Regional Food Hubs:

One Solution for Overcoming Barriers for Local Producers

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Agricultural Outlook Forum

February 24, 2012

Presentation Overview

Regional Food Hubs

- USDA's "Know Your Farmer, Know Your Food" (KYF2) Initiative
- Food Hub Definition & Core Components
- Food Hub Example
- National Food Hub Collaboration
- Summary of Food Hub Findings to Date
- Lessons Learned
- Food Hub Resources & Reference Materials

USDA's "Know Your Farmer, Know Your Food" Initiative

- Launched September 2009
- Designed to spur a **"national conversation"** on how to develop viable local and regional food systems and stimulate new economic opportunities
- Deputy Secretary Kathleen Merrigan oversees a "KYF2" task force with representatives from every USDA agency, which meets every 2 weeks. Designed to:
  - Eliminate organizational "silos" between existing USDA programs to support KYF2 mission through enhanced collaboration
  - Align existing Departmental activities/resources and "break down structural barriers" that inhibit local food system development

Regional Food Hub Taskforce

- **In May 2010, USDA established an interagency taskforce to examine the role and potential of regional food hubs to improve farmer/rancher access to larger volume markets**
- **Includes representation from the following agencies:**
  - Agricultural Marketing Service, *lead agency*
  - Rural Development
  - Food and Nutrition Service
  - National Institute of Food and Agriculture
  - Economic Research Service
  - Agricultural Research Service
  - Food Safety and Inspection Service
- **Coordinating efforts with other Federal agencies, non-profit organizations, and the private sector**

Why Regional Food Hubs?

Disconnect between growing retail/foodservice demand for local/regional food products and capacity of small/mid-sized farms to supply commercial customers with desired items.

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 consumers said the presence of local food “very” 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

USDA believes ***regional food hubs can play an important role*** in supporting/retaining these “ag-of-the middle” farmers and encouraging smaller farmers to scale up their operations.

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 local and regional food products primarily from small to mid-sized producers to wholesalers, retailers, and/or institutional buyers

Regional Food Hub
- Defining Characteristics -

- ✓ Carrying out or coordinating the aggregation, distribution, and marketing of locally/regionally produced product **from *multiple producers* to *multiple markets*.**
- ✓ ***Committed to buying from small to mid-sized local producers*** whenever possible and considers these producers as core to their business model.
- ✓ ***Utilizing one or more product differentiation strategies*** (e.g. identity preservation, group branding, sustainable production practices, etc.) **to ensure that producers can get a good price for their products.**
- ✓ ***Working 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.
- ✓ ***Aiming to be both financially viable and have positive economic, social, and/or environmental impacts*** within their respective communities

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.

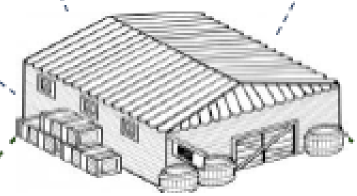
Farmer Services

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.

Distribution Warehouse



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.

Local Food Hub

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.

Educational Farm

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 * localfoodhub.org * P.O. Box 4647, Charlottesville, VA 22905 * (434) 286-2176

Local Food Hub

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

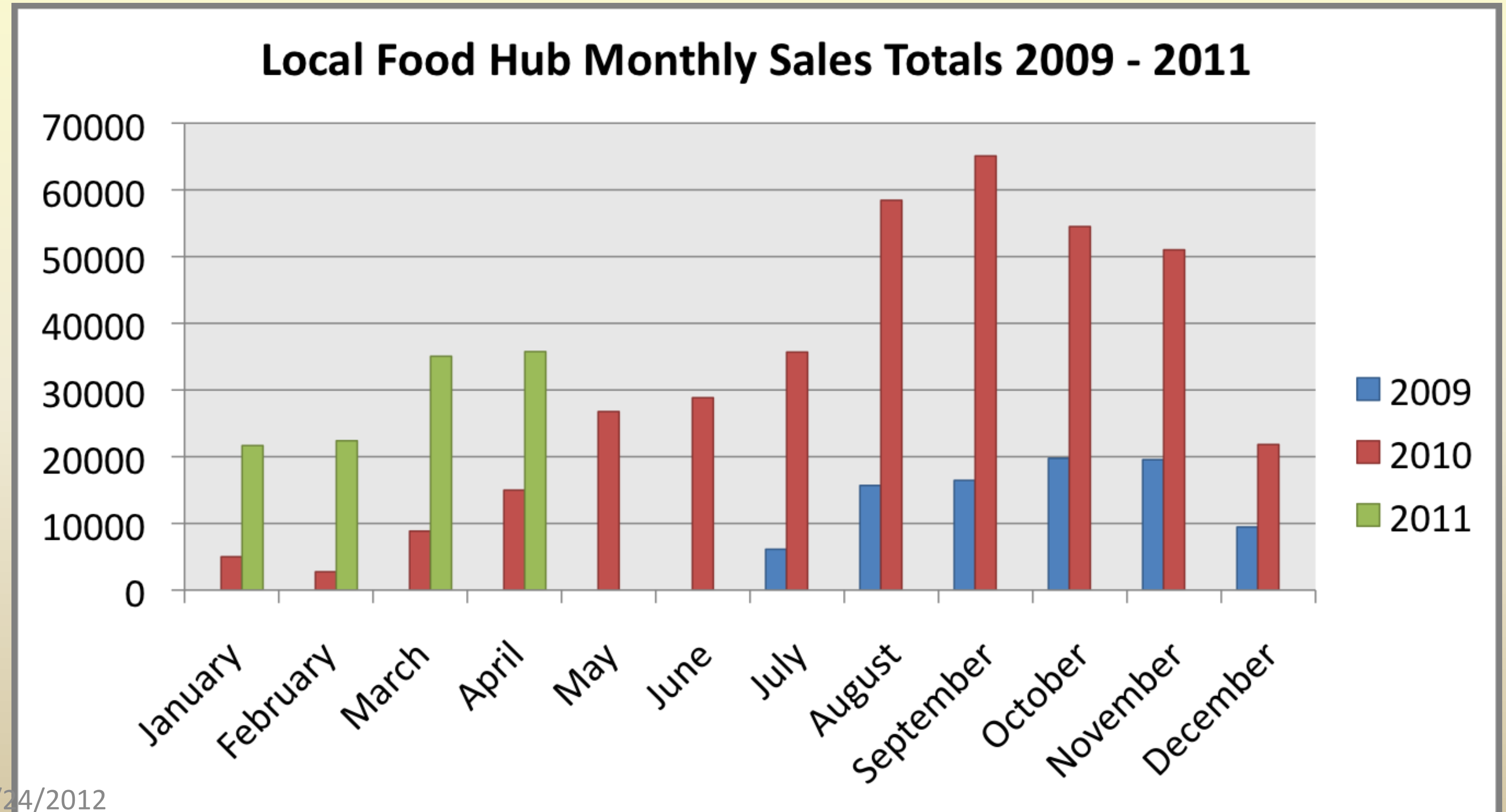
- Produce farms from 1 to 30 acres and orchards from 20 to 500 acres

- Offers fresh produce and other food products to **over 100 customers**, which includes:
  - 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

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 their 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 from educational farm donated to area food bank

The National Food Hub Collaboration

Partners include:

- Wallace Center at Winrock International, *co-lead*
- USDA Agricultural Marketing Service, *co-lead*
- National Good Food Network
- National Association of Produce Market Managers
- Project for Public Spaces

The National Food Hub Collaboration

First phase of collaboration:

- Identify existing food hubs
- Develop a greater understanding of the scope and scale of food hub operations, and their challenges and opportunities for growth, by:
  - Carrying out focus groups with industry stakeholder groups
  - Conducting an online survey with food hubs and “public” markets, and
  - Carrying out phone interviews with a survey sub-sample of food hubs and public markets.

