

WHAT SHOULD I BE? AN OPERATOR'S GUIDE TO FOOD HUB STRUCTURE

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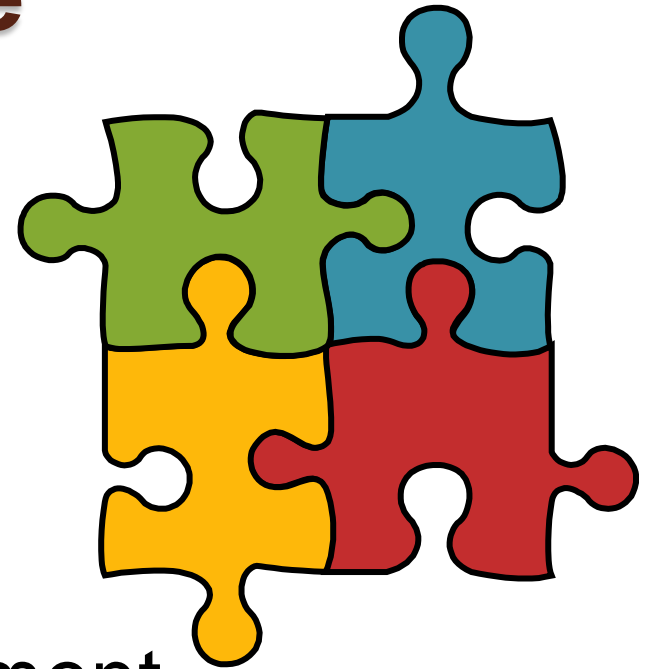
- Firm started in 2001 with focus on local foods.
- Specializes in feasibility studies, business plans, marketing strategies, and strategic plans.
- Leading author for USDA Rural Development Service Report 77 series, “Running a Food Hub.”
- Worked with hundreds of individuals and groups throughout the country.



What is structure?

Food Hub Structure

- Structure determines:
 - Tax liability
 - Sources of capital
 - General risk management
 - Information flow and sharing
 - Opportunities for growth and expansion



Considerations



- Which structure is right for you?
- Does your structure fit your mission?
- Will the structure fill the needs of all parties?
- How does structure affect funding options?

Note: Organization may differ between states

Food Hub Structure

- Can be defined by:
- Tax Designation
- Legal Structure
- Operational Model



Tax Designations

- Can be for-profit or nonprofit at both the State and national level.
- Nonprofits may gauge success based on their capacity to fulfill the mission.
- For-profits may determine success on its level of profitability.



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For-Profit and Nonprofit Organizations

What's the difference between a for-profit and a nonprofit organization?

For-Profit	Nonprofit
Money returned to the owners	Money returned to the organization
Not exempt from Federal or State taxes	Typically exempt from Federal and State taxes
Assets distributed to owners after dissolution	Assets distributed to other nonprofits after dissolution
Funds are raised by offering investors a percentage of ownership	Funds are raised by soliciting donations and applying for grants

For-Profit

- Profits used to pay operational costs and be distributed to the owners.
- Donations not tax deductible.
- Assets distributed to owners based on level of ownership if food hub dissolves.



Nonprofit



- Profits used for operation of the organization.
- State and Federal tax exemptions.
- Donations made are tax deductible.

Legal Structure

Corporations

- Most common for large businesses
- Offers limited liability protection
- Exists perpetually
- Has three main types: C-Corp, S-Corp, and B- Corp

Legal Structure

Corporations

C-Corp

- Exists and taxed separately from owners
- Control depends on stock ownership
- Stockholders only at risk for money invested
- Capital raised through stocks
- Can continue without key individuals

Legal Structure

Corporations

S-Corp

- Special tax designation
- Taxes pass through members- no double taxation
- Restrictions on number and type of ownership
- Limitations on passive income
- Same basis advantages of corporation

Legal Structure

Corporations

B-Corp

- Not all states recognize this type
- Company goals include positive impact on society and environment
- Certification issued by B Lab (nonprofit organization)

Legal Structure



LLCs

- Hybrid combining tax characteristics of partnership with limited liability of corporation.
- No double taxation
- No personal liability for shareholders
- Formed by one or multiple people or entities.
- Drafting agreement can be complex

Legal Structure



Cooperatives

- Owned and controlled by people who use it
- Members hold voting power
- Headed by Board of Directors
- Common in multiple industries- agriculture, healthcare, utilities, etc.
- Can be complex to organize

