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FOOD HUB BUSINESS ASSESSMENT TOOLKIT

Wholesome Wave | March 2014



Founded on the principle that people of all socio-economic levels want to feed their families well, Wholesome Wave works to increase access to affordable, healthy locally grown food in ways that improve health, benefit small and mid-sized farms, and generate significant impact on local economies. Today, Wholesome Wave works in 28 states and the District of Columbia in an effort to create a more equitable and sustainable food system.

Wholesome Wave's Healthy Food Commerce Investments division directs capital and business development assistance to food hubs in order to expand the channels for local food so farms can more reliably, safely, and efficiently sell product within their region to wholesale buyers and institutions such as hospitals, schools, and large dining outlets.

After two years of work, during which time the Investments team collected best practices, critical data, and developed and refined our expertise, we have put together the Food Hub Business Assessment Toolkit. The toolkit is an empirical tool for investors and food hubs alike to utilize in the process of evaluating a food hub business' readiness for investment. It is our hope that this assessment toolkit will help investors feel thoroughly prepared to make an investment in a food hub and, likewise, will assist food hubs in ensuring that their business is ready for investment.

None of this important and meaningful work would be possible without our valued funders, which include private foundations, government agencies, like-minded corporations, and individual donors. We are proud and humbled to say that these relationships have brought far more than just financial support and we are deeply thankful to each and every one for their generous support.

We hope that this toolkit is of great value to you. Should you have any questions or comments, please contact us at investments@wholesomewave.org or (203) 226-1112.

A handwritten signature in black ink, appearing to read "Malini Ram Moraghan".

Malini Ram Moraghan
Managing Director
Healthy Food Commerce Investments

A handwritten signature in black ink, appearing to read "Darrow Vanderburgh-Wertz".

Darrow Vanderburgh-Wertz
Portfolio Manager
Healthy Food Commerce Investments

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RESOURCES

The following is a list of resources that are referenced and summarized throughout this toolkit. Resources developed by Wholesome Wave are available for download at www.wholesomewave.org/hfcibusinessassessmenttoolkit. Additional and updated resources will be added to the website, so please check back for the latest. For resources created by other organizations, links are provided in the body of this document along with a summary of their contents.

SCREENING & ASSESSING BUSINESSES

- **Tool:** Food hub business assessment worksheet – Wholesome Wave
- **Guide:** Food hub activity classification – Wholesome Wave
- **Example:** Screening checklist – Wholesome Wave
- **Example:** Screening Criteria – RSF Social Finance
- **Example:** Screening Criteria – Greenmont Capital Partners
- **Tool:** Interview and site visit guides – Wholesome Wave
- **Example:** Why Self-Help financed Eastern Carolina Organics – Wholesome Wave

BUSINESS MODEL

- **Guide:** Business Model Generation Guide – Entrepreneurs Collective
- **Tool:** Food Desert Status Map – USDA
- **Tool:** Low Supermarket Access Areas and Food Hub Locator on Policy Map – The Reinvestment Fund
- **Example:** Economic Multipliers Literature Review – Urban Sustainability Directors Network
- **Example:** Assessing the Economic Impacts of Regional Food Hubs: The Case of Regional Access – Cornell

MARKET OVERVIEW

- **Tool:** Local MarketSizer – New Venture Advisors
- **Guide:** Market sizing and segmentations and sales pipeline development guide – Wholesome Wave
- **Example:** Competitor comparison chart – Wholesome Wave

MARKETING AND SALES

- **Guide:** Marketing 101 Manual – Community Involved in Sustaining Agriculture
- **Example:** Price comparison chart – Wholesome Wave
- **Guide:** Positioning: Who is our customer? – Feeding 10 Billion

OPERATIONS

- **Guide:** Metrics for evaluating efficient use of physical resources – Wholesome Wave
- **Guide:** Considerations for owning versus leasing physical resources – Wholesome Wave
- **Example:** Produce Transportation Best Practices – North American Produce Transportation Working Group
- **Example:** Produce Vendor Guide – Wegmans Organization and Management

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- **Example:** Organization chart – Wholesome Wave

RISK MITIGATION

- **Guide:** Applicable Food Business Regulations – Food and Drug Administration
- **Guide:** Risk Management Planning Guide – Northwest Farm Credit Services

TECHNOLOGY & SYSTEMS

- **Guide:** Technology and systems review guide – Wholesome Wave
- **Example:** Goods-to-Person Order Fulfillment – Dematic

FINANCES

- **Guide:** Financial Statements Explained – Merrill Lynch
- **Template:** Cash Flow Worksheet – Farm Credit
- **Guide:** Issue Briefs – ImpactAssets
- **Guide:** Understanding Key Financial Ratios for Agricultural Businesses – Northwest Farm Credit Services

INTRODUCTION

Wholesome Wave is a national 501(c)3 organization dedicated to making affordable, healthy, locally grown fruits and vegetables available to all people, regardless of income, while also supporting small and mid-size farms. Wholesome Wave partners with direct-to-consumer markets, community leaders, healthcare providers, like-minded nonprofits, and government entities to implement programs that benefit both consumers in underserved communities and the farmers who provide for them.

Wholesome Wave's Healthy Food Commerce Investments division strengthens regional food systems by catalyzing the development of regional infrastructure. The Investments team directs capital and business development assistance to food aggregation, distribution, and processing enterprises, also referred to as "food hubs." It is our goal to expand the channels for local food so farms can more reliably, safely, and efficiently sell product within their region to wholesale buyers and institutions like hospitals, schools, and large dining outlets.

While consumer demand for locally grown food has exploded, consistent and simple local sourcing remains problematic for wholesale and institutional buyers, partly due to challenges with marketing, logistics, and distribution. Across the country, a wave of entrepreneurs has emerged to tackle these challenges, launching farm-centric commercial aggregation, distribution, and processing businesses that aim to make local and regional food sourcing easy while improving producer livelihoods and increasing access to healthy food. Wholesome Wave Investments is focused on directing debt and equity capital as well as business development assistance to these enterprises. When managed effectively, these food hub enterprises have the potential to be viable businesses that efficiently connect rural production with urban and rural demand. The outcome of such commerce drives regional economic activity, raises farm incomes, and preserves farmland acreage.

As Wholesome Wave Investments has worked with food hubs across the country, we have developed a framework for assessing a food hub enterprise for its strengths and weaknesses. In our work with investors, we have



Image courtesy of Richard Howard

realized that some do not have the experience with food enterprises to know how to evaluate the business fundamentals of a food hub. On the other end, many food hubs do not know how to assess their business to ready themselves for investment. To help ease the path to informed investment in regional food system infrastructure, we have compiled our business assessment system along with available data on food hubs and the conventional food aggregation, distribution, and processing sectors into this Food Hub Business Assessment Toolkit.

Sources

In addition to Wholesome Wave's experience, we have drawn on a number of sources to flesh out this Toolkit. Michigan State University's Center for Regional Food Systems, in collaboration with the Wallace Center at Winrock International and the National Good Food Network, conducted a 2013 National Food Hub Survey. This survey provides the closest to industry-wide data that the food hub sector has and serves as context for food hub business assessment. This data, along with financial data on the conventional produce aggregation, distribution, and processing sector from First Research Reports provide points of comparison for the food hub under evaluation. In addition to referencing these studies, Wholesome Wave conducted interviews with investors experienced with financing food hubs. Their experiences provide real-world examples on which to peg the toolkit's guidance. These and additional sources are referenced in the footnotes throughout the toolkit.

Acknowledgements

We are very grateful to the individuals that provided insightful feedback on a draft of this toolkit. Thank you to the following reviewers (in alphabetical order): Jim Barham (USDA–Agricultural Marketing Service), Jerry Cosgrove (New World Foundation) Kate Danaher (RSF Social Finance), Jeff Farbman (Wallace Center at Winrock International), Noah Fulmer (LocalOrbit), Jennifer Grossman (Natural Resources Defense Council), Gray Harris (CEI), Carol Pickering (Deitel Partners), Jeff Rosen (Solidago Foundation), Steve Saltzman (Self-Help), and Daniel Wallace (CEI).

We would also like to acknowledge and thank Raphael Leonard, Wholesome Wave's Food and Farm Fellow, for his contributions to the toolkit. We are also grateful to Samantha Bertini for her creative efforts in designing this toolkit.

Thank you also to our funders. We greatly appreciate the generous support of USDA Rural Development, Economic Development Administration, Newman's Own Foundation, Betsy and Jesse Fink Foundation, John Merck Fund, and Henry P. Kendall Foundation.

HOW TO USE THIS TOOLKIT

Business assessment is part of a process

Wholesome Wave has developed a three-part process (**Screening, Assessment, Engagement**) for exploring and assessing food hubs for possible investment and then working with the food hub to engage investors. This toolkit deals in depth with the assessment phase of Wholesome Wave's process, but we have provided a brief summary of the full process to understand the context in which this toolkit fits.

The first part of working with a food hub is **screening the business**. This occurs by reviewing a business plan (if it exists) and/or a phone call with the food hub operator. The screening is intended as a quick means for identifying – among the many aggregators, distributors, processors, and food hub projects – the food infrastructure businesses that are mission-aligned, market facing, and have strong leadership.

With the information we gather from the screening phase, Wholesome Wave begins the **in-depth assessment** described in this toolkit. The areas that we assess include:

- Business model and strategy
- Impact potential: social, environmental, and economic
- Market overview
- Marketing and sales
- Operations
- Organization and management
- Risk mitigation
- Technology and systems
- Finances

Using the information laid out in **this toolkit to assess a food hub does not provide Wholesome Wave with a simple yes or no answer** as to whether or not a food hub is investment ready. Doing this assessment or portions of this assessment provides us with a discussion piece that we use to deliberate the strengths and weaknesses of a business and understand where we need more information.

With the assessment phase under way, we often begin to **engage potential investors**. Wholesome Wave or the food hub shares the business plan or investor pitch the

that has been prepared, along with the assessment we have undertaken up to that point, with investors in our network that we think may be interested and with investors the food hub entrepreneur is approaching. In an iterative process, investors provide feedback and ask questions and Wholesome Wave works with the food hub operator to answer these questions. This allows us to deepen our assessment of the business and allows us to share a more thorough assessment with investors.

While Wholesome Wave's process has three main parts, the **components are not perfectly linear or distinctive**. In reality, the components all **build off of one another, sometimes overlapping, and are often iterative**.

Guide to the toolkit

Audiences for the toolkit

This toolkit is intended for use by several audiences: experienced impact investors who are new to food hubs, food system funders that may be exploring debt and equity investing, policymakers, individuals or groups considering or undertaking the development of a food hub, and food hubs considering financing for expansion.

For **experienced lenders and investors**, the toolkit provides information about what to look for when considering an investment in a food hub. It provides a framework for assessment adapted specifically to this emerging sector, along with examples and benchmarks to which investors can compare the food hub under evaluation.

For **food systems funders and program-related investors**, this toolkit provides a good starting place for digging into the business fundamentals of a food hub. It does not, however, teach a business the art and science of deal development and structuring for debt and equity investments. If a funder is inexperienced with investing, it is advisable to partner with an experienced investor or lender.

This toolkit offers **policymakers and government officials** a tool they can use to coach and guide the development of food hubs in their jurisdictions. Many communities are considering starting food hubs and this toolkit provides public officials an overview of the key components of food hubs.

For **food hub developers or operators and food hub technical assistance providers/consultants**, this toolkit can serve as a guide for conducting a self-assessment. The toolkit provides some guideposts that individuals or organizations considering starting food hubs can use to think about their business planning. In the case of food hubs considering expansion, operators can use this toolkit as a means for preparing to seek investment. Conducting a self-assessment can serve as means for understanding whether and what type of capital a food hub should be seeking. Following the framework presented here, a food hub can collect data that will equip them with the ability to answer questions from investors about their business. In addition, knowing what a potential investor may be looking for can help a food hub operator assess whether or not that investor is a good fit for the business.

Scope of the Toolkit

This toolkit is not a prescription for how to conduct a business assessment of a food hub, but rather it is a framework from which users can build their own practices for how to approach business assessment. As you use this toolkit, please keep in mind:

- It is not necessary that you conduct your analysis in the order presented here or that you complete all sections of the toolkit.
- You will be able to assess some elements in each section simply through a phone call with the entrepreneur while others will take research and analysis.
- This toolkit addresses an assessment of business fundamentals not legal due diligence.
- Wholesome Wave does not consider this toolkit the authoritative source for food hub business assessment – it is simply a guide based on our (and others’) experiences.

- In that same vein, using this toolkit to guide your business assessment will not provide a yes or no answer to whether or not you should invest in a food hub or whether or not your food hub is ready to take on investment. Rather, the assessment process gives you a set of valuations by which to judge if and how you may invest in the food hub enterprise or if and how your food hub should pursue capital.
- The toolkit should be used in conjunction with your own organization’s goals and criteria.
- Think of the toolkit as a jumping off point – we strongly encourage you to modify the toolkit to meet your own needs and circumstances.
- As you modify the toolkit and adapt it to your purposes, we would love to know how you are using it. As the toolkit is based on our experiences, it is an ever evolving document that we intend to adapt based on others’ experiences. Please let us know if and how it’s helping you create change in the food system.

While this toolkit provides a structure for assessing food hubs, it should be noted that food hubs are diverse in their forms and functions and it is not appropriate to use this framework for all kinds of food hubs. This toolkit was written with aggregation, distribution, and processing food hubs in mind. For example, meat processing food hubs face very different regulations and are often operationally different. While this toolkit is adaptable, it is not best suited to assessing meat processing food hubs.

Content of the Toolkit

In a broad overview, to conduct an assessment, the investor or food hub operator gathers data in each of the following areas, analyzes the data, and assesses the results against the provided benchmarks and examples as well as his or her own experience and knowledge. Each of the below sections in the toolkit includes a brief definition and summary of related resources followed by a table outlining the data and analysis necessary for each subtopic with examples and context to guide your judgment.



BUSINESS MODEL & STRATEGY

Business justification, revenue generation mechanism, value proposition, competitive advantage



IMPACT POTENTIAL

Social, environmental, and economic impact potential



MARKET OVERVIEW

Market size and growth, key customer segments, competitive environment, regulatory climate, trends and other market influences



MARKETING & SALES

Target customers, customer and supplier value proposition, customer acquisition plan, product and service description, pricing strategy, go-to-market strategy



OPERATIONS

Core activities, use of physical resources, supplier and product mix, supplier management, processes and procedures, legal and regulatory compliance



ORGANIZATION & MANAGEMENT

Organizational structure, CEO/Executive Director, senior management, staff, staff training and development, board, board governance, professional services, special relationships and resources, support network



RISK MITIGATION

Food safety, labor, supply, policy environment, liability and legal coverage



TECHNOLOGY & SYSTEMS

Technology and systems used for all aspects of operations including interactions with suppliers, customers, and employees and management of orders, delivery, accounting, inventory



FINANCES

Financial literacy, overview of and metrics for income statement, overview of and metrics for balance sheet, overview of and metrics for cash flow statement

We created an Excel worksheet that is a simplified and editable version of the tables found in each of the above sections and is available for download in the resources that accompany this document.

Three ways for an investor or funder to use the toolkit

In using this toolkit as a basis for business assessment, there are three distinct approaches an investor or funder can take.

Express assessment

An investor may do an express assessment because of time or capacity constraints or as an initial step to determine whether more in-depth assessment is of interest. After screening to see if the business matches your goals, fill out the food hub business assessment worksheet to the extent possible with the information the business provides plus the information you can obtain through a brief interview with the entrepreneur. In the express assessment, you work from the information that the business provides without taking time to validate this information or conduct your own research. Then, use your own experience and knowledge along with the benchmarks provided to judge how well the enterprise addresses each of the elements of the toolkit. While not fully formed or backed by complete information, a quick assessment can give you a sense of the strengths and weaknesses of a business, along with gaps in information in each of the categories that this toolkit addresses.

In-house, in-depth assessment

An investor can use this toolkit along with his or her own criteria and goals to guide an in-depth assessment of a food hub business. Impact investors with more traditional structures, such as Community Development Financial Institutions (CDFIs), have their own underwriters who are responsible for business assessment and due diligence and, thus, already have a system for conducting an assessment in house and may use this toolkit as a source for food hub-specific factors to consider in their process. Others may prefer to do the research themselves as opposed to outsourcing the work of business assessment.

To gather the data required for this in-depth analysis, you will want to conduct interviews with the entrepreneurs and their employees, suppliers, customers, and competitors. A site visit is also important to understand how the business operates and can reveal positive or negative company dynamics that impact operations. In a thorough analysis, the investor will verify or validate information the business provides (such as information about pricing or

competitors) with independent research as well as gather additional data and conduct further analysis to develop a complete picture of the business and its environment.

Outsourced in-depth assessment

Some investors or funders will prefer to hire an experienced consultant with knowledge in the field to conduct a full assessment of a food hub they are considering for investment. Depending on the business, project scope, and time frame, Wholesome Wave may be available to provide such business assessment consulting services.

An outside assessor will undertake a very similar process to someone in-house. This consultant will conduct interviews, a site visit, research, and analysis to assess the qualities of the business along the dimensions laid out in this toolkit and others as appropriate to the investor's needs.

Three reasons for a food hub developer or operator to use the toolkit

Food hub developers or operators can use the toolkit to conduct their own assessment, work with a technical assistance provider or hire a consultant to do so. Food hubs may also conduct a more express or in-depth assessment depending on their purposes. A food hub developer or operator may use this toolkit for a number of reasons including food hub development, internal business planning, or preparation for recruiting investment.

Planning the development of a new food hub

As individuals or an organization are working on the development of a food hub, the questions asked in each of the sections can serve as guidance for what the developers should consider in their planning. The developers can use the toolkit to direct their research and planning efforts, filling out the food hub assessment worksheet as they solidify their plans. If questions remain unanswered or sections remain weak, this will indicate where a food hub developer needs to dedicate more time and resources. Using this toolkit completed, the food hub developer should be able to develop a business plan to put into action.

Internal business planning

A food hub already in operation can use this toolkit to conduct an internal assessment that can help guide business planning. With a completed assessment, a food hub operator will have a better idea of his or her business's strengths and weakness and be able to plan for building on strengths and fortifying weaknesses.

Preparing to seek investment

If a food hub knows that it needs to expand or needs capital to start up, a food hub operator can use this toolkit to understand what investors will look for when assessing their business. With the questions in this toolkit answered, the food hub operator will know where the food hub has strengths and weaknesses and be able to share those with investors. Being prepared in this manner will help give potential investors more confidence that the food hub operator deeply understands his or her own business and understands her capital needs.

RESOURCES

Resources developed by Wholesome Wave are available for download at www.wholsomewave.org/hfcibusinessassessmenttoolkit.

- **Food hub business assessment worksheet – Wholesome Wave**

This worksheet serves as an accompaniment to this toolkit for readers to use to record the data, analysis, and assessment of a food hub enterprise. Investors can fill in this worksheet as they evaluate ventures for their investment potential.

- **Food hub activity classification – Wholesome Wave**

This guide breaks out the different types of business activities that food hubs undertake. Entrepreneurs and investors can use this to understand how different business activities manifest in the enterprise's operations, revenue model, and financing needs. It should be noted that food hubs often undertake multiple activities.

- **Screening checklist – Wholesome Wave**

Wholesome Wave developed this tool for the early stages of interaction with a business to determine if the company matches Wholesome Wave's criteria. Investors may use this checklist as an example as they develop their own screening criteria for food hubs.

- **Screening Criteria – RSF Social Finance**

RSF Social Finance, a lender that issues debt to “transform the way the world works with money,” has a list of investment criteria it shares with potential borrowers. Investors may use this list as another example as they develop their own screening criteria for food hubs. The screening example can be found on RSF's website at <http://rsfsocialfinance.org/services/entrepreneurs/lending/>.

- **Screening Criteria – Greenmont Capital Partners**

Greenmont Capital Partners, a fund focused on equity investments in branded consumer products, uses a set of clear criteria to determine if a business fits Greenmont's goals. Investors may use this list as another example as they develop their own screening criteria for food hubs. This example can be found at <http://www.greenmontcapital.com/Criteria.html>.

- **Interview and site visit guide – Wholesome Wave**

Wholesome Wave prepared this list of questions to use in the process of screening and assessing a food hub. These were developed specifically for looking at aggregation and distribution businesses, but can be adapted for other kinds of food hub businesses.

- **Why Self-Help financed Eastern Carolina Organics – Wholesome Wave**

Based on an interview with Self-Help, Wholesome Wave summarized the factors that led to Self-Help providing financing for Eastern Carolina Organics to purchase a larger warehouse to support their expansion. This example of a CDFI financing a food hub provides a window into some of the things investors should be excited about and may find challenging when working with food hubs.

BACKGROUND

What are food hubs and what do they do?

Food hubs exist to strengthen regional food systems.

The term “food hub” emerged in the last decade to describe alternative food aggregation, distribution, and processing enterprises that began developing or expanding within regions across the country. These entities sought to fill gaps in infrastructure to move food from farms to consumers within the same region. The United States Department of Agriculture (USDA) has incorporated the concept of a food hub into its vision for and efforts to build strong regional food systems.

The USDA uses the following working definition for a food hub:

A regional 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.¹

To understand food hub businesses, it is important to know the context for and goals upon which food hub activity is based. The development of food hubs is ultimately about strengthening infrastructure for both the public good and private enterprise—food hubs are operated by private entities, but their assets are used by many, creating broader benefit. Food hubs support the development of regional food systems by connecting small-scale diversified agricultural production to wholesale and retail distribution. While each food hub’s goals are particular to its region, model, and context, **all food hubs create impact on the food system by promoting greater producer and supply diversity, supporting young and beginning farmers, building infrastructure and systems to make local food accessible to consumers and to make larger markets accessible to farmers, and stimulating economic growth.**



144,000 Pepper & Eggplant Plugs, CC Image courtesy of Suzie's Farm on Flickr

Food hubs promote greater producer and supply diversity.

Over the last century, agriculture production in the United States has become homogenous. We dedicate over 28 times more land to producing commodity crops (corn, soybeans, hay, wheat, cotton, sorghum, and rice) than growing fruits, vegetables, and nuts (also known as specialty crops in USDA parlance) combined; over 275.2 million acres in the US grow commodity crops while only 9.7 million acres are dedicated to specialty crops.² This homogeneity has serious environmental impacts and exposes us to a multitude of risks, including crop failure and food security risks. In order to properly steward our land resources and minimize risks, we need to diversify food production.

Overwhelming ecological and economic reasons drive the need to grow in a diversified manner.³

Crop diversity drives increased soil quality and reduced pest infestations, leading to a decrease in the need for fertilizers and pesticides that are harmful to the environment and to developing a more resilient food system.⁴ Switching from commodity production to growing more fruits and vegetables also presents an opportunity to drive economic growth, particularly in rural farming communities. A study from the Leopold Center for Sustainable Agriculture found that if the

¹Barham, James, et al, Regional Food Hub Resource Guide, USDA Agricultural Marketing Service. Washington, DC. April, 2012.

²USDA, 2007 Agricultural Census, Website. http://www.agcensus.usda.gov/Publications/2007/Online_Highlights/Fact_Sheets/Production/

³National Sustainable Agriculture Coalition, “Conservation, Energy, and the Environment”, Website. <http://sustainableagriculture.net/our-work/conservation-environment/>

⁴Iowa State University “Using biodiversity to link agricultural productivity with environmental quality:

Results from three field experiments in Iowa”, Website. http://lib.dr.iastate.edu/cgi/viewcontent.cgi?article=1656&context=abe_eng_pubs

farms in six Midwestern states increased their fruit and vegetable production to meet the needs of the region's cities, farm level sales would increase by an estimated \$882 million. This increased production would result in an estimated 250% increase in farm level jobs in the region.⁵ The increase in farm level jobs and farm production would also have a ripple effect throughout the food chain and the regional economy.

For the most part, the largest scale farms are dedicated to producing commodity crops. Diversified farms growing a number of fruits, vegetables, and animals tend to be small and mid-sized farms. **To increase the resilience of our agricultural sector, we must also increase the number and viability of small and mid-sized farms.** Mid-sized family farms are more flexible than large-scale farms, yet are large enough to produce necessary volume for food service and retail oriented companies.⁶ Strengthening small and mid-sized producers can also help maintain populations in rural communities, increasing their vitality.

