



Stronger Economies Together

Doing Better Together

Local and Regional Food Systems - Examining Food Hubs

Michael Patrick, New Mexico State University

SLIDE 47

INSTRUCTIONS

This segment is designed to provide greater detail on food hub structures and issues. Use this segment if your region is interested in pursuing such a system.



SLIDE 47

TIME: 1 MIN

SUPPLIES:

HANDOUTS:

SLIDE 48
INSTRUCTIONS



SLIDE 48

TIME: 5 MINS

SUPPLIES:

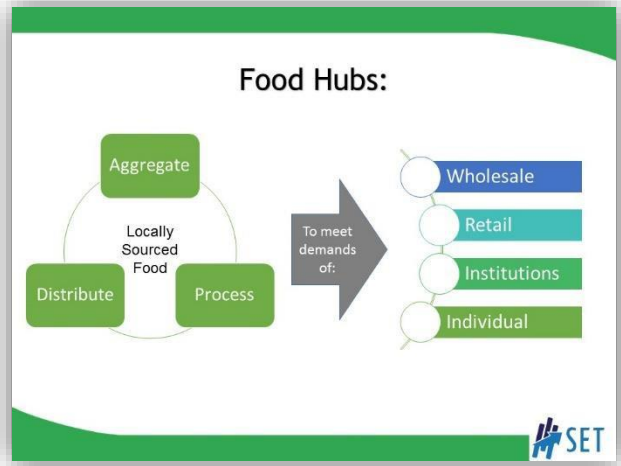
HANDOUTS:

SLIDE 49
INSTRUCTIONS

Use the diagram on the slide to define and describe a food hub: Food hubs are enterprises that aggregate, process and distribute locally sourced food to meet wholesale, retail, institutional and even individual demand.

Food hub infrastructure can include things like a warehouse and cold storage facility to sort, grade and store food, and keep it fresh; processing operations to prepare products for schools, grocers or other buyers; and refrigerated trucks to transport local food.

Food hubs work with farmers to preserve the source-identified characteristic of the food's origin and any special practices or circumstances under which the food was grown. By maintaining this information transparency throughout the local food supply chain, food hubs attempt to provide premium prices to farmers by selling differentiated products.



SLIDE 49

TIME: 5 MINS

SUPPLIES:

HANDOUTS:

SLIDE 50
INSTRUCTIONS

Briefly show how the number of food hubs has increased significantly in the past 10 years.



SLIDE 50

TIME: 5 MINS

SUPPLIES:

HANDOUTS:

SLIDE 51

INSTRUCTIONS

Briefly discuss some potential food hub infrastructure, including: aggregation centers, packing houses, processing centers, web-based aggregators, cold storage, warehouses, etc.

Food hubs do many things – aggregate products from small and mid-sized farms, many provide packing and processing services, market the products to regional buyers, and even coordinate local and regional distribution. Access to the infrastructure that it takes to carry out these functions can open up tremendous opportunities for the local economy.

Food hub infrastructure can include things like a warehouse and cold storage facility to sort, grade and store food, and keep it fresh; processing operations to prepare products for schools, grocers or other buyers; and refrigerated trucks to transport local food. Access to refrigerated storage space means that a farmer wait for a competitive price for his or her product rather than having to sell immediately after harvest. Buyers can more easily source from many small farms without the burden of additional paperwork if the farmers have a warehouse in which to aggregate and cooperatively market their products.

Discussion: What infrastructure exists in your region to support regional food hub initiatives?



SLIDE 51

TIME: 10 MINS

SUPPLIES:

HANDOUTS:

SLIDE 52
INSTRUCTIONS

Provide an overview of these five basic food hub models: aggregation centers, packing houses, processing centers, and web-based aggregators.

Aggregation Centers – are facilities that bring together products from any number of local growers, usually within a radius of 100 miles. By aggregating and storing produce across multiple farms, the aggregation center becomes an attractive supplier for wholesalers who purchase in large quantities. These centers may offer a variety of different services including cooling, cold storage, marketing and distribution. However they do not offer the services traditionally associated with packing houses such as washing, grading, sorting, packing, or re-packing. Produce delivered to the aggregation facility is already packed with farm-specific branding and labeling.

Packing Houses – are facilities that receive unpacked fruits and vegetables from local growers to be packed and sold to wholesale customers. Packing house business models vary based on the needs of the grower community, wholesale buyers, and goals of the packing house owner. Potential services include cooling, washing, sorting, grading, packaging, labeling, cooled storage, processing, sales and distribution. Packing houses and aggregation centers can vary greatly in size, from a facility serving hundreds of farmers with tens of thousands of square feet of packing and cooling space, to a single farmer serving fewer than ten local farmers from a converted farm shed. Both play important roles in a vibrant local food system.

