

# Rural COOPERATIVES

July / August 2014



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# What We've Learned So Far

Food hub operators share insights needed for business success

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A father and daughter sell heirloom beans and other produce at the Bath County Agricultural Education and Marketing Center, Owingsville, Ky. USDA photo by Lance Cheung.

*Editor's note:* This article is excerpted from *Running a Food Hub: Lessons Learned from the Field*, soon to be available from USDA as part of a technical report series on food hubs. Matson is the principle, while Thayer and Shaw are consultants, with Matson Consulting in Aiken, S.C., which has been a leader for more than a decade in helping to develop producer co-ops and food hubs. This research was supported by VAFAIRS (a co-op and rural business development center in Virginia) through funding from USDA Rural Development.



This article condenses into a “lessons learned” format some of the critical knowledge derived from interviews conducted with 14 food hubs from across the United States about this rapidly growing, but still young, segment of the food industry.

In the best tradition of cooperatives, these food hub leaders hope others will learn from their experiences and the roads they have traveled so far.

## Customers

Customer types varied significantly in the sample of organizations interviewed. Ranging from individual customers to large-scale food service operations, the targeted customer often dictates aspects of the venture, including whether or not safety certifications are important, the level of infrastructure necessary and the type of marketing approach used.

Some smaller food hubs focus only on local customers, selling primarily to restaurants, independently owned or regional grocery stores, community supported agriculture (CSA) associations, or individuals. Mid-scale food hubs also tend to serve local customers, but also supply school districts, institutions (such as hospitals and colleges), larger regional chains or distribution warehouses for regional grocery stores. A few of the food hubs focus on national grocery store chains that supply local produce to their customers by selling to distribution warehouses for grocery store chains.

**Lesson Learned:** *Determine your likely customers and the food demand unique to your region (retail, wholesale, organic, grass-fed, etc.) and then tailor the food hub's products and approach to suit the identified market.*

## Products

While produce, such as fruits and vegetables, are often the main staple of a food hub, many hubs also offer additional product lines, including dairy products and meat, shelf-stable items and local grains and flours. The latter products can help extend their operating season and mitigate drops in revenue during non-production (usually winter) months. A few of the food hub leaders interviewed were only marginally involved in produce sales. Instead, they focus on meats and related products.

Increasingly, handling value-added products is being explored by many food hubs. While none of the food hubs interviewed manufacture their own value-added goods, many of them use these products to expand their product line. These products allow an opportunity for better margins than some traditional food hub products while also extending its season.

## Labor

Continuity of labor in management and sales is important because frequent staff changes can have a negative impact on food hub operations. Some of the surveyed food hubs experienced declines in sales volumes during periods of employee transition because food hubs often rely on employee-customer relationship marketing.

Due to the specific skills needed for a food hub and reliance on relationships with producers and customers, finding good part-time labor is a common issue. While some employees may be part-time or seasonal, they still need to possess the skills necessary to communicate with growers, especially in cases where there are product quality issues. Honesty and work ethic are two other important traits to have in a labor force.

Nearly all the leaders interviewed have used volunteer labor in the past, or still use it in their current operations. But many cautioned that volunteer labor lacks consistency and skill continuity. While volunteers are useful when the food hub needs more help, to be effective, the hub needs to maintain key skills and a knowledge base to achieve stability in operations and sales.

**Lesson Learned:** *Volunteer labor can be useful, particularly during start up or periods of growth, but long-term success will require regular employees and the continuity of institutional knowledge and relationships they bring.*

A few of the food hub operators interviewed also included distribution of non-local items, which still fit the core values of the food hub. These items were often products not available locally, such as nuts, oils or coffee, or were designated as “specialty items” in some way, such as foods labeled “fair trade” or “organic.”

**Lesson Learned:** *Seek to source and provide a mix of products that will allow you to satisfy demand or an identified need in the market. This may include distribution of products that are not strictly “local,” but still suit the mission of the food hub.*

## Food Safety Certifications

While each of the entities contacted expressed varying levels of concern and prioritization regarding food safety, every organization was aware of the future need to consider safety certifications. A few food hubs have begun to require mandatory Good Agricultural Practices (GAP) certification of their producers, while others simply help producers become more aware of the types of food safety practices in an effort to prepare them for the future.

The general consensus among those contacted was that if not so already, safety certifications will soon become a mandatory part of doing business. Almost all of the entities contacted are actively working in some capacity to move their producers and the business towards safety certifications.

The targeted customer base of a food hub has a large impact on its level of concern with safety certification. Organizations that focus on restaurant and direct retail customers are the least concerned with safety certification. That's because these organizations are not pressured as much from their customers to offer GAP or other safety-

certified produce. Instead, they are able to rely on their own assurances to customers regarding food safety.