Food hubs work with the small and mid-sized producers that grow diverse crops of fruits and vegetables, along with meat and other protein products. They create the infrastructure and information flows that connect diversified growers to the wholesale and consumer markets, building long-term relationships to mitigate risk. This increased market access and these strong relationships work to increase the sales volumes of food hub producers, helping to make diversified production for the regional market financially viable, and, ultimately, leaving the land more fertile for future generations.

Food hubs are growing the next generation of farmers.

According to the 2012 US Census of Agriculture, the average American farmer is 58 years old.⁷ Over 30% of farmers are over the age of 65⁸ compared with only 13.7% of the population nationally.⁹ With the farmer population

aging, supporting beginning farmers is critical to future agricultural production. Beginning farmers tend to be younger—63% of new farmers are below the age of 54, compared to only 28% of established farmers.¹⁰ Beginning farmers also tend to have smaller farms. On average, a beginning farm is 200 acres compared with 434 acres for established farms.¹¹ Young farmers on small and mid-sized farms not only need education and training, but also trading channels that are supportive and adaptable to their scale.¹²

Food hubs are perfectly positioned to support a new generation of farmers. Food hubs work with beginning farmers and the small and mid-sized farms that many young farmers operate. According to the 2013 Food Hub Survey, food hubs reported that on average, 47% of their supplier-producers had been in operation for less than 10 years.¹³ Food hubs create channels for small farms to access larger wholesale and institutional markets that they might not otherwise be able to access. By providing an outlet for their product and providing favorable pricing terms to farmers, food hubs help make farming a viable business for young and beginning farmers. They also provide crucial support services, such as assistance with crop planning, that help farmers adapt and scale for wholesale markets.

Food hubs provide the critical market access, income, and services to support young and beginning farmers as they learn to grow and expand.

⁵ Leopold Center for Sustainable Agriculture "Potential for increased fruit/vegetable production in the Midwest", Website. <http://www.leopold.iastate.edu/news/03-30-2010/leopold-center-studies-potential-increased-fruitvegetable-production-midwest>

⁶ Agriculture of the Middle, "Why worry about agriculture of the middle?", Website. <http://www.agofthemiddle.org/papers/whitepaper2.pdf>

⁷ Census of Agriculture, "Census Presentation: 2012 Census of Agriculture Preliminary Release." USDA. http://www.agcensus.usda.gov/Newsroom/2014/2012_Census_Preliminary_Results_PPT_FINAL.pdf

⁸ NPR Staff, "Rural America's 2010 Defied Economic Blues," Weekend Edition, NPR New, January 2, 2011 <http://www.npr.org/2011/01/02/132583023/-Rural-Americas-2010-Defied-Economic-Blues>

⁹ United States Census Bureau, "USA Quick Facts," website. <http://quickfacts.census.gov/qfd/states/00000.html>

¹⁰ ERS "Beginning Farmers & Age Distribution of Farmers" Website. <http://www.ers.usda.gov/topics/farm-economy/beginning-disadvantaged-farmers/beginning-farmers-age-distribution-of-farmers.aspx#.Up9Y9mRgY8h>

¹¹ ERS "Beginning Farmers & Age Distribution of Farmers" Website. <http://www.ers.usda.gov/topics/farm-economy/beginning-disadvantaged-farmers/beginning-farmers-age-distribution-of-farmers.aspx#.Up9Y9mRgY8h>

¹² ERS "Beginning Farmers and Ranchers", Website. http://www.ers.usda.gov/media/156049/eib53_1_.pdf

¹³ 2013 National Food Hub Survey, 15.

Food hubs build the infrastructure and systems to make local food accessible to consumers and to make larger markets accessible to farmers.

Reflecting the shift in consumer preferences towards local food, the number of farmers markets in the United States has grown from about 2,750 in 1998 to over 8,100 in 2013.¹⁴ While farmers markets have expanded, direct-to-consumer food marketing sales reflect less than one percent (0.8%) of all agricultural sales (excluding non-edible crops).¹⁵ This low percentage is not for lack of demand for local food—in fact, demand for local product is quite high. Market research found that over 47% of grocery shoppers want to see a greater selection of local foods more often¹⁶ and 52% of consumers deem it more important to buy local than organic products.¹⁷ On the institutional side, hospitals and universities are actively pursuing the purchase of more locally grown food.¹⁸

Demand for local food continues to surpass available supply through more common consumption channels (retail grocery, institutional food service, etc). Built to be big and transnational, the infrastructure for the conventional supply chain is not sufficiently responding to soaring demand. Right-sized and adaptable aggregation, distribution, and processing infrastructure stands as a barrier to sourcing locally and regionally. It is too time consuming and inefficient for larger wholesale customers to source directly from many small and mid-sized regional farms and, on the other side, small farms do not have the systems and are unable to market effectively to, or efficiently engage, institutional systems.

Food hubs are stepping in to help farmers meet the growing demand for local food products. By aggregating, processing, and distributing regionally grown food, food hubs provide the crucial missing link between small and mid-sized regional farms and larger regional wholesale and institutional customers.

Food hubs stimulate the economy.

With a still-struggling economy, businesses that create jobs and stimulate economic growth are ever important. As small businesses, food hubs create jobs and sustain the economy. Nationally, small businesses account for 60-80% of all new job growth¹⁹ and make up 45-50% of US non-farm GDP.²⁰ In median, 2013 Food Hub Survey respondents employed 3 full-time, 2 part-time, and 1 seasonal employee. On average, food hubs with over \$1 million revenue had more than 7 employees.²¹

Food hubs not only employ people directly, but their spending with farmers has broader economic impact. Many farmers that work with food hubs report increases in revenue as food hubs expand market channels and provide pricing terms to farmers. With food hubs allowing them to focus on farming (rather than marketing and distribution), some producers also report being able to expand acreage and production. By bolstering farmers' incomes, food hubs help contribute to revitalizing farming communities. A recent study quantified this economic impact of food hubs and found that for every additional \$1 in final demand for products from Regional Access, a food hub based in upstate New York, an additional \$0.63 is generated in related industries.²² As this study demonstrates, food hubs' activities have a ripple effect throughout their communities, boosting local economic activity.

By building infrastructure that connects regional producers with regional consumers, food hubs make our food system stronger, safer, and more resilient.

¹⁴ USDA Agricultural Marketing Service, "National Count of Farmers Market Directory Listings," website. <http://www.ams.usda.gov/AMSV1.0/ams.fetchTemplateData.do?template=TemplateS&navID=WholesaleandFarmersMarkets&leftNav=WholesaleandFarmersMarkets&page=WFMFarmersMarketGrowth&description=Farmers%20Market%20Growth&acct=frmrdirmtk>

¹⁵ USDA, AMS, "Facts on Direct-to-Consumer Food Marketing,." Available at <http://www.ams.usda.gov/AMSV1.0/getfile?dDocName=STELPRDC5076729>

¹⁶ Mintel "Shopping for groceries - US - July 2012".

¹⁷ Mintel "Local produce edging out organic in terms of consumer importance", website. http://www.fastcasual.com/article_print/192085/Mintel-Local-produce-edging-out-organic-in-terms-of-consumer-importance

¹⁸ NGFN "Common Market Feasibility Study" Page 66.

¹⁹ Small Business Association "The Role of Small Business in Economic Development of the United States".

²⁰ Small Business Association "Small Business GDP: Update 2002-2010".

²¹ 2013 National Food Hub Survey, page 12.

²² Schmit, T.M., B.B.R. Jablonski, and D. Kay. 2013. "Assessing the Economic Impacts of Regional Food Hubs: the Case of Regional Access." Cornell University. September. <<http://dx.doi.org/10.9752/MS145.09-2013>>

What are the different types of food hubs?

While food hubs are distinguished by their larger purpose of strengthening regional food systems, they can also be defined by the types of business activities they undertake and how those manifest in their operations. Wholesome Wave groups food hub business activities into five categories: **first-mile aggregation, last-mile distribution, retail or diversified markets, processing for convenience, and processing for preservation.** These activities, as defined below, are not mutually exclusive and many food hubs include more than one in their operations. It should also be noted that some food hubs broker these activities rather than undertake them directly.



FIRST-MILE AGGREGATION

The food hub works directly with producers to aggregate and store different products (fruit, vegetables, dairy, meat, etc) from multiple farms to one or more centralized locations.



LAST-MILE DISTRIBUTION

The food hub stores and transports products to end customers (i.e. restaurants, schools, hospitals, individuals, etc).



RETAIL OR DIVERSIFIED MARKETS

The food hub engages in a variety of activities that can include wholesale, retail, real estate rental, and educational activities. This category also includes "community retail hubs" that sell product to end consumers through retail outlets, online grocery sales, and CSA-style farm share boxes, among others.



PROCESSING FOR CONVENIENCE

The food hub processes fruits and vegetables to make them more convenient for the end customer. Often called "light processing," processing for convenience includes washing, peeling, chopping, and/or bagging. This category of activity can also include preparation of meals through a commissary as well as slaughtering and butchering. However, please note that because of the distinct regulatory requirements, meat processor food hubs are not a focus of this toolkit.



PROCESSING FOR PRESERVATION

The food hub processes food to a shelf-stable or frozen condition. Heavy processing for preservation includes canning, pickling, jam-making, among many others. Making charcuterie and other preserved meats also fit into this category of activity. However, again, meat processing is not a focus of this toolkit.

The following table explains how a food hub's activities may manifest in its revenue model, marketing, operations, human resources, risk management, and technology and financing needs.

HOW A FOOD HUB'S TYPE OF ACTIVITIES MANIFEST IN ITS BUSINESS

	 First-mile aggregation	 Last-mile distribution	 Retail or diversified markets	 Processing for convenience	 Processing for preservation
SCOPE	<ul style="list-style-type: none"> From harvest to start of cold-chain 	<ul style="list-style-type: none"> From cold-chain to wholesale customer 	<ul style="list-style-type: none"> From cold-chain to end-consumer 	<ul style="list-style-type: none"> Fresh prep processing Close to end customer 	<ul style="list-style-type: none"> Process to store and preserve Close to producer
REVENUE MODEL	<ul style="list-style-type: none"> Fee for service Price per unit % of sale 	<ul style="list-style-type: none"> % of sale Commission 	<ul style="list-style-type: none"> Price per unit Commission % markup 	<ul style="list-style-type: none"> Fee for service Price per unit 	<ul style="list-style-type: none"> Fee for service / facility rental Price per unit
MARKETING	<ul style="list-style-type: none"> Driven by quality, variety, volume/throughput Distributor facing 	<ul style="list-style-type: none"> Driven by pricing quality, availability, variety Wholesale customer facing 	<ul style="list-style-type: none"> Driven by consumer traffic and distribution dynamics Consumer facing 	<ul style="list-style-type: none"> Driven by format, brand promotion, availability Wholesale customer facing 	<ul style="list-style-type: none"> Driven by format, quality, availability Distributor and wholesale customer facing
OPERATIONS	<ul style="list-style-type: none"> Labor intensive Capital intensive Includes pack houses, multi-farm storage 	<ul style="list-style-type: none"> Capital intensive Focused on warehousing, order fulfillment, logistics, and delivery Need for efficiency in processes 	<ul style="list-style-type: none"> Labor intensive Capital intensive Combines retail marketing with wholesale brokering 	<ul style="list-style-type: none"> Labor intensive Focused on fresh meals, wash and chop, ready-to-use for customer 	<ul style="list-style-type: none"> Capital intensive Focused on freezing, canning, heavy processing Need for efficient use of equipment
HUMAN RESOURCES	<ul style="list-style-type: none"> Seasonal Semi-skilled: grading Skilled: producer management 	<ul style="list-style-type: none"> Seasonal Skilled: sales, warehouse, logistics, quality assurance 	<ul style="list-style-type: none"> Semi-skilled Skilled Need skill sets to manage both retail and wholesale operations 	<ul style="list-style-type: none"> Semi-skilled: food service labor Skilled: sales; in meat processing, slaughtering and butchering 	<ul style="list-style-type: none"> Semi-skilled: food manufacturing labor Skilled: sales, supplied management, customer management
RISK MANAGEMENT	<ul style="list-style-type: none"> Food safety: field handling, packing Agricultural risks: weather, labor management 	<ul style="list-style-type: none"> Food safety: traceability, cold-chain Supply interruption 	<ul style="list-style-type: none"> Food safety: traceability, cold-chain 	<ul style="list-style-type: none"> Food safety: traceability, processing, contamination 	<ul style="list-style-type: none"> Food safety: traceability, processing, contamination
TECHNOLOGY	<ul style="list-style-type: none"> Manage suppliers Manage cold-chain Manage inventory Manage payments to farmers 	<ul style="list-style-type: none"> Manage wholesale customers Manage cold-chain Manage inventory Manage payments to suppliers 	<ul style="list-style-type: none"> Manage retail customers Manage inventory Manage payments to suppliers 	<ul style="list-style-type: none"> Manage wholesale customers Manage payments to suppliers Product preparation and processing flow 	<ul style="list-style-type: none"> Manage payments Product processing flow
FINANCES	<ul style="list-style-type: none"> Working capital financing Equipment financing 	<ul style="list-style-type: none"> Working capital financing Facility financing Company should target rapid inventory turnover 	<ul style="list-style-type: none"> Working capital financing Facility financing Should target rapid inventory turnover, retail metrics 	<ul style="list-style-type: none"> Working capital financing Equipment financing Should target low inventory turnover, notable receivables 	<ul style="list-style-type: none"> Working capital financing Equipment financing

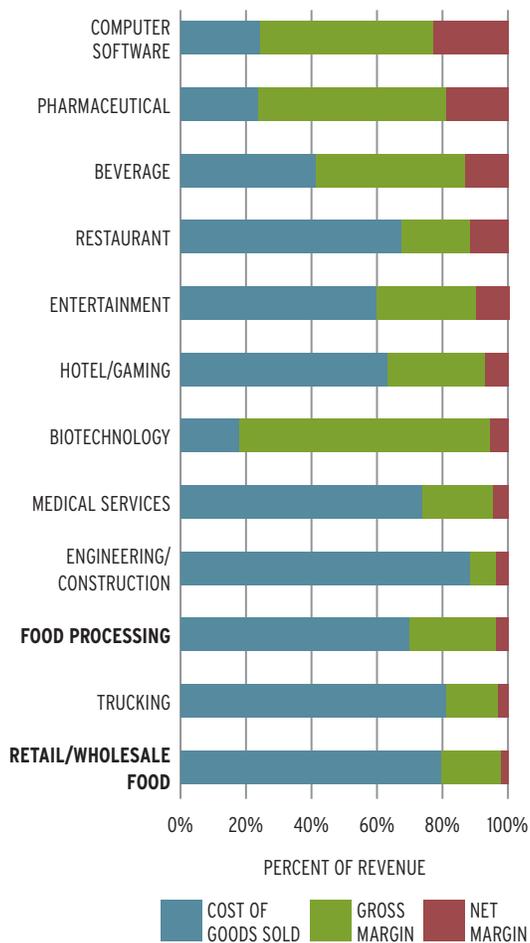
Food hubs require a different investment mindset.

Investing in food is not like investing in other sectors. As part of the food industry, food hubs face low margins that necessitate high volumes and efficiency to be successful. Because of these low margins, investors cannot expect a large payoff in a relatively short amount of time that would enable them to cash out quickly. Food sector investments have historically provided low but steady returns that grow as the business's volume grows. Demonstrating the context in which food hubs find themselves, the below chart²³ shows how the gross and net margins of the food processing and retail/wholesale food sector compare to other sectors. In addition, food hubs have the potential to provide strong social, environmental, and economic returns.

Industry Profile

Though food hubs' missions are novel, food hubs are taking shape amidst a large established industry – one that is important for food hub investors and operators to understand. This section provides an overview of the conventional produce aggregation and distribution sectors, the conventional fruit and vegetable processing sector, and the food hub sector and also explains how the conventional and food hub sectors are similar and how they differ in size and scope. Please note that many food hubs aggregate, distribute, and process meat, dairy, and other products in addition to produce. The conventional sectors discussed here provide general context no matter the product focus, but are not perfectly applicable to, for example, meat processing.

AVERAGE MARGINS BY INDUSTRY:
(Food sector has slim margins)



Conventional produce aggregation and distribution sector²⁴

Just in the fresh produce wholesale industry (NAICS code 42448) **the US has roughly 5,000 establishments** (some are sites of multi-location companies) **that generate about \$60 billion in annual revenue.** The industry is fragmented, with the 50 largest companies generating about 30 percent of industry revenue. It is also a capital-intensive industry (as opposed to labor-intensive) with average annual revenue per worker in the sector of about \$785,000. Large companies benefit from economies of scale in purchasing and transportation. Some wholesalers are even vertically integrated, also owning grocery stores or farms.

Distributors typically consolidate produce from national and international growers at warehouses where they repack (and sometimes lightly process) the produce and distribute it to regional customers via an owned or leased truck fleet. These warehouses range in size from 10,000 to 400,000 square feet and are entirely or partially climate-controlled to maintain produce freshness. The sector's main customers are food retailers and food service providers.

²³ Aswath Damodaran, "Margins by Sector: averages from 6,177 firms in Value Line database," New York University, January 2013. http://pages.stern.nyu.edu/~%20adamodar/New_Home_Page/datafile/margin.html

²⁴ The information from this section is based on First Research, "Industry Profile: Fresh Produce Wholesalers," November 21, 2011.

The **wholesale produce business has low profit margins – typically less than 2 percent of revenue.**

Because of the perishability of its products, wholesalers turn over inventory quickly, about 50 to 80 times per year. Days sales outstanding (the number of days it takes for the company to turn over its accounts receivables) averages 25 days.

Traditional fruit and vegetable processing sector²⁵

Fruit and vegetable processing (NAICS code 3114) is a **\$64 billion industry with about 1,300 companies.**

The industry is concentrated with the 50 largest companies (such as Del Monte, Heinz, JR Simplot, Ocean Spray, and divisions of ConAgra and General Mills) generating about 70% of the revenue. With many products considered commodities, the industry is subject to intense price competition, such that profitability is dependent on efficient operations and gaining economies of scale in purchasing and distribution. Processing is a capital-intensive industry with an average annual revenue per employee of \$375,000.

In the US, the largest processed crops are tomatoes, potatoes, and oranges. Other important products include corn, cucumbers, beans, grapefruits, apples, grapes, pineapples, peaches, jams and jellies, baby food, and soup. The two major types of operations are canning (60% of industry revenue) and freezing (40% of industry revenue). **Supplies are usually acquired through contracts with growers** that are typically one-year in length and specify the variety and quality of produce, a base price, and certain price adjustments. Because of their perishability, almost all tomatoes are grown under contract, while oranges and potatoes are often bought on the open market.

The production of any one processed product is dependent on when that produce item is available, thus most production takes place during the height of harvest season – June to October. To ensure the equipment is used efficiently, many facilities seek out contracts to process products for which the harvest

falls at different times throughout the year. For example, a facility might process strawberries in May and June, tomatoes in July and August, apples in September and October, and oranges in December and January. Processing facilities are typically located close to where most of a crop is grown. With over 90% of tomatoes grown in California, tomato processing is concentrated there. Potato processing is mostly done in Idaho and Washington, where 55% of the potato crop is grown, and Florida handles most of the orange juice processing.

While the **gross margins in fruit and vegetable processing are higher (around 22-24% as a percentage of sales)** than the produce wholesale sector (13-14%), **the profit margins are only slightly higher, hovering around 2%** as compared with around 1% for wholesalers.

Food hub sector

The National Good Food Network (NGFN) lists 230 organizations and businesses in its database of food hubs (available at <http://ngfn.org/resources/food-hubs/food-hubs#section-10>). Findings from the NGFN's 2013 National Food Hub Survey, which received responses from 107 food hubs, provide an overview of the industry in this section. While many food hubs work with farmers in rural areas, 75% of the food hub survey respondents were **located in metropolitan counties** (defined as counties with 250,000 or more people), presumably because they serve as an aggregation point closer to markets.²⁶

Most food hubs are young; about one-third of food hub respondents had been in operation for 2 years or fewer and another 30% had been in operation for 3 to 5 years. About 35% of food hubs had been in operation for over 10 years. Approximately half of food hubs were for-profit businesses, 34% non-profit organizations, and 13% cooperatives. Close to 90% of the food hubs operate year round.²⁷

²⁵ The information from this section is based on First Research, "Industry Profile: Fruit and Vegetable Processing," November 14, 2011.

²⁶ 2013 National Food Hub Survey, page 8.

²⁷ 2013 National Food Hub Survey, page 10, 11, 41.

²⁸ The large difference between the average and median among Food Hub Survey respondents indicates that the survey included a couple food hubs with large sales volumes and their responses skewed the average high.

On average, **food hubs had \$3.7 million in sales volume with the median sales among 2013 Food Hub Survey respondents being \$324,500.**²⁸ About 42% of food hubs had over \$500,000 in sales volume. The majority of food hubs are covering their expenses with little or no outside funding. That said, the average business efficiency ratio (total expenses divided by total revenue) was 1.09 (meaning expenses surpassed revenue), but the median was 1.00 (or break-even).²⁹

Key differences between conventional and food hub sectors

Beyond their size and reach, food hubs differ from the conventional sector in **four key ways: pricing, traceability, market access, and development services.** First, product pricing is more favorable for farmers. Because food hubs do not see farmers as interchangeable suppliers of commodities, pricing is more transparent and farmers often receive a larger cut of the wholesale price than they would with a conventional distributor. Food hubs create transparency not only in their pricing practices, but in the source of the products. As product moves into and through the food hub, the product remains associated with the farm that grew it and this information is shared with the customer. This traceability is distinct from the conventional food distribution industry, where the consumer may know at most the state of origin, but, often, only the country of origin. In addition, food hubs provide access to markets, such as institutional and wholesale markets, that small and mid-sized farmers would not otherwise be able to access. To do this, food hubs often provide development services to farmers, such as crop planning, season extension techniques, business management training, food safety training, among others.

When comparing information and metrics from conventional aggregators, distributors, and processors with food hubs, **one of the most important differences to keep in mind is seasonality.** Because most food hubs source much of their food locally, the availability of products – produce in particular – follows the seasons and

so will a food hub's income. For example, a conventional distributor may buy grapes from California in September and October and in January will buy grapes from Chile in order to always have grapes available for its customers. In contrast, a food hub based in North Carolina will be able to buy and sell scuppernong grapes in August, but will not have grapes available the rest of the year. Food hubs located in regions with cold winters may have very little local produce available for sale in January, February, and March. This seasonality is reflected in the food hub's monthly cash flow and affects annual metrics. To improve their financial outlook, many food hubs work to even out their cash flow by increasing sales of local and regional dairy, eggs, and meat, along with preserved fruits and vegetables that are available more consistently year-round. Some food hubs also sell non-local fresh produce during the months when local or regional produce is unavailable.

Unlike conventional distributors, food hubs explicitly aim to create positive economic, social, and environmental impact. This mission translates to the food hub creating real change among its suppliers and customers. Food hubs impact supplier-producers for one in myriad ways, from promoting adoption of more sustainable practices to improving farmer impact. The 2013 Food Hub Survey found over 60% of food hub respondents reported that some to all of their suppliers had adopted more sustainable production methods – a good indication that the food hubs are creating positive environmental impact. Around 70% of food hubs reported that some to all of their suppliers had extended their growing season and increased acreage – both of which suggest the economic impact of the food hubs. Also showing economic impact potential, close to 65% of food hubs reported that some to all of their suppliers had hired additional employees.³⁰ Quantifying the effects of such changes, a recent study found that every additional dollar in demand for Regional Access, a food hub in New York, generates \$0.63 in economic activity in related industries.³¹

²⁸ The large difference between the average and median among Food Hub Survey respondents indicates that the survey included a couple food hubs with large sales volumes and their responses skewed the average high.

²⁹ 2013 National Food Hub Survey, page 22.

³⁰ 2013 National Food Hub Survey, page 17.

