Why Food Hubs Fail

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National Food Hub Conference
March 31, 2016
The Inspiration

2012 National Food Hub Conference (Chicago)

Learning from co-op closure

Dissolution of Producers & Buyers Co-op holds lessons for others pursuing institutional market

When Things Don’t Work:
Some Insights into Why Farmers’ Markets Close

Special Report 1073
Originally published as Oregon Small Farms Technical Report No. 25
December 2006

USDA
Why Food Hubs Fail?

From Food Hub Database (n=363 food hubs)

- 90% survival rate for hubs, much higher than industry standards
- Only 44% of small businesses survive more than four years (SBA study)
- No statistically significant difference between active and inactive (closed) food hubs
- Including legal structure

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<th>Variable</th>
<th>Mean</th>
<th>P-value</th>
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<td>Inactive</td>
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Why Food Hubs Fail

Post Mortem Analysis

- Grasshoppers Distribution, KY (Lilian Brislen)
- Organic Renaissance / FoodEx, MA (JD Kemp)
- Growers Collaborative, CA (Diane Del Signore)
- Producers & Buyers Co-op, WI (Margaret Bau)
- Pilot Mountain Pride, NC (Jim Matson)
- Arganica, DC (Caesar Layton)

Other Contributors

- Sasha Feldstein, UC Berkeley
- Erin Foster-West, Tufts University
- Chris Proctor, USDA Rural Development
- Jeff Farbman, Wallace Center
An in depth look at the...

Located in Eau Claire, Wisconsin
Bright Idea

“Spend 10% of $2 million food budget on local food”

– Sacred Heart Hospital CEO, Stephen Ronstrom
Explore the Idea

• Searched for a farmer
  – But one farmer can’t fill demand
  – Overwhelming for hospital to work with multiple farmers

• Need to aggregate
  – Searched for partners at the 2008 Value Added Ag Conference
  – Long talk in the hallway
  – “Who wants a piece of $200K?”
The Stakeholders

• Producers
  – Strict requirements on feed, handling, safety, sustainability

• Buyers
  – hospitals, technical colleges, nursing homes, schools
    – pledge to buy 10% local foods

• Processors

• Local transportation
Co-op incorporated March, 2009

Decision to dissolve July, 2011
Cold, Hard Facts

Sales by Month
January 1, 2010 through July 5, 2011

MINIMUM Break Even Point

Sales Summary
January 1, 2010 through July 5, 2011

By Item

MINIMUM Break Even Total would have needed to be:
$432,000 in Total Sales for the 18 month period. Current
Total Sales = 56% of what they need to be. Becoming and
maintaining Sodexo Vendor status would require an
additional $55,000 in Yearly Sales to break even.
Lessons Learned
Before you begin…
Hospital Perspective

• Be honest – local food will cost more
  – Lack of economies of scale
  – Real effort and time commitment

• What are you willing to pay more for?
  – Be strategic – what products will yield greatest “bang for the buck” for the institution?

• What are your motivations?
  • Nutritional and health value?
  • Traceability of food?
  • Public relations?
Farmer Perspective

• Be honest – This is not for all farmers
  – Start with experienced farmers already at scale
    • Initial sales must be flawless
    • This is wholesale, not retail
    • Perhaps with time could aggregate smaller farmers
  – Be strategic – What products will yield the greatest bang for your investment?
Issue of Risk

• This is a different way to acquire food
  – Established distributors - can absorb cancelled orders
  – Small local farmers – should they carry upfront costs?

• Clash of cultures
  – Institutional reality
    • Personnel churn
    • Policy churn
  – Ways of doing business
    • Small business handshake
    • Corporations respect contracts

• Suggestions for sharing risk
  – Require $ down when placing high value orders
    • 50% down, 50% upon delivery
    • CSA style, upfront investment so farmer can buy inputs
If you decide to proceed…
Lesson #1

• Raise sufficient capital before launching
  – Resist temptation to “just do something”
  – Do a thorough equity drive
  – If you can’t raise $ - that tells you something!
Lesson #2

• Hire an experienced manager
  – Don’t try to get by on the cheap
  – Initial position is not the place to “grow” someone into this field
  – We lost time in personnel issues
  – Board took on operational and managerial functions
    • Went through 3 managers
    • Burned out board members!
Lesson #3

• Be aware how each stakeholder is accustomed to operating (ordering and pricing)
  – Producers
    • At wholesale, experienced with product
  – Institutional buyers
    • Tied to a distributor contract?
    • Buy-in throughout organization?
  – Distributor
    • Flexibility, buy-in from sales force?
  – Processors
    • Flexibility, integrity
Lesson #4