Those with institutional customers – including hubs that sell to hospitals and school districts, or those dealing with sales of proteins – are typically much more interested in food safety certifications and strongly encourage producers to be certified. In other cases, the hubs used surveys and other methods to gauge the readiness of member-growers to accept safety certification as a condition for supply.

**Lesson Learned:** *Allow the needs of food hub customers to dictate the certification requirements of a food hub. Whether required by customers or not, food hubs should take a long-term view by maintaining awareness of the food safety and regulatory environment in order to be prepared for future demand.*

**“You can't run a business on good intentions.”**

## Software

Hub managers interviewed used a broad range of information technology in their operations, including MS Excel, custom designed software, off-the-shelf products such as Quickbooks, specialty food hub software, or a blend of all of the above. In general, there is little consensus on the optimal software for food hubs.

Typically food hubs use software to track:

- Inventory;
- Finances;
- Orders;
- Customer information.

Food hubs that have dealt with the creation of proprietary software emphasized that it is important to have the input of both designers and those who are familiar with the food hub's intended operations during the software design and implementation. Including both

of these perspectives during the beginning stages of the process allows a software designer to benefit from the input of farmer contacts and can avoid costly redesigns in the future through efficient design. They also note that custom software should be viewed as an ongoing process, and many hubs continue to change or add components for years after an initial purchase, at additional cost.

**Lesson Learned:** *There is no “one size fits all” software solution. Conscientiously choosing software to suit as many needs of the food hub as possible will lead to the greatest efficiency in operations, but will likely still not produce ideal results.*



## Infrastructure

Infrastructure seemed to depend on two different approaches to operations:

**Approach 1** — Food hubs providing more services — such as physical aggregation, grading, packing, sales and delivery — often have a warehouse, equipment and other infrastructure. Food hubs taking this approach use the equivalent of a medium-sized warehouse (5,000-10,000 sq. ft.) that included sufficient room for truck parking, loading areas, product storage, dry goods storage and cooling capacity. As a food hub expands or decides to offer other services, such as light food processing or freezing, supplementary warehouse space and additional equipment are often necessary.

Of the food hubs operating with infrastructure, nearly all use company-owned trucks to do at least some local delivery of products to customers. Local trucking resources typically consist of smaller short-haul vehicles. However, based on their circumstances, some also outsourced hauling with local trucking companies to move large volumes or product over greater distances.

**Approach 2** — Other food hubs — those that provide fewer physical services and instead focus on coordination, payment, marketing, and promotion — often have limited infrastructure. These food hubs tend to utilize much smaller warehouses (1,000-4,000 sq. ft.) or a mix of owned warehouse space and borrowed space from other entities or food hub members. While there are examples of food hubs maintaining long-term storage facilities, many use a “just-in-time distribution” approach that minimizes the need for storage and cooling space. Food hubs that use larger spaces often rent or lease unnecessary space to producers or other entities for storage to help offset costs.

**Lesson Learned:** *Base infrastructure on the product handling and storage needs of the food hub, but incorporate a long-term view of infrastructure and equipment to provide easier transitions through growth periods in the future.*

## Viability and Success

The majority of the ventures that participated in the informal survey were not operationally profitable. To remain in business, many food hubs exhibited some cost-saving advantage, such as volunteer labor, logistics arrangements and partnerships. Others had access to outside funding, such as grants. Most have remained in business by obtaining outside funds, whether in the form of donations, a grant or foundation funding. Others are part of a larger organization or obtain some form of business advantage.

Long-term financial goals almost always included reaching a point where the business did not have to rely on outside funding. While a few hubs plan for outside funding to be a regular part of their operations for the foreseeable future, most believe that grants and other sources of short-term funding were necessary to begin operations or to reach a new plateau, but were not good options for the long-term, since continuation of such funding is not assured. Further, large amounts of time and effort are required to apply for grants and other outside funding. The vast majority of food hubs expressed a desire to cover operational costs internally by increasing sales.

For the nonprofit food hubs, strategic goals include acquiring grant funds, attracting donations and partnerships, and other forms of community support that allow them to continue to expand their operations to levels that may not be “profitable” in the short run, but permit them to remain viable as a mission-driven organization.

**Lesson Learned:** *Utilize any available funding to get started, but keep in place a long-term strategic plan to achieve operational profitability; this is necessary to ensure long-term viability of the business.*



## Operations

Food hubs have proven to be innovators in dealing with, and offsetting, costs. In an effort to sustain their operations, food hubs have limited the scope of their initial operations or acquired sources of outside funding and capital, formed partnerships or gained access to advantageous infrastructure.

One venture began operations by renting a truck by the day and using a cell phone to communicate with the driver. When the time came to invest in infrastructure, efforts were made to source inexpensive facilities and used equipment that met the basic needs of the business.