Processing Centers – have the equipment, infrastructure (including ventilation, drainage and cooling), and food safety qualifications necessary for users to create and market value added products. The same processing operation can serve the needs of a number of different types of users – growers with produce, food artisans, caterers, and buyers looking for preserved produce.

Web-Based Aggregator – connect growers and customers through an online marketplace. These serve smaller-scale customers, such as individual restaurants or households. Some of these technology solutions are producer-driven, where a single grower or a group of growers post their available products in a given week and buyers can place direct orders, while others are run by entrepreneurs outside the grower community. These sites either regularly drop off a delivery to a remote collection point or manage direct delivery services. Creating an online marketplace could be a viable first step toward creating a brick-and-mortar aggregation center.

Core Business Services – differ by food hub model. A packing house typically will provide a complete range of services that cause a product to move from the field to the consumer. Some packing houses may even offer harvesting services. Aggregation facilities and web-based aggregators do not handle the product to the same degree, but common to all models is aggregation, sales and marketing, and distribution (although this may be outsourced).



SLIDE 52

TIME: 10 MINS

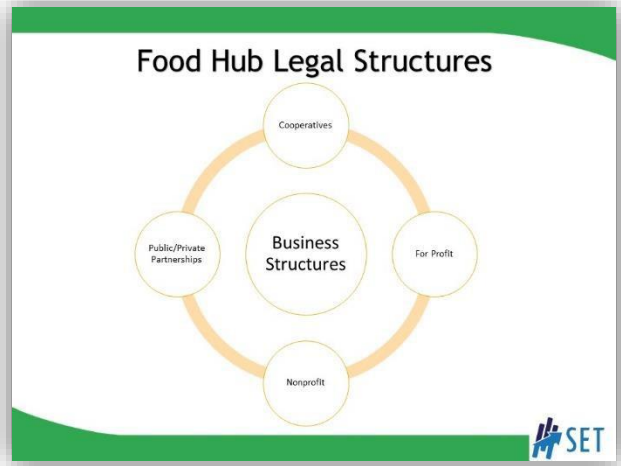
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SLIDE 53
INSTRUCTIONS

There is no one model that would work best for food hubs. The decision about what type of business entity to establish should be decided with the input from legal counsel, grower needs, community culture, existing leadership, and financing options.

Different business entities to consider include an agricultural cooperative, for-profit business, nonprofit business, and a public/private partnership. These are discussed in more detail in the following slides.



SLIDE 53

TIME: 5 MINS

SUPPLIES:

HANDOUTS:

SLIDE 54

INSTRUCTIONS

Describe an Agricultural Cooperative (co-op) and the associated advantages and considerations

A Co-op is owned and operated by a group of producers.

Profits are distributed to members based on amount of usage. Co-ops elect a board of directors and make major decisions through democratic voting. There are different methods of financing the cooperative:


- Direct contribution through membership fees or stock purchases
- Agreement to withhold a portion of net earnings
- Assessments based on units of product sold or purchased.


Advantages: Many experts believe that the single biggest driver of food hub success is the level of investment and support of its growers. Cooperative models inherently lead to stronger grower support, given that growers are investors and profit sharers in the business, and have equal voice in decision making.

Considerations: Producer groups may not be able to generate funding to invest in the necessary infrastructure. The collaborative nature of cooperatives can slow down and even hinder effective decision-making processes; key marketing, operations, or financial decisions are made by the group rather than by specialized experts.

Food Hub Legal Structure: Agricultural Cooperative (Co-op)

| | |
|--|---|
| <p>Advantages</p> <ul style="list-style-type: none"> • Strong grower support • Equal voice in decision-making | <p>Considerations</p> <ul style="list-style-type: none"> • May have challenges generating funding for infrastructure • Collaborative decision-making can be slow • Key decisions made by the group rather than specialized experts. |
|--|---|





SLIDE 54

TIME: 5 MINS

SUPPLIES:

HANDOUTS:

SLIDE 55
INSTRUCTIONS

Describe a for-profit structure

Primary function: generate profit for its stakeholders. There are several business for-profit venture choices:

- **Sole Proprietorship:** Business owned and operated by one individual.
- **Partnerships:** An association of two or more people who co-own and are personally liable for the company obligations. Limited Liability Companies (LLC) and Limited Liability Partnerships (LLP) are partnerships in which partners are personally shielded from company obligations are two common examples.
- **Corporations:** Consists of shareholders who finance and own the business, and who elect a board of directors to govern the business. S-Corporations and C-Corporations are two common examples.