³¹ Schmit, T.M., B.B.R. Jablonski, and D. Kay. 2013. "Assessing the Economic Impacts of Regional Food Hubs: the Case of Regional Access." Cornell University. September. <<http://dx.doi.org/10.9752/MS145.09-2013>>

SUMMARY COMPARISON: CONVENTIONAL & FOOD HUB SECTORS

	Traditional Produce Wholesaler	Traditional Produce Processors	Food Hubs
SUPPLIER TYPE	<ul style="list-style-type: none"> • Large • International • Conventional production 	<ul style="list-style-type: none"> • Large • International • Conventional production 	<ul style="list-style-type: none"> • Small and mid-sized • Regional • Diversified, sustainable production
PRICING	<ul style="list-style-type: none"> • Producer is price taker • Opaque pricing 	<ul style="list-style-type: none"> • Producer is price taker • Opaque pricing 	<ul style="list-style-type: none"> • Producer is favored in pricing or has some input into pricing • Transparent pricing throughout supply chain
SUPPLIER MANAGEMENT/ DEVELOPMENT	<ul style="list-style-type: none"> • Onus is on producer to meet standards 	<ul style="list-style-type: none"> • Onus is on producer to meet standards 	<ul style="list-style-type: none"> • Producer is supported in meeting standards and growing for wholesale markets
SALES VOLUME PER COMPANY	<ul style="list-style-type: none"> • \$12 million average 	<ul style="list-style-type: none"> • \$49 million average 	<ul style="list-style-type: none"> • \$3.7 million average³² • \$324,500 median
GROSS MARGIN	<ul style="list-style-type: none"> • 13-14% 	<ul style="list-style-type: none"> • 22-24% 	<ul style="list-style-type: none"> • Not available³³
PROFIT MARGIN	<ul style="list-style-type: none"> • 1% 	<ul style="list-style-type: none"> • 2% 	<ul style="list-style-type: none"> • Not available
WAREHOUSE SIZE	<ul style="list-style-type: none"> • 10,000-400,000 sq ft 	<ul style="list-style-type: none"> • --- 	<ul style="list-style-type: none"> • 4,000-50,000 sq ft

³² 2013 National Food Hub Survey, page 22.

³³ According to the 2013 National Food Hub Survey, page 24, food or product purchases, on average, were 61% of revenues, but this figure does not include cost of sales, so does not give a comparable Gross Margin comparison. It should also be noted that the Food Hub Benchmarking Study, conducted by the Farm Credit Council, Farm Credit East, Morse Marketing Connections, and the Wallace Center at Winrock International, estimated an average gross margin of 21% and a average profit margin of negative (3%). However due to a very limited sample size, the study lacked the statistical power to represent the food hub sector.

BUSINESS ASSESSMENT TOOLKIT



BUSINESS MODEL & STRATEGY

A food hub's business model and strategy explain the food hub's purpose, how it will make money, and why customers will pay for its services and products. Investors and food hub operators should have a clear understanding of what function the business serves and why it will be financially viable. Food hubs generally generate revenue by offering or brokering services that aggregate, pack, distribute, and/or process food. To understand a food hub's business model, gather information on the reason the business exists, the mechanism by which it generates revenue, the value it offers to customers and suppliers, and the advantage(s) it has over its competitors.

Food hubs need to understand what their business model is at its core. Because many food hubs aim to create impact, the core concept of their business model can be muddled by how it differs from the conventional food sector. For example, a distributor food hub will be better able to run its core operations if it understands that its business model is to move boxes of food—granted, those boxes may be filled with sustainably locally grown food that gives a fair price to farmers and is distributed into communities with poor access to healthy food. Understanding its core function will help a food hub become a lasting part of the infrastructure that supports a strong regional food system. The value that the food hub creates for its customers and suppliers rests on its ability to run its core operations efficiently, but may also include its impact potential and the other ways in which food hubs are different from the conventional sector.

RESOURCES

• Business Model Generation Guide – Entrepreneurs Collective

A collective of entrepreneurs developed the Business Model Generation Guide. Entrepreneurs who are in the early stages of developing their food hub venture may benefit from this guide, using it to strengthen parts of their business model that need greater definition. The Business Model Generation Guide can be downloaded at <http://www.businessmodelgeneration.com/canvas>



Image courtesy of Richard Howard



BUSINESS MODEL & STRATEGY

BUSINESS JUSTIFICATION	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> What issue/need is the business addressing? 	<ul style="list-style-type: none"> A food hub should be able to explain what value it provides and why its business is necessary. Because most food hubs are launched in order to address unmet needs for producers and/or consumers, the operators should be able to articulate how the business helps these market constituents. This justification is made stronger when the food hub can speak to specific needs in its locale or region, and has supporting research. 	<ul style="list-style-type: none"> The business can clearly articulate why its services and products will be accepted in the market area it plans to serve. The hub has supporting data and analyses. 	<ul style="list-style-type: none"> The business only vaguely explains the need for its services and does not have sufficient data to support its claims. 	<ul style="list-style-type: none"> The business neglects to clearly outline what are its services and why they are needed.
CONTEXT/EXAMPLES					
<ul style="list-style-type: none"> Many of the microbreweries that have popped up across the country value local and do their best to incorporate local products in their beers. However, with barley production spread across the country and the world and only a handful of facilities in the country processing barley into malt, most breweries are not able get one of their key ingredients from local sources. Valley Malt built its facility in Hadley, MA to address this need. 			<ul style="list-style-type: none"> With the decline of tobacco production in North Carolina, many farmers were looking for new crops and new markets. Some had begun to grow vegetables, even organic vegetables, but did not have sufficient outlets for their production. Eastern Carolina Organics stepped up to work with farmers transitioning their fields from tobacco production to organic produce production connecting farmers with wholesale markets. 		

REVENUE GENERATION MECHANISM	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> How does the business generate revenue? 	<ul style="list-style-type: none"> A food hub should be able to clearly state how it will generate revenue. Revenue models for food hubs can vary with activity and size and can include taking a percentage of wholesale or retail price, charging packing fees as price per case, charging markups on processed product, or charging rental fees for space/facility usage. 	<ul style="list-style-type: none"> The business knows exactly how it generates revenue and the revenue model is appropriate for its chosen activities (e.g., percent of sales for aggregation and distribution). 	<ul style="list-style-type: none"> The business demonstrates an understanding of the options to generate revenue, but has not yet determined its revenue model or has selected a confusing revenue path. 	<ul style="list-style-type: none"> The business does not know how it will generate revenue and does not demonstrate an understanding of the revenue models appropriate for its chosen business activity.
CONTEXT/EXAMPLES					
<ul style="list-style-type: none"> A food hub's revenue generation mechanism will depend on the types of activities it undertakes. The Food Hub Activity Classification, available for download with the toolkit's resources, summarizes these differences. 			<ul style="list-style-type: none"> Aggregators such as Farm Fresh Rhode Island, Blue Ridge Produce, and Common Market charge a percentage markup. For example, if the aggregator charges 20%, then for each \$1 of product sold, the farmer is paid \$0.80 and the revenue to the food hub is \$0.20. 		
<ul style="list-style-type: none"> Mad River Food Hub, an inspected vegetable and meat processing facility in Vermont, charges food producers by the day to rent the space and also offers distribution, HACCP plan development, and business development services. The food hub also offers fee for service meat processing. 			<ul style="list-style-type: none"> Farm to Table Co-packers in Kingston, New York offers vegetable and value-added processing services and charges per piece of production. For example, FTC would charge a dollar amount per case of jars of salsa they produced for a salsa company. 		

VALUE PROPOSITION	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> • Why would customers buy this product or service from this business? • Why would farmers/suppliers work with this business? 	<ul style="list-style-type: none"> • At a basic level, the reasons why customers buy hinge on the price and quality of the offered product/service. In the case of food hubs, factors like product quality, range of product selection, and service experience are major drivers of value for customers. Suppliers and farmers focus on factors like price, trade terms, and ease of transaction. For mission-driven businesses, value also includes social and environmental impact, which is detailed in "Impact Potential." 	<ul style="list-style-type: none"> • The business can articulate specific reasons why customers will buy its products/services and has sufficient research to support its claims. • The business also clearly explains why farmers/producers will sell crops to the hub over other market outlets. 	<ul style="list-style-type: none"> • The business only partially explains why customers will buy products/services and why suppliers will sell, and/or there is insufficient research to support the business's claims. 	<ul style="list-style-type: none"> • It is unclear why customers will value and purchase products and/or why farmers will sell to the food hub; the business has no research to support its claims.
CONTEXT/EXAMPLES					
<ul style="list-style-type: none"> • Customers use Farm Fresh Rhode Island (FFRI) because it is an easy, convenient, and reliable way to source from over 70 local producers in one place. Farmers work with FFRI because they get control over pricing and FFRI pays farmers quickly. FFRI pays farmers within 2 weeks of receiving product, even though FFRI's customers often have longer payment schedules. 			<ul style="list-style-type: none"> • Red's Best, a seafood aggregator based in Boston, offers fisherman transparency and quick payments unheard of in the industry. Through Red's Best's proprietary software, fisherman can see exactly where their fish were sold and for how much and are paid for their catch within a week. Red's Best also takes the whole catch from fisherman, allowing fisherman to fish for whatever is in abundance that time of year. 		

COMPETITIVE ADVANTAGE	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> • Why will this business succeed against competition or alternatives? 	<ul style="list-style-type: none"> • For many food hubs, the local products that they offer are difficult for customers to efficiently access on their own. Given the innovations and rapidly changing food landscape, there are many new entrants trying to offer solutions for local farm sourcing. To keep customers and suppliers engaged, a food hub should know why it is different and what it offers over other local sourcing options. 	<ul style="list-style-type: none"> • The business provides evidence of how it is specifically different and distinctive from competing options and why those differences create an advantage in engaging customers and/or suppliers. 	<ul style="list-style-type: none"> • The business relies on general factors or market trends to distinguish itself (e.g., relies on the local food trend as its competitive advantage). 	<ul style="list-style-type: none"> • The food hub claims it has no competition or does not know or fails to identify specific reasons why it will succeed over competing options.
CONTEXT/EXAMPLES					
<ul style="list-style-type: none"> • Red's Best, a seafood aggregator based in Boston, has proprietary software that allows the company to aggregate from many small boats, maintain source transparency to the boat, and sell fish to buyers much more efficiently. 		<ul style="list-style-type: none"> • Even though many food hubs are taking a novel approach to aggregation and distribution, all food hubs face competition. Customers always have an alternative to food hubs. They can use other food distribution channels, even if those channels carry conventional or food that is not local. 		<ul style="list-style-type: none"> • City Fresh, a healthy meal preparation company based in Boston, has over a dozen competitors in its market. City Fresh has distinguished itself by offering delivery of hot meals, specializing in ethnic cuisine, and serving the budget-constrained institutional market (senior care facilities and schools, among others). 	

IMPACT POTENTIAL

Early in the assessment process, evaluate a food hub's potential to create positive social, environmental, and economic impact. The food hub's impact potential is equally as important as the other areas that you assess to determine the strength of the business. A food hub may be strong on impact potential, weak in other areas, or vice-versa, but it must have solid potential in all areas to be considered a strong candidate for impact investment.

A food hub's mission or purpose statement should contain its intentions and goals for creating impact.

With an idea of the business's goals, an investor or food hub operator may then assess what structures the business has in place to facilitate meeting those goals and, consequently, how well the business creates impact. By knowing an organization's intentions, when you see absences in areas where the business is not trying to create impact, you know why. For example, if a business's mission statement does not include creating access to healthy food for low-income populations, then you may consider this area weak, noting that the food hub lacks impact in this area not because it is failing to execute on its mission, but because it does not intend to create access.

Social Impact Potential

For social impact, evaluate whether and how well the food hub business creates access to healthy local food, makes this food affordable, and creates community development in low-income communities. As shown in the following table, there are several data points in each of these areas that allow you to evaluate the extent to which a food hub creates social impact.

Social impact is a critical component of impact potential. A regional, healthy food system is strongest when it is accessible to all. The infrastructure that food hubs create is critical to making regionally sustainably grown food more available in the places and via the means through which low-income communities access food.¹

The 2013 Food Hub Survey gathered data on the types of community-oriented services food hubs offer, providing some context for the social impact efforts of the food hub under assessment. The survey found that 75% of food hub respondents donate to local food banks, 56% provide education about community and food systems issues, and 47% provided nutrition and cooking education.¹

RESOURCES

• **Food Desert Status Map—USDA**

The USDA's Food Desert Status map shows areas that lack access to fresh healthy food based on proximity and accessibility to full-service retail grocery stores, with different criteria for urban and rural areas. Investors can use the map to determine if an entrepreneur is targeting communities that fit the USDA's definition of "food deserts." Entrepreneurs can use the map in a similar fashion to determine which areas the business should direct its sales to address low healthy food access. The food desert map can be found on the USDA's website at <http://www.ers.usda.gov/data-products/food-access-research-atlas/go-to-the-atlas.aspx#.UhYVFGrgZjY>

• **Low Supermarket Access Map—The Reinvestment Fund**

The Reinvestment Fund (TRF) has provided public access on Policy Map to its analysis that shows the geographic areas in the U.S. with low access to supermarkets. The Supermarket Access Map can be found on TRF's Policy Map site: <http://www.policymap.com/maps>. It should also be noted that the Wallace Center at Winrock International is in the process of adding food hub locations as a layer available in the Policy Map functionality.

¹2013 National Food Hub Survey, 39.



SOCIAL IMPACT POTENTIAL

ACCESS	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> Does the food hub have a goal of providing greater access to healthy local foods for low-income/high-need consumers? Where does the food hub operate that it reaches low income customers? By what channels, such as public institutions or food desert communities? Are efforts current or planned? Other ways the food hub may reach low-income consumers. 	<ul style="list-style-type: none"> A food hub's types of customers suggest whether or not the food hub is helping to create access for low-income communities. If a food hub's customers include many public school districts, public hospitals, food banks, and other institutions that serve low-income consumers, the food hub is helping to create access. If the food hub has customers (either individuals or community-serving institutions) that are in food deserts, as defined by the USDA or TRF's low supermarket access indicator on Policy Map, the food hub is helping to create access. 	<ul style="list-style-type: none"> The food hub has a clearly stated goal of creating access to healthy local food for low-income consumers and it operates in "food desert" areas or serves channels that reach low income consumers (including institutions or SNAP sales). 	<ul style="list-style-type: none"> The food hub has a stated goal to reach low-income consumers and is attempting to operate in "food desert" areas or through channels that reach low-income consumers. 	<ul style="list-style-type: none"> The food hub does not have a stated goal or intention to improve access for low-income consumers, and does not operate in food desert areas or sell through any low-income consumer channels.²
CONTEXT/EXAMPLES					
<ul style="list-style-type: none"> According to the 2013 Food Hub Survey, of those food hubs surveyed that sell direct to consumers, about half accept SNAP, and 27% accept WIC or Farmers Market Nutrition Program benefits. Of those surveyed that accepted SNAP, fewer than half had a program that matched the dollar amount of SNAP benefits. Fewer than 20% of retail-oriented food hubs operated a mobile market or offered subsidized farm shares.² 					

AFFORDABILITY	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> Does the food hub have a goal of providing greater affordability of healthy local foods to low-income consumers? What is the dollar and percentage volume of sales to customer segments defined as low-income or high-need (e.g., participants, or entities that serve participants receiving federal nutrition benefits like SNAP, WIC, and free and reduced lunch). Other ways food hub is facilitating affordability for low-income consumers. 	<ul style="list-style-type: none"> The most tangible way to measure affordability is to measure sales to customers or institutions that serve consumers who receive federal nutrition benefits. 	<ul style="list-style-type: none"> The business has a stated goal of providing affordable products and generates at least 20-30% of sales through channels that reach low-income customers (e.g. SNAP sales, public schools, etc). 	<ul style="list-style-type: none"> The business has a goal of providing affordable products, is attempting to make its pricing accessible, and generates more than 0% of sales through channels that reach low-income customers. 	<ul style="list-style-type: none"> The business has no stated goals around offering affordable products and is not making any efforts to provide products targeted to low-income customers. The business does not sell to any institutions reaching low-income customers.
CONTEXT/EXAMPLES					
<ul style="list-style-type: none"> Food hubs are using many creative ways to help improve affordability of healthy, local food for low-income people. For example, some food hubs use sales to more affluent customers to subsidize prices to low-income customers. Others try low-labor modes of delivery to lower costs which allows the hub to offer lower priced products to low-income customers. 					

² 2013 National Food Hub Survey, 39.

 COMMUNITY DEVELOPMENT	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> In what ways is the food hub contributing to community development? 	<ul style="list-style-type: none"> A food hub's community development efforts can take many forms including repurposing abandoned/underused real estate, drawing labor from job-training programs, and incubating new small businesses. These efforts can greatly contribute to the social impact of a food hub and should be included in your evaluation. 	<ul style="list-style-type: none"> The business is actively engaged in community development projects that have documented (or projected) substantial impact on the surrounding community. 	<ul style="list-style-type: none"> The business has plans or goals to engage in projects that create community development impact. 	<ul style="list-style-type: none"> The business does not intend to or does not prioritize projects that create community development impact.
CONTEXT/EXAMPLES					
<ul style="list-style-type: none"> In choosing to lend to Eastern Carolina Organics (ECO), Self-Help valued highly the community development impact potential of ECO purchasing and renovating an unused and run-down warehouse on a brownfield in a low-income neighborhood. neighborhood. 			<ul style="list-style-type: none"> DC Central Kitchen, a nonprofit based in Washington DC, has a worker training program integrated into the business that allows the company to successfully employ ex-offenders. 		



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Environmental Impact Potential

Food hubs can make a positive impact on the environment in a number of ways. Evaluating environmental impact of food hubs includes assessing their potential to preserve farmland and create other beneficial land use changes, support sustainable agricultural production methods, and operate a green business.

Conventional farming uses large amounts of water, pesticides, and fossil fuels, and pollutes and degrades land in the process. By supporting local farmers that use sustainable agricultural practices, food hubs are helping to direct purchasing power towards a more environmentally-friendly means of producing our food.



ENVIRONMENTAL IMPACT POTENTIAL

LAND USE AND AGRICULTURAL PRODUCTION	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> Total farmland acres of all farms supplying the food hub. Total acres by type of production practices of all farms supplying the food hub. <ul style="list-style-type: none"> - Certified organic - Sustainable (non-certified organic) - Conventional If available, additional acreage put into production and acres converted to more sustainable practices in order to serve the food hub. If available, the dollar value per acre that the farmer receives from sales to the food hub. Total farmland acres of all farms in the state or region. Other environmentally beneficial land use; consider impacts in urban areas as well. 	<ul style="list-style-type: none"> The amount of land food hub suppliers have under production suggests how much farmland the food hub is helping to preserve as working land. For example, a strong food hub may work with 70 farmers that cultivate hundreds of acres whereas a weak food hub only works with 5 farmers that cultivate a quarter acre each. This is particularly useful for early stage food hubs who may be able to capture data on acreage supplying the food hub and they can compare acreage over time to show growth in farms due to food hub activity. Food hubs may support other land use impacts beyond farmland preservation, e.g., motivating organic cultivation, increased crop diversity, or expanding new growing methods like hoop houses. 	<ul style="list-style-type: none"> The business sources from farms that make up significant acreage for the area. The business actively supports sustainable production and sources from farms that comprise significant organic and sustainable acreage. 	<ul style="list-style-type: none"> The business sources from farms that make up moderate acreage for the area. The business attempts to or has plans to support sustainable production and sources from farms that comprise moderate organic and sustainable acreage. 	<ul style="list-style-type: none"> The business sources from farms that make up little acreage for the area. The business has no plans to support sustainable production and sources from no farms with organic or sustainable cultivation.
CONTEXT/EXAMPLES					
<ul style="list-style-type: none"> Food hubs can support farmers as they try new production techniques. For example, Grasshoppers, a former aggregator in Kentucky, committed to buying product from a farmer that was first learning to grow in hoop houses, allowing him to try out something new and have a market for his product should he succeed. 			<ul style="list-style-type: none"> The 2013 Food Hub Survey also found that about 24% of food hub respondents reported that all or most of their suppliers had adopted more sustainable production methods and 23% reported that all or most of their suppliers had increase their acreage since beginning to work with the hub.³ 		
<ul style="list-style-type: none"> The 2013 Food Hub Survey found that very few food hubs required specific practices from their supplier-farmers, but that many stated preferences for sustainable practices.⁴ 			<ul style="list-style-type: none"> Eastern Carolina Organics does not require its farmer-suppliers to be fully certified organic, but works with farmers as they transition, providing support during the process of becoming certified.⁵ 		

³ 2013 Food Hub Survey, 17.

⁴ 2013 Food Hub Survey, 16.

⁵ Self-Help, in conversation with the author, August 8, 2013.



SUSTAINABLE OPERATIONS

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
<ul style="list-style-type: none"> • What practices and procedures does the food hub have in place to reduce waste, minimize energy consumption, and recycle and compost any waste created in the operation of its facility? • Other environmentally friendly measures the food hub implements. For example, do they distribute all their products in biofuel trucks? Are they using excess capacity in existing cold storage or existing trucking routes? 	<ul style="list-style-type: none"> • While a food hub's greatest impact on the environment may be through its support of sustainable farmers, many food hubs work to mitigate their impacts on the environment through efforts to "green" operations. • Minimizing energy consumption can be particularly important for food hubs, not only because of the environmental impact of inefficient energy use but also because of the serious expense energy use poses. Reducing this overhead expense with energy efficient coolers, for example, can contribute to the financial sustainability of a food hub. 	<ul style="list-style-type: none"> • The business operations successfully employs energy efficiency, waste reduction/composting, and trucking efficiency measures. • The business has data available that estimates or documents the additional environmental benefits of its sustainable operations. 	<ul style="list-style-type: none"> • The business operations are attempting to use methods to improve energy efficiency, waste reduction/composting, and trucking efficiency. • The business has no data available that estimates or documents the environmental benefits. 	<ul style="list-style-type: none"> • The business has no intentions of employing or has not explored any energy efficiency, waste reduction/composting, and trucking efficiency measures.
CONTEXT/EXAMPLES				
<ul style="list-style-type: none"> • Using other business's excess capacity is a great way for a business to conserve resources (and may have financial benefits as well). Other companies with cold storage facilities may have unused space that they are willing to rent and distributors often have extra space on less-than-load (LTL) trucks that they would like to fill. Occupying storage space that is already being cooled or space on a truck that is already traveling, reduces the environmental impact of a food hub's operations. 	<ul style="list-style-type: none"> • Veritable Vegetable, a veteran produce aggregator and distributor based in San Francisco, has an excellent record on ensuring the sustainability of their operations with hybrid trucks and trailers, energy efficient coolers, and 99% of their waste diverted from landfills. 	<ul style="list-style-type: none"> • The 2011 Food Hub Survey found that about 50% of food hubs had recycling programs, about 45% had composting programs, and over 20% had energy savings programs.⁶ 		

⁶ 2011 Food Hub Survey, presentation slides, 31.

Economic Impact Potential

Food hubs can create economic impact in a variety of ways. To assess a food hub's economic impact potential, examine job creation, impact on farm income, and several indicators that suggest the food hub's contribution to the economy. These figures along with estimates of indirect impact calculated using an impact multiplier for a food hub's region (if available) show the extent of impact a food hub will have on the economy. While the extent of economic impact is in many ways dependent on the volume of sales the food hub handles, the business can be structured to increase its economic impact, particularly on farm income.

With the economic uncertainty that has dominated the last decade, the ability of a company and an investment in that company to spur job creation and economic growth is very important. Because of their work with small and mid-sized farms, food hubs have the potential to specifically impact rural economies – places that have been increasingly left out of economic growth. By shortening the food supply chain, food hubs help keep food spending within a local economy. These dollars spent in a local economy, in turn, can also be spent again within the local economy, having a larger, indirect impact on the economy.



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RESOURCES

• Literature Review of Economic Multipliers – Urban Sustainability Directors Network

The Urban Sustainability Directors Network prepared a guide for using innovation in food sectors to support urban economic development that includes a literature review of economic multipliers for different industries within the food sector. This research shows the ranges of economic multiplier estimates that are seen in the food system, but, as explicitly stated on the slides, it is uneven and should not be used for forecasting. The literature review of economic multiplier by food industry is available on pages 25-32 of the webinar slide presentation available on the National Good Food Network at <http://ngfn.org/resources/ngfn-cluster-calls/roadmap-for-city-food-sector-innovation-and-investment#section-2>.

• Assessing the Economic Impacts of Regional Food Hubs: the Case of Regional Access – Cornell

Economists at Cornell University developed a replicable empirical model for estimating the economic impact of food hubs using expenditure and sales information from food hubs as well as data from producers supplying the food hub. The authors applied this model to Regional Access, a food hub operating in upstate New York, and found that after accounting for opportunity costs, the net output multiplier was 1.63 – that is for every additional \$1 in final demand for food hub products, an additional \$0.63 is generated in related industries. This study is available for download at <http://dx.doi.org/10.9752/MS145.09-2013>.