Preliminary Findings from Food Hub Survey*

Regional Food Hub Survey

- Online survey was sent to 72 food hubs and 36 “public” markets in January 2011.
- Surveys completed by Feb. 7 were included in analysis.
- 45 food hubs completed the survey (63% response rate).
- Follow up phone interviews with 20 food hub operations

* This presentation of preliminary findings is subject to revision as further analysis is completed

Food Hub Survey Key Findings

- **Entrepreneurs took the organizing lead** in establishing 40 percent of the food hubs
- **A nascent industry:** 60 percent of the food hubs have been in operation for five years or less
- Average food hub sales are nearly **$1 million annually**
- Food hubs employ on average **7 full-time and 5 part-time employees** with an average of **5 regular volunteers**
- **The median number of suppliers to a food hub is 40**, many of whom are small and mid-sized farmers and ranchers

Food Hub Survey Key Findings

- **Offers a wide range of food products**, with fresh produce being its major product category, and **sells through multiple market channels**, with restaurants being an important entry market
- **A socially driven business enterprise** with a strong emphasis on “good prices” for producers and “good food” for consumers
- **Actively involved in their community**, offering a wide range of services to both producers and consumers
- **Over 40 percent of food hubs are working in "food deserts"** to increase access to fresh, healthy, local food products in communities underserved by full-service food retail outlets

Food Hub Findings
– Financial Viability of Food Hubs –

From follow-up phone interviews with 20 regional food hubs on their financial viability:

- **10 Food Hubs identified themselves as financially viable**, i.e., presently covering their operating costs (breaking even) or turning a profit
- **7 Food Hubs projected they will break even in the next 1 to 3 years**
- **All 10 financially viable food hubs have gross annual sales of $1 million or more**

Regional Food Hubs

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

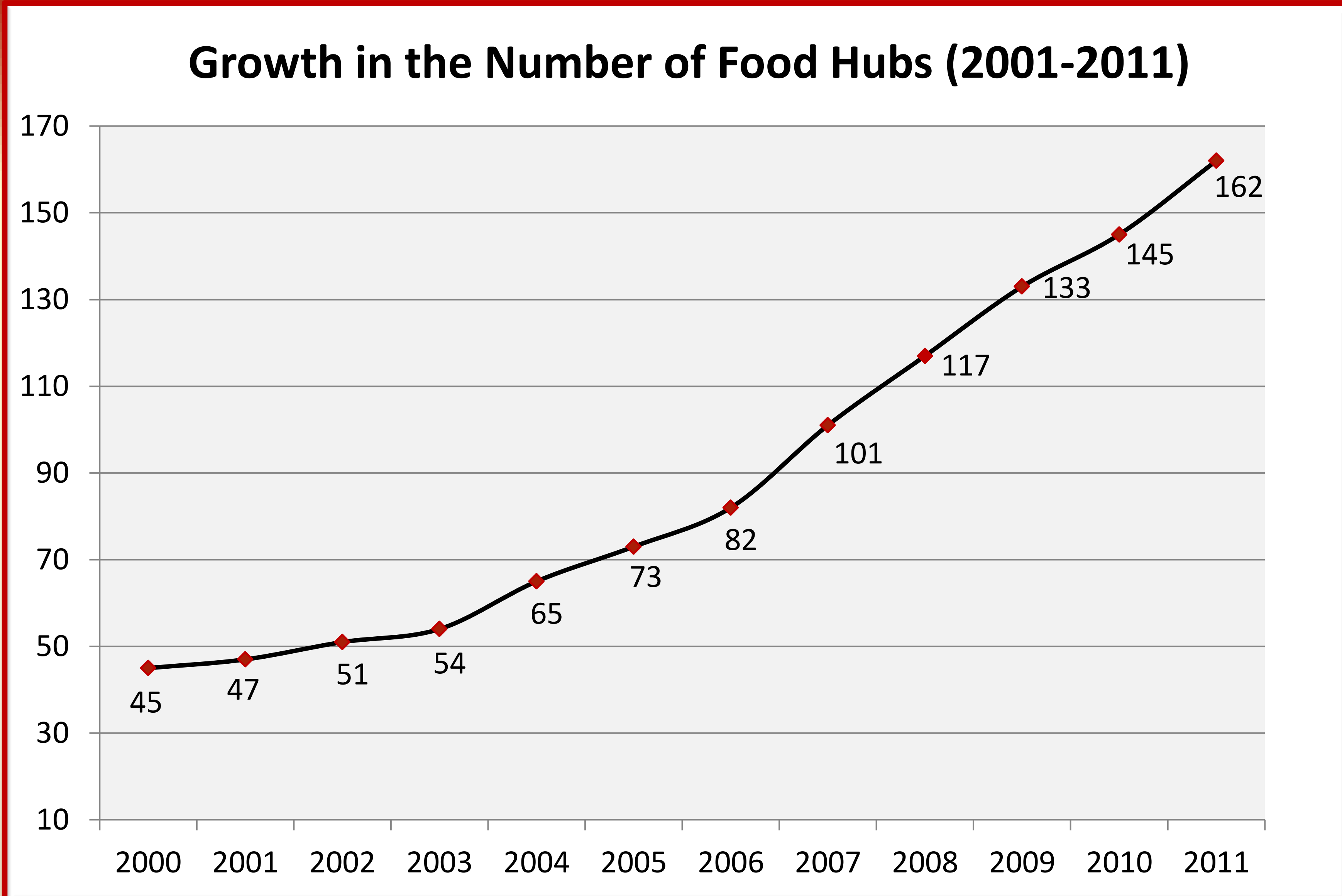
Regional Food Hub Classifications

Breakdown of Regional Food Hubs*

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 identified by the National Food Hub Collaboration*



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

The Big Picture…

- Regional Food Hubs and the Food System -

Regional food hubs are filling a market function not adequately addressed by the current distribution system: the aggregation and distribution of food products from small to mid-sized producers into local/regional wholesale market channels

Strong potential partnerships between regional food hubs and other distributors/wholesalers. Regional food hubs can:

- Serve as aggregation points for regional distributors/wholesalers
- Provide a reliable and ready supply of local/regional products
- Offer a broader and more diverse selection of source-identified and branded local products
- Increase supply of local/regional products by providing training/technical assistance to “grow” more producers
- Take advantage of the existing infrastructure available at wholesale/terminal markets across the country

Priority Needs of Food Hubs

- **In most cases, the physical and "virtual" infrastructure is already in place, with an unmet demand for locally and regionally grown products**

- **What is needed?**
  - Start-up capital to renovate facilities for aggregation, storage, packing, light processing, and distribution
  - Working capital for business management systems to coordinate supply chain logistics (e.g., grower-buyer transactions, aggregation, distribution, and marketing)
  - Enterprise development training and technical assistance to increase grower capacity to meet wholesale buyer requirements (volume, quality, packaging, food safety, etc.)

Lessons Learned

– Five Keys to Successful Marketing for Food Hubs –

- ✓ **Don’t sell commodities**
  – Product differentiation is key (unique product attributes, source identified, production practices, social equity), telling a compelling story, branding, certifications
- ✓ **Be there all year for your customers**
  – Must sustain operations year round to cover costs and keep customer communication constant. Be pragmatic about your approach in terms of sourcing “locally”
- ✓ **Get buyer commitment**
  – Be clear with buyers about volume order expectations and use a combination of specials, incentives, rewards, public recognition for “committed” buyers
- ✓ **Think farmers first**
  – Ensure good prices for producers and find ways to build their capacity to grow and be successful
- ✓ **Sweat the small stuff**
  – To tell an authentic and compelling story, all staff need to know every detail of the production and handling practices of the product sold under the brand (even the truck drivers!)

National Food Hub Collaboration: Next Steps

Innovative Pilots: Key leverage points

- Partner with new/existing hubs
- Large buyers
- Farm to School/Institution
- Rural/Tribal/Underserved populations

Community of Practice

- National & regional networking
- Peer to peer learning tools
- Clear access point for new stakeholders
- Accelerate innovation

Food Hub Collaboration

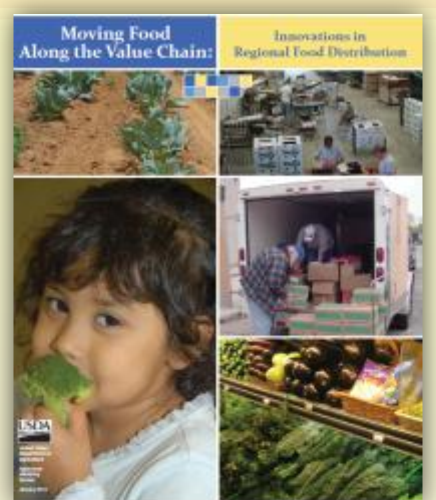
Technical Assistance Network

- Leverage National Good Food Network
- Both "strategic" and "tactical" support

Outreach & Communications

- Case studies
- Webinars
- Links to financial and knowledge resources
- www.FoodHub.info
- www.ams.usda.gov/FoodHubs

Regional Food Hub Research



Soon to be released:

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

By Adam Diamond and James Barham

Coming Soon!