Advantages: For-profits can more easily attract interested investors to fund the high start-up infrastructure costs. Additionally, with a for-profit structure, owners and board of directors may pursue business strategies that generate more profits for all stakeholders – owners, staff, and producers.

Considerations: For-profits are ineligible for most grants, which can help fund necessary start-up costs. Additionally, for-profits are subject to a high corporate tax rate. It is important to consult a lawyer to determine which business entity a for-profit should adopt.

Food Hub Legal Structure: For-Profit Ventures

- Primary function: generate profit for its stakeholders.
- Structure options:
 - Sole Proprietorship
 - Partnerships
 - Corporations

| Advantages | Considerations |
|---|--|
| <ul style="list-style-type: none"> • More easily attract investors to fund start-up • May be able to generate more profits for stakeholders | <ul style="list-style-type: none"> • Ineligible for most grants • Subject to high corporate tax rate |



SLIDE 55

TIME: 5 MINS

SUPPLIES:

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SLIDE 56
INSTRUCTIONS

Briefly discuss nonprofit food hubs.

Though a Nonprofit food hub will generate income, its function is to advance a social or environmental mission. Therefore, all profits are invested in advancing the organization’s mission. Many nonprofit food hubs invest profits in farmer technical support, beginning farmer training, marketing support, consumer education, and many other initiatives.

Nonprofits must have a board of directors, file articles of incorporation, and apply for both nonprofit status with the IRS and liability insurance

Advantages: Nonprofits can apply for a myriad of government grants and individual foundation funding. Nonprofits are not subject to corporate tax. Additional tax benefits include sales tax exemption and postal rate discounts. Because the profits cannot be distributed to the organization’s members, reinvested profits can help educate and strengthen the local agricultural community, ultimately resulting in high revenues for individual growers.

Considerations: Setting up a nonprofit takes more time than setting up a for-profit. Producers and partners may not feel that a mission-based nonprofit has the business wisdom and industry knowledge needed to successfully run their business. If organizational leaders are not financially rewarded by the success of their food hub, they may not be incentivized to maximize its profitability, resulting in lower sales and revenues for member growers.

Food Hub Legal Structure: Nonprofit

Nonprofit food hub function: to advance a social or environmental mission.

Nonprofits must have a board of directors, file articles of incorporation, and apply for both nonprofit status with the IRS and liability insurance

| Advantages | Considerations |
|--|---|
| <ul style="list-style-type: none"> Can apply for grants Not subject to corporate tax Sales tax exemptions Postal rate discounts Reinvested profits can strengthen the ag. community | <ul style="list-style-type: none"> Takes time to set up Partners may lack capacity to run the organization. Lack of financial reward to partners may hinder efforts to maximize profitability. |



SLIDE 56

TIME: 5 MINS

SUPPLIES:

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SLIDE 57

INSTRUCTIONS

Briefly describe how public/private partnerships might be used to establish a food hub.

A Public/Private Partnership takes into consideration the public interest in investing in the facilities and infrastructure that will increase farmer access to markets. Public/private partnerships can take many different forms. For instance, a municipality can provide needed infrastructure (land, packing house, packing equipment, etc.) and a private company might own and operate the facility as a tenant without seeking full ownership of the property.

Advantages: Public funding can be used to purchase the equipment and the building. Additionally, by garnering support from both public and private entities, this business form may be likely to more easily withstand difficult, less profitable seasons.

Considerations: Feasibility studies are often required to accurately assess need and measure the impact of a public municipality investing in a local food hub. Any venture that has some stream of public funding will be subject to shifts in government budgets and fiscal policies.

**Food Hub Legal Structure:
Public/Private Partnership**

Advantages

- Public funding can be used to purchase equipment and/or buildings to boost start-up.
- Public/private support can help withstand less profitable seasons

Considerations

- May require feasibility studies
- Support may shift with changing government budgets and policies

PARTNERS IP

SET

SLIDE 57

TIME: 5 MINS

SUPPLIES:

HANDOUTS:

SLIDE 58

INSTRUCTIONS

The revenue model is the manner in which the company generates sales. One company may have a number of different profit centers or separate business units that generate sales using different revenue models.

The revenue model for aggregation centers, packing houses, and processing centers are generally different. These are explored in more detail in the following slides.