• Educate and train members at all levels (Co-op principle 5: ongoing education)
  – Benefits of local food that outweigh costs
    • Longer shelf life, less waste
    • More sales from better taste
  – “buy-in” from all levels of institutions
    • Doctors, CEO, board, sales force
    • Front line kitchen staff
      – Learn directly about their needs
      – Teach new ways to prepare foods
Lesson #5

• Multiple members are needed in each membership class
  – a.k.a. Don’t become identified as one member’s “project”
  – Be wary of the public relations blitz

• Transportation is tricky
  – Don’t try to do this yourself
What DID work?
Co-op as Coordinator

• Buyers want one point of contact
• Producers want to focus on production
• Co-ops can assure
  • Aggregation of product
  • Level of quality
  • Follow through on delivery and invoicing
• Producers and processors got paid in full
  • (Thanks to a diligent treasurer!)
  • Dissolved well
• Lessons to other food hubs
For More Information

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Pilot Mountain Pride

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Aiken, SC
(803) 223-7134
www.matsonconsult.com
Pilot Mountain Pride

- Served the Winston Salem, NC area

Courtesy of Pilot Mountain Pride Facebook
Start Up

- Initial expenses covered by Surry County and grants
Infrastructure

- 12,000 square foot warehouse

Courtesy of http://pilotmountainpride.blogspot.com/
Reception

- Received much initial enthusiasm and attention
Farmers

- 60-80 producers involved

Courtesy of http://pilotmountainpride.blogspot.com/

Courtesy of Pilot Mountain Pride Facebook
Funding

- Funding was a major issue throughout
Closure

- Closed January 2015 before the start of the season
Aftermath

- Food hub closed but local foods still expanding

Courtesy of Pilot Mountain Pride Facebook
A CASE STUDY
NGFN Food Hub Conference

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BRIEF HISTORY

- 2009 Founded as Arganica Farm Club as a monthly buyers club for local maple syrup integrated “tasting boxes” of local value added products (nuts, jams, honey, etc.).

- 2010 Arganica launched weekly tasting box, incorporating larger selection of local food, including milk, cheese, eggs and produce. Customers entered biannual or annual subscriptions. Markets included Washington, DC and Charlottesville / Richmond.

- Early 2011 Arganica launched ala carte shopping to weekly boxes, offering up to 600 products. Membership passed 2,000 people. All ordering, buying, aggregation and delivery were done manually via excel sheets and email.

- Late 2011 markets were expanded via daily deal campaigns to launch in Virginia Beach, Baltimore, and Wilmington, DE. Employee count exceeded 50 persons.
BRIEF HISTORY (continued)

- Late 2011 management changed from original founders to management group brought in by lead investor. First generation "E-commerce" site launched.
- Early 2012 business / management reorganized, markets scaled back to core, ancillary businesses closed, employees downsized and business refocused.
- July 2012 Arganica merged with Charlottesville based Relay Foods, ending brand, but keeping core customers, DC and Baltimore markets, products, and producers in tact.
- 2012-2013 Arganica investors continued to invest in and build Relay Foods.
SUCCESSES

- Early sight into the strong demand for local food / products and customers willingness to experiment with new platforms to access this food.

- Amazing understanding of brand and how this translated into a movement.

- Early understanding and adoption of a customer first service model, which understood that with the digitization of food, “perfect” customer service is mission critical.

- Overall understanding (at least early) that early adopters were unique, and that service / product offering had to be highly curated to their particularisms.
CHALLENGES

- Mission first philosophy combined with a general misunderstanding of the true costs of a “closed-loop farm to door step” business model.

- Historical inadequate investment in both front- (ecommerce) and back-end technology (inventory management, fulfillment and delivery).

- Disastrous reliance on Daily Deals as main customer acquisition channels, combined with a true lack of understanding of the effect of the unit elasticity of highly discounted shoppers on both contribution margin and customer lifetime value.

- Misunderstanding of the true meaning of ”rapid scale” and the affect this would have on the entire company.

- Early mission creep into ancillary business that misallocated scarce capital.
WHY EXIT

- Despite stabilizing company and cutting weekly burn by 75% in 2012, company burnt through too much capital to make the strategic investments required for the company to properly scale (especially in front- and back-end technology) post restructuring.

- Overreliance on a single investor, who by 2012 sought a diversified investor base that Arganica could not build short-term.

