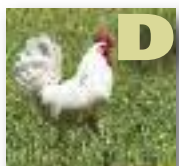


Virtual food hub helps Virginia producers tap into LOCAL FOOD MARKETS

By James Matson, Matson Consulting
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During the economic recession, many family farmers and producer co-ops have been able to thrive by meeting the growing demand for local food among consumers, restaurants, food retailers, institutions (such as schools and health care facilities) and farmers markets. The Internet has been a valuable marketing tool for many of them.

In Virginia and Montana, an increasing number of producers are using a software program developed by Lulus Local Food, which helps to lower the barrier to market entry for small- to medium-size producers and co-ops seeking to increase their local retail sales.

In just its third year of operation, Lulus is on track to help local food hubs ring up more than \$1 million in





sales in 2011. Lulus Internet site connects about 200 food producers and small cooperatives with more than 2,000 customer-families. It has also created the opportunity for producers

Molly Harris (facing page) created LuLus Local Food as a marketing network for small farmers and co-ops seeking to increase sales to the local food market in Virginia. Suppliers post what they have on Lulus' online listing; customers then make their selection and select a pick-up location and time. Bruce Johnson (below) updates the online inventory for Dragonfly Farms in Beaverdam, Va., as do dozens of other suppliers associated with Lulus Local Food website. USDA photos by Lance Cheung.



to participate in farm-to-school contracts, “meet and greet” marketing events with customers and to supply fresh local food to charitable organizations.

Founded by Molly Harris in late 2008, Lulus Local Food is a Richmond, Va.-based software provider for virtual food hubs that connect producers directly with retail customers. “My goal was then, and it is now, to get local food in the hands of as many people as possible,” Harris says. “We are very excited about the future of growing the local food industry and expanding this venture to help family farmers in other communities.”

Virtual food hubs can lower the costs of access to local foods for both producers and consumers by automating the sales process. Another advantage of an Internet-based food hub is the ability to carry out a transaction at any time. This means that customers can place orders whenever they wish, and that producers can update their sales items, as needed.

Simple idea morphed into an Internet platform

The “eureka moment” that prompted Harris to form Lulus Local Food came in the spring of 2008 when she met a farmer selling chickens in a restaurant parking lot. There must be a better way to connect family-owned and -operated farms with customers

searching for fresh, local food, she thought.

Harris started by assembling an e-mail list of local food suppliers in the Richmond area. She also had access to a list of customers interested in buying local food year-round. Harris compiled an inventory of what food products were available, using weekly e-mail exchanges to conduct business. The venture soon became a full-time passion for Harris.

“Molly turned up at my office with a huge box of paper, asking for help,” recalls Chris Cook, executive director of the Virginia Foundation for Agriculture, Innovation and Rural Sustainability (FAIRS), a rural cooperative development center funded by a Rural Cooperative Development Grant from USDA Rural Development. The assistance she received from FAIRS allowed Harris to incorporate, insure the business and create a business plan.

With the program continuing for a second season in the spring of 2009, Harris was able to take pre-season membership fees and apply them as capital needed for developing a software program for Fall Line Farms — an on-line, farm-to-family co-op that represents more than 75 local farms and businesses in central Virginia. With the development of the Lulus software completed in the spring of 2009, Fall Line Farms was able to expand its geographic reach to several locations

Co-ops partner with schools, health clubs, churches

Coastal Farms describes itself as “an online co-op that is a one-stop shopping program for quality local food and products ordered from the comfort of your home.” It opened a food hub in April 2010 in Hampton Roads, Va., and is marketing on the LuLus Local Food website.

Coastal Farms has formed a partnership with a local private school that is opening new doors on many levels. The

chain to establish food pick-up locations throughout the region. The food hub is offering credits to gym members and the gym says it is promoting health through exercise and eating natural food.

With 15 pick-up locations throughout the Norfolk/Hampton Roads/Isle of Wight region, hub administrator Kim Atkinson is pleased with Coastal Farms’ progress. “For small farmers, there were very few options for selling their products to the public before the online program was started last spring,” Atkinson says. “Coastal Farms has opened up a whole new venue for farmers to personalize their products, focus on quality and sell to an appreciative audience in a much broader region of southeastern Virginia.”

Due to steady sales through Lulus’ website, which now accounts for 95 percent of its annual sales, Brookview Farm in Manakin-Sabot, Va., no longer needed to operate an on-farm store. That allows the farm manager to spend more time in the fields.

Brookview Farm sells all-natural, grass-fed beef to customers via the Internet, but has also been able to sell large supplies of ground beef to the local public school system and to supply charitable organizations through the Pounds of Plenty program (see main story).