SLIDE 58

TIME: 1 MIN

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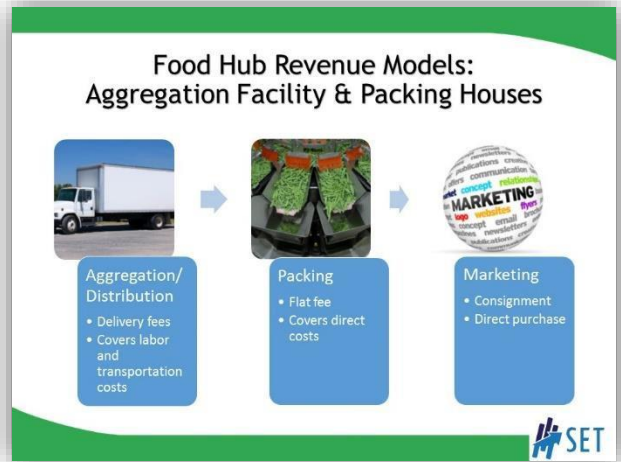
SLIDE 59
INSTRUCTIONS

Describe the potential funding streams of Aggregation Facility and Packing Houses. These brick-and-mortar facilities will have a number of profit centers depending on the business model. Generally, these include three core functions – aggregation/distribution, packing, and marketing. Each may have a different revenue model, whether commission, margin, or markup.

The **aggregation/distribution operation** handles logistics of farm and customer pickups and deliveries. Delivery fees are added to the invoice if handled by the packing house. The fee generally covers the labor and transportation cost for the delivery plus a profit margin. This function is often outsourced and may not be included as a profit center in the business model

The **packing operation** earns revenue by charging a flat fee for cooling and packing. The fee schedule covers direct costs, which vary based on packaging and cooling required for each crop, indirect costs, and a profit margin.

The **marketing operation** will handle two types of sales: consignment and direct purchase. In a consignment sale, the food hub facilitates the sale to a buyer on a commission basis but does not purchase the product from the grower. Commission ranges widely from less than 5% to as much as 20%. In a direct purchase the food hub buys the product from the grower at a set price and strives to sell it to a customer at a profit, generating a gross margin that ranges from 18 to 25% or more.



SLIDE 59

TIME: 5 MINS

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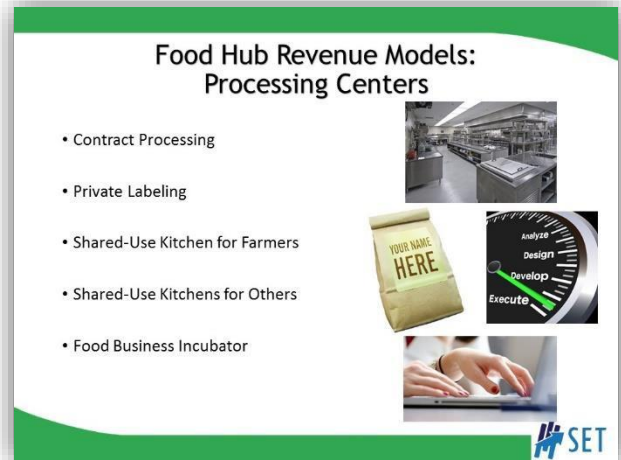
SLIDE 60

INSTRUCTIONS

Describe the potential funding streams for Processing Centers

Compared to the aggregation and packing service food hubs business models, there are a greater variety of models that processing services can adopt.

- **Contract Processing** – the kitchen maintains professional staff to produce food products for clients, either as a contract packager or manufacturer (also known as co-packing or co-manufacturing). Co-packing generally involves assembly and packaging, whereas co-manufacturing includes food processing as well.
- **Private Labeling** – is a contract processor that also produces a line of products under its own label. The kitchen purchases ingredients directly from farms and other suppliers and manufactures/processes private label products, or branded products based on their own recipes.
- **Shared-Use Kitchen for Farmers** – is a rent-by-the-hour or membership-based commercial kitchen serving primarily local farmers to conduct value-added processing of excess produce and/or seconds. These kitchens are used primarily for the production of packaged products as opposed to catering. This model is often combined with contract processing and private labeling.
- **Shared-Use Kitchens for Others** – is a rent-by-the-hour or membership-based commercial kitchen fully equipped for catering, pastries, and storage.
- **Food Business Incubator** – supports and fosters entrepreneurs in the food processing industry. In addition to providing certified kitchen space, incubators have a strong commitment to providing technical and business support to entrepreneurs whose businesses are being incubated at their facilities. Technical support includes recipe development, label development, taste testing, and ingredient sourcing. Business support includes input on marketing and sales and financing.



SLIDE 60

TIME: 10 MINS

SUPPLIES:

HANDOUTS:

SLIDE 61
INSTRUCTIONS

Be sure to include your contact information.



SLIDE 61

TIME: 5 MINS

SUPPLIES:

HANDOUTS:

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