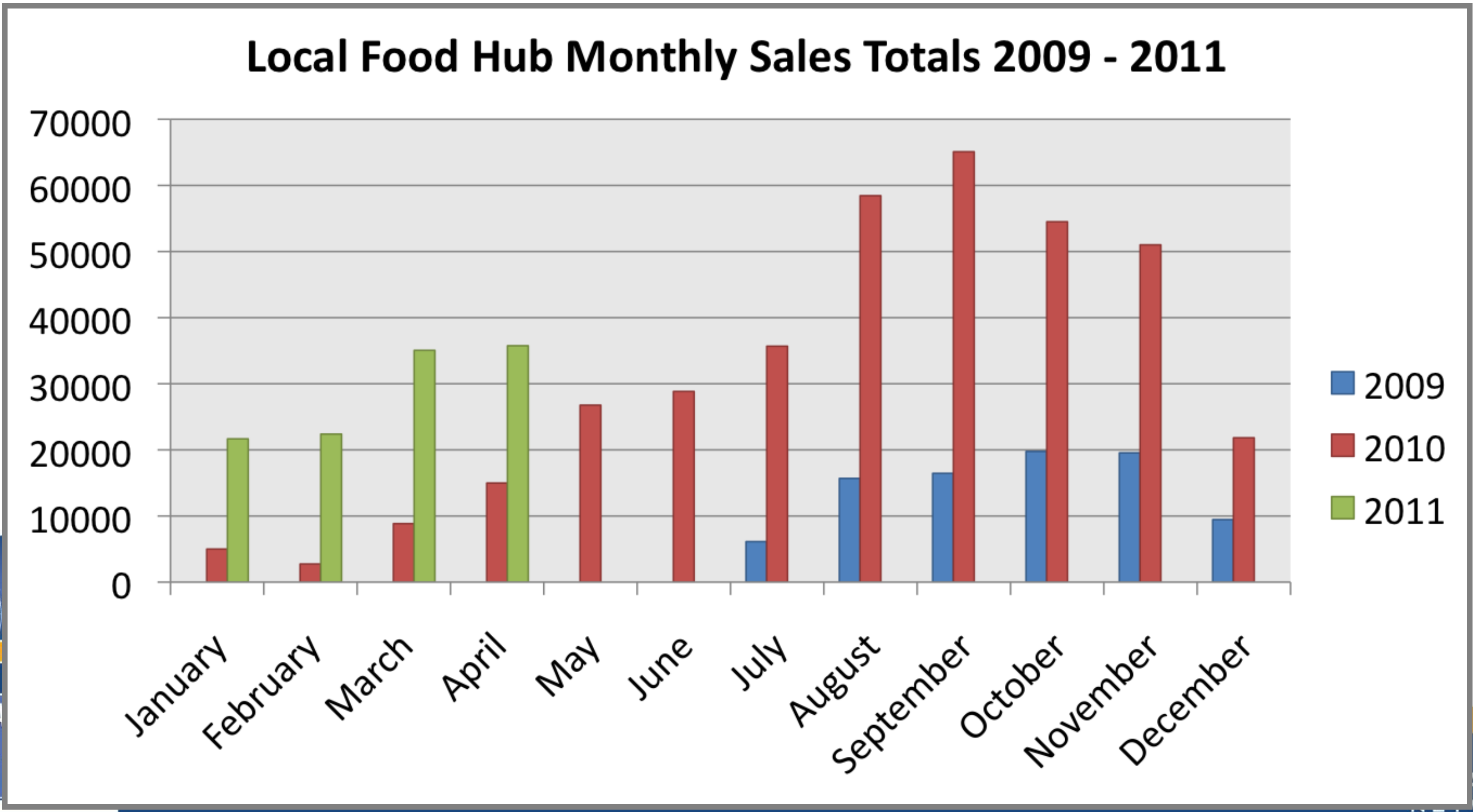
Local Food Hub

- Charlottesville, VA-

- **Annual Gross Sales for 2010: $375,000**
- **Projected Gross Sales for 2011: $675,000**



Local Food Hub IMPACTS

- Charlottesville, VA-

PRODUCER IMPACTS

- Ensures that 80% of the sales price goes back to the producer
- 100% of their producers rated product pricing fair to excellent
- Producers have increased farm sales by an average of 25% since working with the hub
- 60% of their producers plan to increase production
- Provides numerous workshops for producers in areas such as Integrated Pest Management, season extension, crop rotation, farm business planning, and food safety (GAP/GHP)

Local Food Hub provided a "good opportunity to open up a market that was not available to us otherwise, and as a result, we have expanded production of our crops considerably and hired more folks due to increased demand." – Whitney Critzer of Critzer Family Farm

