Food hubs: an evolution of the co-op business model

By James Matson, Jessica Shaw and Jeremiah Thayer

Cooperatives, long a mainstay of the agricultural industry, have evolved and adapted along with the ever-changing farm industry and overall economy. As the influence of co-ops has grown, the underlying principles of cooperative enterprises have proven vital to the success of the nation's food and agricultural industry.

In recent years, consumer demand for local foods has grown markedly, leading to a rise in local food systems. These include food hubs, which typically operate using cooperative principles

and which often have an urban and social/environmental mission focus.

By unifying agricultural producers, farmer co-ops can provide the scale, coordination and improved marketing system needed to help their members succeed. There is no universally accepted definition of a cooperative, and the laws for cooperative organization vary from state to state. So perhaps a cooperative is most easily recognized when it follows the three core co-op principles developed by USDA during a series of nationwide panels in 1986 (see sidebar, page 7).

Food hubs can be viewed as a natural progression in the application of these cooperative principles and ideals. They do more than simply address the needs of producers; food hubs incorporate a "triple bottom line" focus to better address the needs and demands of consumers seeking local foods.

Food hubs, driven by the cooperative spirit, expand the traditional concept of agricultural cooperatives to include other stakeholder groups in addition to producers. Food hubs represent a continued evolution of the cooperative ideal of producers working together to provide outlets for their products, while also addressing the concerns of workers, consumers and the community.

Increased profit for local producers and increased production can directly impact a community through the local retention of more food dollars. However, community revitalization extends beyond simple economics; it is a result of an economic and social revitalization that fosters the long-term sustainability of a community-based food system.

Emergence of food hubs

USDA's Agricultural Marketing Service says a food hub offers "a combination of production, aggregation, distribution and marketing services [to] make it possible for producers to gain entry into new and additional markets that would be difficult or impossible to access on their own" ("Farmers Markets," 2013). Although this definition focuses on the physical movement of goods, a food hub can also be defined by market-efficiency functions, in addition to more abstract goals of building a diversified food culture.

Food hubs have blossomed in large part due to the "surge in buying locally produced foods and support for local agriculture" (Matson et al., 2013). Small-scale producers alone were increasingly unable to meet the growing surge of consumer demand for local food.

The growth in direct marketing channels — and the increasing number of farmers choosing to use them — is evidence of the rapid growth of local foods production and consumption. Producers are banding together and developing businesses to meet new opportunities to supply food to mid-sized wholesale operations — including institutions, restaurants and grocery stores — as well as individual customers.

Even in their short history, food hubs have proven highly adaptable — in size, scope and type of products offered — to meet the vagaries of consumer demand. Indeed, the term "food hub" exists more as a description of a number of functions than as a defined business structure. Thus, the term "food hub" is often applied to a continuously changing business model, transforming to satisfy the ever-changing demands of local consumers. This continuous adaptation has resulted in an increased focus on the social-mission aspects of many food hubs and their community interactions, as well as a movement to address

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Editor's note: *The authors are all with Aiken, S.C.-based Matson Consulting, which for more than a decade has assisted in the organization and infrastructure design of local food hubs. It is currently working in cooperation with USDA and the Virginia Foundation for Agriculture, Innovation and Rural Sustainability to develop a U.S. Food Hub Operations Guide. Matson is the lead consultant for the business with 25 years' experience in agricultural business development; Thayer is an associate who focuses on feasibility studies, business plans and marketing documents; Shaw is an editor and consultant.*

multiple stakeholder classes in a community.

Multi-farm CSA's (community supported agriculture), cooperatives and farm-to-table initiatives are just a few of the types of food aggregation ventures taking on the roles included in the USDA definition of a food hub. This flexibility allows many food hub ventures to meet their mission by providing more than fresh produce — such as locally slaughtered meats, value-added goods and locally finished food products.

