A LOOK BACK, A PATH FORWARD: LESSONS LEARNED FROM THE FOOD HUB VANGUARD
GRASSHOPPERS DISTRIBUTION

February 19, 2015
Presentation Outline

• Technical Orientation

• **Welcome**

  **Jeff Farbman**
  *Wallace Center at Winrock International*

• Lessons, Impacts and Financial Analysis

• Reflections from an Investor

• Questions and Answers

• Upcoming Opportunities, etc.
WALLACE CENTER AT WINROCK INTERNATIONAL

• Market based solutions to a 21st Century food system
• Work with multiple sectors – business, philanthropy, government
• Healthy, Green, Affordable, Fair Food
• Scaling up Good Food
NATIONAL GOOD FOOD NETWORK: VISION
NATIONAL GOOD FOOD NETWORK: GOALS

Supply Meets Demand

- There is abundant good food (healthy, green, fair and affordable) to meet demands at the regional level.

Information Hub

- The National Good Food Network (NGFN) is the go to place for regional food systems stories, methods and outcomes.

Policy Change

- Policy makers are informed by the Data and Analysis and outcomes of the NGFN and have enacted laws or regulation which further the Network goals.

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Presentation Outline

- Technical Orientation
- Welcome

- Lessons, Impacts and Financial Analysis

  Lilian Brislen & Dr. Timothy Woods
  University of Kentucky

- Reflections from an Investor
- Questions and Answers
- Upcoming Opportunities, etc.
Once upon a time in Louisville...

Four farmers and a vision
Post Tobacco buy out (transition)
Recipient of National (VAPG), state, and philanthropic funds
Operated for almost 7 years, then closed doors suddenly in December of 2013
About this study

A mixed methods, interdisciplinary study to document the lessons learned and lasting impacts of Grasshoppers Distribution

Identify management, financial, marketing, agency/partnership patterns that could have contributed to the eventual failure of Grasshoppers

Develop recommendations and best practices for future initiatives based on findings
Study Methods

Collaboration between Rural Sociology and Agricultural Economists

Financial Analysis
- Ratio analysis
- Liquidity
- Solvency

Qualitative analysis
- Focus groups with former producers and customers
- Interviews with former staff and owners
- Content analysis of business plans and loan documents
About Grasshoppers

Warehouse location in west Louisville

Wholesale, CSA, A La Carte, Value added & Institutional sales

Worked with over 70 different producers

Producer Development

Customer Education
Projected and Actual Sales
Lessons Learned & Lasting Impact
“When Grasshoppers was closing down, it seemed like there were a lot of farmers kind of where we were... developing their business, and who really wanted to get into moving a larger volume of product. Grasshoppers was a stepping stone for that.”

- FORMER SUPPLIER
Lesson Learned:
The value of expertise and sufficient infrastructure in getting started

Learning by doing
Finding and retaining experienced staff
Burn out and turnover

Logistics, Quality Control, and Infrastructure
70 farmers, upwards of 1,400 individual customers, and 34 drop-off locations
Comprehensive Cold Chain Management
Lasting Impact:

Great improvements in logistics and quality control on farm and at Grasshoppers

Focus on front end fundraising for new initiatives
Lesson Learned:
Clear plans and metrics help guide development decisions

Many businesses to manage

Metrics let you know if what you're doing is working

Accurate assessment of supply and demand
“[Institutional sales] motivated us to find larger growers. It was difficult... We had a hard time finding producers that were experienced at growing at the volumes that we needed to for certain crops.”

- FORMER EMPLOYEE
Lasting Impact

Partnerships and expanded capacity for local value adding businesses.

Strategic efforts by statewide collaborative to look at value chain facilitation

New efforts in state have support of University of Kentucky in supply and demand analysis
Lesson Learned:
Focus on core competence and value proposition, and let the business’s success be the help

What does “Helping Small Farmers” look like in practice?

Quality control and standards
Pricing
Avoiding Competition with Farmers
“The [farmers] markets can be a real gamble, and it’s really nice to have an upfront contract relationship with somebody that you feel is dependable.”

- FORMER SUPPLIER
Lesson Learned:
Food Hubs need support from other organizations to help develop producers, consumer demand, and infrastructure

Production Transition and Capacity Building

Lack of distribution and processing infrastructure

Tension between standardized wholesale product aggregation and specialty or diversified production
Lasting Impact

Kentucky producers are now more ready to enter the wholesale market.

Expanded consumer awareness and understanding of the regional food system

Changes in institutional procurement practices
“I think [Grasshoppers] lacked experience in what we have to do. We would try to teach them ... It was a learning experience [for us] as well. It’s like two people trying to learn and teach each other at the same time while trying to make a profit.”

-FORMER INSTITUTIONAL CUSTOMER
Summary

The complexity of starting up and operating a wholesale and retail local food enterprise cannot be overstated.