Regional Food Hub Resource Guide

- An inventory and profile of existing food hubs
- A synthesis of lessons learned, challenges, opportunities, emerging best practices for the development of food hubs
- Identification of existing and potential resources (i.e., grants, loans, technical assistance) that can be used to support food hub development

USDA Food Hub/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's "Know Your Farmer, Know Your Food" Website

www.usda.gov/knowyourfarmer

See links to "Grants, Loans, and Support" and "Tools and Resources"

Regional Food Hubs:

Understanding the scope and scale of food hub operations

- Reference Materials -

Preliminary Findings from Food Hub Survey*

Food Hub Survey

- Online survey was sent to 72 food hubs and 35 public markets in January 2011
- 45 completed food hub surveys by February 7, 2011
- The following results only include the food hubs, <u>not</u> the public markets

* This presentation of preliminary findings is subject to revision as further analysis is completed

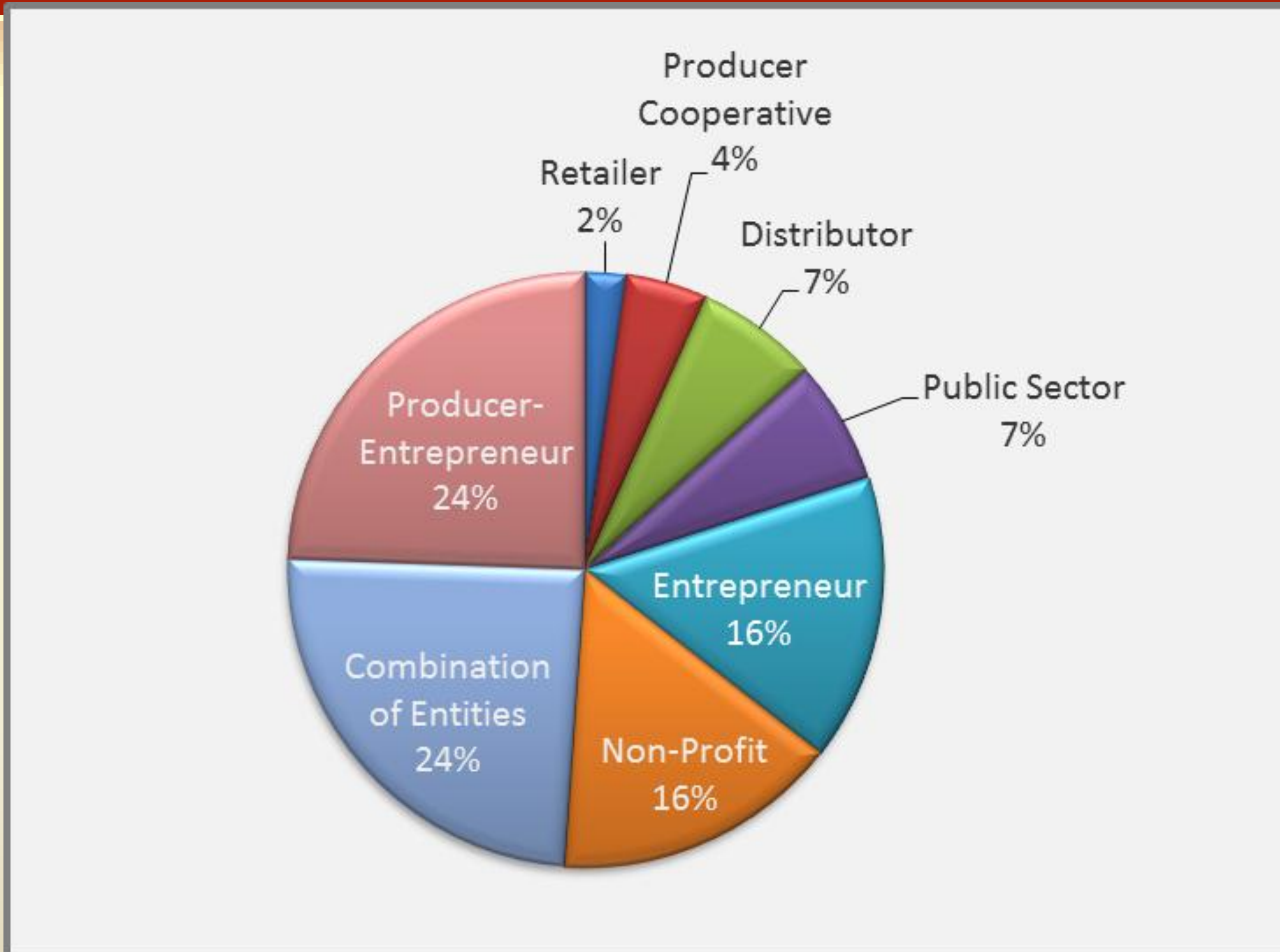
Food Hubs Identified for Survey

	West	Southwest	Midwest	South	Northeast	TOTAL
Food Hubs	11 (15%)	5 (7%)	22 (31%)	15 (21%)	19 (26%)	72

Food Hub Online Survey

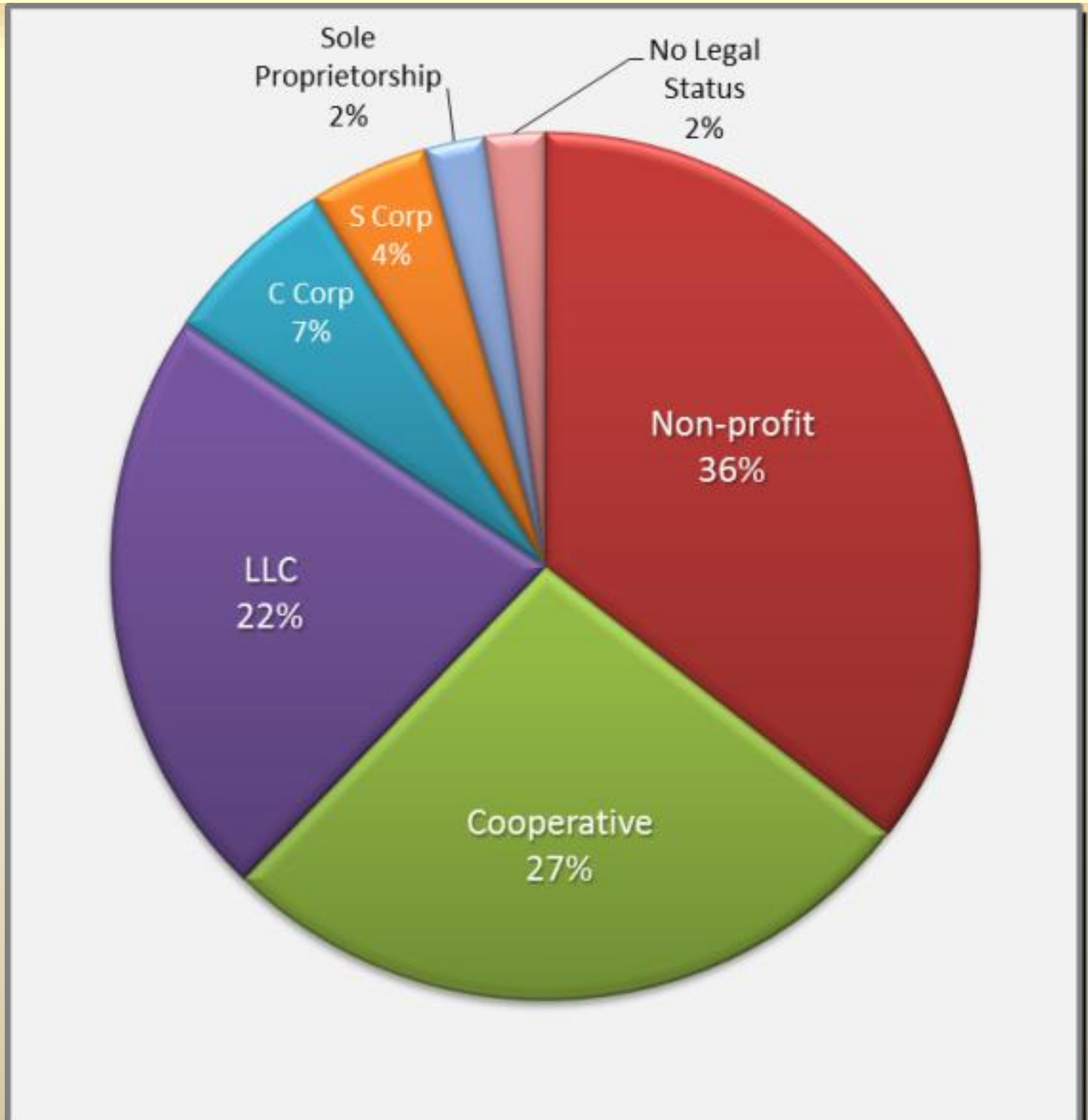
	West	Southwest	Midwest	South	Northeast	TOTAL
Sent Survey	11 (15%)	5 (7%)	22 (31%)	15 (21%)	19 (26%)	72
Completed Survey	7 (16%)	2 (4%)	13 (30%)	8 (17%)	15 (33%)	45