In the past two years, Lulus Local Foods has worked with several religious denominations interested in supporting the concept of “food in faith” and promoting healthy communities. Harvest dinners have triggered an interest in sourcing local food in church kitchens, where weekly dinners are often served to large groups of church members. These contacts have served both as a means to educate consumers and help to expand the market for the food hubs.



school chef is interested in promoting healthy eating habits among the children of the school and is purchasing fresh, local food through Coastal Farms.

The school is promoting the Coastal Farms program among the families of its students. A percentage of the registration fee that families of students at the school pay to join the food hub is contributed to the school scholarship fund.

Coastal Farms has also partnered with a local fitness



throughout the metropolitan Richmond region.

Fall Line Farms' success resulted in other producers, farmers markets and cooperatives asking about the possibility of setting up a food hub that would use the same Internet platform. The result was the Lulus Local Food network website.

Internet business expands season

The Center for Rural Culture (CRC) is a nonprofit based in Goochland County, Va., where it operates a thriving farmers market each summer. VA FAIRS worked with CRC and the Local Roots Food Co-op to use the Lulus online ordering system to expand its farmers market to a year-round operation. This cooperative effort has been highly successful. CRC was also able to make the farmers market manager position a permanent, rather than seasonal, job.

Lulus' network currently consists of five food hubs: four in Virginia and one in Montana. Each hub operates a

Facing page: Christy (left) and Lilah Talbott gather their order at the Fall Line Farms' pick-up point at Bon Air United Methodist Church in Richmond. Christopher Douherty (left) looks for sunflower sprouts with blemishes while hand-washing sprouts at Manakintowne Specialty Growers, a 21-acre farm in Powhatan County, Va. Jo Pendergraph's family and "team" raise specialty produce there for chefs and food markets in Richmond, Charlottesville and Williamsburg, as well as a local food hub. USDA photos by Lance Cheung.

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number of pick-up locations for a wide variety of local food products. Products sold include fresh fruits and vegetables, grass-fed meats and dairy products, homemade breads, pasta and prepared foods and condiments. Several new food hubs plan to join the network in the near future.

The current Lulus software is designed to connect producers with retail customers. A new version of the software is being developed with continued support from VA FAIRS.

“This new version is designed to be much more user friendly and interactive for all parties involved,” says Harris. “It will allow producers to easily sell through multiple hubs and will enable hubs to network among themselves. It will also allow for restaurant chefs, local school systems and institutions (such as hospitals and colleges) to purchase food from local farmers.”

Not operating a standard “brick and mortar operation” is a financial advantage for virtual food hubs. But this makes the website and other technical infrastructure extremely critical for these operations.

Differs from a CSA

The producers and co-ops working under the Lulus marketing umbrella offer a vast array of products for sale, usually at a price that is competitive with local retailers. It brings together a widely dispersed customer base and producers. This system allows producers to set their own prices. Even though they pay a percentage of sales as a fee to the food hub they belong to,



Kate Lainhart gathers shungiku micro greens before cutting them into “bite-sized” lengths for Manakintowne Specialty Growers. Facing page: Pigs at Keenbell Farm in Rockville, Va., are pasture-raised by third-generation farmer C.J. Isbell. The farm produces grass-fed beef, pastured pork and free-range eggs using “beyond organic standards” as part of the Fall Line Farms co-op local food hub. USDA photos by Lance Cheung.

this still allows them to retain a higher price than if they had sold through an intermediary. Lulus itself does not set membership fees or service fees; the software program allows each food hub administrator to set these fees based on local market conditions.

Most of the food hubs work on a weekly cycle, with orders opening and closing over a period of time. Food pick-up at a preferred location is scheduled on a specified day.

In most CSA (community supported agriculture) programs, customers get an

assortment of whatever crops are currently being harvested, as determined by the CSA. But in this food hub system, a customer can order a specific item from the participating network farms, much like shopping from an online catalogue. The customers only pay for what they order each week. There is no minimum or maximum order and the customer is not required to order each week.

The membership and service fee, set by each hub, covers marketing, logistics

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KEYS TO SUCCESS FOR FOOD HUBS

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Editor's note: This article is extracted from a longer paper, Food Hubs: Local Food Marketing Solution? The report was produced for the Virginia Foundation for Agriculture, Innovation and Rural Sustainability (VA FAIRS) Development Center, with support from a Rural Cooperative Development Grant provided by USDA Rural Development. James Matson is a South Carolina-based business consultant. Martha Sullins is a small farm specialist with Colorado State University Extension. Chris Cook is executive director with VA FAIRS, a rural cooperative development center based in Richmond, Va.



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. ■