Food Hubs cannot be a cure all for the regional food system – it takes the whole community of policy makers, service providers, and funders.

Both hard (built) and soft (knowledge) infrastructure are key.

Clearly defined goals and metrics can help keep the food hub on track.
Financial Analysis
Accounting forensics – looking for patterns in financial health

Own quarterly income statements, balance sheets

Liquidity, solvency, efficiency, profitability

Benchmark with (1) NGFN Food Hub Financials, (2) small produce wholesalers in SE U.S. (SEPW)
GH Current Ratio vs 5 yr. Produce Wholesaler Industry Average & NGFN 2012 Food Hubs
Debt to Asset Ratio (GH vs SE Produce Wholesalers) $ debt for each $1 of assets
Sales to Total Assets, Fixed Assets ($sales per $1 total or fixed assets)
Grasshoppers Sales to Labor Expense ($ sales per $1 in labor expense)
### Sales per FTE Employee for Grasshoppers

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales per FTE Employee</th>
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<tbody>
<tr>
<td>2007</td>
<td>$8,009-$11,442</td>
</tr>
<tr>
<td>2008</td>
<td>$60,230-$86,042</td>
</tr>
<tr>
<td>2009</td>
<td>$97,240-$138,915</td>
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<tr>
<td>2010</td>
<td>$110,206-$157,437</td>
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<tr>
<td>2011</td>
<td>$178,843-$255,491</td>
</tr>
<tr>
<td>2012</td>
<td>$182,959-$261,371</td>
</tr>
<tr>
<td>2013</td>
<td>$192,611-$275,159</td>
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### Income to Sales Ratios for Grasshoppers, 2007-2013

<table>
<thead>
<tr>
<th>Year</th>
<th>EBITDA</th>
<th>Net Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>-181.2%</td>
<td>28.9%</td>
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<tr>
<td>2008</td>
<td>-36.0%</td>
<td>16.1%</td>
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<tr>
<td>2009</td>
<td>-25.4%</td>
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<td>-8.8%</td>
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<td>-6.4%</td>
<td>-7.1%</td>
</tr>
<tr>
<td>2012</td>
<td>-18.7%</td>
<td>-6.5%</td>
</tr>
<tr>
<td>2013</td>
<td>-13.5%</td>
<td>-10.4%</td>
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</tbody>
</table>
Gross Margin (Grasshoppers vs SEPW and NFGN Hubs)
Recommendations
Sound Plans are Key to Success

Thoughtful assessment of existing supply, demand, and infrastructure

Invest in expert management staff

Recruit a robust and balanced board of directors
…Especially financial plans and metrics

Sufficient upfront fundraising

Be careful about debt and control

Need to conservatively plan for the operating costs as producer prices and margins are set

Establish and monitor clear metrics coupled with defined targets and timelines for conservative growth
A Successful Food Hub is Help Enough

Avoid the siren song of mission creep

Identify a strategic and parsimonious set of core services that address the highest needs within the particular regional context

The greatest opportunity Grasshoppers provided for producers was serving as a reliable and high-volume buyer
A Food Hub, Not an Island

Wholesale production requires a new mindset and production regime.

Food hubs need an integrated system of support.

Development or educational activities should be conceived of as a separate business line and managed accordingly.
Thank You

LEE MEYER, NATHAN ROUTT, WALLACE CENTER, NATIONAL GOOD FOOD NETWORK, UK DEPARTMENT OF SOCIOLOGY, DR. LORRAINE GARKOVICH
Presentation Outline

- Technical Orientation
- Welcome
- Lessons, Impacts and Financial Analysis

- Reflections from an Investor
  
  Malini Ram Moraghan

  formerly of Wholesome Wave
  (now of FairAcre Traders)

- Questions and Answers
- Upcoming Opportunities, etc.
Reflections and advice from a food hub investor
All food hub investments will not succeed, but most all will contribute to building the sector

GHOP may be closed, but it left a wake of enhanced small farms equipped and ready for growing markets

- Farmers **added acreage** attributable to GHOP (96 acres, 2013)
- Over 30% received training and assistance from GHOP, primarily crop planning and food safety training
- Over 50% agreed GHOP was a “**critical outlet that helped my farm expand into new markets**”
- Farmers **adopted more sustainable growing methods and explored new growing methods** because GHOP provided market liquidity, and program support (reduced farm’s risk to try something new)
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TOPICS!

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3rd Thursday of each month
3:30p EST (12:30p PST)

http://ngfn.org/webinars

- Mar 19: The Millions Dollar Question: Food Hub Breakeven Points
USDA Local Food Directories

- **Was**
  - Farmers Markets
- **Now adds:**
  - CSAs
  - On-Farm Markets
  - Food Hubs
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