Lead Organizing Entity for Establishing Hub

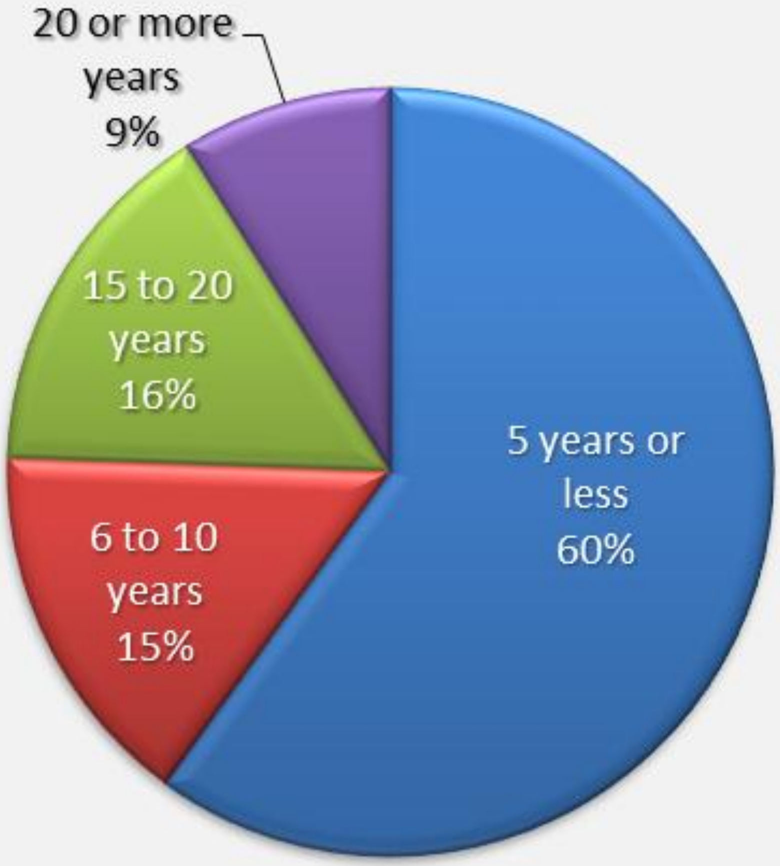


- **Entrepreneurs took the organizing lead in establishing 40% of the food hubs**
- **7 out of the 11 hubs in the "Combination" category included non-profit or public sector involvement**

Legal Status of Food Hubs

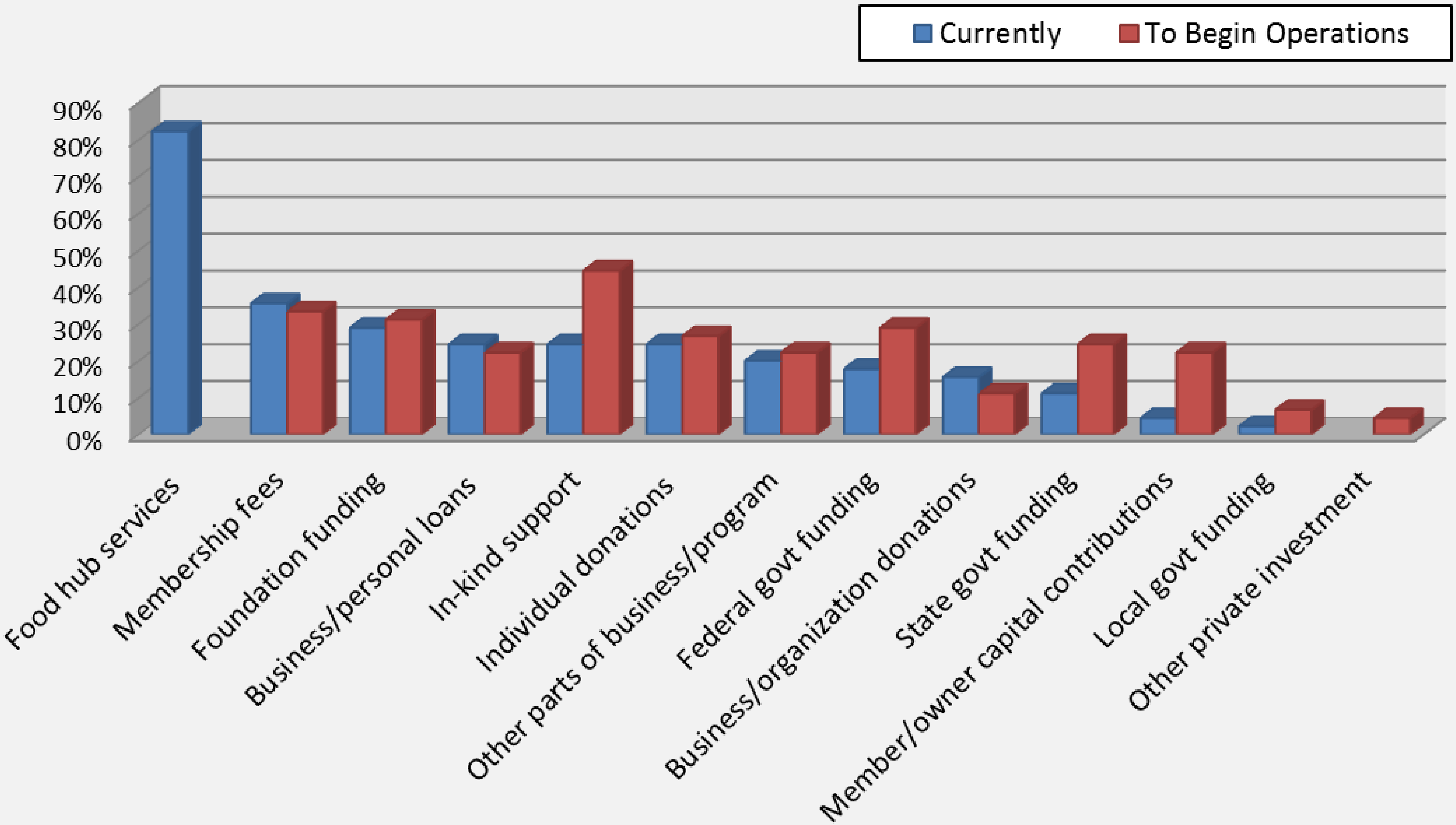


Food Hub Maturity



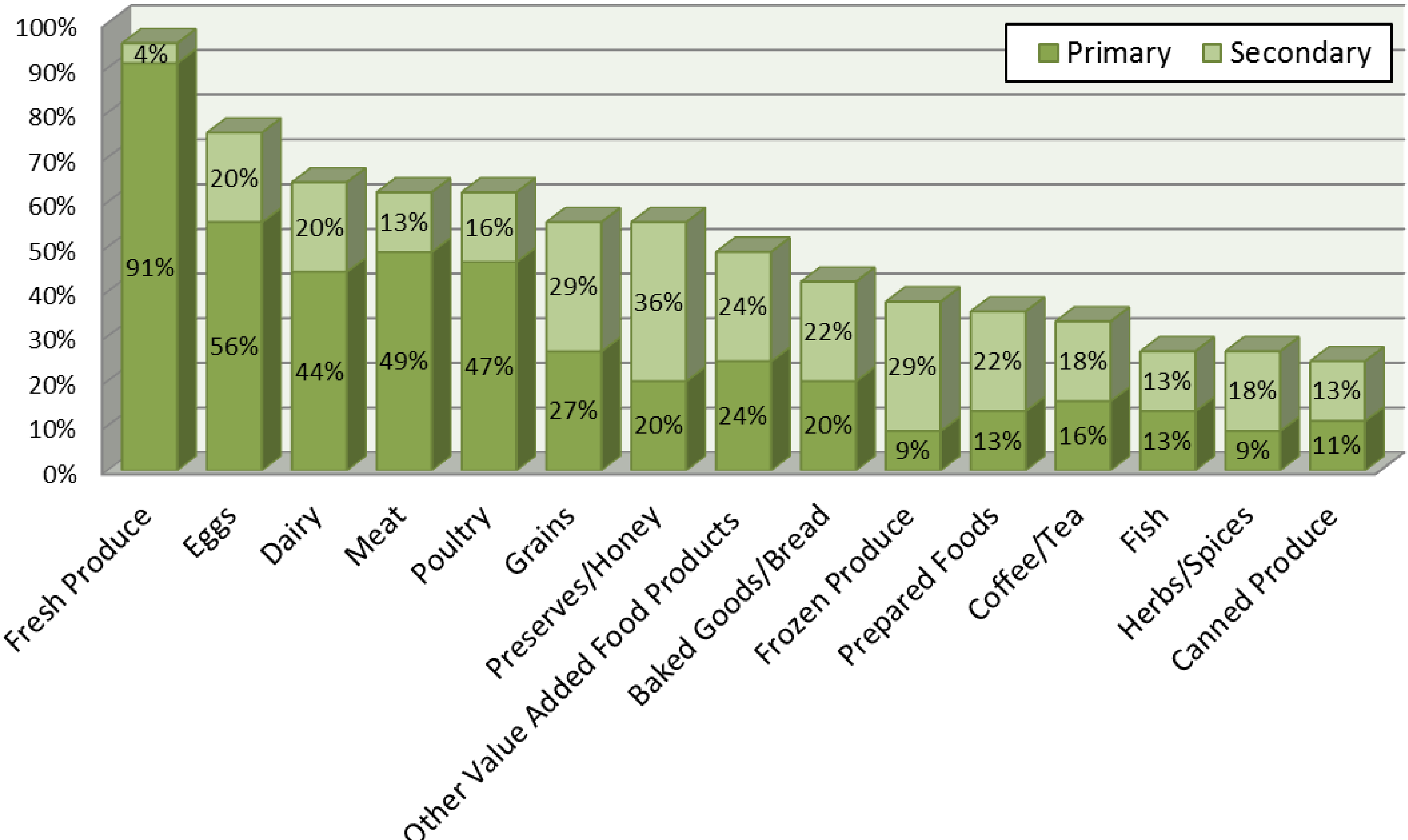
Number of Years in Operation		
Average	Median	Range
8 years	5 years	1 – 37 years

