



KEYS TO SUCCESS FOR FOOD HUBS

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The dramatic increase in the number of food hubs during the past few years has been supported by a number of state and federal efforts, including USDA's "Know Your Farmer, Know Your Food" initiative. USDA defines a food hub as: "a centrally located facility with a business management structure facilitating the aggregation, storage, processing, distribution and/or marketing of locally/regionally produced food products."

The target markets for these services have typically been wholesale customers — including institutions, restaurants and

grocery stores — which tend to have a hard time buying local products in the desired volumes. Through the increasing use of e-commerce and similar innovative business models, food hubs are providing a means for local producers to connect directly to retail consumers.

This article examines some of the ways food hubs can increase their odds of success, and thus continue to expand their role in promoting local foods.

Providing access to local food markets

A primary role of a food hub is to facilitate market access for agricultural producers who address market outlets (retail or wholesale) that would otherwise be less accessible or completely inaccessible due to scale or location of the food production with respect to the market outlet.

A successful food hub often will provide consumers access to a larger number of local food providers than they could access individually. Food hubs usually provide greater delivery reliability than can be obtained through purchasing from many small producers acting independently.

Food hubs function by fulfilling a variety of tasks, including:

1. Market access for local producers;
2. Information sharing on food production and marketing practices;
3. Product transportation and distribution;

4. Brokerage services;
5. Product bundling and aggregation;
6. Maintaining a consumer/producer connection;
7. Season extension for local product sales; and
8. Producer-oriented technical assistance.

Lack of financial, management resources hinder many

Like all nascent businesses, there are many potential constraints to the development and growth of food hubs. Some of these business limitations are recognized and addressed by the organizations assisting with the development of food hubs. Others are more difficult to quantify.

The primary constraints are often hard for a new organization to overcome. These may involve the lack of sufficient financial resources and a robust risk-management plan. Some constraints may take a longer time for a new entity to address, such as human resource development (as part of a staffing plan) and gaining access to local food-processing facilities.

One typical constraint is a lack of skilled management, which is often accompanied by poor recordkeeping, accounting and financial management. This is especially true in producer-based organizations, where managers may have a great deal of knowledge about production agriculture, but have less knowledge of business management. A University of Wisconsin report concluded that cooperative food hubs usually need to develop or hire skilled management.

There may also be legal or regulatory constraints on food hub development. These constraints may be imposed by local, state or federal law. The uncertainty surrounding the most recent Federal Food Safety Modernization Act, enacted Jan. 5, 2011, is likely to affect the growth of food hubs.

Roadmap for food hub development

Food hubs develop and evolve from highly localized circumstances and are dependent on several factors. Some factors that contribute to the success of food hubs include:

1. **Having a strategic plan** with clearly defined goals and a vision and mission statement to ensure that the hub's original intents are maintained (for example: fair prices for farmers or sustainable agricultural production methods).
2. **Getting all stakeholders engaged early in the process** and defining their interests and areas of expertise. Make sure there is a management or oversight team that is inclusive of the membership. The concerns of farmers and other businesses and investors must be addressed. The team should include individuals with skills in financial management, the regulatory environment, marketing and packaging, inventory management and quality control and farmer/business owner engagement. As one study noted, make sure all parties are well matched in size and scale and that they operate with similar goals and values. This limits some risk that may arise in fulfilling contracts with



Sandy Fisher, co-owner of Brookview Farm in Manakin-Sabot, Va., enjoys being a rancher that supplies beef to Fall Line Farms. Below: a reposed, but vigilant, sheepdog guards a grazing flock at Tuckahoe Plantation, in Goochland County, Va., the boyhood home of President Thomas Jefferson. It is still a working farm with cattle, sheep, chickens and rabbits that sells meat through the Fall Line Farms co-op. USDA Photos by Lance Cheung.

vendors and buyers.