ECONOMIC IMPACT POTENTIAL

	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
JOBS	<ul style="list-style-type: none"> • Number of full-time, part-time, and seasonal food hub employees. • Total number of full-time equivalent (FTE) food hub positions. • Ratio of the highest to lowest wage paid by the food hub; (a low ratio indicates less disparity in pay. • Difference between the average wage and median wage; (if the median is well below the average the company may have many low paying jobs and a few high paying jobs). • Average length of employment for staff. • Job training or development services available in-house or through partnerships. 	<ul style="list-style-type: none"> • One aspect of job creation we consider is the quality of jobs created or maintained. The food sector is notorious for low-paying jobs with no benefits. Many food hubs aim to do more by creating high-quality, full-time jobs with benefits. The number of full-time versus part-time and the ratio of lowest and highest wage can indicate how the food hub fares in terms of the quality of the jobs it creates. The average length of employment provides a gauge for turnover, which can indicate the quality (or lack of) the food hub jobs. The availability of job training or development services that allow workers to advance is another critical component of job quality. 	<ul style="list-style-type: none"> • The business employs many full-time employees with living wages and benefits. The average length of employment for staff is many years. • The food hub has clear career development ladder with job training and development services available to help move workers from lower to higher pay positions. 	<ul style="list-style-type: none"> • The business employs few full-time staff and uses mostly part-time workers with low wages and benefits. The average length of employment for staff is a couple of years. • The path for career advancement is somewhat fuzzy, but the organization encourages professional development that can lead to advancement. 	<ul style="list-style-type: none"> • The business operations rely on few poorly compensated staff and/or mostly volunteer labor. The average length of employment for staff is less than a year. • The food hub lacks any way for workers to move from lower to higher paying positions.
	CONTEXT/EXAMPLES				
	<ul style="list-style-type: none"> • The 2013 Food Hub Survey found that the median number of full-time, year-round employees for food hubs of all sizes is 3, part-time year-round employees is 2, and seasonal employees is 1. Food hub respondents had on average 11 full-time employees.⁷ 	<ul style="list-style-type: none"> • Eastern Carolina Organics has shared ownership among the founder/CEO, farmer-suppliers, and ECO employees. Having worker-owners not only increases those individuals drive to make the business successful, but also helps to build the workers' individual wealth. 			

	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
FARM INCOME	<ul style="list-style-type: none"> • Food hub's cost of goods sold (i.e. the amount paid to producers for products). • Percentage of wholesale price paid to producers. • Percentage of retail price paid to producers. • Pricing process. Does the producer play a role in determining price? 	<ul style="list-style-type: none"> • The dollar amount of sales paid to farms shows concretely how much the food hub is contributing to producers' incomes. • To achieve greater impact on farm income, food hubs typically pass along a greater percentage of the wholesale or retail price to farmers than the conventional food distribution industry. • The process for setting prices shows the extent to which a food hub is distinct from a conventional aggregator/distributor. In the conventional commodity market, the producer is often a price taker and the aggregator/distributor largely views farms as interchangeable suppliers of a commodity. The strategies that food hubs use to set pricing create transparency, empower farms, differentiate the products, and secure greater income for producers. 	<ul style="list-style-type: none"> • The business has over \$1 million in revenue and pays over 65% of that to suppliers for product. • The business has a transparent process for setting prices with farmers. 	<ul style="list-style-type: none"> • The business has less than \$1 million in revenue and pays a fair market % to producers. • The business has a transparent process or other form of farm-favorable pricing. 	<ul style="list-style-type: none"> • The business passes along a very small portion of revenue received to farms. • The business has unclear, non-transparent process for setting prices or puts pressure on farms in the pricing process.

⁷ 2013 National Food Hub Survey, 12.

 FARM INCOME	CONTEXT/EXAMPLES		
	<ul style="list-style-type: none"> Nationally, farmers get on average only 25-33% of the retail price of fresh fruits and vegetables.⁸ In contrast, Eastern Carolina Organics does an 80/20 split, with farmers getting 80% of the wholesale price,^{9,10} which, assuming a 50-75% retail markup over wholesale price, translates into farmers getting 45-53% of the retail price of the produce. 	<ul style="list-style-type: none"> The amount that a food hub contributes to farm income is largely dependent on the volume that the food hub sells. 	<ul style="list-style-type: none"> Farm Fresh Rhode Island's Market Mobile allows farmers to set their own prices and FFRI takes a fixed 18% of that price to handle and distribute the produce. In 2013, Rhode Island and New England producers took home over \$1.5 million from sales through Farm Fresh Rhode Island.

ECONOMIC GROWTH INDICATORS	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> Sales volume. Wages paid by food hub to employees. Taxes (pay roll and income) paid by food hub. Optional: Total effect on the supply chain and local economy, calculated using multipliers for direct and indirect impacts. 	<ul style="list-style-type: none"> Taken together, these data are used by economists to determine the economic impact of a set of activities. While you do not need to determine the economic impact of a food hub, the economic growth indicators give a big picture view of the overall economic impact of the food hub. These are largely dependent on the size of the food hub operation. If you are interested in estimating the total impact on the local economy, including indirect impact, you can research to find if a local purchasing or a local food economic impact multiplier has been estimated for the food hub's region by a regional university or organization. A recent study conducted by economists at Cornell estimated that every \$1 of demand for Regional Access, an aggregator and distributor based in upstate New York, resulted in an additional economic boost of \$0.63 in related industries.¹¹ 	<ul style="list-style-type: none"> The economic growth indicators show substantial impact on the local economy through sales, taxes, and wages. 	<ul style="list-style-type: none"> The economic growth indicators show moderate impact on the local economy through sales, taxes, and wages 	<ul style="list-style-type: none"> The economic growth indicators suggest only a minimal impact on the local economy.
	CONTEXT/EXAMPLES				
	<ul style="list-style-type: none"> La Montanita is a cooperative with five grocery stores and a local food distribution center in New Mexico. The distribution arm sold over \$3.5 million worth of local food in fiscal year 2012 to over 100 customers. La Montanita's Cooperative Distribution Center employs 9 individuals who work out of an 18,000 square-foot warehouse.¹² La Montanita's spending on products from local producers and the wages it pays to its employees has a ripple effect throughout the New Mexican economy. 				

⁸ Economic Research Service, "Price Spreads from Farm to Consumer: Overview," USDA, website. <http://www.ers.usda.gov/data-products/price-spreads-from-farm-to-consumer.aspx#.UkH1WmRgZjY>

⁹ Renee Morad, "20 Products with Giant Markups," Yahoo Finance, Sep 27, 2012. <http://finance.yahoo.com/news/20-products-giant-markups-115730856.html>.

¹⁰ Aaron Crowe, "Biggest Grocery Store Markups: The Worst Deals in the Aisles," DailyFinance, February 18, 2011. <http://www.dailyfinance.com/2011/02/18/biggest-grocery-store-markups/>.

¹¹ Schmit, T.M., B.B.R. Jablonski, and D. Kay. 2013. "Assessing the Economic Impacts of Regional Food Hubs: the Case of Regional Access." Cornell University. September. <<http://dx.doi.org/10.9752/MS145.09-2013>>

¹² Robin Seydel, "Rooting the Local Food System in Cooperation: La Montanita's Co-op Trade/Foodshed Initiative," Cooperative Grocer Network, September-October 2013. <http://www.cooperativegrocer.coop/articles/2013-10-14/rooting-local-food-system-cooperation>

MARKET OVERVIEW

A complete market overview covers the size of the addressable market, key customer segments, competitive environment, regulatory climate, and market trends or other market drivers that are relevant. Ideally, most of the data in this section should be at the local or regional level (reflecting the food hub's focus), but, for some information, only national or industry-wide data is available, so it is important to note from where the data comes.

A market overview provides a picture of the environment in which the food hub operates, shows the potential opportunity, and provides points of comparison from which to analyze the business's potential. For example, if the food hub projects that its sales will grow from \$100,000 to \$2 million in three years and the market for local food in the geography it has targeted is estimated to be only \$4 million, you may question the food hub's ability to capture half of the market in such a short period of time.

The market overview not only provides context for the growth potential for the business, but also speaks to the food hub entrepreneur's knowledge of their market. The food hub should conduct the research to create a complete market overview as doing so affords the operators a complete picture of the market, their customers, their competitors, and where opportunities may lie for the business. Many may not have conducted this research when you begin the assessment. Developing a deep understanding of the market is often an area that food hub leaders can strengthen in their preparation for seeking investment.

RESOURCES

Resources developed by Wholesome Wave are available for download at www.wholsomewave.org/hfcbusinessassessmenttoolkit.

- **Local MarketSizer – New Venture Advisors**

New Venture Advisors' tool uses a top-down market sizing approach to determine a state's or metropolitan demand for local food, and the supply of locally produced food that could meet that demand assuming it were not exported to other states. Investors and food hub operators can use this tool to get a rough estimate of the size of the market for local food in the business's area. The Market Sizing tool can be found on New Venture Advisors website at <http://newventureadvisors.net/marketsizer.php>.

- **Market sizing and segmentation and sales pipeline development – Wholesome Wave and New Venture Advisors**

New Venture Advisors and Wholesome Wave prepared an overview of top-down and bottom-up market sizing and sales pipeline development.

- **Example competitor comparison chart – Wholesome Wave**

This chart shows an example of a visual approach for comparing the key elements of the food hub to its competitors' businesses. Entrepreneurs can use this example as a guideline to develop their own materials.



MARKET OVERVIEW

MARKET SIZE AND GROWTH	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> • What is the size of the addressable market for local food (i.e., the offerings of the business)? • Population drives food purchases and consumption (local or not). A market sizing will rely on population, per capita consumption, and, as growth indicators, consumer trend data. 	<ul style="list-style-type: none"> • “Addressable” refers to the part of the market that is relevant to the products and services offered by the business being evaluated. The USDA’s estimate of a \$5 billion market for local food nationally¹ is not relevant to a business starting operations in, for example, Detroit, MI. Rather, a small subset of this figure—based on Detroit’s population, purchasing players, and regional consumer growth trends—would be the size of the addressable market. • The business must determine the size of the area in which it will serve customers and then estimate the size of demand for local food within that region. This figure provides a sense of the market opportunity available to the food hub and allows you to ask: if the food hub captured 1% of the area market for local food, what volume of sales would it achieve? What about 5%? 10%? 	<ul style="list-style-type: none"> • The business demonstrates a clear understanding of its addressable market. • The business has sized the addressable market with supporting data and indicators of growth. • The food hub’s addressable market is large enough to support the hub’s projected sales. 	<ul style="list-style-type: none"> • The business demonstrates a good understanding of its addressable market; the operator can at least describe the addressable market, if not size it. • The business cites broad data. For example, the business provides data on a market size, but one that is larger than the addressable market. • The food hub’s addressable market is just barely large enough to the hub’s projected sales. 	<ul style="list-style-type: none"> • The business cannot describe or identify the addressable market. • The business offers no supporting data about any market size. • If the business can identify the market, its addressable market is not large enough to support projected sales.
CONTEXT/EXAMPLES					
<ul style="list-style-type: none"> • Free tools, such as New Venture Advisors’ Local MarketSizer available at http://newventureadvisors.net/marketsizer.php can help you get a sense for the size of the area’s local food market. 					

KEY CUSTOMER SEGMENTS	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> • Profiles and data on relevant customer groups. • List of major customer segments or types of customers in the market. • Size or how many customers are in each group. • Needs or purchasing criteria of each group. • Estimated total purchasing sales for each group. 	<ul style="list-style-type: none"> • The business should demonstrate a basic understanding of the current market by profiling major customer groups that make up the market space in which it will operate (Who buys or will buy local food, not just from the business but from any provider?). • If a food hub segments the market and clearly understands the needs and wants of each segment, they are poised to make informed choices about which customer to target as part of operations (expanded further in subsequent sections on Marketing and Sales and Operations). 	<ul style="list-style-type: none"> • The business presents customer segments with supporting data and information on estimated size, needs, and composition of each segment. • An excellent market overview would include estimates of the number of customers in each segment, what each group needs or values in purchasing, and estimated total food purchases in each segment. 	<ul style="list-style-type: none"> • The business presents customer segments and demonstrates some understanding of their needs, but does not include sufficient supporting data. 	<ul style="list-style-type: none"> • The business does not clearly identify customer groups, does not provide supporting data, and generally demonstrates no understanding of customer needs.
CONTEXT/EXAMPLES					
<ul style="list-style-type: none"> • A typical list of customers would break out as: Retail (sales directly to consumers) Wholesale (restaurants, grocery stores) Institutions (food service for schools, hospitals, prison, university, corporate dining) 					

¹Sarah Low and Stephen Vogel, “Direct and Intermediated Marketing of Local Foods in the United States,” Economic Research Service, USDA. Available from <http://www.ers.usda.gov/publications/err-economic-research-report/err128.aspx#.UsBaG2RDtJw>.



COMPETITIVE ENVIRONMENT

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
<ul style="list-style-type: none"> • Profile the competition in the region. From where are customers currently purchasing food (local or not)? • Are competitors consolidated (a few make up most of the market's sales) or fragmented (many comprise the majority of market sales)? • Where and what size are the competitors' suppliers/farms? • How competitors price key local food products? • What poses indirect competition or are substitutes? 	<ul style="list-style-type: none"> • All food hubs will have competitors. Competition may include traditional food distributors, traditional grocery stores, grocery delivery services, or large CSAs. Consumer always have alternatives—consumers can choose between local and organic or local and conventional items. • With a thorough understanding of the competition, a food hub can determine how to offer differentiated value for both its suppliers and customers and can market its services and products accordingly. With this information, you can assess the strength of the food hub's plan and ability to capture sales in a competitive market. 	<ul style="list-style-type: none"> • The business demonstrates a full understanding of the competitive landscape. • The business clearly identifies local, regional, and national competitors, including any alternative or substitute options for customers. • The business has researched competitors and understands each competitor's value, pricing, and target customers. 	<ul style="list-style-type: none"> • The business demonstrates a partial understanding of the competitive landscape. • The business lists out a few local and regional competitors, but largely ignores national competitors and substitutes. • The business has not researched competitors and, thus, has little understanding of competitors' pricing, value, or target customers. 	<ul style="list-style-type: none"> • The business claims it has no competition. • While a food hub may have no direct local food competitors in its immediate market, it likely has many substitutes for its products and services.
<p>CONTEXT/EXAMPLES</p> <ul style="list-style-type: none"> • For an example of factors to consider in analyzing the competitive landscape, please see the example competitor comparison chart included in the resources downloadable with this toolkit. 				

REGULATORY CLIMATE

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
<ul style="list-style-type: none"> • The food hub's plans for complying with regulations governing its operations (e.g., GMP, HACCP, on-farm food safety such as GAP and OSHA). • State and local activity, programs, or mandates that support or hamper the food hub's activities. 	<ul style="list-style-type: none"> • A food hub is subject to a variety of regulations, such as food safety and workplace safety. Some regulations are under active revision, such as the FDA's rules for the Food Safety Modernization Act, and food hubs should articulate their understanding of what is required of them and their plans to adapt to changing requirements (and, if possible, how compliance will affect the costs of operation). • Many states and localities have programs that encourage or mandate the purchase and sale of local food—a food hub should have knowledge of such programs in order to benefit through increased sales or possibly lower sales and marketing costs. 	<ul style="list-style-type: none"> • The food hub clearly describes what regulations it must comply with to operate and how it will comply (e.g., written plans, warehouse practices, and farmer audits). • The food hub is well connected with supportive state and local regulators and works to take advantage of any local, regional, or national support for local food/economic development. 	<ul style="list-style-type: none"> • The business acknowledges regulations that apply to its operations, but has not clearly explained how it will comply. • The food hub has contacted state and local regulators but does not have a strong working relationship with them. 	<ul style="list-style-type: none"> • The business demonstrates no understanding of regulations that impact its business or does not have adequate plans and practices in place to comply. • The food hub has no relationship with state and local regulators.
<p>CONTEXT/EXAMPLES</p> <ul style="list-style-type: none"> • Local purchasing policies established within states can generate market activity for the food hub. A variety of policies can stimulate local purchasing and 15 states have adopted policies that encourage state organizations, agencies, and schools to use local produce by allowing purchasing preferences for state-produced agricultural products.² • A supportive state agricultural department can also greatly contribute to the success of a food hub through policy change, funding, and support for farmers scaling to meet food hub demand. 				

² National Farm to School Network, "State Farm to School Legislation," August 17, 2011, http://www.farmtoschool.org/files/policies_114.pdf.



TRENDS/OTHER MARKET INFLUENCES

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
<ul style="list-style-type: none"> Information about relevant consumer trends, regional values, or grassroots activity that impacts consumer preferences. Ideally, data should be specific to the target market, but can also be national in scope. 	<ul style="list-style-type: none"> A consumer's decision to purchase local food can be influenced by many factors. Current trends, the presence of vibrant grassroots food and farm organizations, strong "Buy Local" campaigns, and municipal support for local sourcing are all factors that can influence the strength of a food hub's overall market environment. These market influencers help raise the overall demand for local, regional, and sustainable food in the market of the food hub's operation. While national studies show that consumers place value on local sourcing, food hubs strong in this category go beyond national data to provide information specific to its service region or addressable market. 	<ul style="list-style-type: none"> The business discusses how its market is impacted by consumer trends and other market influencers. The business cites market-specific cases and data on consumer trends and local and regional activity and values that support its business strategy and model. 	<ul style="list-style-type: none"> The business cites broad, national data on consumer trends that support components of its business strategy and model. 	<ul style="list-style-type: none"> The business relies on hearsay or a few anecdotes to support its business strategy and model.
CONTEXT/EXAMPLES				
<ul style="list-style-type: none"> Many cities have an ecosystem of organizations, entities, and individuals working to promote local and regional food and creating a supportive environment for food hubs. These groups can help build demand for the food hubs products and support farmers in working with a food hub. 	<ul style="list-style-type: none"> Market research found that over 47% of grocery shoppers want to see a greater selection of local foods more often³ and 52% of consumers deem it more important to buy local than organic products.⁴ 	<ul style="list-style-type: none"> National organizations, such as Healthcare Without Harm, the Real Food Challenge, and the National Farm to School Network, work with private and public institutions, such as hospitals, universities, and schools, to adopt local food purchasing targets and develop local sourcing practices. 		

³Mintel "Shopping for groceries-US-July 2012".

⁴Mintel "Local produce edging out organic in terms of consumer importance", website.

http://www.fastcasual.com/article_print/192085/Mintel-Local-produce-edging-out-organic-in-terms-of-consumer-importance

MARKETING & SALES

To develop a complete picture of a food hub's marketing and sales, you want to learn about the food hub's target customers, value proposition, plan to acquire new customers and expand sales to current customers, products and services, pricing strategy, and go-to-market strategy.

With strong demand for local food, many food hubs face more demand for their products and services than they can meet. However, such strong demand does not negate the need for developing a complete marketing and sales strategy. A food hub must not only gain customers, but customers with price points, volumes, standards, locations, etc. that will allow the food hub to be profitable. With a thorough understanding of its products and services, its customers, and its value to its customers and suppliers, a food hub can plan for and control its growth.

A food hub is not just selling food, it is selling "local." "Local" is a designation that implies a set of values to the buyer and to the end consumer, values of community and trust. Larger mainline distributors are well situated to efficiently provide cheap food, so the food hub needs to very effectively differentiate its products as local and tell the farmer's story so as to reinforce its position in the marketplace.



CC Image courtesy of USDA.gov on Flickr

RESOURCES

Resources developed by Wholesome Wave are available for download at www.wholesomewave.org/hfcbusinessassessmenttoolkit.

- **Marketing 101 Manual – Community Involved in Sustaining Agriculture (CISA)**

CISA's Marketing 101 Manual provides a guide for marketing techniques that can be utilized by food companies. A food hub operator can use this guide to develop and strengthen a company's marketing strategies. This manual can be found on CISA's website at <http://www.buylocalfood.org/resources-for-farmers/tipsheets/marketing/>.

- **Example price comparison chart – Wholesome Wave**

Based on research into the pricing of a business's competitors, Wholesome Wave uses charts like this to visually compare a company's pricing strategy against its competitors. Food hub operators can use this example as a guideline to develop their own materials.

- **Positioning: Who is our customer? – Feeding 10 Billion**

Produced by Feeding 10 Billion, "Who is our customer?" provides a series of short exercises to help define a company's customers in greater detail. An entrepreneur can use these exercises to add clarity to the company's understanding of its target customers. This guide can be found on Feeding 10 Billion's website at <http://www.feeding10billion.com/wp-content/uploads/2013/01/Positioning-WHO.docx>.



MARKETING & SALES

	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK	
TARGET CUSTOMERS	<ul style="list-style-type: none"> Who are the target customers? What are their needs in terms of specific products and services? If the food hub is an existing business, how do target customers compare to current customers? 	<ul style="list-style-type: none"> Different customer segments will require different things—whether it is the way a product is packaged or the sales approach that motivates a purchase—and a food hub should know which types of customers it is targeting and understand the differences among these customers. 	<ul style="list-style-type: none"> The food hub has identified which customer segments it will focus on serving (e.g., retail households, grocery, restaurants, institutional food service) and can explain why these customers are its targets. The food hub demonstrates a clear understanding of how needs differ across customer segments. Serving these target customers is a good match for the food hub's existing or planned operations. 	<ul style="list-style-type: none"> The food hub has identified customer segments it will focus on serving and can explain why, but demonstrates a weak or vague understanding of target customers' needs. It is unclear if serving these target customers fits well with the food hub's existing or planned operations. 	<ul style="list-style-type: none"> The food hub has not clearly identified target customers it will serve. (For example, the food hub lists out customer groups in the market, but does not explain which it will focus on and why.) Or, the food hub states that "everyone" is the target market. The food hub has not conducted any research to understand potential customers' needs or fit with operations. 	
	CONTEXT/EXAMPLES					
	<ul style="list-style-type: none"> Investors and lenders look at various items to verify customer strength. Letters of commitment from target customers help verify market analysis and marketing plans. The types of existing and target customers, including whether they are small businesses or large institutions indicate the stability and reliability of purchases. Many food hubs may start by working with small businesses like restaurants, but underwriters like to see food hubs serving larger, more institutionalized customers, such as Wholefoods or school systems.^{1,2} 			<ul style="list-style-type: none"> RSF Social Finance structures their lines of credit and borrowing base calculations to encourage food hubs to grow sales to existing customers, collect on accounts receivable faster, and target larger, more credit worthy customers.³ 		
<ul style="list-style-type: none"> Food hubs have a variety of customers, but the top three categories that food hubs sell to are restaurants (58% of 2013 Food Hub Survey respondents), small grocery stores/corner stores (39%), and K-12 school food service (35%).⁴ 			<ul style="list-style-type: none"> Many food hubs target customers nearby. The 2013 Food Hub Survey found that for over 70% of food hubs at least three-quarters of their customers were within 100 miles.⁵ 			
CUSTOMER VALUE PROPOSITION	<ul style="list-style-type: none"> What kind of value does the business create for customers? Why will customers buy from this business? Both at first and in the long run? 	<ul style="list-style-type: none"> Many food hubs' value propositions will include the local or regional nature of the products; however, this should not be the only reason cited for why customers will buy from the business. A food hub may create value through excellent customer service, great product selection, convenient ordering and delivery, etc. A food hub is strong here if its managers understand what makes its products and services valuable to the customer and their assumptions are reasonable. 	<ul style="list-style-type: none"> The food hub can explain aspects of its services, beyond the "local-ness" of its products, that create value for customers. The food hub has information to fully support how it delivers this value. 	<ul style="list-style-type: none"> The food hub can explain aspects of its services, beyond the "local-ness" of its products, that create value for customers. However, the food hub has no information to support how it will deliver this value. 	<ul style="list-style-type: none"> The food hub cites the "local-ness" of its products alone as sufficient reason why customers will buy from them. 	
	CONTEXT/EXAMPLES					
	<ul style="list-style-type: none"> Examples of value created for customers may include: Better selection or availability of local products Ability to customize purchase of local products Ease of purchase or delivery that creates convenience for customers Telling the local farmer story well through collateral and branding 					

¹ CEI, in conversation with the author, August 21, 2013.

^{2,3} RSF, in conversation with the author, August 19, 2013.

⁴ 2013 National Food Hub Survey, 20.

⁵ 2013 National Food Hub Survey, 34.



