



*Food hubs and growing demand for local foods are making it possible for more new farmers to get started and more co-ops to launch. Photo courtesy Agriculture and Land-Based Training Association.*

# Creating a roadmap for food hub development

**By James Matson, Martha Sullins and Chris Cook**

***Editor's note:** James Matson and Martha Sullins are consultants with Matson Consulting, Aiken, S.C. Chris Cook is executive director of the Virginia Foundation for Agriculture, Innovation and Rural Sustainability, Richmond, Va. This article is excerpted from a forthcoming USDA cooperative research report: "The Role of Food Hubs In Local Food Marketing," available from USDA's Cooperative Programs office by mid-August. To order a hard copy, send an e-mail to: [coopinfo@wdc.usda.gov](mailto:coopinfo@wdc.usda.gov), or call (202) 720-8381. It can also be downloaded from the Internet at [www.rurdev.usda.gov](http://www.rurdev.usda.gov). Financial support for this research was provided via a Cooperative Development Research Grant from USDA Rural Development.*



Around the country, food hubs are building bridges to help connect producers of local foods with a growing base of consumers seeking home-grown foods. Food hubs are developing scale efficiency and improving distribution to geographically dispersed consumers, including households, retailers and wholesalers.

USDA's working definition of a food hub is: "A business or organization that actively manages the aggregation, distribution and marketing of source-identified food products, primarily from local and regional producers, to strengthen their ability to satisfy wholesale, retail, and institutional demand."

A recent Good Food Network webinar defined a food hub as "small or large warehouses that aggregate food and facilitate sales to wholesale customers or directly to consumers."

Although these definitions focus on the physical movement of goods, USDA does note that a food hub can also be defined by market efficiency functions, in addition to more abstract goals of building a diversified food culture.

It is worthwhile to consider a broader definition of food hubs, in terms of function rather than form, for two reasons:

1. Many hubs have evolved from an educational or social mission to bring consumers and producers together in the marketplace. While selling local foods to consumers is one function, these hubs may also seek to educate their buyers about the importance of retaining food dollars in the local economy or keeping working agricultural lands in production.

2. Second, some very functional hubs exist that do not consist of brick and mortar facilities; rather, they "live" primarily in a virtual context and are thus able to transmit information

quickly among buyers and sellers of local and regional food products; this is particularly pertinent in situations where lack of information is the key barrier to greater market efficiency.

USDA's Regional Food Hub Resource Guide (available online at: [www.ams.usda.gov/foodhubs](http://www.ams.usda.gov/foodhubs)) provides a clear, practical example of this by saying: "Food hubs are examples of innovative, value chain-based business models that strive to achieve triple bottom-line (economic, social, and environmental) impacts within their communities. They do this by offering a suite of services to producers, buyers and the wider community."

### Cooperative-structured food hubs

Many different ownership structures are used to operate food hubs, including those formed as cooperatives, which can

be controlled by its members. The membership fees provide working and investment capital for the food hub, with any surplus revenue returned to members.

A co-op is managed by a board of directors elected by the members, which — in the case of a food hub — may be made up entirely of producers who will manage the organization to meet their members' needs (providing a fair return on products sold, arranging transportation of goods to end consumers, promoting a certain production practice, or serving a certain geographic area).

Many cooperatives — such as the Oklahoma Food Cooperative (featured in the May-June 2012 issue), the High Plains Food Cooperative in Colorado and the Weaver Street Market in Carrboro, N.C. — have evolved and currently operate as multi-stakeholder



be led by producers, retailers, consumers or a combination thereof. There are several advantages to the cooperative business structure that make it a good fit for an emerging food hub. The cooperative structure is a well-known, established community entity with strong roots in agriculture that is owned and democratically

operated by its members. This business structure includes consumers, workers and producers in the same business entity. An example of a more standard produce ownership structure is La Montanita, based in Albuquerque, N.M. Each of these examples has achieved different scales of impact on their respective local and regional food systems.