3. **Understanding the location of different direct markets and how to access them.** For instance, if the market outlet is geographically distant from the production unit, how will transportation occur and how can products be priced to cover those costs? Is backhauling feasible to generate revenue on an otherwise empty return load? Is the market one with a customer base that is less familiar with purchasing and preparing fresh foods, for example, some urban or at-risk populations?
4. **Having an education program/strategy.** An educational program may have to be an integral part of the hub development. This may include partnering with an outreach entity, such as a university extension service or a nonprofit agency. Such entities can deliver consumer

information based on what the hub provides and when the product arrives to the consumer. If local farmers and ranchers have limited experience in direct marketing but are going to be supplying products through a food hub, then they will need support and training in production planning, quality control, packaging and delivery. It may benefit the efficiency of the hub overall if other training and production improvement opportunities are offered, such as business planning or season extension techniques.

5. Learning and understanding end-user requirements.

Many end users require producers or processors to have Good Agricultural Practices (GAP) or Hazard Analysis Critical Control Point (HACCP) programs in place in order to receive product. This may necessitate additional costs in producer/business-owner training, and the development of specific protocols and quality assurance to meet the end user's requirements. Another type of producer support that may be necessary is affordable product liability insurance for individual vendors or umbrella coverage for vendors that is purchased through the hub. This is critical for hubs accessing institutional markets, such as schools or hotels. The existence of such requirements for accessing a direct market may also cause some business owners to withdraw from the supply pool.

6. Acknowledging the level and types of infrastructure necessary to operate a food hub.

These may include technical infrastructure (such as billing protocols), Internet-management systems and payment processes. Physical infrastructure is also essential (such as product warehousing or processing capability) in order to ensure increased product quality and packaging control across suppliers.

7. Determining the correct business structure. The cooperative (or quasi-cooperative) business model is well suited to food hubs. But when setting up the business, no one type of business structure is the best fit for all food hubs. Rather, the business structure must help stakeholders meet their goals for financial, marketing and production planning and growth. It appears that flexibility is the key, and the management team should be able to identify the point at which a certain business structure constrains further investment and an alternative structure (such as incorporating one business function or outsourcing distribution) is the only way the hub can maintain its market share or expand into new markets.

8. Determining the threshold scale needed for the food hub to be able to operate in an economically efficient manner. Investment capital required for supply-chain infrastructure (for vehicles, storage facilities, retail locations, etc.) can be a significant barrier to starting local aggregation and distribution businesses. There are also businesses with technical expertise in processing, distribution or transportation with which a food hub could contract to more efficiently execute some of the more

complex, or cost-prohibitive, functions of direct marketing through a hub. A key issue here is how comfortable the stakeholders are with alternative lenders or certain subcontractors. This sort of "comfort level" assessment is an important component in developing a strategic business plan for a food hub.

9. Identifying all sources of technical and financial support, including those considered less conventional.

There are emerging areas of public and private financial support for food hubs, including micro-lenders, private investors, economic development entities and nonprofit community-based organizations.

10. Managing information efficiently. It is critical that timely and accurate information flow between producers and consumers — or between producers and wholesalers. The success of a food hub depends on this, and it will help to minimize or avoid price or marketing risk, production risk and some legal risks. Information management, supported by dedicated staff and technology, impacts the hub's ability to manage orders accurately, to monitor product quality and to convey product attributes to consumers and other vendors. Information management also enables a hub to remain in compliance with certain federal, state and local food safety regulations and to maintain transparent working relationships across multiple partners in a value chain.

Conclusions

Food hubs serve as a way for a group of varied producers to find a local market for their agricultural production. They provide the thread of connectivity that keeps consumers in contact with farmers and ranchers, even when that thread is electronic, as with a virtual food hub.

Food hubs' success or failure should not be measured solely as aggregating units, or in terms of total volume of product moved, but more in terms of the places to which the product goes and the people who benefit from it. With growing demand for local or regional food products, conventional marketing channels are ill-equipped to supply local food where and how people wish to purchase it. Food hubs help producers and consumers connect in a marketing manner that retains the valuable information as to where a food item was produced and how it was grown.

Large grocery retail chains rarely have farmers themselves offering produce for sale in their stores, yet this is the essence of farmers markets and the direct marketing experience so many people desire. By bundling together the product from multiple farmers for distribution to other direct markets — such as restaurants, schools, hospitals, workplace cafeterias, and other end consumers — food hubs make it possible to supply them with fresh, local products produced by local growers in the quantities and packaging the customers require. ■