SUPPLIER VALUE PROPOSITION

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
<ul style="list-style-type: none"> • What kind of value does the business create for producers? • Why will farms start supplying to this business? Why will they continue to supply to this business? 	<ul style="list-style-type: none"> • Without producers providing product to a food hub, the food hub has nothing to sell. A food hub must understand the value it provides to its producers and how it will maintain them as suppliers. A food hub should not rely on being the only aggregator/distributor/processor in the area willing to work with small and mid-sized farmers, but be able to point to other ways the food hub creates value for the farmers. • Examples of ways food hubs create value include providing producers favorable payment terms, higher prices paid, cost/time-saving systems that reduce costs or risk for farmers, consulting or support services, or co-marketing services. 	<ul style="list-style-type: none"> • The food hub can clearly articulate how it will create value for producers and has evidence to support its value proposition. • The food hub's supplier value proposition may include support services to suppliers that its competitors do not offer. 	<ul style="list-style-type: none"> • The food hub can explain how it will create value for producers, but may not have evidence to support its value proposition. • In addition, the supplier value proposition is not unique and producers may find similar value elsewhere with competitor or substitute market channels. 	<ul style="list-style-type: none"> • It is unclear why producers will work with this food hub over other distributors or processors.
CONTEXT/EXAMPLES				
<ul style="list-style-type: none"> • Over 80% of the 2013 Food Hub Survey respondents provided marketing services for producers and a similar percentage actively helped producers find new markets. Over 60% provided transportation services for producers and close to 60% branded or labeled products for producers.⁶ 	<ul style="list-style-type: none"> • About 40% of 2013 Food Hub Survey respondents provided food safety and/or Good Agricultural Practices (GAP) training, business management services, and/or production and post-harvest handling training for producers. Less than a third of food hubs offered liability insurance to producers.⁷ 	<ul style="list-style-type: none"> • Red's Best, a seafood aggregator based in Boston, offers fisherman transparency and quick payments unheard of in the industry. Through Red's Best's proprietary software, fisherman can see exactly where their fish are sold and for how much, and are paid for their catch within a week. Red's Best also takes the whole catch from fisherman, allowing fisherman to fish for whatever is in abundance that time of year. 		

CUSTOMER ACQUISITION PLAN

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
<ul style="list-style-type: none"> • Plan for reaching and acquiring new customers and growing business with existing customers. • How will the food hub find potential customers? • How will the business convince potential customers to try the products and services? • How will the business keep those customers and increase sales to them? 	<ul style="list-style-type: none"> • A customer acquisition plan shows the strategy that the food hub will use to grow sales. The strategy should be specific to the type of customer and its specific needs and be based on experience with or research on effective tactics. • The plan might answer: Will the hub use a salesperson? If so, how will that salesperson pitch the food hub's offering? How will the sales person stay in touch with customers and provide customer service? 	<ul style="list-style-type: none"> • The business has defined a clear process to find potential customers, convert them to actual customers, and then grow the amount of business the customer does with the food hub. • Sales strategies or methods are based on effective tactics supported by experience or research. 	<ul style="list-style-type: none"> • The customer acquisition plan is only partially complete. For example, the plan may include how the food hub finds new customers, but not how it converts potential into actual customers or increases sales to existing customers. • Sales strategies or methods are hypothetical and not based on experience or research of effective tactics. 	<ul style="list-style-type: none"> • The customer acquisition plan is vague or the food hub completely lacks a plan for reaching and acquiring customers.
CONTEXT/EXAMPLES				
<ul style="list-style-type: none"> • While many food hubs rely on word of mouth and having customers approaching them, the food hub should have a plan for proactively acquiring new customers and expanding sales to existing customers. 				

⁶ 2013 National Food Hub Survey, 37.

⁷ 2013 National Food Hub Survey, 37.



PRODUCT AND SERVICE DESCRIPTION

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
<ul style="list-style-type: none"> Description of products and services 	<ul style="list-style-type: none"> A food hub should have a full description of products sold and services offered and be able to show which are most appropriate for each customer segment. 	<ul style="list-style-type: none"> The business clearly describes all products and services and indicates the key customer segments for each. 	<ul style="list-style-type: none"> The business vaguely describes products and services and demonstrates no understanding of which customer segments will purchase each. 	<ul style="list-style-type: none"> The food hub does not provide a clear description of products and services and does not demonstrate understanding of how offerings differ by customer segment.
CONTEXT/EXAMPLES				
<ul style="list-style-type: none"> Northern Girl, an aggregator and processor of root vegetables from northern Maine shares their product list at http://northerngirlmaine.com/portfolio/. 		<ul style="list-style-type: none"> Mad River Food Hub provides a description of the services the food hub provides at http://madriverfoodhub.com/about/ and posts fee information at http://madriverfoodhub.com/rates/. 		

PRICING STRATEGY

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
<ul style="list-style-type: none"> What are the prices for products and services? How does the business set prices on products and services? Is this a reasonable/credible way to price the product or service? 	<ul style="list-style-type: none"> Transparent policies and practices, farmer-favorable terms, and pricing that creates better returns or margins for farmers are all ways in which food hubs use pricing to further their mission and differentiate themselves from the conventional industry. However, the pricing strategy cannot be charitable; it must result in prices that cover the food hub's costs and are competitive in the market. 	<ul style="list-style-type: none"> The food hub provides a price list and an explanation of the method used for pricing products and services. The food hub has a reasonable/credible approach to setting prices. Pricing is based on research (particularly data or discussions with customers and suppliers), testing, and adjustment. 	<ul style="list-style-type: none"> The food hub provides price list, but does not have a reasonable/credible approach to setting prices. Little or vague research supports the strategy. 	<ul style="list-style-type: none"> The food hub does not clearly discuss how products and services will be priced and provides no supporting research or experience.
CONTEXT/EXAMPLES				
<ul style="list-style-type: none"> Example of pricing analysis to determine or justify pricing: The resources that accompany this toolkit include a pricing comparison chart that shows how a food hub compares to its competitors or alternatives. 		<ul style="list-style-type: none"> Examples of pricing practices as evidence for mission orientation: Farm Fresh Rhode Island allows farmers to set their own prices (with FFRI taking a set percentage cut of the price for its services). In contrast to industry standards, Red's Best Seafood offers fisherman visibility into the prices they are getting paid shortly after unloading their catch. 		

GO-TO-MARKET STRATEGY

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
<ul style="list-style-type: none"> How will the company's products reach its customers? 	<ul style="list-style-type: none"> The go-to-market strategy describes the path that a food hub takes to reach customers, first in capturing their attention, then in getting the products to the customers. For example, from the food hub, will the goods be directly delivered to customers or go through the customer's distributor (such as Sysco)? 	<ul style="list-style-type: none"> The food hub has a clear and sensible plan on how to attract the attention of customers and provides a map of how products will get from farmer to hub and ultimately to customer. Any differences in approach are outlined for each target customer segment. 	<ul style="list-style-type: none"> The food hub has a vague plan on how to attract the attention of customers. The food hub provides a map of how products will go to market for its primary customer base, but uses an ill-fitting or haphazard approach for its other customer segments. 	<ul style="list-style-type: none"> The food hub does not discuss how it will attract customer attention or how its products or services will be delivered to customers.
CONTEXT/EXAMPLES				
<ul style="list-style-type: none"> Farm Fresh Rhode Island, Common Market, and Good Natured Family Farms reach consumers through wholesale accounts (institutions, retail outlets, restaurants, etc.) and also through aggregated CSA-type models. For example, through its Veggie Box program, Farm Fresh Rhode Island delivers pre-packed boxes of produce from several farms to a minimum of 10 customers at their workplace or at community pick-up sites. 				

OPERATIONS

While food hubs aim to create impact and operate differently than businesses in the conventional food system, they are operationally similar to conventional food aggregation, distribution, and processing businesses. They must be expert and efficient at handling and transporting often highly perishable goods. If the food hub is an aggregator and distributor, it must manage buying/receiving products from multiple farmers, ensure that those products (traveling in cold storage) arrive at a warehouse in time to be placed in cold storage, processed/repackaged, and loaded on to refrigerated trucks for distribution to customers. For distribution, the food hub needs to manage the logistics of what goes on which truck to which location for maximum efficiency. Processors need to be experts at taking perishable products and efficiently and safely processing them. At every step of this process there are numerous other components to manage including relationships with suppliers and customers, labor, compliance with regulations, facilities, equipment, trucks, and how and when money exchanges hands among all parties.

While much can be learned about how a business operates from an in-depth phone conversation, an investor should visit the facility and observe the business in person to assess a food hub's strength in managing its operations. If possible, investors and food hubs should arrange to visit a conventional facility that undertakes similar operational activities. Most conventional produce aggregator-distributors, for example, are long-established businesses that have been able to succeed over time because of their very efficient operations. Seeing the efficiency of a well-run conventional facility will provide a reference point for assessing the operations of the food hub.

Produce aggregator-distributors face notoriously tight profit margins. There is little room for error and running a very efficient operation is crucial to a food hub's success. With this in mind, looking closely at the operating systems the food hub has in place is an important part of assessing the business.

RESOURCES

Resources developed by Wholesome Wave are available for download at www.wholsomewave.org/hfcbusinessassessmenttoolkit.

- **Metrics for evaluating efficient use of physical resources – Wholesome Wave**

This guide provides an overview of the quantitative and qualitative ways to assess the efficiency with which a food hub uses its physical assets, such as warehouses, coolers, trucks and processing equipment.

- **Considerations for owning versus leasing physical resources – Wholesome Wave**

Whether or not a food hub should own or lease physical assets (warehouses, coolers, etc.) depends on the business and its goals. This document offers some questions a food hub should consider when deciding whether to own or lease physical resources and provides references to other resources on the subject.

- **Produce Transportation, Shipper, Receiver, and Carrier Best Practices – North American Produce Transportation Working Group**

These white papers cover best practices for businesses involved at different points along the supply chain. Food hub operators can utilize this tool to understand the internal processes and external needs along the supply chain to operate effectively. You can download the full document, or view key highlights on NAPTWG's website at <http://www.naptwg.org/>.

- **Produce Vendor Guide – Wegmans**

Wegmans has provided publically a guide that details the technology systems, cold chain management techniques, and other systems necessary for being a Wegmans' vendor. A food hub operator can use this tool to identify the operations that it likely needs to work with large wholesale or institutional customers. This guide can be found on Wegmans' website at http://www.wegmans.com/webapp/wcs/stores/servlet/CategoryDisplay?storeId=10052&catalogId=10002&langId=-1&identifier=CATEGORY_1004.



OPERATIONS

CORE ACTIVITIES	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> A description of the activities the business undertakes to provide its products and services. 	<ul style="list-style-type: none"> The food hub should be able to clearly describe the core activities required to deliver the products and services it offers. Some non-profits operating food hubs may have trouble separating educational or charitable activities from core food hub business activities (aggregation, distribution, processing). Sometimes education or technical assistance are components of operations, but a non-profit food hub should separate out the activities that fundamentally allow it to provide products and services from the those activities that solely generate public good or are charitable. 	<ul style="list-style-type: none"> The food hub demonstrates a clear understanding of the activities it must undertake to provide its products and services. The food hub can describe how non-core, but related activities create strategic value and support the core business and mission. 	<ul style="list-style-type: none"> The food hub demonstrates a vague understanding of its core business activities and needs to further untangle the core business from other non-core activities. 	<ul style="list-style-type: none"> The food hub does not properly explain its core activities or cannot separate food hub business activities from other activities.
CONTEXT/EXAMPLES					
<ul style="list-style-type: none"> In the 2013 National Food Hub Survey, food hub respondents indicated that their core activities included: providing distribution services, aggregating produce, storing products, selling retail and wholesale, providing brokering services, packaging or re-packaging products, and processing, including freezing, cutting, and/or canning.¹ 			<ul style="list-style-type: none"> When looking at operations, CEI, a Maine Community Development Financial Institution, wants to see that the food hub has identified the supply chain and knows what it is doing in the middle – “who is selling to the food hub, who is buying from the food hub, and how is the food hub getting the products between those folks?”² 		

USE OF PHYSICAL RESOURCES (PROPERTY, FACILITIES, AND EQUIPMENT)	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> List of physical assets including warehouse space, trucks, and equipment (with size, capacity, and age of each). What resources are owned versus leased? Why? How efficiently does the food hub use their facilities and equipment? 	<ul style="list-style-type: none"> A food hub can provide the list of facilities, trucks, and equipment, but to understand how efficiently a food hub uses these assets, it is often best to visit. During a visit, you can get a sense for how well the food hub uses its assets. In addition, a well-managed food hub will track its space and equipment usage (such as, proportion of space occupied in cold storage each week) and be able to share this data with you. 	<ul style="list-style-type: none"> Existing or planned facilities and equipment match the scale of existing or planned sales and core operating activities. The food hub uses physical resources efficiently and does not have excess capacity that it does not have plans to use. 	<ul style="list-style-type: none"> Facilities and equipment notably do not match the scale of sales and core operating activities (existing or planned). The food hub either has undefined plans for some excess capacity or is close to running out of capacity without plans to expand. 	<ul style="list-style-type: none"> It is difficult to discern if physical resources match sales and operating activities. The food hub has no way of tracking or gathering data to understand if resources are being used efficiently.
CONTEXT/EXAMPLES					
<ul style="list-style-type: none"> Please see the resource “Metrics for evaluating efficient use of physical resources” available for download with this toolkit for ideas on how to gauge efficiency. 		<ul style="list-style-type: none"> If a food hub is trying to decide whether to lease or buy physical resources, there are many factors to consider. The resource on the subject available for download with this toolkit, “Considerations for owning versus leasing physical resources” offers some questions to think about. 		<ul style="list-style-type: none"> Not all, but most food hub respondents to the 2013 Food Hub Survey have physical infrastructure. Close to 80% of respondents had office space, about 70% had trucks, and about 70% had a warehouse. Most food hub respondents had an online ordering system (65%), but only about 20% had processing facilities or retail space for the food hub.³ 	

¹ 2013 National Food Hub Survey, 37 and 38.

² CEI, in conversation with the author, August 21, 2013.

³ 2013 National Food Hub Survey, 19.


SUPPLIER AND PRODUCT MIX

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
<ul style="list-style-type: none"> Total number of suppliers. As much profile data on suppliers as possible: farm size in acres, volume in pounds of product by type, volume of sales in dollars, and percent of food hubs total sales. Total number of products. For each product: volume in pounds, volume of sales in dollars, percent of total sales, and month-by-month sales for the year. 	<ul style="list-style-type: none"> The activities of a food hub rely on volume and throughput. To reach the volumes required to run a viable aggregation, distribution, or processing operation, most food hubs have to offer a range of products from an array of farms. Because of the uncertainty of supply, it would be concerning if a food hub were overly dependent on one farm or on one product for its operations. High earning food hubs have a diverse supplier base and product mix. Product category mix can also play an important role in mitigating the effect that seasonality may have on sales throughout the year. For example, a food hub may ramp up sales of dairy, meat, and shelf-stable or value-added products during the winter months to even out seasonal sales associated with fresh produce. 	<ul style="list-style-type: none"> The food hub has a large and diverse supplier base and a diverse product mix. No one farm or product is responsible for more than 20% of sales. If supply is concentrated in one product or one farm, this is adequately explained in the hub's business strategy and risk management plans. 	<ul style="list-style-type: none"> The food hub's supplier base and product range are mixed, but the food hub is still vulnerable to the performance of one farm or product (i.e. the one farm or product makes up more than 35% of sales.) Alternately, the supply is fairly concentrated with one supplier or one product and this concentration does not adequately fit with the strategy or risk management plans. 	<ul style="list-style-type: none"> The majority of the food hub's sales are supplied by one farm or one product and this does not fit with the food hub's strategy or plans.
CONTEXT/EXAMPLES				
<ul style="list-style-type: none"> Respondents to the 2013 Food Hub Survey in median worked with 36 producers and on average with 80.⁴ 	<ul style="list-style-type: none"> It is the stated goal of many food hubs to provide market access to farms that would likely not be large enough to work in the conventional system. 66% of survey respondents said that all or most of their suppliers were small and mid-sized. Food hubs that were new and small were more likely to indicate that all of their products were procured from small and mid-sizes producers.⁵ 	<ul style="list-style-type: none"> While most food hubs are focused on selling fresh produce and herbs, many food hubs sell a variety of products. According to the 2013 Food Hub Survey, about 93% of food hubs sell fresh produce, 65% sell meat and poultry, 60% sell eggs, about 52% sell processed or value-added products, and exactly half sell milk and other dairy products.⁶ 		

SUPPLIER MANAGEMENT

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
<ul style="list-style-type: none"> How does the food hub manage its relationship with farmers? 	<ul style="list-style-type: none"> Without producers providing products to a food hub, the food hub has nothing to sell. Because farmers are very busy growing food, working effectively with farmers can be time consuming and can require special systems and skill sets. Food hubs need a methodical process for managing vendors including systems for onboarding new suppliers, tracking data, and managing ongoing communication, among others. 	<ul style="list-style-type: none"> The food hub has strong relationships with farmers (with trust, loyalty, and mutual respect) and has developed an efficient system for working with suppliers. 	<ul style="list-style-type: none"> The food hub has strong relationships with farmers but its system for working with suppliers is overly time consuming. 	<ul style="list-style-type: none"> The food hub struggles to engage and develop strong relationships with suppliers. The food hub's systems for working with suppliers needs to be reworked.
CONTEXT/EXAMPLES				
<ul style="list-style-type: none"> For the beginning stages of working with suppliers, LoCo Food Distribution, based in Fort Collins, Colorado, has developed a Vendor Application Packet readily accessible on its website at http://www.locofooddistribution.com/for-vendors. 		<ul style="list-style-type: none"> Helping to streamline the product availability listing process, the ordering system that Farm Fresh Rhode Island developed for its Market Mobile program automatically sends notifications to suppliers reminding them to post their product availability to the site. 		

⁴ 2013 National Food Hub Survey, 14.

⁵ 2013 National Food Hub Survey, 14.

⁶ 2013 National Food Hub Survey, 18.


OPERATING PROCESSES AND PROCEDURES

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
<ul style="list-style-type: none"> Processes and procedures for core activities. - Does the facility seem to be managed well and run smoothly? - Are staff and labor managed well and efficiently? 	<ul style="list-style-type: none"> Visiting the facility, watching the business and staff in action, and meeting staff in different roles at different levels will allow you to gain an impression of whether the business has the right procedures in place to ensure success in its core activities. Clear and efficient processes and procedures are crucial to smooth and efficient operations. A food hub's success is based on its ability to get product in, through, and out in a safe, timely fashion. Each type of business activity that a food hub undertakes requires expertise in different processes. Distributors need expertise in warehousing, trucking, logistics, and delivery. Aggregators need efficiency in storage management. For a processor, the capacity of the equipment and how well the business utilizes that capacity dictates the success of the food hub's operations. 	<ul style="list-style-type: none"> The business has clear processes and procedures for running its operation that promote efficiency and excellence. 	<ul style="list-style-type: none"> Some of the food hubs processes and procedures are clear and efficient, while others need improvement. 	<ul style="list-style-type: none"> The food hubs processes are unclear or create inefficiencies in operations.
CONTEXT/EXAMPLES				
<ul style="list-style-type: none"> Warehouse or processing facilities and the activities within can be designed for maximum efficiency. Experts have developed a science and a set of best practices around operation process flows and food hubs should consult with such experts to design their operating systems for greatest efficiency. 		<ul style="list-style-type: none"> CEI has found that assessing the strength of operations is a critical component of assessing a food hub. While food hubs are exciting because they shorten the supply chain, their success is based on how well they handle operations. In a sector with such tight margins, the food hubs need to be incredibly efficient at their core operations—doing this is “not glamorous and it’s not easy.”⁷ 		

LEGAL AND REGULATORY COMPLIANCE

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
<ul style="list-style-type: none"> Does the facility have all the required certifications? What optional certifications does the business have? Are these up to date? 	<ul style="list-style-type: none"> Food hubs must be aware of and comply with regulations that govern its operations and provide evidence of compliance via on-site food safety plans and GAP, GHP or HACCP certifications. Other certifications include working with farmer-suppliers to have them meet Good Agricultural Practices (GAP) requirements, Good Handling Practices (GHP), or Organic Handling certification, among others. Some customers (such as large institutional customers) require that their suppliers have certain additional certifications that may not be required by law. 	<ul style="list-style-type: none"> The food hub holds all required certifications to operate and is in compliance with all regulations. The food hub also holds optional certifications preferred by customers. 	<ul style="list-style-type: none"> The food hub is in compliance with all required certifications and regulations, but does not have important optional certifications that its customers prefer. 	<ul style="list-style-type: none"> The food hub is out of compliance with certifications or regulations and/or does not know what requirements it must meet.
CONTEXT/EXAMPLES				
<ul style="list-style-type: none"> Cornell University has compiled a list of resources on food safety standards and food specifications available at http://www.gaps.cornell.edu/weblinks.html. For more resources on food safety see the Risk Mitigation section of this toolkit. 				

⁷ CEI, in conversation with the author, August 21, 2013.

ORGANIZATION & MANAGEMENT

Much of the content and structure for this section is adapted from a guide that McKinsey and Company prepared for Venture Philanthropy Partners in 2001 called “Effective Capacity Building in Nonprofit Organizations.”¹ Their structure for evaluating organizations and their management fit well with what Wholesome Wave and others look for when assessing businesses and has been adapted to fit food hubs.

The leadership of a food hub is critical to its success. To understand whether a food hub is prepared and able to be successful (and take on financing to do it), assess the background, skills, and qualifications of the management, key staff, and board members. Learn about the organization’s structure and how it affects its operations, and take note of any special resources to which the organization or management have access.

For many financing deals with small businesses, the deal hinges on the strength and character of the manager(s). **Businesses inevitably face changing market conditions and challenges that force them away from their original business plans and assumptions – great leaders adapt and pivot effectively. Food hubs are no different. Closely assessing the skills and capacities of not just the managers, but also the staff and board are critical.** If the organization as a whole is strong, the project has a greater chance of success.

It should be noted that the questions and data collection we have outlined in this section are very detailed and may be too in-depth for your purposes. We see some of the more intensive questions and considerations outlined in this section as fodder for “things to think about” and may not be answered within the scope of your assessment.



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RESOURCES

Resources developed by Wholesome Wave are available for download at www.wholsomewave.org/hfcibusinessassessmenttoolkit.

- **Example organizational chart – Wholesome Wave**
Wholesome Wave adapted this chart from one of our client’s business plans to provide an example of how a food hub’s staff might be organized. An entrepreneur can use this chart as a guide to develop a simple organizational structure chart.

¹ McKinsey and Company for Venture Philanthropy Partners, “Effective Capacity Building in Nonprofit Organizations,” 2001.



ORGANIZATION & MANAGEMENT²

ORGANIZATIONAL STRUCTURE	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> • Incorporation status and legal structure of food hub. • Department or division roles and responsibilities (organizational chart). • Inter-department coordination. 	<ul style="list-style-type: none"> • The legal structure of a food hub does not determine its capacity to be a well-functioning food hub, but in combination with the food hub's staffing structure indicates whether or not the food hub has clear entrepreneurial leadership and direction and a formalized entity to run the operations. - For example, a food hub may be a project of a larger non-profit. Does the food hub have leadership and staff solely focused on the operation of the food hub or are they involved in other projects? A food hub with a strong organizational structure will have management and staff focused on food hub's day-to-day operation and will be either a project of or a standalone formalized entity. 	<ul style="list-style-type: none"> • The food hub is a formalized standalone entity or separate project of a larger organization. • The food hub has a logical departmental structure with formally and clearly delineated responsibilities for each that complement each other. • Food hub departments and programs coordinate activities seamlessly. 	<ul style="list-style-type: none"> • The food hub is project of a larger organization and the activities of the food hub are not clearly separated. • The food hub's departmental structure is sound, but some responsibilities overlap or lack a home. • Food hub departments and programs coordinate but often inefficiently. 	<ul style="list-style-type: none"> • The food hub has no independence or separation from its larger organization. • The food hub's departmental structure is illogical and it is unclear for what each department is responsible. • Food hub departments and programs work in silos with little coordination among them.
	CONTEXT/EXAMPLES				
	• Of the respondents to the 2013 Food Hub Survey, 47% were for-profit business, 34% were non-profit, and 13% were cooperatives. ³				
	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> • Staff roles and hierarchy (organizational chart). 	<ul style="list-style-type: none"> • To successfully run the operations of an aggregation/distribution business, several staffing roles stand out as important. Though several of these roles may be combined into one person's position, a food hub usually needs staff who manage the warehouse or processing facility, trucking logistics, supply, marketing and sales, ongoing customer service, and finances. 	<ul style="list-style-type: none"> • The food hub has paid staff dedicated to its operations with clearly delineated roles. • All key roles (management of warehouse, trucking, etc.) necessary for smooth operations are assigned to positions. Individuals have well-defined reporting relationships and functions with minimal overlap of duties. Job descriptions are regularly updated and refined to allow for organizational change and individual growth. 	<ul style="list-style-type: none"> • The food hub has paid staff, but roles and hierarchy are not perfectly clear. • Most, but not all of the key roles are assigned to positions. Some individuals' reporting relationships are unclear or functions overlap. Job descriptions are irregularly updated. 	<ul style="list-style-type: none"> • The food hub does not have dedicated paid staff; the food hub's staff does not have clear roles; and/or some of the key roles (management of warehouse, trucking, etc.) are not assigned to someone's position. • Individuals' reporting relationships are unclear and functions frequently overlap. Job descriptions do not exist.
	CONTEXT/EXAMPLES				
	• Most food hubs are small with very few employees. In the 2013 Food Hub Survey, most food hubs responded that they had 5 or fewer full-time equivalent (FTE) employees. Only 13% of respondents had 6-12 FTEs and about 10% had more than 12 employees. The median number of full-time employees among surveyed food hubs was 3. ⁴				

² Much of the content and structure of this section is adapted from: McKinsey and Company for Venture Philanthropy Partners, "Effective Capacity Building in Nonprofit Organizations," 2001.