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How food hubs embody co-op principles

Food hubs represent a continuation of the three main cooperative principles (as outlined in sidebar, page 7). They not only address the needs of producer-members, similar to the way agricultural cooperatives do, but they also address the needs and concerns of consumers through their inclusion as primary stakeholders. Multi-stakeholder co-ops are able to provide for **user-ownership** of the business by all stakeholder classes. Ownership leads to **user-control**, as each member-owner stakeholder class is integral to the overall direction of the entity. **User-benefits** are ensured as each stakeholder class has its needs met through the services of the business.

Sandhills Farm to Table Cooperative in Southern Pines, N.C., is an example of a multi-stakeholder co-op that allows producers, workers and customers to become owners in the organization. This diverse ownership allows all stakeholders to provide input into how the organization operates and helps ensure that it ultimately addresses the needs of each owner-class. Producers, workers and customers can work together toward the success of the co-op.

Based on their status as owners, the stakeholder classes can control the various functions of the organization and receive benefits. Individual farmers and other producers are generally in the position of being price-takers. Food hubs can negotiate better prices for their producers, keeping more farmers in business and helping them expand production into new crops.

As with other types of cooperative, the user-ownership and user-control principles adhered to by food hubs means that they will also pass along other benefits to members. For example, food hubs allow producer-members to benefit by aggregating product and accessing larger volume markets. This aggregation often leads to greater control over pricing than they could achieve individually.

The coordination services a food hub can provide often result in an ability to extend the season of products, while larger crop volume and coordination of production can ensure a steady flow of product that helps to stabilize prices. Additional revenue can then be used to invest in infrastructure, such as greenhouses, which, in turn, can create a longer growing season. As an example, Fifth Season Cooperative in Wisconsin has capitalized on season extension opportunities by sourcing dairy, meat, and meat products from dairy-cooperative and meat-processing members, as well as more stable items from local producers that can be stored for longer periods at the warehouse.

In addition to negotiating prices, food hubs often connect farmers with other non-farm businesses to meet a wide variety of mutual needs. Local Food Hub, located in Charlottesville, Virginia, offers an example of how food hubs can facilitate this connection between farmers and non-farm businesses. Since this food hub requires a clean water test from its producers, the food hub has partnered with water testing companies to provide reduced rates for producers in need of water testing. This is just one way some food hubs are helping reduce overhead costs for producers and also lowering prices paid by consumers.

The aggregation function of food hubs benefits consumers and businesses by providing access to local foods that would normally be hard, or impossible, to acquire. The ability to provide access to additional outlets helps to connect local and regional growers with mid-scale buyers, including local grocery chains, restaurants and institutions, such as colleges, schools and government institutions.

Food hubs often provide education for producers on topics such as safe growing and crop handling practices; similarly, they help consumers learn more about food safety in the home, cooking and food preparation, as well as the benefits of a sustainable food supply and keeping more farmland in production.

How food hubs expand on co-op ideals

The emergence and evolution of food hubs stems from an educational and social mission to unite consumers and producers in the marketplace. Although the main function of the food hub is to sell local foods to consumers,

Cooperative Principles

These three "bedrock" cooperative principles were identified in 1986 by USDA, working with co-op leaders and educators nationwide:

The User-Owner Principle — The people who use a cooperative own it. As owners, the members of a cooperative are responsible for directing activities and driving the overall focus and mission of the cooperative towards its goal. Because they own the business assets, the members have the obligation to provide financing, in accordance with use, to keep the cooperative in business and permit it to grow.

The User-Control Principle — As owners, a cooperative's members control its activities. This control is exercised through voting at annual and other membership meetings, and indirectly through those members elected to the board of directors. Members, in most instances, have one vote regardless of the amount of equity they own or how much they patronize the organization.

The User-Benefits Principle — Since the cooperative is owned by its members, they have the opportunity to receive services otherwise not available, get quality supplies at the right time, have access to markets, or for other mutually beneficial reasons. ■

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food hubs provide a wealth of benefits for producers, consumers and the local community that extend beyond simply building a supply chain — benefits that become a part of the milieu of information extending beyond simple self-interest (Zaichkowsky, 1985) that affects an individual's purchasing decisions.