- The availability of a local synergistic partner, which offered both the critical technology pieces currently missing from Arganica, combined with a complementary brand that could easily incorporate Arganica customers, producers and markets.
QUESTIONS?

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(Previous President Arganica Farm Club / SVP Relay Foods)

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Key Lessons for Food Hubs

March 2016
Key Lessons
–From Food Hubs That Have Closed Their Doors –

✓ Have a plan

✓ Focus on strengths (and find partners for the rest)

✓ Know your farmers (and your buyers)
Have a Plan

“Oxygen Mask Rule” of Food Hub Viability
Basic components of a good plan:

- Purpose
- Market
- Competitive advantage
- Revenue
- Operations
- Risk
Have a Plan

• Your funding decisions depend on it

• Lack of the right resources now = higher costs later

• Plan for growth and challenges

• Quality as important as quantity
Focus on Strengths (and find partners for the rest!)

- Food production
- Customer service
- Processing
- Institutional purchasing
- Warehouse management
- Marketing
- Distribution/logistics
Focus on Strengths
(and find partners for the rest!)

At a minimum:

• Producer or close with local farmers
• Wholesale, logistics, distribution (if applicable)
• Someone to track metrics and financial info
Focus on Strengths
(and find partners for the rest!)

- Can’t be everything to everyone
- Don’t do anything for which you don’t have the resources, skills or capacity to do well
- What are your unique strengths and resources?
- Partnerships are key!
Know Your Farmers (and Your Buyers)

- Remember what you’re asking of your customers
- Remind them what they’re signing up for
Know Your Farmers (and Your Buyers)

Need consistent, reliable supply
  • May need to diversify

Treat your farmers well
  • Good, fair prices
  • Open communication
  • Trust their knowledge and expertise
  • Professional development
  • They’re taking on a risk too!
USDA Support for Food Hubs:
Financial and Technical Assistance Resources
Website: One-stop shop for financial and technical assistance resources from USDA to grow your local food enterprise
www.usda.gov/knowyourfarmer

Mapping Tool: See what’s funded in your community and learn how others are using USDA programs
www.usda.gov/kyfcompass
Grants, Loans, and Support

Know Your Farmer, Know Your Food (KYF2) is helping communities scale up local and regional food systems and strengthen their economies. USDA has many financial resources available to support this work, but determining which is right for your community is no small task.

We want to simplify the process and help communities put USDA programs to work for them. This page lists over two dozen programs at USDA that can help build local and regional food systems. This list is not the entirety of USDA’s offerings, but it is a great starting place.

Whether you are an individual farmer looking to extend your growing season, a cooperative of growers looking to rebuild a food hub, a farmers’ market that wants to accept SNAP benefits, a school that needs cold storage to store locally procured meat, or anyone in between, this short guide to our programs will help you identify funding options to support you.

Each link will take you to a short, easy-to-understand description of the program, an explanation of how it can be used to support a local or regional food project, and a link to the USDA agency webpage where you can find more information about the application process.

For the latest updates and announcements regarding programs, make sure to check out our blog.

Agricultural Marketing Service

- Farmers Market and Local Food Promotion Program
- Federal-State Marketing Improvement Program
- Specialty Crop Block Grants

AMS Memo

Farm Service Agency

- Farm Loan Programs
- Farm Storage Facility Loans
- Microloans

Rural Business Development Grants (RBDG)

Type: Grants

Max Award: Varies; generally no higher than $500,000

Big Idea: There are two types of grants available. Enterprise grants funds projects that facilitate the development of small and emerging rural businesses, distance learning networks, and employment-related adult education programs. Opportunity grants support training and technical assistance for business development and to assist with regional economic development planning.

Who Can Apply: Local governments, economic development organizations, non-profit organizations, Indian tribes, and cooperatives are eligible to apply. For the purposes of this program a “rural community” is an area where the population does not exceed 50,000 and is not adjacent to a city or town with more than 50,000 people.

Possibilities: For enterprise grants, possible uses include:
- Acquisition or development of land;
- Construction, conversion, or renovation of buildings;
- Purchase of machinery and equipment, including refrigerators and processing equipment;
- Capitalization of revolving loan funds;
- Provision of training and technical assistance (unless related to agricultural production);
- Project planning.

For opportunity grants, possible uses include:
- Regional economic planning focused on food system development;
- Market development and feasibility studies;
- Business training, including leadership development and technical assistance for entrepreneurs;
- Establishing business incubators, including commercial kitchens.