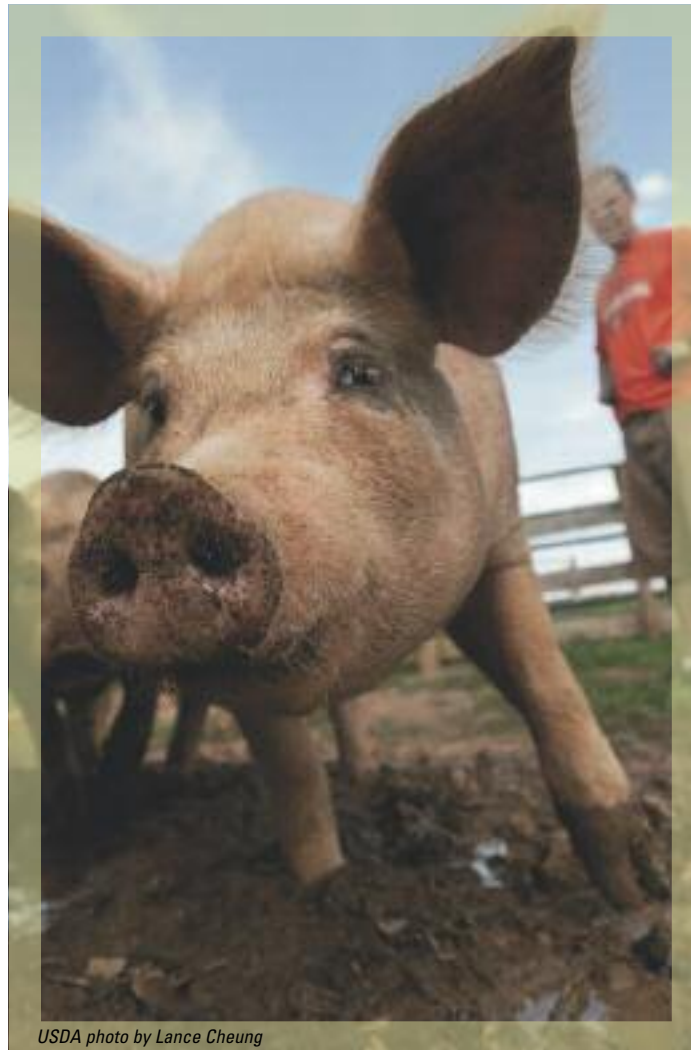
Other cooperatives with similar operations to the Oklahoma Food Cooperative and High Plains Food Cooperative model include the Iowa Food Cooperative (Iowa), Crosstimbers Food Cooperative (Texas), Idaho's Bounty Cooperative, Massachusetts Local Food Co-op, Nebraska Food Cooperative, Ottawa Valley Food Co-op (Ontario, Canada), West Michigan Cooperative and the Wichita Food Co-op (Kansas).

Weaver Street Market began operations in 1988. In addition to its own bakery and fresh food kitchen, Weaver Street Market offers a wide variety of natural and locally grown products. Milk comes from Maple View Farms, two miles up the road. Eggs are delivered fresh daily from Latta's Egg Ranch in Hillsborough, N.C. Flour comes from Lindley Mills in Graham, N.C. About a dozen local area farmers, who sell their produce at the Carrboro Farmer's Market, also sell to Weaver Street Market. Keeping the market community owned and operated has proven to be a very popular idea. The 2011 annual report indicates that the cooperative made a profit of about \$250,000 and nearly half of its \$26 million in sales was sourced from local products with nearly 16,000 households as member/ owners.

Founded in 1976, La Montanita currently stocks and sells more than 1,100 products from nearly 700 local growers in New Mexico and Colorado. Its 2008 sales were \$2.8 million. La Montanita is a cooperative that supplies four retail stores in New Mexico, distributing both local and national brands through a co-op distribution center (the CDC).

The CDC, in turn, also sells to other

specialty retailers and restaurants. La Montanita started a distribution arm through the CDC in 2007 to extend the operation and create greater market access for the region's producers.



Products are now sourced from within 300 miles of Albuquerque (including southern Colorado) and distributed across New Mexico.

### Roadmap to hub development

The development and evolution of food hubs is usually highly localized and depends on several factors. Even so, there are some lessons that can be applied from reviewing examples from across the country. Some factors appear to contribute to success more than others, including:

1. Having a strategic plan with clear goals and a vision for developing the food system helps ensure that the hub's

original intents are maintained (for example: fair prices for farmers or promoting sustainable agricultural production methods).