Another food hub leader said the business could not have been successful by only selling local produce. The solution was to work with a larger specialty manufacturer as a licensed distributor. This provided the food hub with many new sales opportunities, as well as providing a large amount of inventory, steady sales and products that could be sold year round.

Several food hubs attempt to utilize existing infrastructures and food systems rather than attempting to “reinvent the wheel.” These organizations have found ways to partner with food service companies to take advantage of the already efficient logistics network and large volume of sales and marketing. This could also involve making arrangements with food hub members or other nonprofit business entities for low-cost storage and cooling facilities or transportation equipment.

Several food hub managers said that if a venture plans to begin with anything larger than a minimal-scale operation, they need to procure a large amount of starting capital to remain viable. If not fully funded, a significant portion of time and energy will need to be expended to regularly obtain infusions of capital and sustain operations.

**Lesson Learned:** *Actively seek to find operational advantages through partnerships or working with existing infrastructure in a region. Make sure the food hub has sufficient funding to sustain operations until revenues are at a sufficient level.*

## Transportation

Transportation and delivery expenses were often identified as the main cost issue for operating the food hub. In addition to the basic cost of purchase or leasing, paying drivers and the time spent in organizing the logistics of pick-ups from producers and deliveries to customers contributes significantly to the financial burden of the food hub. Even food hubs that have been able to acquire trucks, equipment or other infrastructure items through grants or other funding sources still deal with the significant cost of ongoing maintenance.

Some food hubs have found ways to minimize the cost of transportation. Utilization of out-sourced shipping and trucking often alleviated some of the burden of maintaining a consistently operational delivery method. Many hubs have established relationships that help a trucking company fill empty loads while providing efficient transportation for the food hub and thus lower costs for shipping and transportation than would have otherwise have been possible.

**Lesson Learned:** *Whether leased or purchased, trucking and logistics will often be one of the largest costs of operating the food hub. Know your costs to avoid delivery expenses exceeding order values for deliveries.*



## Common Ground

Each of the food hubs included in this study had unique operations and goals that reflect their local community environment. While there is great diversity among them, the food hubs also share some common ground, including:

- All felt that their own market and sales levels were still in a growth phase.
- All were operating with minimal staffing. All staff members were fulfilling multiple roles in the organization.
- All had their own transportation infrastructure; however, their vehicle fleets were limited. Many used local or regional transportation firms to augment their transportation capacity.
- Many were interested in aggregating and selling value-added products, often as a season-extending service.
- Only a few were directly engaged in processing. Some of the hubs that attempted processing in the past are now outsourcing these activities to other firms.
- The time and costs of safety certifications and insurance were of concern to all. They expressed keen

awareness of the impacts of new food safety regulations, especially those stemming from the Food Safety Modernization Act.

- Most possessed access to a small- or medium-sized warehouse (1,000-10,000 sq. ft.) for storage, as well as to holding coolers or their equivalents.
- They rarely use formal advertising or media campaigns. The food hubs depended mainly on relationship marketing and point-of-sales contacts with producers and buyers.

Because of their adaptability, no one measure can be applied to all food hubs. Each one must be measured by its success or failure in achieving its own underlying goals.

From fulfilling a specific social mission to achieving independent financial profitability, food hubs are positively impacting both their member producers and communities in numerous ways. Though much remains to be learned about them, food hubs continue to be one of the most exciting innovations in the local foods supply chain.

Many of the food hub managers and leaders interviewed offered insight into issues they had faced or provided information that was not directly related to the general categories covered by the interviews. These recommendations include:

- Seek partnerships.
- A local food bank, community kitchen or retail store can provide access to distribution resources as well as storage space and cooling facilities.
- Logistic partnerships will help offset transportation costs.
- Be aware that if producers have already established direct marketing relationships, it will be harder to convince them to participate in aggregated distribution. The hub may have to work to educate producers about the benefit of joining the food hub.
- “Good intentions don’t run a business.”
- Involve leadership that has the necessary business experience and skill set to make decisions that will lead to

## “If we could do it over again...”

long-term success. While vision and passion are important, make sure decisions include a solid business-oriented viewpoint.

- Maintain continuity of human resources to retain the established relationships and institutional knowledge of the staff.
- No matter how well you think you know your market, you will very likely have to be flexible in order to meet the actual demand. Be willing to change.
- Building a food hub is like running a marathon with interval sprints every mile. Training, focus and perseverance are keys to succeeding.
- Lack of funding will constrain your growth.
- Volunteers can be hard to train and difficult to manage.
- Develop training materials and forms (order forms, contract forms, etc.) early in start-up process. Lacking these documents can cause inefficiency. Take time to produce them correctly. ■