Local Food Hub IMPACTS

- Charlottesville, VA-

ECONOMIC AND SOCIAL IMPACTS

- Reinvested over $850,000 in the local farming community
- Created 15 paid jobs at their distribution and farm operations
- Hub services have helped to retain and support over 200 agriculture-related jobs
- The 120 active food hub buyers reported increasing their local food purchases by an average of 30%
- The hub's educational farm offers apprenticeships and high-school internships to budding farmers
    - Donated more than 100,000 pounds of produce to hunger relief organizations, with 25% of the organic produce from their own 6 cultivated acres of educational farm donated to area food bank

Sandhills Farm to Table Cooperative

- Whispering Pines, NC-

Neighbors Feeding Neighbors

Sandhills
FARM
TO
TABLE
Cooperative

Sandhills Fresh Produce

Sandhills Farm to Table Cooperative

- Whispering Pines, NC-

- Multi-stakeholder cooperative model (consumers, workers, producers)
- Two years old
- 38 Farmers; 1,600 consumer households; 3 FT, 5 PT employees
- 2011 revenues of $428,000

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Sandhills Farm to Table Cooperative

- Whispering Pines, NC-

- Started with pre-paid consumer subscriptions – *"an exercise in consumer good will"*
- Most farmers are transitioning tobacco farmers, 3rd and 4th generation – *too big for farmers markets, too small for commodity agriculture*
- Volunteers pack boxes – *have more volunteers than they need*

Sandhills Farm to Table Cooperative – social impacts

- Whispering Pines, NC-

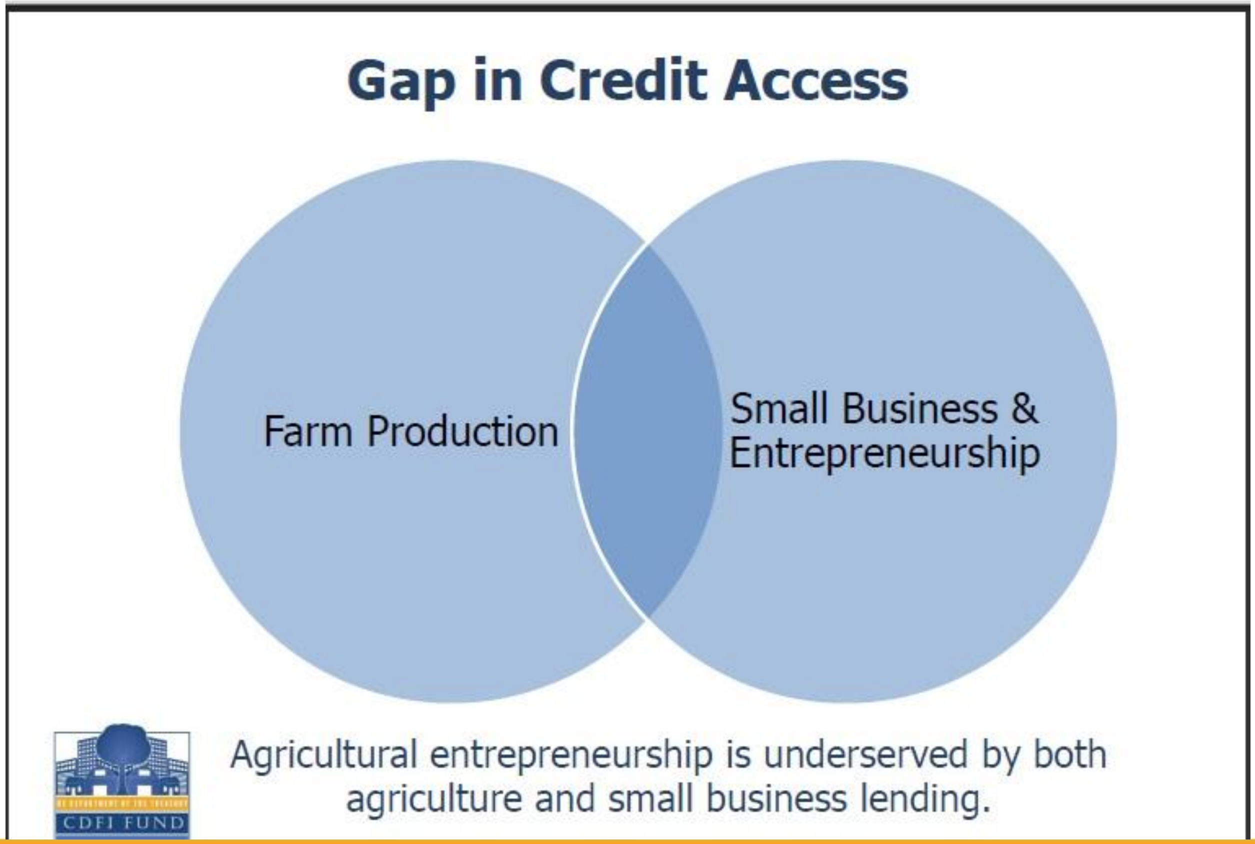
- 3.5 tons of produce donated
- $33,600 donated to drop spots (schools and churches)
- Instrumental in setting up several local food businesses (salsa, bakery, 4-H blueberry farm)
- 80+% of subscribers reported feeling healthier, eating more fruits and vegetables