Food hubs are often highly committed to the co-op principle of service to community. For example, many studies have highlighted the positive impact that a shorter food supply chain has for local communities and economies. Other studies have shown that local food supply chains create a web of interconnected economic, community and environmental benefits.

The ability to earn a profit is not always the primary underlying motivation for establishing a food hub. Food hubs that operate cooperatively aim to provide benefits beyond (and in some cases, instead of) simple economic returns. In these cases, the focus shifts from the producer to other social and environmental benefits. Research has shown that "an approach that allows preferences to influence decision-making makes people better off and proud to contribute to sustainability" (Polemini et al.).

Consumer demand for food traceability is a growing issue for the food industry. Food hubs — by shortening the food supply chain — can increase the ability to trace food to its origin. This is just one way food hubs enhance communication between producers and consumers.

Food hubs as a tool for community revitalization

While the primary focus of farmers is on attaining financial stability by finding markets for their products, food hubs address the concerns of mid-scale producers while establishing values-based food value chains. These values-based food chains "encapsulate the dual goals of creating economic value through product differentiation and advancing a particular set of social, economic or environmental values through collaborative supply chains that exemplify the broader trend of social entrepreneurship…." (Diamond and Barham, 2011). These "collaborative supply chains" imply a philosophy of shared responsibility between producers and consumers (Janssen 2010).

One area where food hubs have the potential to significantly impact communities is by addressing the needs

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evolve, before we had our collective backs up against the wall.

The National Dairy Farmers Assuring Responsible Management (FARM) program is an example of this dynamic. As consumer expectations change, we need to be out in front in developing a national industry standard for dairy cow care. We couldn't wait until the consuming public thinks there's a problem, and only then try to fix it.

Yes, it's been hard work, and that work continues. But one look at the challenges of other sectors of agriculture tells us that building a program like FARM will make our jobs as dairy marketers easier in the future.

Doing the right thing is harder in the short term but makes life easier in the long run. As I've said so many times in discussions with our members, doing the right thing is often very hard. It's relatively easy to define the right thing, but much more difficult to push toward it. Again, with trade associations, it can be a chore in pulling the members together to work on controversial positions.

But as I noted in my last column, the one discussing our position opposing the greater availability of raw milk, easier paths are usually not the right ones. And all of us, regardless of where we are in our careers, end up regretting the times when we chose the easy path over the right one. ■

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of "food deserts." Food deserts are defined as "communities, particularly low-income areas, in which residents do not live in close proximity to retailers offering affordable and healthy food. Healthy food options in these communities are hard to find or are unaffordable" (U.S. Department of Health and Human Services 2011).

Even in their short history, food hubs have proven highly adaptable — in size, scope and type of products offered — to meet the vagaries of consumer demand.

Food hubs provide value to a community through a different type of sustainability that is achieved through more than just economic profits for producers and the food hub. Many food hubs, due largely to their focus on social mission, are formed as nonprofits with the intent of promoting social and environmental benefits as much, or more, than economic profit. This secondary approach to sustainability has also proven to be successful, as evidenced by the longevity of a number of nonprofit food hubs. Local Food Hub is a nonprofit organization, and a majority of the finances of the hub are supported by grants and donations from the community. Supporters of the food hub see their donations as a way to invest in the community, since Local Food Hub donates generously to charities and local food banks. As an example, around 25 percent of the produce grown at Local Food Hub's farm is donated to such charitable organizations.

All food production systems have their place and address a specific set of stakeholder needs. The authors believe that taking a collaborative view will produce the best solution for both consumers and producers for long-term sustainability. Further, we believe that additional research is necessary to fully explore the exciting possibilities that exist for local foods producers in today's food industry. ■

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