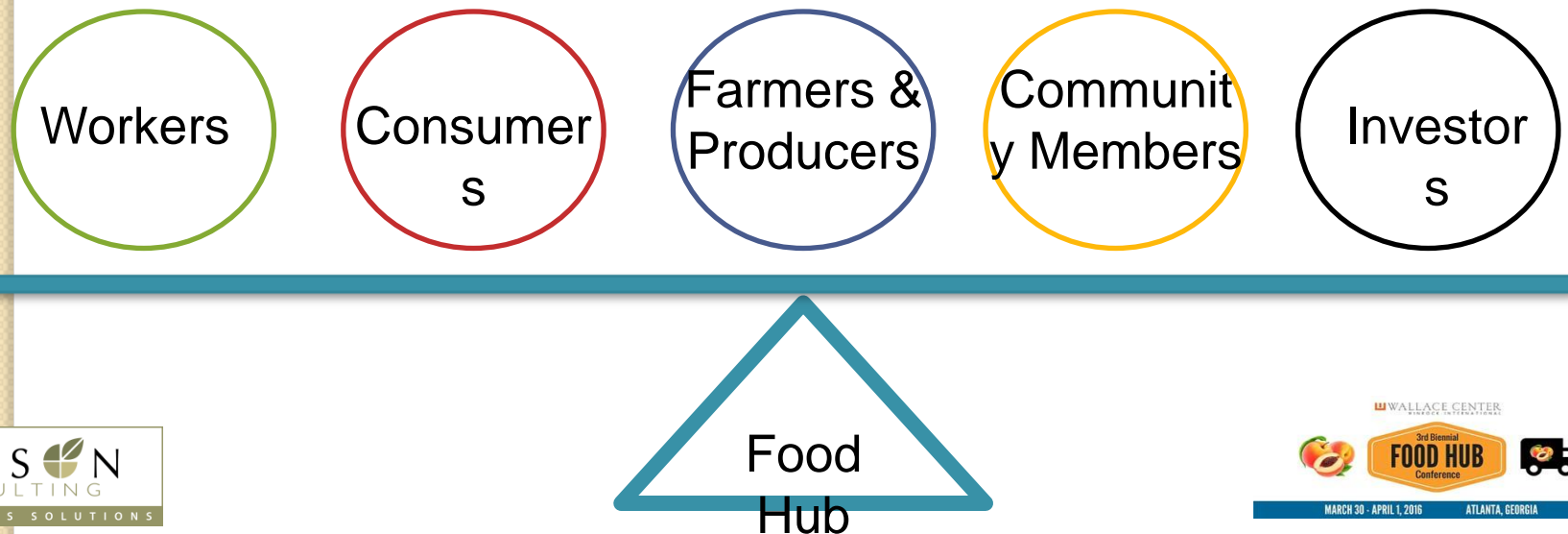
Legal Structure

Cooperatives

- Equity can be obtained from:
 - Membership fees
 - Sale of stocks
 - Portion of sales
 - Withheld from member income
- Earnings/ losses are allocated based on use of the cooperative instead of equity held .

Multi-Stakeholder Structures

- Includes multiple membership classes.
- Often contains two stakeholder groups.
- Balance the needs and interests among all classes of stakeholders.

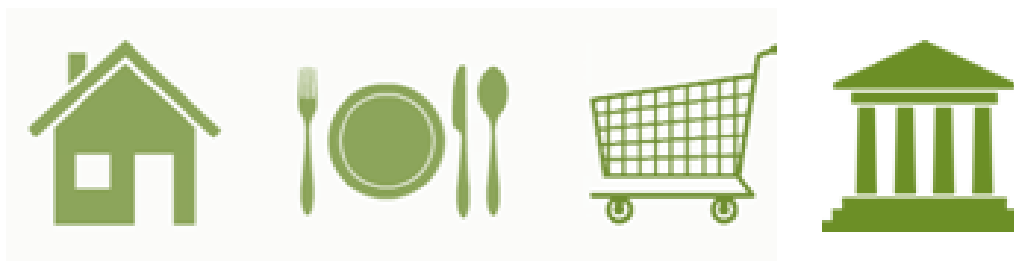


Multi-Stakeholder Structures



Operational Models

- Direct-to-Consumer
- Wholesale Food Hubs
- Hybrid Food Hubs



Operational Model

- **Direct-to-Consumer Food Hubs**

- Connect farmers with community members.



- Based on the sale of produce.
- Customers pick up items from various drop-off locations.

Operational Model

- **Direct-to-Consumer Food Hubs**
 - Operated by mix of staff and volunteer labor.
 - Distribute directly to end consumer.
 - Charge retail prices for products.



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Direct-to-Consumer Example: Sandhills Farm to Table Co-op



Operational Model

- **Wholesale Food Hubs**

- Focus on distributing food to other “intermediates” in supply chain (restaurants, schools, etc.).



- May be more focused on retailers as main customer base.
- Offer a larger variety of products.

Operational Model

- **Wholesale Food Hubs**
 - Deliver products to end customers.
 - Rely on staff to repack items and deliver product.
 - Offer technical support services for products.



Photo courtesy Common Market

Wholesale Example: Common Market



Photo courtesy Common Market

Operational Model

- **Hybrid Food Hubs**

- Sell products to wholesale clients while running a direct-to-consumer business.
- Infill sales activity with higher profit wages from retail pricing.
- Start as a direct-to-consumer hub or a wholesale hub.



Hybrid Example: Seattle Tilth Food Hub



Photo courtesy Seattle Tilth Produce

Should you change your structure?

Challenges

- Tax benefits and ownership concerns.
- Operations can change and grow.
- Maintaining enthusiasm, membership classes, and individual stakeholders.
- Facilitating customer and producer growth

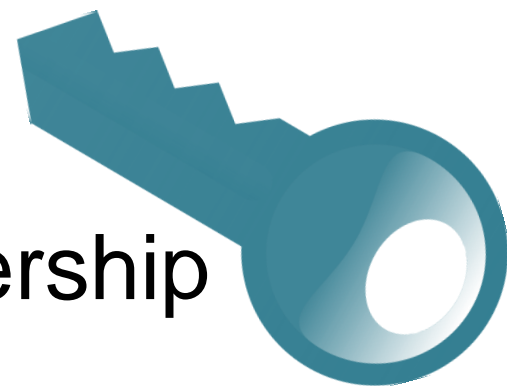


Structure does not make a business successful

Why Businesses Fail

- Lack of sufficient operating capital and inability to obtain additional credit
- Inexperienced and inefficient management
- Unsatisfactory sales outlets
- Competition
- Low Prices

Keys to Success



- Strong, Committed Leadership
- Sound Business Idea
- Clear Vision
- Local & State Support
- “Skin on the Table” – Owner investment
- Access to other capital
- Strong Communication
- Patience

Increase Chances of Success

- Understand the business environment.
- Know what you want to do.
- Keep it simple
- Listen to outside advice
- Seek Partnerships



Group Activity

What model and structure serves the needs of the community?