Food Hub Underwriting Issues

- **It is not always easy to differentiate trading income from public good aspects of the enterprise**
  - Almost all food hubs have related educational and outreach activities – *such activities are core to mission*
  - Many use volunteers
  - Can be for-profit, non-profit, or cooperatives – *structure does not appear to have any correlation to economic success*
  - $1 million to $1.5 million in sales appears to be a mark of “financial viability” for institutional sales – *can be smaller and be successful in the consumer market*

Food Hub Underwriting Issues

- **Need to understand markets, cycles of both agriculture and distribution businesses**

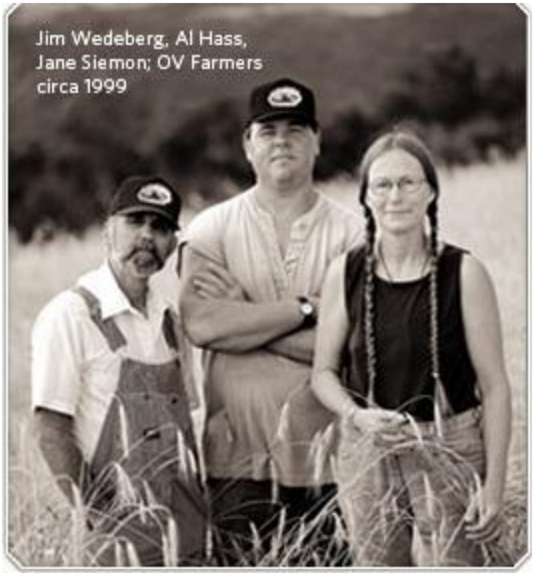


Food Hub Underwriting Issues

- **Underwriting based upon hard collateral will be disappointing . . .**

Organic Valley
- LaFarge, WI

- Largest organic dairy marketing cooperative in the country
- $715 million in sales in 2011; 15.5% growth over previous year
- $13.3 million in profits
- Over 1,700 farmers



Organic Valley
- LaFarge, WI

- Employ 630 people in one of the poorest counties in Wisconsin
- Gave away $2 million in 2011 to 900 organizations
- Average herd is 70 cows

Organic Valley
- LaFarge, WI

CDFI History:

- 1989 as Coulee Region Organic Produce Pool (CROPP) in their second year of operations got a loan of $10,000 from local CDFI to buy a truck
- 2001 with previous year sales of over $70 million they got an additional loan of $175,000 from the same CDFI for a building

Lesson: even after 12 years and substantial sales, still were not "bankable" due to limited hard collateral

Food Hub Underwriting Issues

- These are still, for the most part, very young businesses

Producers & Buyers Cooperative
- Eau Claire, WI

- Started in 2008 with a mission to rebuild the local food system
- Local hospital committed 10% of food budget to local foods ($200,000)
- Invited all stakeholders to the table, including the hospital as well as producers, processors, distributors and community stakeholders
- Significant early success with lots of positive press (big write-up in *Mother Jones*)

Producers & Buyers Cooperative
- Eau Claire, WI

- Closed their doors in July of 2011 – why?
  - Too closely identified as a project of the hospital; scared other institutional buyers away
  - Raised too little equity for start-up and could not afford an experienced manager
  - Did not require contracts from buyers
  - Needed more education and training at all levels, particularly when working with large institutions

However . . .

The basic distribution and financing model worked

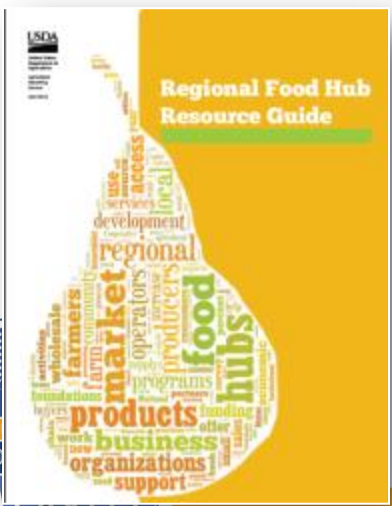
Why Bother With Food Hubs?