³ 2013 National Food Hub Survey, 11.

⁴ 2013 National Food Hub Survey, 12.



CEO/EXECUTIVE DIRECTOR

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
<ul style="list-style-type: none"> • Background, experience, and standing • Passion and vision for the business • Commitment to creating financial success and mission impact • Ability to develop relationships and relate to people • Analytical and strategic thinking • Financial judgment 	<ul style="list-style-type: none"> • The capacity and drive of the food hub's CEO or Executive Director (ED) is crucial to the business's success. • Most food hubs depend on having one or two driven, smart, entrepreneurial individuals at the helm. • The background and experience of the management team are critical to its success, but equally important is that the managers learn quickly, have strong management qualities, and exhibit the capacity for sustained effort. • Through conversations and site visits, you will become familiar with the capacities of the food hub's leader. That said, some of these qualities may be difficult to judge within the scope of your assessment. 	<ul style="list-style-type: none"> • The food hub's CEO/ED has relevant background experience and the capacity to identify and fill gaps in knowledge or skills. The leader is a strong social entrepreneur and well-known and recognized for past achievements • The CEO/ED is driven to ensure the food hub's success. The individual brings contagious energy and commitment to leading the business. The leader has a compelling vision for the food hub and can articulate a path to achieving this vision. • The food hub's leader is expertly guiding the business to achieve financial success and create lasting social, environmental and economic impact. The CEO/ED is adept at anticipating problems, planning for challenges, and driving organizational change where needed. • The CEO/ED is expert at building strong relationships, good at motivating people, and creates opportunities to promote others' development. The leader is able to let others take charge and make decisions. • The leader develops strategic alternatives to make informed decisions in complex situations, minimizing risks. • The CEO/ED has an ability to quickly understand the financial implications of decisions. 	<ul style="list-style-type: none"> • The leader is an emerging social entrepreneur beginning to gain local recognition for his/her work. The food hub's managers have some relevant qualifications, but have some significant areas for growth. • The CEO/ED brings good energy and commitment to the food hub, but has trouble articulating a path towards a compelling vision. • The CEO/ED is committed to both financial success and creating impact. The leader addresses problems as they arise. • The food hub's leader is responsive to opportunities from others to build relationships and good at encouraging people. • The CEO/ED is able to deal with complex or ambiguous situations, but has trouble developing strategic alternatives. • The leader has sound financial judgment. 	<ul style="list-style-type: none"> • The food hub lacks a qualified leader or the CEO/ED does not have the drive or smarts necessary to ensure the business's success. The leader is not entrepreneurial and is known to have a poor reputation. • The CEO/ED brings limited energy to leading the food hub and commits little attention to developing a vision for the food hub. • The food hub's leader is more focused on financial success than creating impact or vice versa. The leader struggles with handling challenges. • The CEO/ED has difficulty developing successful relationships and supporting others. The leader tends to micromanage. • The food hub leader struggles with complex situations and fails to bring strategic thinking to decision-making. • The CEO/ED flounders in efforts to understand the financial implications of decisions.

CONTEXT/EXAMPLES

- While many food hub managers come into their roles with a wealth of experience, they are not necessarily experienced in the core activities of food hubs. The 2013 Food Hub Survey found that about 60% of respondents had five years or fewer experience in food retail, food processing, and warehousing and distribution. On the other hand, over 50% of food hub managers had six or more years experience in management, strategic planning, and food marketing and sales. Suggesting the strong connection between food hubs and farmers, about half of food hub managers had six or more years experience in food production.⁵
- The first place CEI starts when examining a food hub is its management. Along with the operator's sincerity and integrity, CEI wants to see that they are scrappy, entrepreneurial, and open to engaging with experts. To the latter, CEI asks, "does the operator think he or she knows all the answers or is he or she a really open learner?"⁶

⁵ 2013 National Food Hub Survey, 13.

⁶ Gray Harris and Daniel Wallace, CEI, in conversation with the author, August 21, 2013.



SENIOR MANAGEMENT	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> • Background and experience of members of senior management. • Level of dependence on CEO/Executive Director. 	<ul style="list-style-type: none"> • The capacity and drive of the management team are crucial to the success of the food hub. If a food hub is large enough to have several senior managers, it is important to understand what strength or weaknesses this team brings to the food hub. A strong senior management team brings operational strength to the company and helps ensure the food hub weathers potential difficulties in the food hub's progress. 	<ul style="list-style-type: none"> • All members of the senior management team are highly experienced in management, represent a wide spectrum of backgrounds and skill sets, and have outstanding track records in their respective fields. Senior managers are enthusiastic and are well-equipped for their specific role, but capable of learning and developing into other responsibilities. • The senior managers are reliant on, but not dependent on the CEO/Executive Director. A smooth transition to a new leader could be expected and one or more of the senior managers is equipped to take on the top leadership role. 	<ul style="list-style-type: none"> • Some, but not all of the senior management team have experience in management. Members backgrounds are somewhat concentrated in certain areas and skills. Most of the senior manager have strong track records. Senior managers are fairly well equipped for their roles, but perhaps need to further develop their skills. • The senior managers are dependent on the CEO/Executive Director. A transition to a new leader would be rocky, but ultimately the team would pull through. The senior managers would need significant growth to fill the CEO/ED role. 	<ul style="list-style-type: none"> • Senior managers are inexperienced and poorly suited to their roles. Their track records are limited or unrelated to their responsibilities. The senior managers lack a zest for learning and excitement for their jobs. • The senior managers are utterly dependent on the CEO/ED. A transition to a new leader would be potentially disastrous for the food hub. None of the senior managers are capable of assuming the CEO/ED role.

STAFF	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> • Background and experience of key staff. • Staffing levels. 	<ul style="list-style-type: none"> • In assessing staff capacity, ask: Are the backgrounds and experience of key staff aligned with the company's activities, strategy, and goals? Essentially, are the right people in the right roles? Through site visits and discussion with key staff, you can learn about the organization's strength beyond its management. 	<ul style="list-style-type: none"> • Each of the food hub's staff members has the right background and skills for his or her role. All of the staff is motivated and enthusiastic about their work. • All staff positions are filled and the organization rarely experiences turnover or attendance issues. 	<ul style="list-style-type: none"> • Most of the food hub staff is well qualified for their roles, but some are mismatched or ill equipped for their positions. • Most staff positions are filled and turnover and attendance do not pose any great issues. 	<ul style="list-style-type: none"> • Most of the food hub staff is mismatched for or ill equipped to fulfill their job functions. The staff largely seems to lack motivation for their work. • Many staff positions are vacant and there are consistent turnover or attendance problems.

STAFF TRAINING AND DEVELOPMENT	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> • Staff training and development programs. • Pathways for staff advancement. 	<ul style="list-style-type: none"> • Structured staff training and development opportunities are crucial to the ability of staff to grow in their positions and advance in the organization. Organizations with excellent staff training programs often achieve higher retention rates and higher job satisfaction among employees. 	<ul style="list-style-type: none"> • The food hub has a structured program for staff training. Professional development is treated as part of staff's jobs, not as an ancillary activity or benefit. 	<ul style="list-style-type: none"> • The food hub makes training opportunities available to staff but does not emphasize its importance. 	<ul style="list-style-type: none"> • The food hub does not make training or development opportunities available to staff.



BOARD

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
<ul style="list-style-type: none"> • Board members' experience and associations. • Board members' roles and responsibilities. • Board members' commitment and involvement. 	<ul style="list-style-type: none"> • A board can be a huge asset to an organization. Boards that work well together, support managers, as well as provide oversight can help a food hub be successful. Look for a diversity of relevant skills and experiences among board members and clearly delineated roles and responsibilities among board members. 	<ul style="list-style-type: none"> • The food hub has a board with strong backgrounds and a diversity of skills among members. The board is highly functional as a group and each individual board member is very active, contributing time and energy to supporting the success of the food hub. Board members provide strong direction, support, and accountability to food hub leadership. 	<ul style="list-style-type: none"> • The board members have relevant backgrounds, but the skill sets are not diverse, or vice-versa. The board mostly functions fairly smoothly, but sometimes political or personality issues hamper activities. Most board members are fairly active, but fail to commit fully and to provide strong support. 	<ul style="list-style-type: none"> • The food hub's board is composed of similarly skilled or inexperienced individuals. The board functions poorly and/or board members put in little time or effort into the food hub.

BOARD GOVERNANCE

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
<ul style="list-style-type: none"> • Governance structure between management and board. • Board's fulfillment of fiduciary responsibilities and oversight of management. • Size of board and process for adding board members. 	<ul style="list-style-type: none"> • Food hubs will have different governance structures, but whatever form the relationship between the board and management takes it is important it be well constructed in principal and productive in practice. The strength of this governance relationship will reflect in the strength of the management and consequently the strength of the food hub. 	<ul style="list-style-type: none"> • The governance structure provides for the board and management to work well together with clear roles. • The board vigorously fulfills its fiduciary responsibilities. • The board actively defines targets and holds CEO/ED accountable. It provides the right combination of pushback and support to ensure the managers succeed. If it becomes necessary, the board is empowered and prepared to hire or fire the CEO/ED. • The board is the right size to maximize effectiveness and new board members are selected through a rigorous evaluation process. • The board itself is evaluated periodically. 	<ul style="list-style-type: none"> • The governance structure provides for the board and management to work well together but the roles between the two are not well defined or are poorly understood. • The board fulfills its fiduciary duties. • The board works with CEO/ED to define targets but does not regularly review the CEO/ED's performance. If it becomes necessary, the board is not fully prepared to hire or fire the CEO/ED. • The board size is set and new board members are selected with some evaluation. • The board itself is rarely evaluated. 	<ul style="list-style-type: none"> • The governance structure makes it difficult for the board and management to work well together and roles are confusing. • The board does not scrutinize budgets or audits. • The board allows the CEO/ED to define targets and does not monitor outcomes. The board is not empowered to hire or fire the CEO/ED. • The board size fluctuates and new board members are chosen without any evaluation. • The board itself is never evaluated.

PROFESSIONAL SERVICES

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
<ul style="list-style-type: none"> • Quality and availability of legal, accounting, human resources, and other professional services. 	<ul style="list-style-type: none"> • Hiring and paying for quality legal, accounting, and human resources services are very important to a well-functioning business and something that small businesses tend to skimp on. 	<ul style="list-style-type: none"> • The food hub has consistently available and accessible high quality professional services. 	<ul style="list-style-type: none"> • The food hub either has somewhat limited access to high quality professional services or has consistent access to services that are mediocre or unpredictable in quality. 	<ul style="list-style-type: none"> • The food hub has inadequate access to professional services, or the food hub's professional services are more burdensome than they are helpful to the organization.



SPECIAL RELATIONSHIPS AND RESOURCES

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
<ul style="list-style-type: none"> • Strength of special relationships with community, government, and industry entities. • To what special resources or skills does the company have access through its relationships? 	<ul style="list-style-type: none"> • Many food hubs's managers are well-established in their local communities or in the local food system arena and have access to resources through their networks. A food hub may have strong partnerships with state and local agencies and other local food and agriculture organizations that can support the food hub's work. While such access is not necessary for the success of the business, having such access can help the food hub's business grow and succeed. Many strong partnerships indicate that the food hub and its managers have others advocating for their success. 	<ul style="list-style-type: none"> • The food hub is well connected with community, government, and industry resources and uses these connections to improve and grow its business. 	<ul style="list-style-type: none"> • The food hub has some connections with resources, but should expand its network and/or use its existing connections more effectively. 	<ul style="list-style-type: none"> • The food hub has few connections with other entities and seems to operate without much community support.

CONTEXT/EXAMPLES

- RSF values food hubs that have strong partners in the community. If others beyond RSF and the food hub are invested in the success of the business, there is a greater likelihood the food hub will thrive and not only be able to pay back its loan, but also create impact.⁷

SUPPORT NETWORK

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
<ul style="list-style-type: none"> • To what strategic guidance or mentorship do managers and staff have access? 	<ul style="list-style-type: none"> • Food hub managers and staff are not going to be experts in every aspect of running their business nor can they foresee all challenges that may arise. Relationships with experts in various fields can strengthen their capacity to manage the food hub's activities. • For example, the local college's business school may have an expert on logistics management that can provide advice to improve a food hub's trucking logistics. Similar to special resources, a strong support network for managers further increases the business's likelihood of succeeding. 	<ul style="list-style-type: none"> • Understanding the limits of their own knowledge and skills, the food hub managers and staff have access to and utilize, as necessary, a network of supporters willing to provide guidance or mentorship. 	<ul style="list-style-type: none"> • The food hub managers have access to supporters that provide guidance in some areas of the business, but could use additional support in other areas. 	<ul style="list-style-type: none"> • The food hub does not believe such support is necessary or does not know where or how to access it.

⁷ RSF, in conversation with the author, August 19, 2013.

RISK MITIGATION

Food hubs face many risks common to other start-up and expanding businesses, as well as those uniquely tied to the production, distribution, processing, and marketing of perishable food. As such, risk mitigation strategies must be in place so that a food hub can be prepared to avoid or respond to such challenges. A food hub with strong plans for handling food safety problems, labor and supply disruptions, and liability and other legal issues will better weather problems as they arise and create greater confidence in its suppliers, customers, and potential investors.

Like farmers, the well-being of a food hub is somewhat out of its control – it cannot control the weather and thus cannot absolutely guarantee a supply of products. However, it can prepare for the risks it faces by developing plans, purchasing insurance, and preparing for the natural cycles that affect product availability. A food hub that has thought through and prepared risk mitigation strategies will be better prepared to pay back its loans or provide a return to its investors, and be a reliable and resilient infrastructure component of the regional food system.

RESOURCES

- **Applicable Food Business Regulations – Food and Drug Administration (FDA)**

This FDA website is a starting point in determining what food safety regulations and laws may apply to a food business. Investors and food hub operators should use this as a guide to spot-check if the company has properly identified the necessary laws and regulations with which it must comply. This outline can be found on the FDA's website at <http://www.fda.gov/Food/ResourcesForYou/Industry/ucm322302.htm#preventive>.

- **Risk Management Planning Guide – Northwest Farm Credit Services**

The Northwest Farm Credit Services created this guide that walks through the initial steps of risk management planning for a food-focused company. Entrepreneurs can use this guide as a starting point to outline and establish risk management techniques for their companies. This guide can be found on Northwest Farm Credit Services website at <https://www.northwestfcs.com/Resources/Management-Education/Business-Management-Pubs>.





RISK MITIGATION

FOOD SAFETY	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> • How does the food hub ensure food safety? • Is there a food safety plan and GAP, GHP, or HACCP certifications? • What information is available on compliance with federal (USDA, FDA), state, and local food safety regulations as they apply to the food hub? 	<ul style="list-style-type: none"> • Food hubs must be aware of and comply with regulations that govern their operations and provide evidence of compliance via on-site food safety plans and GAP, GHP or HACCP certifications. Adherence to such plans and regulations must be strict and facility conditions (i.e. cleanliness of the warehouse, coolers and floors, odors and lighting) must provide a visual impression that the food hub takes food safety seriously. • Please note: The FDA is in the process of issuing new regulations in accordance with the Food Safety Modernization Act (FSMA) that will significantly impact small and mid-sized farms as well as food hubs. While rules are in draft form, food producers and aggregators should become familiar with new standards and prepare to comply with final rules. 	<ul style="list-style-type: none"> • The business has an established and comprehensive food safety plan covering: soil, water, and land use and monitoring; employee health, hygiene, and training; sewage, equipment, and vehicle maintenance; and strategies for tracking, transparency, and crisis management. All necessary certifications are in place and staff has the capacity and commitment to ensure plans and regulations are upheld. 	<ul style="list-style-type: none"> • The business has a completed food safety plan and necessary certifications but staff does not appear to adhere to processes that ensure food safety plans are upheld. • Vice versa, staff does adhere to good processes but there is no formal plan in place. 	<ul style="list-style-type: none"> • The business has no food safety plan, is missing certifications, and staff violates or does not adhere to processes that ensure food safety measures are upheld.
CONTEXT/EXAMPLES					
<ul style="list-style-type: none"> • The FDA has a collection by topic on guidance and regulations for the food and food processing businesses that it regulates these are available at http://www.fda.gov/Food/GuidanceRegulation/GuidanceDocumentsRegulatoryInformation/default.htm. It should be noted that the FDA does not regulate all types of food and food processing; some, such as meat processing, fall under the jurisdiction of the USDA. For a description of FDA's regulatory scope, see http://www.fda.gov/AboutFDA/CentersOffices/OfficeofFoods/CFSAN/WhatWeDo/. 			<ul style="list-style-type: none"> • FamilyFarmed.org has developed the On-Farm Food Safety Project that provides information and resources about developing food safety plans and becoming food safety certified. These resources are available at https://onfarmfoodsafety.org/ 		
<ul style="list-style-type: none"> • Cornell University has a compiled a list of resources on food safety standards and food specifications available at http://www.gaps.cornell.edu/weblinks.html. 			<ul style="list-style-type: none"> • UC Davis's Postharvest Technology Center has a wide array of resources on handling produce available at http://postharvest.ucdavis.edu/ 		

LABOR	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> • Where is the labor pool supporting the food hub located? • What issues could cause a disruption in staffing? • What is the food hub's strategy for dealing with labor disruptions? • Does the organization have sufficient strength among its staff to replace key leaders if one drops out? 	<ul style="list-style-type: none"> • With perishable goods, labor disruptions caused by limited transportation, weather, illness, and other unpredictable situations can create serious problems for food hubs. From inventory managers to packaging staff to truck drivers, any broken link in the food supply chain can devastate a food hub within a day's time. Most food hubs rely on some seasonal and part-time paid labor along with volunteer labor and may face issues with reliable labor. 	<ul style="list-style-type: none"> • The food hub has a large pool of potential year-round or part-time employees with adequate public transportation. Communication with staff is ongoing and regular and staff is included in a plan for mitigating staff disruptions due to weather, health, or unreliability. The food hub has successfully navigated labor issues in the past. 	<ul style="list-style-type: none"> • The food hub has thought through a plan for mitigating labor risks, including accessing local community groups and academic institutions for labor sourcing, but the plan could be strengthened. The food hub has no experience navigating labor issues. 	<ul style="list-style-type: none"> • The food hub does not acknowledge the possibility or does not know how to handle labor issues and has limited access to replacement or temporary labor due to community demographics and lack of adequate public transportation.

SUPPLY	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> • What supply issues pose major risks to the food hub based on quantity and quality of producers and geographic and climate conditions? • What is the business's strategy for dealing with supply disruptions? 	<ul style="list-style-type: none"> • Food hubs share many of the risks their farmer-suppliers have, as limitations on a grower's ability to produce will directly impact the inventory of the food hub. Unexpected temperature shifts, natural disaster, and sudden pestilence outbreaks can decimate an entire season's crop, leaving the food hub unable to fulfill sales. A food hub's preparedness to handle disruptions in supply is critical to its overall success, particularly in maintaining a loyal customer base and paid workstaff. 	<ul style="list-style-type: none"> • The food hub has a well thought-out plan in place to nimbly and adeptly handle supply issues as they arise and has access to alternative sources of products. The food hub has successfully navigated a supply disruption in the past by educating their consumers on the sensitive seasonality of products in advance and providing appropriate notice to their customers when a disruption occurs. 	<ul style="list-style-type: none"> • The food hub has adequate but not excellent plans for handling supply issues and lacks clear alternative sources of products. The food hub has not had to deal with a supply disruption in the past. 	<ul style="list-style-type: none"> • The food hub is financially and operationally unprepared to handle supply disruptions. A bad season for a certain crop would put the company in peril.
CONTEXT/EXAMPLES					
<ul style="list-style-type: none"> • The food hub has a large and diverse set of suppliers. 		<ul style="list-style-type: none"> • The food hub has an operating reserve available to cover loss of supply. 		<ul style="list-style-type: none"> • The food hub has alternative sources for products often including buying products from outside the region. 	

POLICY ENVIRONMENT	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> • What changes in the local political setting of the food hub would affect the business and operation of the food hub? • What shifts in policy and management from local entities pose the highest risk for the food hub? 	<ul style="list-style-type: none"> • Each food hub will be exposed to potential policy changes in their locality that might affect its ability to operate. Local zoning, town ordinances and city codes can all shift with new administrations or as a result of regulatory changes from the state and federal government that must be implemented on the ground. These unforeseen and unpreventable changes related to operational components, like a lease term, sewer and water access and transportation corridors, are critical issues that a food hub must prepare for. • For example, perhaps a food hub relies on a friendly city council for access to a city-owned facility at below-market rent and needs to develop a plan for mitigating the possibility of a change in lease terms. 	<ul style="list-style-type: none"> • The food hub has a good understanding of the local, regional, and national policy environment and is prepared to take advantage of or mitigate the impact of policy changes. Long-term contracts have been negotiated, grandfathering of existing use has been established, and operational policies are in place to adjust to shifting regulatory standards. 	<ul style="list-style-type: none"> • The food hub is aware of and prepared for some, but not all, local, regional, and national policy risks and opportunities. 	<ul style="list-style-type: none"> • The food hub is not aware of how changes in policy might affect its business or is completely unprepared to handle policy issues.
CONTEXT/EXAMPLES					
<ul style="list-style-type: none"> • A recent policy issue on which many food hubs are actively advocating is the regulations that the FDA is developing under the Food Safety Modernization Act. By actively working to influence and shape these food safety regulations, food hubs are helping to mitigate the potential risk that overly burdensome regulation might pose to their businesses. 			<ul style="list-style-type: none"> • City Growers, a commercial urban agriculture venture in Boston played an active role in changing local zoning ordinances to permit commercial farming in the city. This policy work was critical to their business model. 		

 LIABILITY AND OTHER LEGAL COVERAGE	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> • What is the structure of ownership and operation of the food hub? • What does the food hub's liability and workers' compensation insurance cover and in what amount? 	<ul style="list-style-type: none"> • Like any business, a food hub needs to be structured to protect its assets, investors and staff. The legal business structure (i.e. non-profit, LLC or private corporation, or publicly held entity) of a food hub will influence its liability. • While some institutional customers require their food suppliers to carry a minimum level of liability insurance, all food hubs must have an insurance policy to cover destruction and damage as well as reduce liability. A food hub should have a policy that provides a minimum level of coverage that expands accordingly as its operations and customer base grow. 	<ul style="list-style-type: none"> • The food hub has adequate liability, insurance and workers' compensation coverage to be legally protected and meet investor, staff, and institutional customers' needs. 	<ul style="list-style-type: none"> • The food hub has sufficient liability coverage to meet institutional customers' needs, but not sufficient to protect its assets. 	<ul style="list-style-type: none"> • The food hub has no or very little liability coverage.



TECHNOLOGY & SYSTEMS

A food hub must establish efficient systems and choose the right technologies (such as software) to create a well-run facility and business. Investors and food hub operators should assess what technology and systems the food hub uses to manage its finances, inventory, orders, customer service, supply traceability, and compliance with regulations and certifications. Some systems will be very simple, such as having employees initial a chart to indicate that they have cleaned a certain area in order to comply with food safety regulations. Others will involve food hubs making difficult decisions among, for example, different expensive inventory management software systems. For each, no matter how sophisticated or simple the process may be, it is important that the system function effectively and efficiently.