Get more information: For more program information, please visit the Rural Business Development Grants page, and to apply for any USDA Rural Development program contact your state or local office.

www.usda.gov/knowyourfarmer
Support along the Supply Chain

- Seasonal High Tunnel initiative (hoop houses)
- Farm loans, microloans and Farm Storage Facility Loans
- Regional food hubs and other local food infrastructure
- Marketing and retail opportunities

www.usda.gov/knowyourfarmer
USDA PROGRAMS IN THE LOCAL FOOD SUPPLY CHAIN

USDA is committed to supporting robust regional food economies across the food chain through the programs noted below.

**LAND CONSERVATION**
- Agricultural Conservation Easement Program
- Conservation Reserve Program
- Conservation Stewardship Program
- Environmental Quality Incentives Program

**PRODUCTION**
- Environmental Quality Incentives Program
- Farm Microloans
- Farm Storage Facility Loans
- Grass-fed Verification
- NAP
- Organic Cost Share
- Rural Energy for America Program

**PROCESSING**
- Business and Industry Guaranteed Loans
- Community Facilities Loans and Grants
- Local Food Promotion Program
- Rural Business Development Grants
- Value-Added Producer Grants

**AGGREGATION/DISTRIBUTION**
- Business and Industry Guaranteed Loans
- Community Facilities Loans and Grants
- Local Food Promotion Program
- Rural Business Development Grants
- Specialty Crop Block Grants

**MARKETS/CONSUMERS**
- Community Food Projects
- Competitive Grants
- Farmers Market Promotion Program
- Farm to School Program
- Senior Farmers’ Market Nutrition Program
- Specialty Crop Block Grants
- WIC Farmers’ Market Nutrition Program

Whole Farm Revenue Protection

Research, Education, and Technical Assistance Programs Along the Supply Chain:
- Agriculture and Food Research Initiative
- Beginning Farmer and Rancher Development Program
- Conservation Technical Assistance
- Federal State Marketing Improvement Program
- Risk Management Education Program
- Rural Cooperative Development Grants
- Small Business Innovation Research
- Specialty Crop Block Grants
- Specialty Crop Research Initiative
- Sustainable Agriculture Research and Education Program

Color Key:
- Agricultural Marketing Service
- Farm Service Agency
- Food and Nutrition Service
- National Institute of Food and Agriculture
- Natural Resources Conservation Service
- Rural Development
- Risk Management Agency

www.usda.gov/knowyourfarmer
Regional Food Enterprise Resources

Moving Food Along the Value Chain: Innovations in Regional Food Distribution
By Adam Diamond & James Barham – USDA Agricultural Marketing Service

Regional Food Hub Resource Guide
Food hub impacts on regional food systems, and the resources available to support their growth and development
By USDA Agricultural Marketing Service and the Wallace Center at Winrock International

The Role of Food Hubs in Local Food Marketing
By James Matson, Martha Sullins, and Chris Cook – funded by USDA Rural Development

Electronic copies of these publications can be downloaded for free at www.ams.usda.gov/FoodHubs
New Report Series on Hubs!

USDA Food Hub Technical Report Series

- Running a Food Hub: Lessons Learned from the Field
- Running a Food Hub: Business Operations Guide
- Running a Food Hub: Assessing Financial Viability (hot off the press!)

Electronic copies of these publications can be downloaded for free at [www.rd.usda.gov/publications/publications-cooperatives](http://www.rd.usda.gov/publications/publications-cooperatives)
Food Hub and Distribution Resources

USDA’s Food Hub Portal
www.ams.usda.gov/FoodHubs

A catalogue of USDA’s research findings, resources, and support for food hubs

National Food Hub Collaboration
http://foodhub.info

Map and list of known food hubs, current news, webinars, conference proceedings, print resources

Recent webinars

- Role of Value Chain Coordinators
- Food Hub Financial Viability
Rural Development’s Cooperative Programs

Professional staff conduct research and provide educational trainings, technical assistance, and grant support to co-ops across the country.
Library of Co-op Publications

www.rd.usda.gov/publications/publications-cooperatives

Extensive library of over 150 publications, including *Rural Cooperatives* magazine, and many “how to” guides like:
Includes data on:

- USDA-funded local food projects since 2009
- Farmers markets, food hubs, and other “context data” gathered by USDA agencies
- Projects and resources from 9 other Federal Departments
- Updated annually

www.usda.gov/kyfcompass
Thank You!

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