- Deeply triple bottom-line enterprises
- Additional aspect of social capital, community engagement
- Indirect impact can be significant in terms of economic development, spawning other enterprises
- They are already actively serving food deserts
- Infrastructure is vital component of food systems
- Job creation for larger enterprises can be substantial
- Income augmentation for small farmers is really critical
- Appropriate financing can cut the development timeline

Distribution and Food Hub Resources

Moving Food Along the Value Chain: Innovations in Regional Food Distribution

By Adam Diamond & James Barham
- USDA Agricultural Marketing Service



Regional Food Hub Resource Guide:

Food hub impacts on regional food systems, and the resources available to support their growth and development

A collaboration between USDA and the Wallace Center

USDA Food System Resources

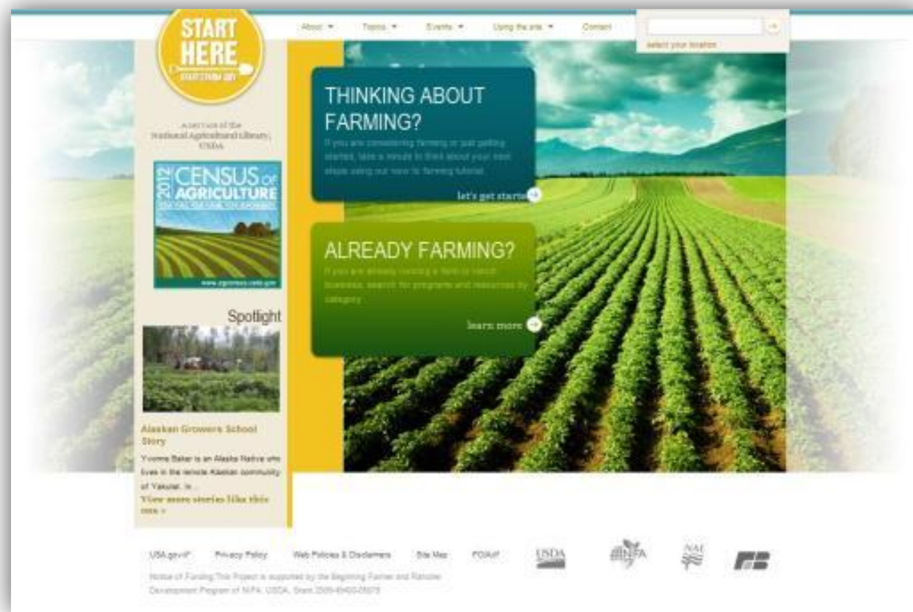
USDA's Food Hub Portal
www.ams.usda.gov/FoodHubs

A catalogue of USDA's findings, resources, and support for food hubs

USDA Agricultural Marketing Service – Marketing Services Division
http://www.ams.usda.gov/WholesaleFarmersMarkets

Includes National Farmers Market Directory, grant programs, and research/resources to assist producers in improving their market opportunities

USDA Food System Resources



Start2Farm – For New and Beginning Farmers and Ranchers www.start2farm.gov

Start2Farm serves as a one-stop reference for anyone looking for programs and resources to start farming and to be successful in their first years as a farmer or rancher.

"Know Your Farmer, Know Your Food" Compass

www.usda.gov/kyfcompass

An online multi-media narrative with stories, pictures, and video about USDA's support for local and regional food systems

Includes an interactive map of USDA-supported local and regional food activities in all 50 states

USDA's "Know Your Farmer, Know Your Food" Initiative www.usda.gov/knowyourfarmer

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Additional Resources

Financing Healthy Food Options Resource Bank

http://www.cdfifund.gov/what_we_do/FinancingHealthyFoodOptionsResourceBank.asp

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Financing Healthy Food Options Webinar Archive

http://www.cdfifund.gov/what_we_do/FHFOResourceBankWebinars.asp

Upcoming TA Webinars

A First Look: Predicting Demand for Food Retail Using a Huff Analysis

- Tuesday, July 31, 2pm EDT

More to come in August and September, including:

- How to Develop Loan Policies and Procedures for Healthy Food Financing
- Rural Grocery Stores
- Underwriting Supermarkets: A Deeper Look at the Details of Financing Grocers
- Healthy Corner Stores
- And much more!

STAY TUNED!

Visit www.opportunityfinance.net/FHFOwebinars/ to register for one or all of the TA webinars

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