2. Getting all stakeholders engaged early on in the process and defining their interests and areas of expertise. This involves:

- a. Making sure there is a management or oversight team that is inclusive and that hears farmers' concerns, as well as those of other businesses and investors.

- b. Ensuring that the team has individuals with skills and proven experience in financial management, the regulatory environment, marketing and packaging, inventory management and quality control, and that can engage meaningfully with farmer/business owners.

- c. Making sure that all parties are well-matched in size and scale, and operate with similar goals and values.

- d. Producer and members with previous experience growing and supplying food for local markets.

This limits some risk that may arise in fulfilling contracts with vendors and buyers. This process will also dramatically increase the potential for success.

3. Understanding the location of different direct markets and how to access them.

- a. 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?

- b. Is backhauling feasible to generate revenue on an otherwise empty return load?

- c. If the market is one with a customer base that is less familiar with purchasing and preparing fresh foods

(some urban or at-risk populations, schools without “scratch-cooking” experience), education may be vital to the hub’s success.

4. 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 non-profit, that can deliver information about what the hub provides and when the product can be delivered to the consumer. Producers may need training on post-farm business practices, such as quality control, packaging and delivery. Likewise, there may be a need for training in coordinated practices, such as common production practices or season-extension techniques.

5. The hub may have to reduce risk on the buyers’ side to access markets. Many end users require that GAP (good agricultural practices) or HACCP (hazard analysis and critical control points) plans be implemented by producers or processors 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 securing affordable product liability insurance for individual vendors, or umbrella insurance coverage for vendors that can be purchased through the hub, since this is critical for hubs accessing institutional markets, such as schools or hotels. Such requirements for accessing a direct market may also cause some business owners to withdraw from the supply pool.

6. Capital is required for supply chain infrastructure, such as vehicles, storage facilities, and retail locations. Capital availability can be a significant barrier to starting local aggregation and distribution businesses. A certain level and type of infrastructure is necessary to operate a food hub, including:

a. Technical infrastructure, such as billing protocols, Internet management

systems and payment processes.

b. Physical infrastructure may also be essential (such as product warehousing or processing capability) in order to ensure increased product quality and packaging control across suppliers.

c. Hard work and enterprise can assist with hub development, but a lack of critical infrastructures can greatly increase the chance of failure.

7. Given the many uses for food hubs, no one type of business structure is clearly the best fit for a food hub. Rather, the business structure must be one that helps the stakeholders meet their goals for financial, marketing and production planning and growth. It appears that a certain initial flexibility is key, and the management team should identify the point at which a particular business structure constrains further investment. An alternative structure (such as incorporating one business function or outsourcing distribution) may sometimes be the only way the hub can maintain its market share or expand into new markets.

8. Identify all sources of technical and financial support, including those considered less conventional.

a. 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.

b. There are also businesses with technical expertise in processing, distribution or transportation with which a hub could contract to more efficiently execute some of the more complex or cost-prohibitive functions of direct marketing through a hub. At 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.

c. Donated or shared equipment and facilities can substantially reduce the capital required to start and operate the food hub.

d. It is essential that members have “skin in the game.” That is to say, that all owners need to have a capital stake in the success of the venture.

9. Managing information efficiently is critical to the success of a food hub.

a. Timely and accurate information flow between producers and consumers, or between producers and wholesalers, helps to minimize or avoid risks, such as price or marketing risk, production risk and some legal risks.

b. 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.

c. Information is needed 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.

## **Value derives from broader benefits**

The success or failure of a food hub should not be measured solely in terms of its aggregating function or in terms of total volume of product moved. It should also be valued in terms of the places its products go and the people who benefit from it.

With growing demand for local or regional food products, many conventional marketing channels are ill-equipped to supply local food where and how people wish to purchase it. Food hubs can address this in a manner that is economically viable and still serve its social and other community functions.

Food hubs help producers and consumers connect in a manner that retains the valuable information as to where a food item was produced and how it was grown or processed. This serves the members and has the possibility of creating a successful alternative supply chain for local agricultural products. ■