Food Hub Funding

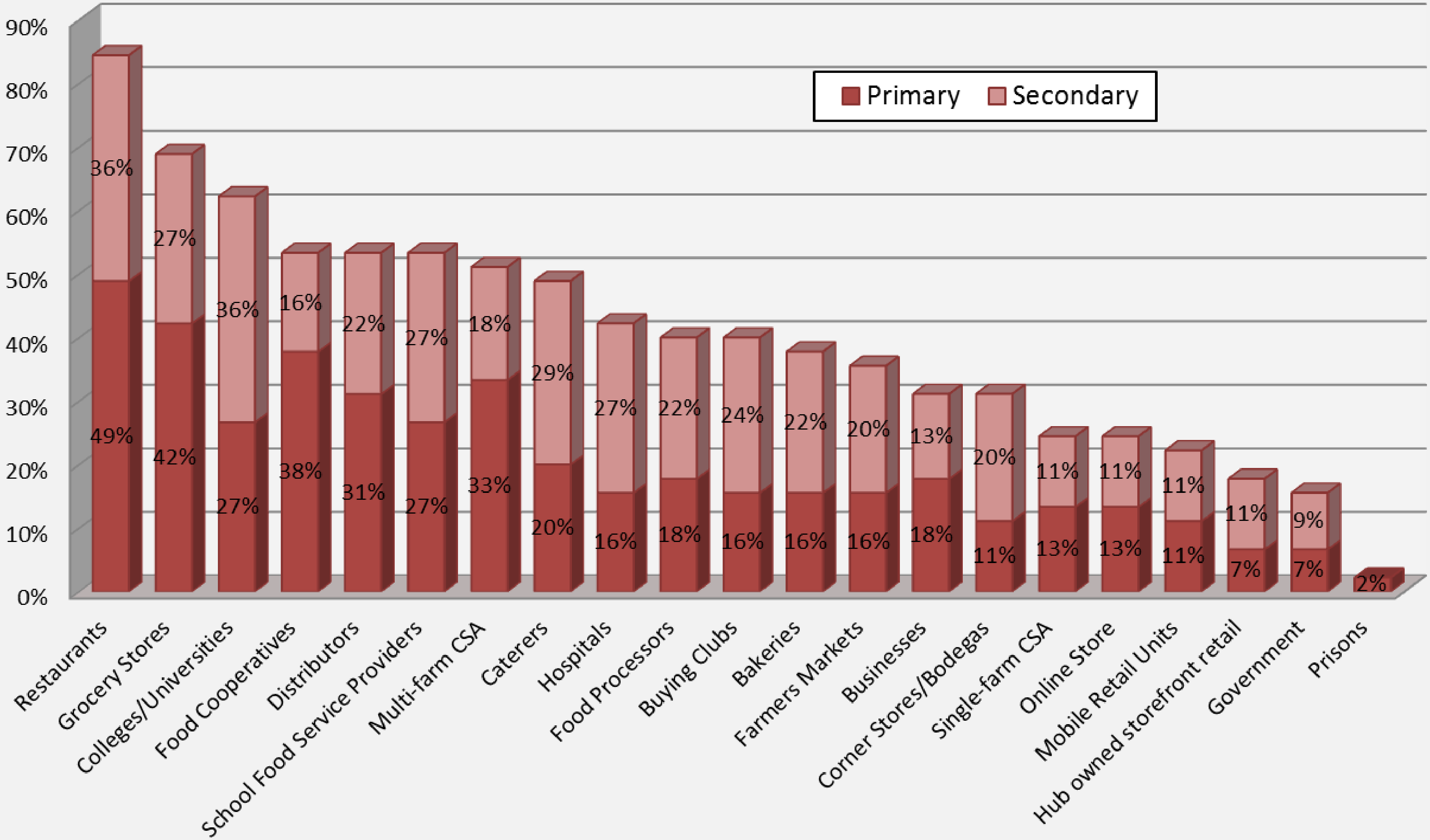


- 60% of the food hubs received govt. funding to begin operations
- 30% of the food hubs currently receive govt. funding

Food Product Categories Offered by Hubs



Food Hub Buyers/Customers



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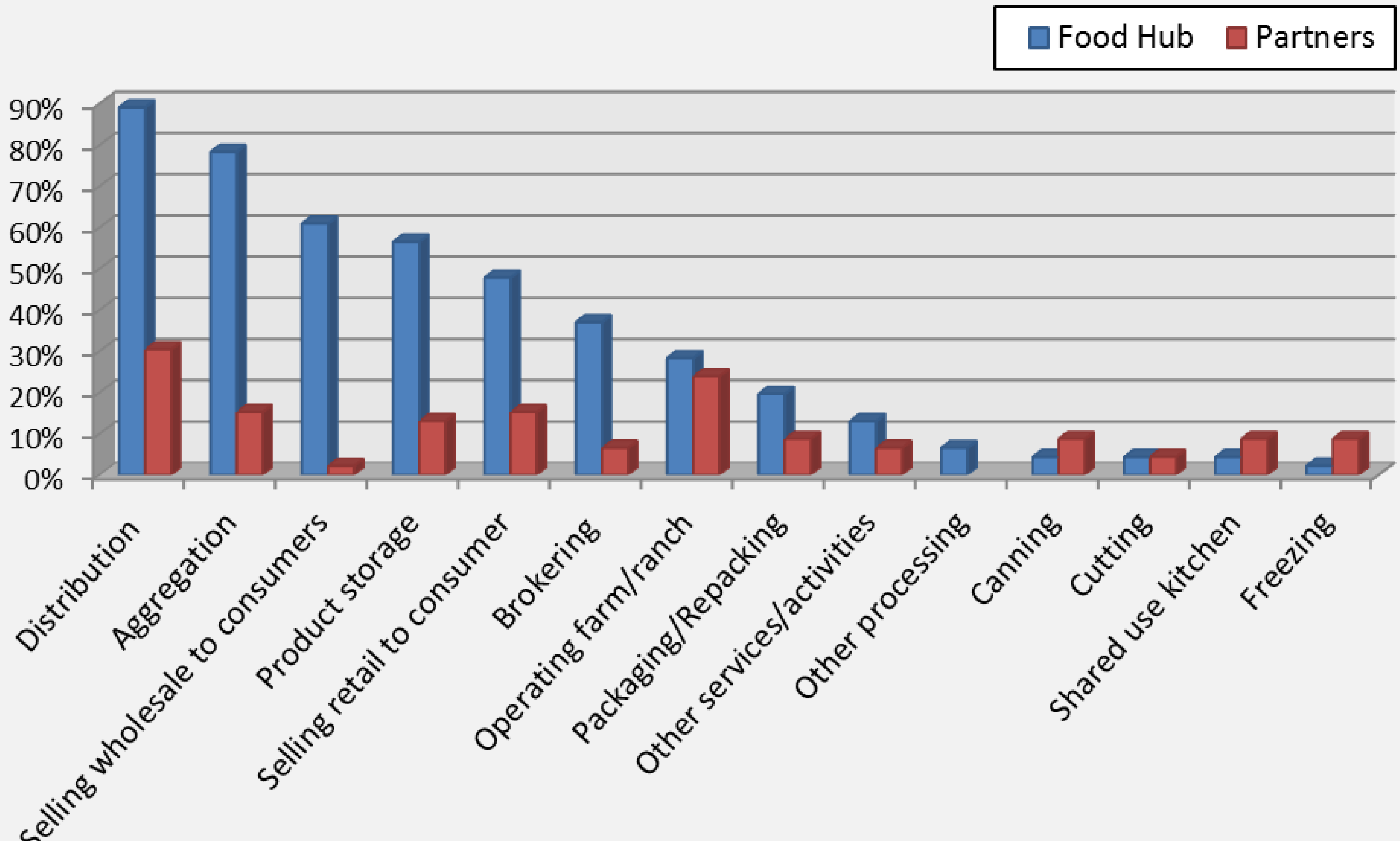
Food Hub Suppliers