To keep expenses from exceeding revenue, food hubs must run efficient operations; the right technology and systems are crucial to establishing that efficiency and gaining credibility and loyalty with customers and suppliers.

RESOURCES

Resources developed by Wholesome Wave are available for download at www.wholsomewave.org/hfcbusinessassessmenttoolkit.

- **Technology and systems review guide – New Venture Advisors and Wholesome Wave**

Wholesome Wave and New Venture Advisors' guide discusses the main areas of need for technology for different types of food hubs and uses this framework to assess available technology. The publication discusses where in their operations food hubs employ what types of technologies and reviews several available software programs according to these needs.

- **Goods-to-Person Order Fulfillment – Dematic**

Dematic's whitepaper describes the Goods-to-Person Order Fulfillment method for operating a large distribution warehouse. An entrepreneur can use this whitepaper to determine if this method of order fulfillment is appropriate for her company's structure. This whitepaper can be found on Dematic's website at <http://www.dematic.com/na/white-papers>.



Image courtesy of Richard Howard



TECHNOLOGY & SYSTEMS

	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
CROP PLANNING AND FORECASTING	<ul style="list-style-type: none"> • Technology and systems used to assess likely buyer demand and vendor supply; identify and address gaps between supply and demand; and make any verbal or formal agreements. 	<ul style="list-style-type: none"> • For each of the categories to evaluate in Technology and Systems, ask: <ul style="list-style-type: none"> - What system does the food hub have in place? - Does it seem to be working? • You can get the answer to the first question in discussion and site visits with the food hub. For the second question, ask about the time dedicated to using the system and whether the employees find it cumbersome or helpful. 	<ul style="list-style-type: none"> • The food hub has a well-functioning system that takes advantage of the efficiencies available through appropriate technologies. 	<ul style="list-style-type: none"> • The current system could be greatly improved. 	<ul style="list-style-type: none"> • The food hub does not have a system in place or the existing system is overly time-consuming or burdensome.
	CONTEXT/EXAMPLES				
<ul style="list-style-type: none"> • For food hubs, there are many technology options. Food hubs should use existing reviews of technology options and talk with other food hubs about what works well for them. 					
SUPPLIER MANAGEMENT AND PROCUREMENT	<ul style="list-style-type: none"> • Technology and systems used to obtain in-season updates on supplier inventory available immediately or in the short-term, along with pricing. • Technology used for developing, delivering, and processing vendor purchase orders. 	<ul style="list-style-type: none"> • Ask: <ul style="list-style-type: none"> - What system does the food hub have in place? - Does it seem to be working? 	<ul style="list-style-type: none"> • The food hub has a well-functioning system that takes advantage of the efficiencies available through appropriate technologies. 	<ul style="list-style-type: none"> • The current system could be greatly improved. 	<ul style="list-style-type: none"> • The food hub does not have a system in place or the existing system is overly time-consuming or burdensome.
	INVENTORY MANAGEMENT	<ul style="list-style-type: none"> • Technology and systems used for the comprehensive management of inventory to support procurement, sales, and order fulfillment. 	<ul style="list-style-type: none"> • Ask: <ul style="list-style-type: none"> - What system does the food hub have in place? - Does it seem to be working? • The inventory management system ideally includes knowing what items are in stock, on order, committed, on back order or on presale. Additionally, this includes understanding the shelf life and market value of each lot number to facilitate efficient, first in-first-out order fulfillment. 	<ul style="list-style-type: none"> • The food hub has a well-functioning system that takes advantage of the efficiencies available through appropriate technologies. 	<ul style="list-style-type: none"> • The current system could be greatly improved.



PRODUCT PROCESSING MANAGEMENT	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> For food hubs with focus on processing, technology and systems used for tracking inventory throughout processing production line. 	<ul style="list-style-type: none"> Ask: <ul style="list-style-type: none"> - What system does the food hub have in place? - Does it seem to be working? 	<ul style="list-style-type: none"> The food hub has a well-functioning system that takes advantage of the efficiencies available through appropriate technologies. 	<ul style="list-style-type: none"> The current system could be greatly improved. 	<ul style="list-style-type: none"> The food hub does not have a system in place or the existing system is overly time-consuming or burdensome.

SALES AND ORDER PROCESSING	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> Technology and systems used to generate and submit price lists to buyers, receive orders, and process orders into internal system. 	<ul style="list-style-type: none"> Ask: <ul style="list-style-type: none"> - What system does the food hub have in place? - Does it seem to be working? 	<ul style="list-style-type: none"> The food hub has a well-functioning system that takes advantage of the efficiencies available through appropriate technologies. 	<ul style="list-style-type: none"> The current system could be greatly improved. 	<ul style="list-style-type: none"> The food hub does not have a system in place or the existing system is overly time-consuming or burdensome.

BUSINESS-TO-BUSINESS WEB EXCHANGE	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> If relevant, the technology platform used for online marketplace/e-commerce to facilitate buyer and/or vendor transactions. 	<ul style="list-style-type: none"> Ask: <ul style="list-style-type: none"> - What system does the food hub have in place? - Does it seem to be working? 	<ul style="list-style-type: none"> The food hub has a well-functioning system that takes advantage of the efficiencies available through appropriate technologies. 	<ul style="list-style-type: none"> The current system could be greatly improved. 	<ul style="list-style-type: none"> The food hub does not have a system in place or the existing system is overly time-consuming or burdensome.

ORDER FULFILLMENT	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> Technology used to generate pick lists and any other tools and reports to support the fulfillment of orders in the warehouse or processing facility. 	<ul style="list-style-type: none"> Ask: <ul style="list-style-type: none"> - What system does the food hub have in place? - Does it seem to be working? 	<ul style="list-style-type: none"> The food hub has a well-functioning system that takes advantage of the efficiencies available through appropriate technologies. 	<ul style="list-style-type: none"> The current system could be greatly improved. 	<ul style="list-style-type: none"> The food hub does not have a system in place or the existing system is overly time-consuming or burdensome.

ROUTING AND DELIVERY	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> Technology used to develop optimal routes and track and confirm deliveries. 	<ul style="list-style-type: none"> Ask: <ul style="list-style-type: none"> - What system does the food hub have in place? - Does it seem to be working? 	<ul style="list-style-type: none"> The food hub has a well-functioning system that takes advantage of the efficiencies available through appropriate technologies. 	<ul style="list-style-type: none"> The current system could be greatly improved. 	<ul style="list-style-type: none"> The food hub does not have a system in place or the existing system is overly time-consuming or burdensome.



	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
CUSTOMER MANAGEMENT	<ul style="list-style-type: none"> Technology used to track organizational communication with buyers, progress against sales targets, and progress of potential buyers through sales pipeline. 	<ul style="list-style-type: none"> Ask: <ul style="list-style-type: none"> - What system does the food hub have in place? - Does it seem to be working? 	<ul style="list-style-type: none"> The food hub has a well-functioning system that takes advantage of the efficiencies available through appropriate technologies. 	<ul style="list-style-type: none"> The current system could be greatly improved. 	<ul style="list-style-type: none"> The food hub does not have a system in place or the existing system is overly time-consuming or burdensome.
ANALYSIS AND REPORTING	<ul style="list-style-type: none"> Technology and systems used to develop financial and business insights and management reports. 	<ul style="list-style-type: none"> Ask: <ul style="list-style-type: none"> - What system does the food hub have in place? - Does it seem to be working? 	<ul style="list-style-type: none"> The food hub has a well-functioning system that takes advantage of the efficiencies available through appropriate technologies. 	<ul style="list-style-type: none"> The current system could be greatly improved. 	<ul style="list-style-type: none"> The food hub does not have a system in place or the existing system is overly time-consuming or burdensome.
FOOD SAFETY AND TRACEABILITY	<ul style="list-style-type: none"> Technology and systems used to track lot numbers, allow for Produce Traceability Initiative (PTI) compliance, track and record temperatures throughout supply chain, and facilitate shopper engagement by maintaining farm identity of the product. 	<ul style="list-style-type: none"> Ask: <ul style="list-style-type: none"> - What system does the food hub have in place? - Does it seem to be working? 	<ul style="list-style-type: none"> The food hub has a well-functioning system that takes advantage of the efficiencies available through appropriate technologies. 	<ul style="list-style-type: none"> The current system could be greatly improved. 	<ul style="list-style-type: none"> The food hub does not have a system in place or the existing system is overly time-consuming or burdensome.
ACCOUNTING	<ul style="list-style-type: none"> Technology and systems used to track invoices, purchase orders, and inventory. Technology and systems used to maintain accounts payable, accounts receivable, general ledger, invoice aging, and cash management. 	<ul style="list-style-type: none"> Ask: <ul style="list-style-type: none"> - What system does the food hub have in place? - Does it seem to be working? 	<ul style="list-style-type: none"> The food hub has a well-functioning system that takes advantage of the efficiencies available through appropriate technologies. 	<ul style="list-style-type: none"> The current system could be greatly improved. 	<ul style="list-style-type: none"> The food hub does not have a system in place or the existing system is overly time-consuming or burdensome.
PAYROLL AND HR BENEFITS	<ul style="list-style-type: none"> Technology and systems used to manage payroll, submit paychecks, and manage payroll taxes Technology and systems used to administer health plan, retirement, and other benefits. 	<ul style="list-style-type: none"> Ask: <ul style="list-style-type: none"> - What system does the food hub have in place? - Does it seem to be working? 	<ul style="list-style-type: none"> The food hub has a well-functioning system that takes advantage of the efficiencies available through appropriate technologies. 	<ul style="list-style-type: none"> The current system could be greatly improved. 	<ul style="list-style-type: none"> The food hub does not have a system in place or the existing system is overly time-consuming or burdensome.
	CONTEXT/EXAMPLES				
	<ul style="list-style-type: none"> CEI generally recommends that small businesses use professional paid services to ensure timeliness and proper handling of taxation. 				

FINANCES

To assess a business's finances, you will need its historical and projected financial statements. For financial projections, you will also need the model used to develop projections and the assumptions that underpin it. Analyze the historical and projected income statement (also called a profit and loss statement), balance sheet, and cash flow statement along with the accounts receivable and payable. You will want to calculate a number of ratios and metrics based on these statements as laid out in the following table on assessing a food hub's finances.

While food hubs create impact in many areas, to do so they must be financially viable. Investors and food hub operators should assess a food hub's historical and projected financial statements with the same level of scrutiny as with any other business. Wholesome Wave created this toolkit to encourage equity and debt investments in food hubs, however, it does no favors to farmers, consumers, or other food hubs to invest in businesses that will not be financially viable into the future.

To assist in analyzing a food hub's statements, we have provided a series of questions and metrics. You can assess the financial strength and potential of the food hub with the benchmarks from food hubs and the conventional aggregation-distribution industry for comparison and your own experience from other sectors. Please note that the ratios, metrics, and trends will vary depending on whether the food hub is a start-up, early-stage company, or an established business considering expansion and depending on the type of activities the business undertakes. In addition, policies vary greatly among investors and lenders as to financial requirements and acceptable ratios and the metrics listed here should simply be used as a means for gaining a better understanding of a food hub's finances.

RESOURCES

NEW TO FINANCING

- Financial Statements Explained – Merrill Lynch**
 Merrill Lynch has prepared a guide that explains the basics of how income statements, balance sheets, and cash flow statements operate individually and the interactions among them. For those who are not particularly familiar with financial statements, this guide teaches the basics. This guide can be found on Merrill Lynch's website at <http://www.ml.com/media/14069.pdf>.
- Cash Flow Worksheet – Farm Credit**
 Farm Credit has developed this simple worksheet that guides a food company through understanding its cash flow. This spreadsheet can be found on Farm Credit East's website at <https://www.farmcrediteast.com/~media/Files/ProductServices/FarmStart/Cash%20Flow%20Statement.ashx>.
- Issue Briefs – ImpactAssets**
 ImpactAssets has developed a series of concise articles, available at http://www.impactassets.org/publications_insights/issue-briefs, covering key topics in impact investing. In their 10th Issue Brief, ImpactAssets explains potential uses for grants in impact investing from serving as non-return seeking layer of the capital stack to laying the groundwork at an organization for future impact investment. The 10th edition issue brief, in particular, can be found at <http://www.impactassets.org/files/Issue%20Brief%2010.pdf>.

NEW TO FINANCING FOOD HUBS

- Understanding Key Financial Ratios for Agricultural Sector – Northwest Farm Credit Services**
 Northwest Farm Credit Services prepared an explanation of financial ratios for agricultural businesses with accompanying benchmarks. Entrepreneurs and investors can use these ratios to get a sense for the key ratios for farm businesses. This explanation can be found, along with other business planning tools for producers, on the Northwest Farm Credit Services website at <https://www.northwestfcs.com/Resources/Management-Education/Business-Management-Pubs>.



FINANCES

FINANCIAL LITERACY	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> • How well does the food hub leader/entrepreneur understand financial management? • How well does the leader understand the financing process? • How able and willing is the leader to gain financial literacy? 	<ul style="list-style-type: none"> • As you gain an understanding of a food hub's finances, it is important to know how well the leaders understand their own finances. Even if the food hub leader does not have the highest level of skill, they may make up for it in their will and capacity to learn. 	<ul style="list-style-type: none"> • The leaders expertly manage the food hub's finances and have experience with financing. Any areas in which they need more skills, the leaders have the will and drive to learn. 	<ul style="list-style-type: none"> • The leaders understand the food hub's finances in broad strokes, but are not completely confident with all aspects of financial management. The managers understand the financing process, but lack experience. With some encouraging, the managers seem capable of learning. 	<ul style="list-style-type: none"> • The leaders do not know how to manage the food hub's finances, do not understand the financing process, and do not think it is important to learn.
CONTEXT/EXAMPLES					
<ul style="list-style-type: none"> • CEI and Self-Help, both Community Development Financial Institutions (CDFIs), have found that a business operator's level of literacy with financial management and the process of financing is important to developing and structuring a deal that works well for both parties. However, both institutions are happy to teach and coach operators that are willing to learn.¹² 					

INCOME STATEMENT OVERVIEW	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> • Historical and projected annual and monthly revenues, costs, gross income, expenses, EBITDA, and net profits. 	<ul style="list-style-type: none"> • If you are a non-financial person reviewing financial statements of a food hub, here are a few starting points on how to approach the income statement: <ul style="list-style-type: none"> - Identify the core components of sales and costs. - Observe trends in historical data. - Understand methods and assumptions on how food hub estimated sales and expenses. • Some questions you may ask include: <ul style="list-style-type: none"> - What are the trends? How quickly has the food hub grown historically? How quickly does the food hub project it will grow in the future? Do these trends seem reasonable? - How did the food hub estimate cost and expenses? Do their assumptions for projections seem sound? 	<ul style="list-style-type: none"> • The food hub has generally had consistent growth in revenue. • Expenses have tracked revenue, represent thoughtful investments, and reflect the costs of an efficient steady operation. • Periods of positive profit in the high season make up for periods of any low or negative profit in the low season. 	<ul style="list-style-type: none"> • Revenue growth is sporadic, but generally trending upward. • Expenses show support for sales activity and reflect costs of an operation that is at least improving if not close to steady and efficient. • Operating profit is low or frequently slightly negative, but becoming break-even is feasible with targeted changes. 	<ul style="list-style-type: none"> • The food hub's expenses consistently exceed revenue and historical trends do not suggest clear sales or operating success. • The income statement includes many large unexplained expenses or income and expense items that are not related to the core operations of the food hub.
CONTEXT/EXAMPLES					
<ul style="list-style-type: none"> • CEI prefers to provide debt financing to food hubs that are at least 3-5 years old. At this point, many food hubs need debt financing to digest continued growth and are more credit-worthy. However, CEI does occasionally work with start-ups. When looking at pro forma projections for a start-up, CEI wants to see that the assumptions and projections are as conservative as they can be and that their projections pass stress testing. CEI will ask questions, such as, "What happens to the food hub's financial outlook if the largest customer falls through? Or if the largest supplier fails to provide the promised product?"³ 					

¹ CEI, in conversation with the author, August 21, 2013.

² Self-Help, in conversation with the author, August 8, 2013.

³ CEI, in conversation with the author, August 21, 2013.



INCOME STATEMENT OVERVIEW CONT.

CONTEXT/EXAMPLES

- Local food distribution businesses tend to have fairly slow growth. Depending on the market and product mix, it can take several years for a food hub to build the sales foundation upon which to later grow quickly and reach the stage when it will need growth financing. Many food hubs operate from grants in early years and grow to the size at which loans or equity become appropriate.⁴
- For food hubs that are non-profits, it can sometimes be difficult to separate food hub operating expenses from non-profit programmatic expenses. As you review financial statements, verify that all the expenses of running the food hub are included and separate from the non-profit's programmatic expenses. If there are nonprofit activities core to food hub operations (e.g., farmer food safety training), those costs should be included as food hub's costs.

BALANCE SHEET OVERVIEW

DATA

- Historical break down of assets, liabilities and owner's equity (ideally by month, given the seasonality of food hub businesses)

INTERPRETATION

- If you are a non-financial person reviewing financial statements of a food hub, here are a few starting points on how to approach the balance sheet:
 - Check that the balance sheet actually balances (assets = liabilities + equity).
 - Identify the core assets and observe split across current assets like cash, accounts receivables, and long term assets like property. Note changes over time.
 - Identify breakdown of liabilities and observe split across short and long term debt. Note changes over time.
 - As discussed later in this section there are set of ratios you can analyze as well.

STRONG

The following is an non-exhaustive list of indicators

- A strong balance sheet typically has:
 - On the asset side: Positive cash balances, including 'reserve' funds for emergencies or opportunities; accounts receivable and inventory that fluctuate with operations; and property/ equipment that is core to operations used efficiently.
 - On the liability and equity side: Debt levels that are matched in size and duration to asset levels (e.g., short term debt approximates short term assets).

MEDIUM

- See strong and weak

WEAK

The following is an non-exhaustive list of indicators and red flags

- A weak balance sheet may show:
 - On the asset side: Strained, low cash balances; steadily high, unmoving levels of accounts receivables; and property and equipment that are not used efficiently or core to operations.
 - On the liability and equity side: Negative equity and debt levels that do match in size and duration to asset levels.

CONTEXT/EXAMPLES

- The breakdown of assets and liabilities should have some relationship to the food hub's goals as an organization. For example, it doesn't make sense for all food hubs to own all their property, equipment, and vehicles. A nonprofit or farmers cooperative may want to own equipment to build up its asset base, whereas an LLC may prefer the flexibility of leasing equipment and vehicles instead of holding fixed assets. For more information, see Wholesome Wave's "Considerations for owning versus leasing physical resources" available for download with the other resources.
- Similarly, debt levels should match investments made in line with the business strategy. For example, a plan to expand sales may include a loan for a new warehouse cooler to handle additional product storage from the increased sales.

⁴ Secoded by RSF, in conversation with the author, August 19, 2013.

\$	CASH FLOW STATEMENT OVERVIEW				
	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> Historical and projected cash flow statements (monthly preferred, to show seasonality) 	<ul style="list-style-type: none"> A food hubs cash flow, like sales, often follows the seasons. Similar to farms, food hubs, especially those that sell mostly produce, often have very low sales in winter months, huge costs in spring as planting season picks up, and the largest influx of revenue during the high harvest summer/fall season. If you are a non-financial person reviewing financial statements of a food hub, here are a few starting points on how to approach the cash flow statement: <ul style="list-style-type: none"> Look for positive Free Cash Flow (FCF, discussed later in this section) or the ability to generate positive FCF, which is cash produced by the business that can be used to invest in growth efforts or pay lenders/ investors. Some questions you may ask include: <ul style="list-style-type: none"> In which months is cash on hand the lowest and what are the main drivers of these fluctuations? Does the business generate enough cash during the high season to cover its expenses at low points? Has cash flow changed over time? 	<ul style="list-style-type: none"> Cash flow from operations is often net positive, even if low (which is likely for a food hub business). Cash flow from investing reflects prudent capital expenditures on equipment core to improving operations and in line with the business's strategy. If business has debt financing, the cash flow from financing shows healthy and regular debt repayment as a use of cash. 	<ul style="list-style-type: none"> Cash flow from operations is mixed or close to positive. Cash flow from investing reflects capital expenditures on equipment that is not core to operations or part of the business's strategy. If the business has debt financing, cash flow from financing shows that the business struggles to make debt repayments. 	<ul style="list-style-type: none"> Cash flow from operations is often negative. Cash flow from investing reflects capital expenditures on equipment that detracts from operations or business's strategy. If the business has debt financing, cash flow from financing shows no effort to make debt repayments.
	CONTEXT/EXAMPLES				
	<ul style="list-style-type: none"> RSF and Self-Help emphasized the importance of becoming comfortable with a food hub's cash flow as a critical component of the assessment process, even if it is lumpy or seasonal.^{5,6} 	<ul style="list-style-type: none"> Understanding the seasonality of cash flow for a food hub, some lenders try to design loan terms to match the food hubs seasonal cash flows. For example, a mission lender might allow a food hub to draw down on a line of credit in April when costs are high but sales, AR, and inventory are still too low to justify availability, but require the food hub pay down the line/ come into compliance during the months with the most revenue.⁷ 	<ul style="list-style-type: none"> RSF structures their lines of credit on different borrowing base calculations depending on the needs, maturity, etc. of the food hub. For example, a mature, growing food hub can usually support a borrowing base calculation based on accounts receivable and inventory. A smaller, earlier stage food hub may be able to better handle a line of credit with, instead, a loan-to-value borrowing base calculation.⁸ 		

INCOME METRICS	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
		Metrics to track on sales and revenues include: <ul style="list-style-type: none"> Annual sales Sales by month Sales per FTE Revenue sources other than sales Annual growth of sales by month and of total revenue 	<ul style="list-style-type: none"> Given the nature of food aggregation, distribution, and processing, many food hub businesses rely on a high volume of relatively low margin goods or services. This means the primary anchoring financial metric is sales— if a food hub cannot generate enough sales volume for its size, it will struggle to sustain itself or expand. 	<ul style="list-style-type: none"> The business has strong annual and monthly sales with some revenue activity during low-season months (usually, winter and early spring). From our experience to date, strong distribution hubs have annual gross sales over or on the path to exceeding \$1 million. 	<ul style="list-style-type: none"> The business has strong sales during peak periods of the year, but very low or no sales during the low-season months. Annual gross sales struggle to get over \$1 million.

⁵ RSF, in conversation with the author, August 19, 2013.

⁶ Self-Help, in conversation with the author, August 8, 2013.

⁷ RSF, in conversation with the author, August 19, 2013.

⁸ RSF, in conversation with the author, January 30, 2013.

\$ INCOME METRICS	CONTEXT/EXAMPLES					
	\$	<ul style="list-style-type: none"> For 69% of the respondents to the 2013 Food Hub Survey, sales represented between 90-100% of the hub's total annual revenues. The age of the business was correlated with the amount of its total revenue.⁹ On average, food hub respondents to the 2013 Food Hub Survey received 86% of revenue from services they provided and 1% each from foundation grants, federal government funding, and membership fees. On average only 8% of respondents's total revenues came from grants or donations.¹⁰ Matching closely with Wholesome Wave's experience, RSF has found that food hubs that can keep their sales above \$100,000 month-over-month are in a strong position with good operating leverage.¹¹ 				
						<p>Conventional industry metrics:</p> <ul style="list-style-type: none"> Industry wide, fresh produce wholesalers generate on average about \$12 million in annual revenue. About 40% of the approximately 5,000 produce wholesalers in the country have less than \$1 million in revenues.¹² The average revenue among the approximately 1,300 companies in the fruit and vegetable processing industry is about \$49 million. The average is highly skewed because the top 50 companies in the industry make up about 70% of revenues and about half of the companies have less than \$1 million in sales.¹³
	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK	
	<p>Gross Margin = (Sales - Cost of Goods Sold - Cost of Sales) / Sales</p> <ul style="list-style-type: none"> Cost of Goods Sold (COGS) is the cost of the products. Essentially, what the producer is paid. In the case of processing, COGS also includes the labor and other expenses associated specifically with producing the product for sale. Cost of Sales (COS) is the cost of delivering the products to the customer, including sorting, packaging, and distributing the product. 	<ul style="list-style-type: none"> The gross margin indicates how much of the revenue remains, after the costs of goods, to cover operating expenses, which include items like personnel salaries, facility costs, and other fixed expenses plus debt payments, taxes, etc. 	<ul style="list-style-type: none"> The food hub's gross margin is sufficient to cover the food hub's expenses. 	<ul style="list-style-type: none"> The food hub's gross margin is on the path to becoming large enough or is just large enough to cover the food hub's expenses. 	<ul style="list-style-type: none"> The food hubs gross margin does not cover expenses or worse COGS and COS outstrip revenue. The food hubs historical statements suggest no trend towards margins improving. 	
	CONTEXT/EXAMPLES					
	<ul style="list-style-type: none"> The 2013 Food Hub Survey found that on average food or product purchases were 61% of revenue. It can be difficult for food hubs to cover their costs, because food is generally such a low margin industry. For food hubs that are trying to create food access for underserved communities, covering expenses can be even more challenging, because the food hub wants to keep its prices low to ensure affordability for low-income customers.¹⁴ 					
					<p>Conventional industry metrics:</p> <ul style="list-style-type: none"> For the traditional fresh produce wholesale industry, the gross margin is 13.2% on average for all companies and 14.4% on average for companies with less than \$1 million in sales.¹⁵ Traditional fruit and vegetable processors, have on average a gross margin of 24.7% industry wide and 22.3% among companies with less than \$1 million in annual sales.¹⁶ 	

⁹ 2013 National Food Hub Survey, 21-22.