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

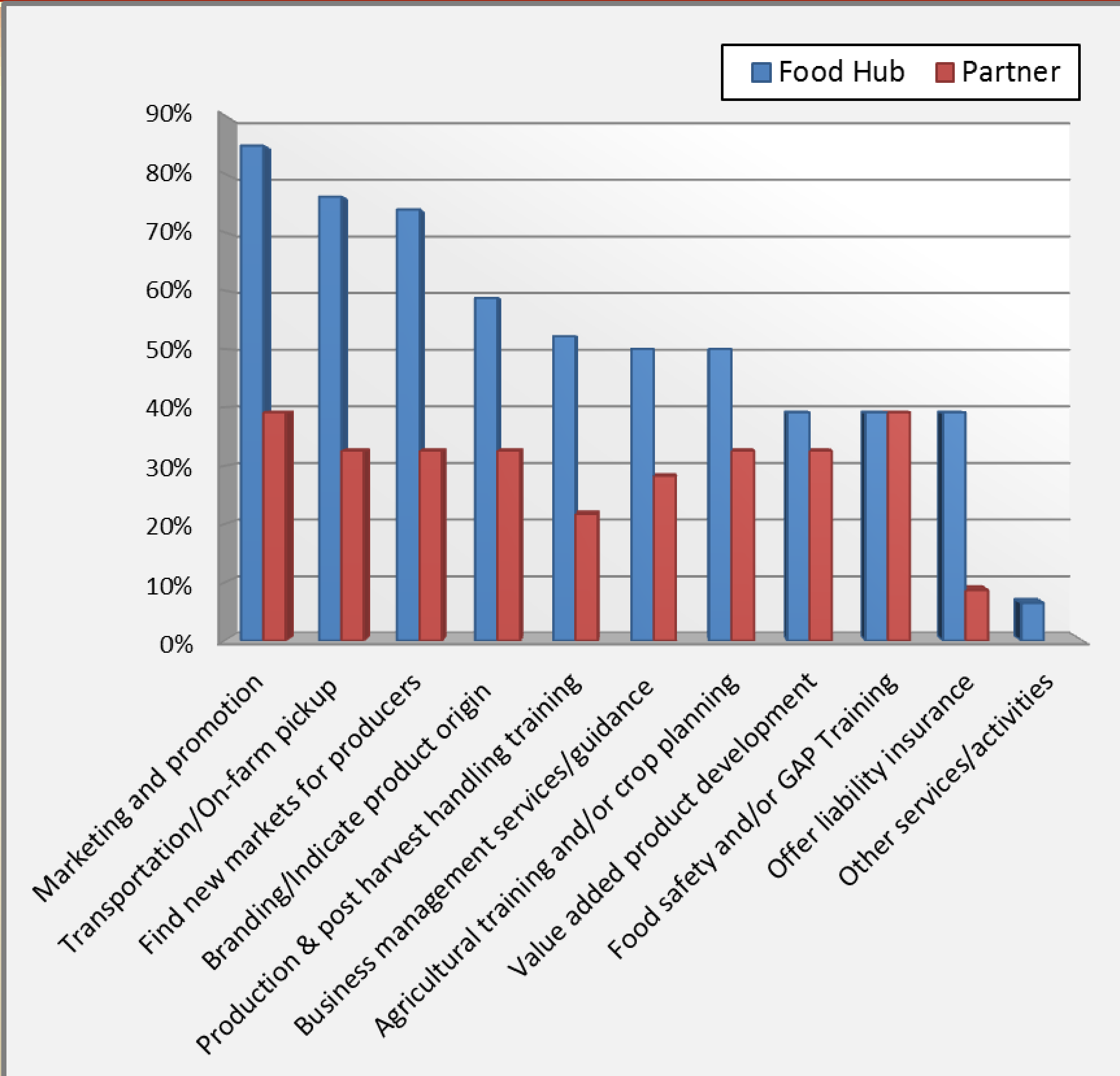
Food Hub Workforce

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

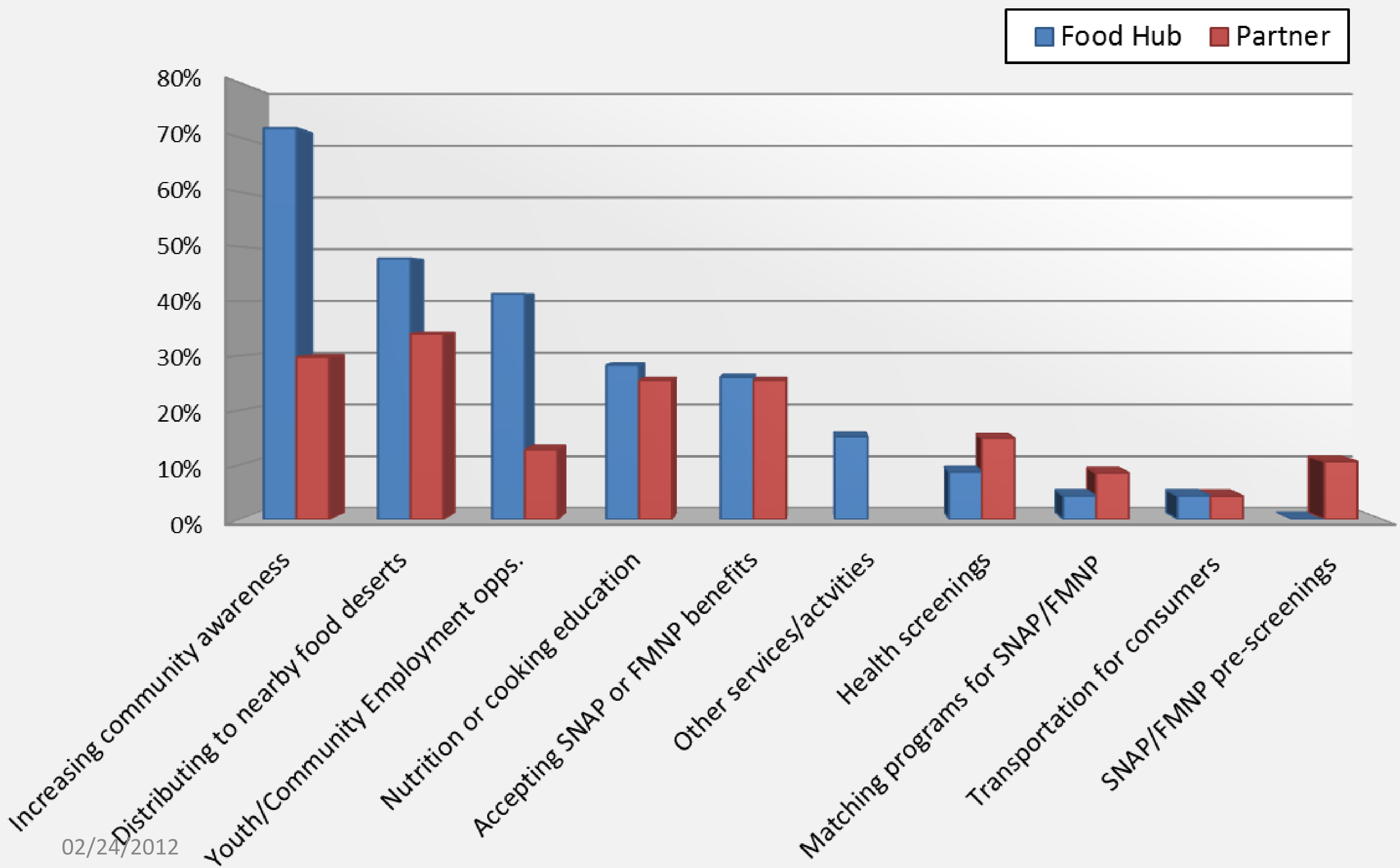
Operational Services/Activities



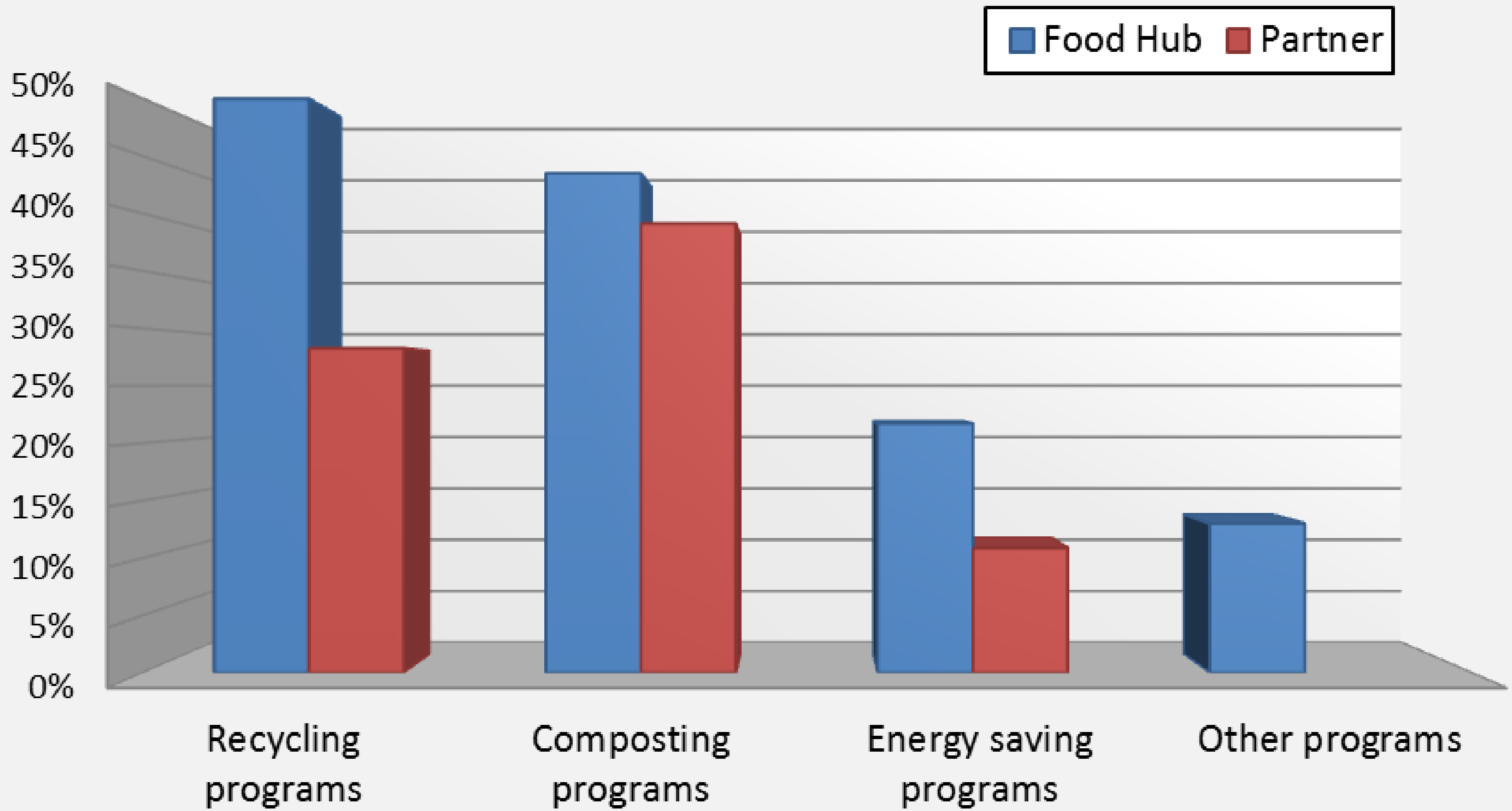
Producer Services/Activities



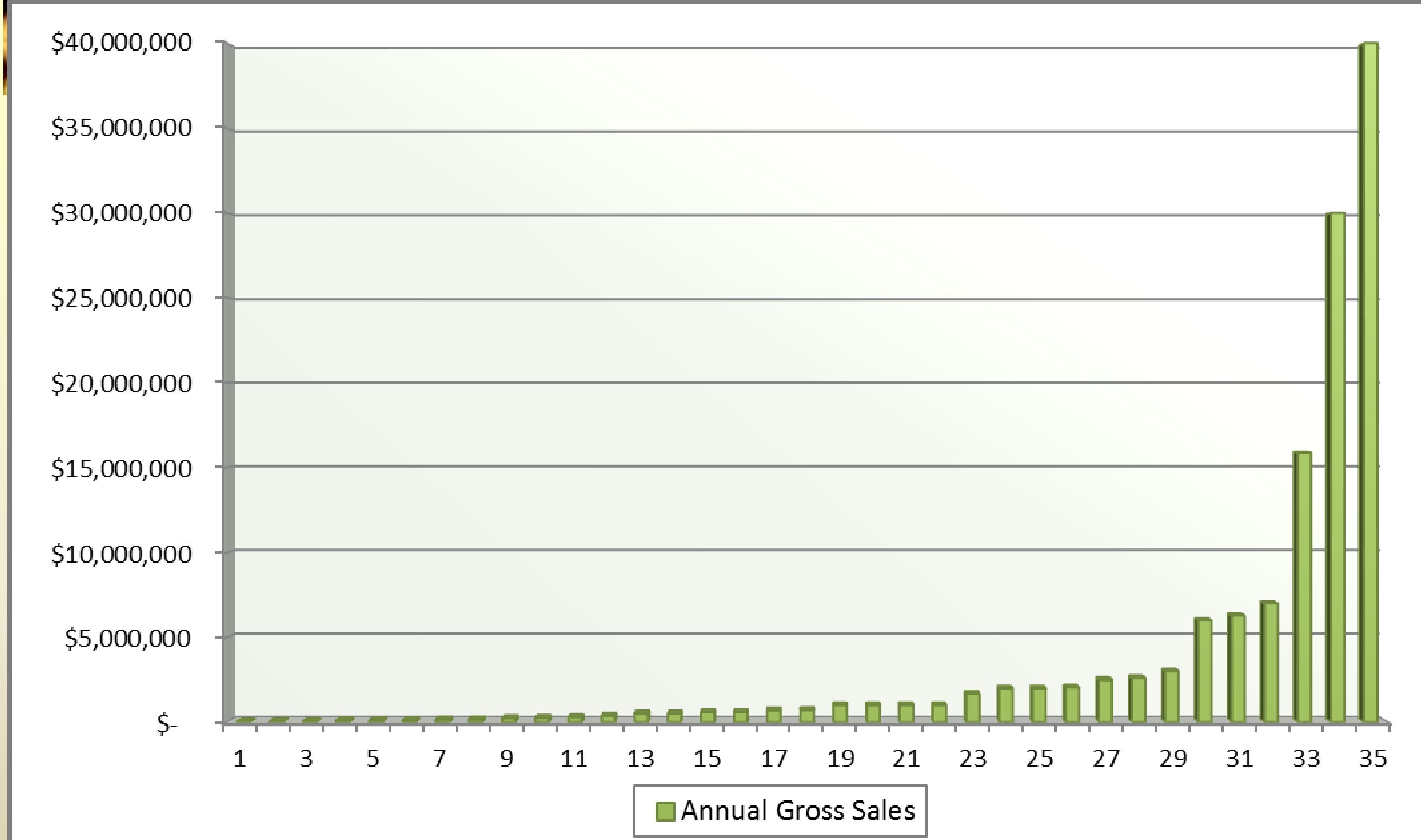
Community Services/Activities



Environmental Services/Activities



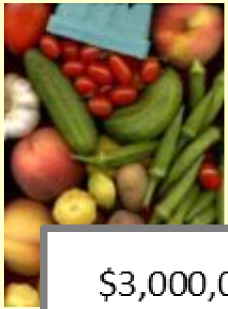
Annual Gross Sales by Food Hub for 2010

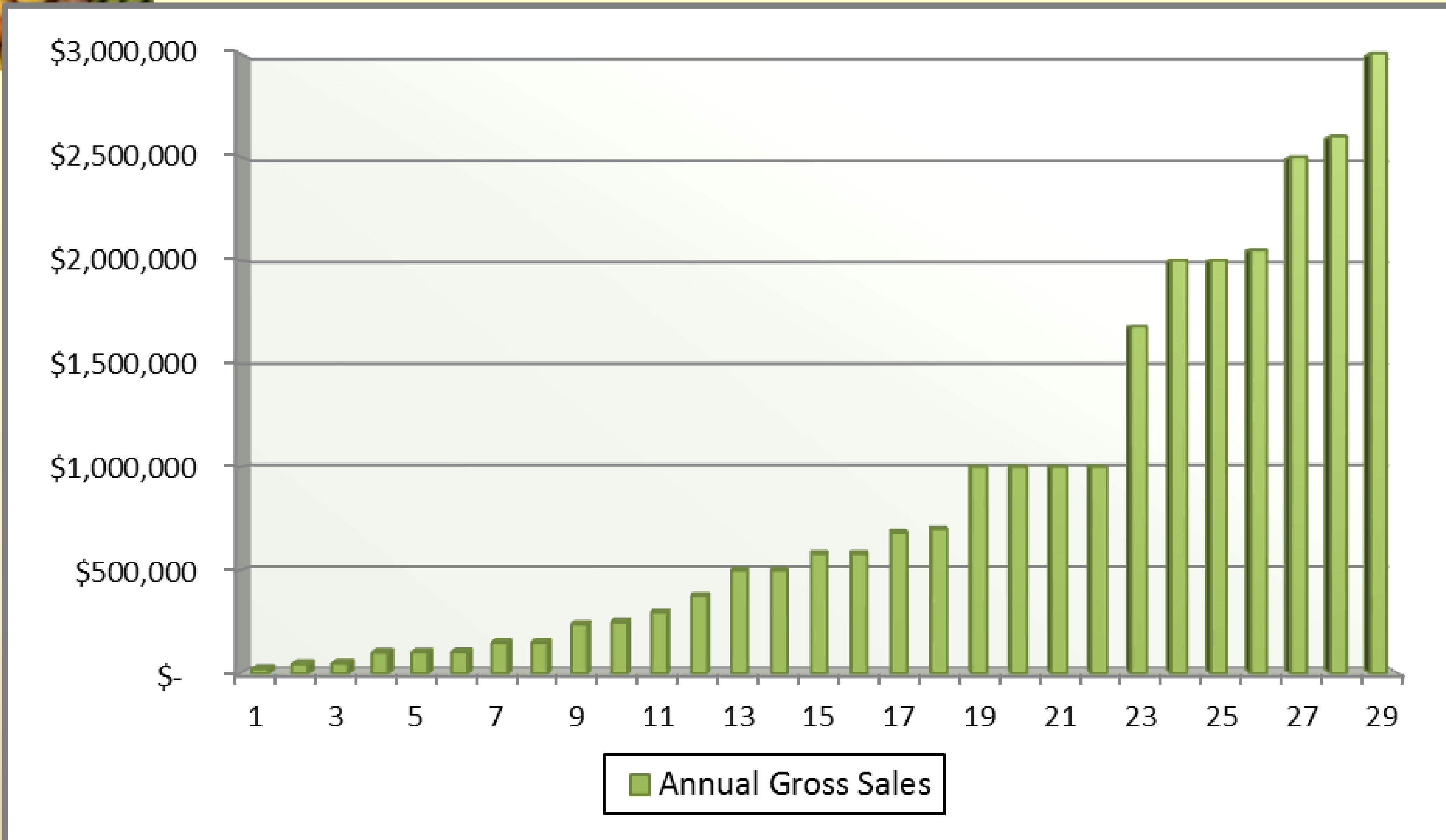


N	Ave. Sales	Median	Range
35 Food Hubs	$3.7 million	$700,000	$46,000 to $40 million

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

Food Hub Survey Key Findings

- **Well over 170 food hubs are in operation** around the country, with large clusters in the Midwest and Northeast
- **Entrepreneurs took the organizing lead** in establishing 40 percent of the food hubs
- **A nascent industry:** 60 percent of the food hubs have been in operation for five years or less
- Average food hub sales are nearly **$1 million annually**
- Food hubs employ on average **7 full-time and 5 part-time employees** with an average of **5 regular volunteers**
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Food Hub Potentials
- from one food hub survey respondent -

THEN (1989)

"I had been an organic farmer from 1979 to 1989…. [and] I realized what was needed was a food distributor focused on helping farmers get access to larger urban markets than they already had."

"We started with $20,000 in savings, bought 1 refrigerated truck and a computer, used a spare bedroom as an office and our garage as our initial warehouse."

NOW (2010)

- A regional distributor with over **100 suppliers**, many of whom are small and mid-sized producers, offering **over 7000 products** to a wide range of market channels, including food cooperatives, grocery stores, institutions, corners stores, and food banks.
- Own a 30,000 sq. ft. warehouse and 11 trucks, with **34 full-time paid employees** and **over $6 million in gross sales** for 2010.

Regional Food Hub Needs

Common Goal = Become a Viable Triple Bottom Line Business

Profitable (or at the very least breaking-even), paying all staff for their work, paying on debts, and investing a percentage back into the business to increase efficiencies and expand sales and product lines.

1) **Financial Support**
2) **Accelerating Innovation**
3) **Technical Assistance and Business Development Services**
4) **Community Support and Wider Stakeholder Engagement**
5) **Building Effective Networks and Peer-to-Peer Learning Platforms**

Regional Food Hub Needs

1) Financial Support

- **Access to capital for infrastructure needs**
- **Innovative and creative loan options with technical assistance**
- **Less traditional equity investments or gift capital**

2) Accelerating Innovation

- **Food hub "on the ground" pilot programs to develop models and innovative approaches**
- **Innovation in securing land and facilities, contractual relationships to farmers, meeting the needs of food insecure populations**

Regional Food Hub Needs

3) Technical Assistance and Business Development Services

- Balancing social and environmental values/goals with the business plan
- Specific and detailed information about getting started
- Illustrative business models for various growth phases

4) Community Support and Wider Stakeholder Engagement

- Investment in communications and outreach efforts to educate key stakeholder groups (e.g., producers, distributors, processors, buyers, foundations, government offices, economic development organizations, city and county planners and their trade associations)

Regional Food Hub Needs

5) Building Effective Networks and Peer-to-Peer Learning Platforms

- Face to face and on-line communities of practice to facilitate networking among food hub operators and partners
- Communities of practice at the local and regional level
- National Community of Practice to facilitate investment, innovation, information, and communication needs

Five Keys to Food Hub Marketing Success

Don’t Sell Commodities

- It is essential to differentiate your products from others in the marketplace. On one level this can be accomplished by developing a strong brand that tells the product’s story and the values behind the story. The story must be simple, compelling, and credible. Most importantly, the value AND values reflected in the brand should speak directly to what is important to the customer audience.

Be There All Year for your Customers

- Strive to offer enough variety of products so that you can sustain a year round operation - essential for covering fixed costs and ensuring constant communication with buyers. Working with suppliers on season extension practices, offering shelf stable and value added products, as well as offering less seasonally dependent products. Be pragmatic in your approach – you may not be able to offer local products year round but you can offer fresh produce from other areas that still conform to the values espoused in the brand.

Get Buyer Commitment

- With a good brand, quality products, and a reliable delivery service, food hubs have little difficulty finding and maintaining accounts, but they do struggle to get some buyer’s commitment to purchase in higher volume regularly. Many food hubs have mismanaged their growth by acquiring too many low volume order accounts. Be clear with new customers on volume order expectations and continually work with existing customers to increase their purchase orders.

Think Farmers First

- Ultimately, all marketing success is dependent on the producers you work with, so they should always be treated as valued and essential partners in your business. Food hubs work hard to ensure good prices for their producers and often provide technical assistance in such areas as sustainable practices, production planning, season extension, packaging, branding, certification, and food safety – helping to build their growers’ capacity and ensures a reliable flow of quality products through the food hub to the buyers.

Sweat the Small Stuff

- The marketing and sales staff must know every intimate detail of the production and handling practices for every product sold under their brand. This is necessary in order to be able to tell an intimate and authentic story about the producers they work with AND to assure their buyers that products are produced, handled, and delivered in a way that minimizes food contamination. Also, given the boot-strap, sweat equity nature of food hub businesses, it’s a good idea to train the delivery staff so they are knowledgeable about the producers and products, and have excellent customer relations skills!

National Food Hub Collaboration Contacts

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  John Fisk, Director
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