¹⁰ 2013 National Food Hub Survey, 24.

¹¹ RSF, in conversation with the author, January 30, 2013.

¹² First Research, "Industry Profile: Fresh Produce Wholesalers," November 21, 2011.

¹³ First Research, "Industry Profile: Fruit and Vegetable Processing," November 14, 2011.

¹⁴ Seconded by RSF, in conversation with the author, August 19, 2013.

¹⁵ First Research, "Industry Profile: Fresh Produce Wholesalers," November 21, 2011.

¹⁶ First Research, "Industry Profile: Fruit and Vegetable Processing," November 14, 2011.



INCOME METRICS

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
<ul style="list-style-type: none"> Operating expenses, broken out by category, as a percentage of revenue. 	<ul style="list-style-type: none"> Operating expenses as a percentage of revenue provide you with an idea of the biggest and smallest drivers of costs. In this area, we expect to see notable differences with food hubs compared to traditional industry due to the expenses expressing the food hub's mission and values. For example, a food hub's expenses may include expenses for farmer training and development services and additional costs that support farmers or customers such as added vehicle and packaging costs. Operating expenses, as with the other metrics in this section, should be considered within the context of the food hub's stage of growth, current needs, and historical trends. For example, if a food hub is working to meet growing demand, it may require them to increase expenses for staff and trucking, for example, and these could make up a larger percentage of sales. 	<ul style="list-style-type: none"> The food hub's expenses as a percentage of revenue have stabilized and declined overtime. The food hub has a good grasp of its expenses as a percentage of revenue with targets and strategies for keeping them in check. 	<ul style="list-style-type: none"> The food hub's expenses as a percentage of revenue are not completely steady, but seem to be trending down. The food hub needs to improve its strategy for managing expenses. 	<ul style="list-style-type: none"> The food hub's expenses as a percentage of revenue oscillate wildly or have been increasing over time. Historical data shows no strategy to contain or control expenses.

CONTEXT/EXAMPLES

<p>Conventional industry metrics:</p> <ul style="list-style-type: none"> In the traditional wholesale produce industry, officer compensation is 9.8% on average as a percentage of sales. Advertising and sales marketing are about 0.2% of sales and all other operating expenses are 9.8%. In total, operating expenses are 11.3% of sales on average for all wholesalers and 12.9% of sales for small companies (less than \$1 million in sales).¹⁷ The conventional fruit and vegetable processing industry spends on average 1.8% of sales on officer compensation, 1.0% on advertising and sales, and 17.7% on other operating expenses. In total, fruit and vegetable processors dedicate about 20.4% of sales to operating expenses industry-wide and 18.7% among processors with less than \$1 million in sales.¹⁸ 	<ul style="list-style-type: none"> The 2013 Food Hub Survey calculated the average expenses as a percent of revenue for respondents. Employee salaries and benefits were 23%, credit card and bank services charges 5%, and payments for facility space, trucks, and utilities were 4% of revenue, each. On average, consulting services and gasoline/tolls were each 3% of revenue and all other categories were about 2% of revenue or less.¹⁹
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DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
<p>EBITDA: Earnings Before Interest, Tax, Depreciation, and Amortization</p> <ul style="list-style-type: none"> EBITDA = (net income + interest + taxes + depreciation + amortization) EBITDA Margin = EBITDA/annual sales <p>Business efficiency ratio = total operating expenses/ annual sales</p> <ul style="list-style-type: none"> EBITDA margin (earnings before interest, tax, depreciation, and amortization / annual sales) and business efficiency ratio in total should equal 1 or 100%. 	<ul style="list-style-type: none"> EBITDA margin will be lower than gross margin and tells you how much remains after costs and most cash expenses are covered. People often look at the EBITDA margin because it allows you to see the margin before non-cash expenses such as depreciation are taken into account. The business efficiency ratio tells you the relationship between all operating expenses and annual sales. At 1.0, expenses exactly equal sales. Above 1.0, the food hub's expenses exceed annual sales. 	<ul style="list-style-type: none"> The food hub has an EBITDA margin above 1% and a business efficiency ratio of less than 1.0. 	<ul style="list-style-type: none"> The food hub has an EBITDA of 0%-1% and business efficiency ratio around 1.0. 	<ul style="list-style-type: none"> The food hub has a negative EBITDA margin and a business efficiency ratio of greater than 1.0. Historical financials do not show improvement over time.

¹⁷ First Research, "Industry Profile: Fresh Produce Wholesalers," November 21, 2011.
¹⁸ First Research, "Industry Profile: Fruit and Vegetable Processing," November 14, 2011.
¹⁹ 2013 National Food Hub Survey, 24.



INCOME METRICS

CONTEXT/EXAMPLES

Conventional industry metrics:

- For the traditional produce wholesale industry, the EBITDA margin is 2.5% overall and 1.9% for companies with less than \$1 million in sales.²⁰
- Operating income (which if the business does not have non-operating income is synonymous with earnings before interest and taxes (EBIT)) as a percentage of sales for the traditional fresh produce wholesale industry is 1.9% of revenue on average for all companies and 1.5% of revenue for companies with less than \$1 million in sales.²¹
- For the conventional produce processing sector, the EBITDA margin is 6.9% on average for all companies and 6.2% on average for companies with less than \$1 million in sales.²²
- On average for the entire fruit and vegetable processing sector, operating income as a percentage of sales is 4.3%. For produce processors with less than \$1 million in sales, operating income is on average 3.6% of sales.²³

• The 2013 Food Hub Survey found that the average business efficiency ratio among respondents was 1.07, indicating that on average food hubs expenses were greater than revenues. However, the median was 1.00 or perfectly break-even. Those respondents that had been in operation for more than ten years had the lowest business efficiency ratios.²⁴

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
• Net income or profit margin = $\frac{\text{net income}}{\text{revenue}}$	• The profit margin tells you whether any revenue remains after all operating and non-cash expenses are accounted for.	• The food hub has a profit margin greater than 0% and has shown steady improvement over time.	• The food hub has a profit margin between 0.5% and -0.5% and a historical trend towards profitability. If the profit is currently negative, the food hub has a clear path towards profitability.	• The food hub has negative net income margin and profit has historically been erratic or has declined.

CONTEXT/EXAMPLES

Conventional industry metrics:

- For the traditional fresh produce wholesale industry as a whole, the average profit margin is 1.1%. For small traditional wholesalers with less than \$1 million in sales, the profit margin is on average 0.8%.²⁵
- The average net income as a percentage of sales is 2.0% for produce processors industry wide and 1.7% for companies with less than \$1 million in sales.²⁶

BALANCE SHEET METRICS

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
<p>Liquidity ratios:</p> <ul style="list-style-type: none"> • Current ratio = $\frac{\text{total current assets for period}}{\text{total current liability for same period}}$ • Quick or acid test ratio = $\frac{\text{total current assets} - \text{inventory for period}}{\text{total current liability for period}}$ 	• The liquidity ratios measure how well the business can turn assets into cash to cover debt obligations.	• Current and quick ratios are consistently greater than 1.0.	• Current and quick ratios fluctuate some but are generally close to 1.0.	• Current and quick ratios are less than 1.0 or have been less than 1.0 for a few periods.

CONTEXT/EXAMPLES

Conventional industry metrics:

- The average current ratio for the traditional wholesalers is 1.27. For small traditional wholesalers (less than \$1 million in sales) the current ratio is 1.22.²⁷
- In the traditional industry, wholesalers have on average a quick ratio of 1.91 with small companies having an average quick ratio of 1.84.²⁸
- For conventional sector produce processors, the average current ratio is 1.75. The average current ratio for small processors with less than \$1 million in sales is 1.50.²⁹
- The average quick ratio for all traditional fruit and vegetable processors is 0.74 and for small processors is 0.63.³⁰

^{20,21} First Research, "Industry Profile: Fresh Produce Wholesalers," November 21, 2011.
^{22,23} First Research, "Industry Profile: Fruit and Vegetable Processing," November 14, 2011.
²⁴ 2013 National Food Hub Survey, 22.
²⁵ First Research, "Industry Profile: Fresh Produce Wholesalers," November 21, 2011.
²⁶ First Research, "Industry Profile: Fruit and Vegetable Processing," November 14, 2011.
^{27,28} First Research, "Industry Profile: Fresh Produce Wholesalers," November 21, 2011.
^{29,30} First Research, "Industry Profile: Fruit and Vegetable Processing," November 14, 2011.



BALANCE SHEET METRICS

CONTEXT/EXAMPLES

Conventional industry metrics:

- For the traditional produce wholesalers, industry-wide days sales outstanding (or days accounts receivable) is 38 days. For small produce wholesalers (less than \$1 million in sales), the average is slightly lower at 33 days.³⁵
- Days sales outstanding average 34 days for the conventional produce processing industry and 32 days for the companies in the industry with less than \$1 million in sales.³⁶

• Some lenders and investors are very wary of food hubs with customers that take, on average, longer than 90 days to pay the food hub.

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
• Accounts payable as a percentage of sales	• Accounts payable as a percentage of sales indicates the portion of annual sales, on average, the company owes to its suppliers.	• The food hub's accounts payable are 5-10% of sales.	• The food hub's accounts payable are 10-15% of sales.	• The food hub's accounts payable are greater than 15% of sales.

CONTEXT/EXAMPLES

Conventional industry metrics:

- In the traditional produce wholesale sector, a company's accounts payables are typically 7.1% of sales. For small companies with less than \$1 million in sales, that figure is typically lower at 6.5% of sales.³⁷
- Accounts payable as a percentage of sales is on average 7.1% for all produce processors in the conventional sector. For processors with less than \$1 million in sales, accounts payable average 7.3% of sales.³⁸

• RSF has found that food hubs often perform poorly on this metric; improving accounts payable management is an area for development for food hub operators.³⁹

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
<ul style="list-style-type: none"> • Tangible Net Worth (TNW) or net assets = (total assets - intangible assets) - total liabilities • Leverage Ratio or Debt to Worth Ratio = (total debt or total liabilities)/TNW 	<ul style="list-style-type: none"> • When looking at TNW and leverage ratio, you must take into consideration the business's strategy in owning versus leasing resources. • Generally, lenders prefer to see a positive value for TNW. Start-ups may have negative TNW, but the trend should be moving towards positive TNW. • Lenders prefer to see lower leverage ratios. Acceptable ratio depends on the risks a potential borrower may present. 	<ul style="list-style-type: none"> • The food hub has positive tangible net worth. • The food hub's debt to worth ratio is around 1.0. 	<ul style="list-style-type: none"> • The food hub has tangible net worth hovering around zero with trends indicating it will become positive. • The food hub's debt to worth ratio is greater than 2.0. 	<ul style="list-style-type: none"> • The food hub has a negative tangible net worth with no trends indicating it will become positive. • The food hub's debt to worth ratio is well over 2.0.

CONTEXT/EXAMPLES

Conventional industry metrics:

- The traditional produce wholesale industry average for debt to worth ratio is 1.21 times. For small companies, it is 1.61 times.⁴⁰
- For the conventional fruit and vegetable processing industry as a whole, the debt to worth ratio is 1.02 times. Processors with less than \$1 million in sales tend to be more leveraged with debt to worth ratio averaging 1.44 times.⁴¹

³⁵ First Research, "Industry Profile: Fresh Produce Wholesalers," November 21, 2011.
³⁶ First Research, "Industry Profile: Fruit and Vegetable Processing," November 14, 2011.
³⁷ First Research, "Industry Profile: Fresh Produce Wholesalers," November 21, 2011.
³⁸ First Research, "Industry Profile: Fruit and Vegetable Processing," November 14, 2011.
³⁹ RSF, in conversation with the author, January 30, 2013.
⁴⁰ First Research, "Industry Profile: Fresh Produce Wholesalers," November 21, 2011.
⁴¹ First Research, "Industry Profile: Fruit and Vegetable Processing," November 14, 2011.

CASH FLOW METRICS	\$				
	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> Free Cash Flow (FCF) = EBITDA - capital expenditures - changes in working capital 	<ul style="list-style-type: none"> Low or negative FCF may impede a company's ability to grow or may force it to raise capital to continue operation, but may also mean that a company is making significant investments, which can have longer term pay-offs. Strong FCF means a company has financial flexibility. Capital expenditures are cash used to finance durable assets). 	<ul style="list-style-type: none"> The food hub has positive and sizable FCF. 	<ul style="list-style-type: none"> The food hub has positive but fairly low FCF that is trending towards larger. 	<ul style="list-style-type: none"> The food hub has negative FCF with no evidence that it is trending toward positive.
	CONTEXT/EXAMPLES				
	<ul style="list-style-type: none"> As a CDFI, CEI has the flexibility to work with difficult to finance businesses, but if a business has negative cash flow for the foreseeable future, the business is not financeable with traditional debt facilities and requires alternative innovative financing. "CDFIs will bank the unbanked, not the unbankable."⁴² 				
	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> Debt Service Coverage ratio (DSC) = (operating cash flow or EBITDA) / (interest expense + current debt maturities) Interest coverage ratio = EBITDA / interest expenses 	<ul style="list-style-type: none"> For both, a greater than 1.0 ratio indicates that the company generates sufficient income to cover its interest expenses and debt service. If a borrower leases instead of owns real estate, fixed charge coverage ratio* can be more informative regarding a borrower's capabilities to service additional debt than the DSC ratio. * Fixed charge coverage ratio = (operating cash flow or EBITDA) / (interest expenses + current debt maturities + lease payments) 	<ul style="list-style-type: none"> The food hub's debt service coverage ratio is greater than 1.15. 	<ul style="list-style-type: none"> The food hub's debt service coverage ratio is between 1.05 and 1.15. 	<ul style="list-style-type: none"> The food hub's debt service coverage ratio is less than 1.05.
	CONTEXT/EXAMPLES				
	Conventional industry metrics: <ul style="list-style-type: none"> The traditional wholesaler industry-wide average for interest coverage ratio is 6.13 times. For small companies with less than \$1 million in sales this is slightly lower at 5.69 times. The average interest coverage ratio is 3.60 times for the traditional fruit and vegetable processing industry as a whole. The average is 3.83 times for processors with less than \$1 million in sales.⁴³ 		<ul style="list-style-type: none"> CEI likes to see a debt service coverage ratio of 1.25, but can go as low as 1.1 if the business is strong in other areas.⁴⁴ Self-Help's minimum for debt service coverage ratio is 1.25, but they are flexible with the food hub sector as this would often be too high.⁴⁵ RSF accepts a debt service coverage ratio of 1.1 as long as there is a strong indication that trends are moving in the right direction.⁴⁶ 		

⁴² CEI, in conversation with the author, August 21, 2013.

⁴³ First Research, "Industry Profile: Fruit and Vegetable Processing," November 14, 2011.

⁴⁴ CEI, in conversation with the author, August 21, 2013.

⁴⁵ Self-Help, in conversation with the author, August 8, 2013.

⁴⁶ RSF, in conversation with the author, January 30, 2013.

A close-up, low-angle shot of a red tractor with a green implement, likely a carrot harrow, working in a field. The tractor is pulling up soil and carrots. A farmer wearing a green cap and a blue shirt is visible in the driver's seat. The tractor has "MODEL 2-R-3072" printed on its side. The background shows a line of green trees under a clear sky.

PUTTING YOUR ASSESSMENT TO WORK

PUTTING YOUR ASSESSMENT TO WORK

Making the deal happen

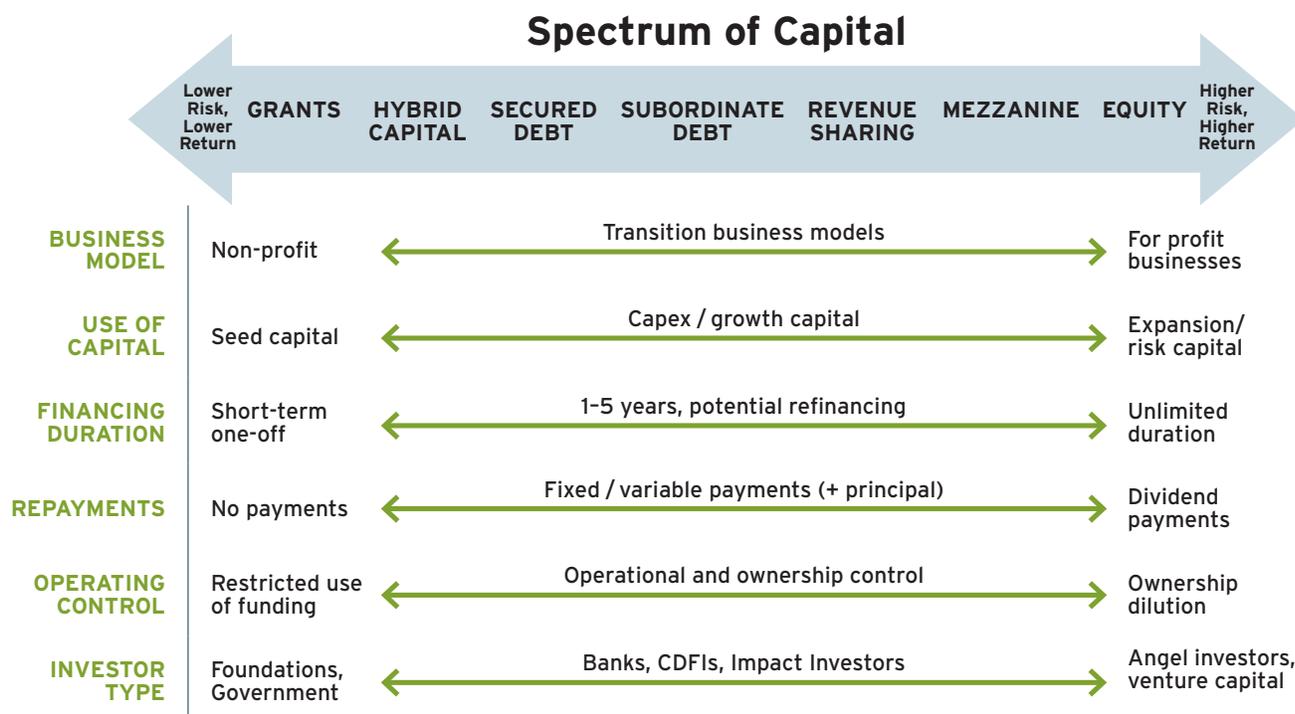
If after thoroughly assessing a food hub business, an investor believes that the enterprise is promising and an investment could help further the investor's financial and impact goals, the next step is to figure out how to structure a deal. On the other end, a food hub operator is ready to seriously consider investment when, after a thorough assessment, she believes that her business needs and can support taking on financing. Both have accomplished a critical first step toward a transaction, but much work needs to be undertaken to structure and close a deal. Closing a deal is said to be more art than science and is highly dependent on the business and investors involved – as such, the goal of this section is to provide a brief overview of the approaches investors and food hub operators take and the factors they consider.

Lenders and investors work within differing parameters around the types of capital they deploy, their level of risk tolerance, and their financial, social, environmental, and economic return expectations, among other considerations. Similarly, food hubs also have different goals around ownership, growth strategy, and exposure. Investors and food hubs should understand their own

and each others' constraints, parameters, and goals in order to successfully close a deal.

Types of capital can be thought of as existing on a spectrum or continuum with grants on one end and equity on the other end. Funders, investors, and lenders offer different kinds of capital depending on the stage of the business, their risk tolerance levels, and their goals. Food hubs take on multiple forms of capital in varying combinations at different stages of growth and depending on their needs. A new food hub might, for example, secure seed capital from a grant and pair it with equity investment and an equipment loan to fill out their start-up capital needs. As a food hub grows they might be able to get more traditional bank debt or secured debt, but, if sufficient collateral is unavailable, the deal may require using a grant, for example, as a guaranty.

The following Spectrum of Capital¹ graphic shows what business model, uses of capital, duration, repayment obligations, operating control, and investor class are typically associated with the types of capital.



¹ Please also see Janice St. Onge, "Capital Continuum," Vermont Sustainable Jobs Fund Flexible Capital Fund. http://www.vsjf.org/assets/files/Flexible%20Capital%20Fund/FlexCap_Capital%20Continuum_11-7-12.jpg.

When considering what type of capital to bring on, food hub operators should think about their vision for ownership and their time frame. Do you want to retain full control of your business or are you willing to split up your ownership? Is your business structured to take on additional ownership? (A non-profit, for example, cannot take on equity, but can accept tax-deductible grants). How long or short term of a loan or investment is a food hub willing to take on? With an understanding of their own goals and requirements for financing, food hubs will be better prepared when investors and lenders share their policies around types of capital they deploy and the length of commitment that they are interested in.

When working with a borrower, lenders often refer to the **5 C's of credit analysis: Character, Conditions, Capacity, Capital, and Collateral**.^{2,3} These are used to judge whether to give a business a loan and under what conditions. Several aspects of these concepts are covered in the body of this toolkit, but all are important to lenders as they consider how to structure a loan.

Character, which refers the trustworthiness, drive, experience, and credibility of the operator, is covered in-depth in the Organization and Management section of this toolkit.

When lenders consider the **Conditions**, they are asking two main questions:

1. What are the conditions of the overall economy and the industry and market in which the borrower operates? This question should be largely answered through the information obtained in the Market Overview section of this toolkit.
2. What will the loan/investment be used for (working capital, inventory, equipment, or something else) and does that make sense for this business? With an assessment guided by this toolkit, operators and lenders should have an excellent jumping off point for knowing what the financing will be pay for in the food hub and together they should be able to determine whether that use makes sense for the business.

Capacity, which is sometimes called Cash Flow, asks the question: Can the business generate sufficient cash flow to meet the loan payment? Using the financial analysis undertaken as part of the business assessment, the food hub operator and lender should know how much cash flow the business generates and thus how large of a loan payment the business can sustain. Lenders often focus on the debt service coverage ratio (discussed in the Finances section) when thinking about capacity and, while lender policies vary, many aim for the borrower to have ratio above 1.2. (A DSC ratio of 1.2 would indicate that for every \$1 of loan payment owed in a month, a borrower should have \$1.20 of cash flow after expenses each month).

In looking at **Capital**, lenders are asking how much the food hub owners/operators have invested into the business and how much they will invest into the project being financed. What is the net worth (total assets minus liabilities) of the business? Investment in the food hub or project may not come exclusively from the owner/operator, but may also come through guaranties, capital from friends and family, among others. Some impact investors consider sweat equity as part of the capital invested by the owner/operator.

For lenders that offer secured debt, **Collateral** is what the lender relies on to pay back the loan should the worst case happen and the borrower be unable to pay the debt. Collateral is usually physical assets, such as land, equipment, trucks, inventory, and other things of value that the lender could sell. Using the list of physical resources that a food hub has developed in the Operations section of this toolkit, lenders can value those assets. One factor to consider is how the useful life of an asset aligns with the length of a loan term. Lenders policies vary but they often steeply discount the market value of an item because they will be selling these items under the worst of circumstances and will not have the liberty of time and expertise to gain the highest price. Again policies differ, but a lender will often require a certain ratio of collateral to amount of the loan. While food hubs are largely capital-intensive businesses, because of their grassroots nature they sometimes

² Eisenmenger, Jeff. "The Five Cs of Credit: Deciding when to loan money," Farm Credit, March 7, 2013. <http://www.farmcreditnetwork.com/newsroom/blog/article/the-five-cs-of-credit-deciding-when-to-loan-money>.

³ Rural Advancement Foundation International USA, "The Five C's: Cash Flow, Capital, Collateral, Conditions, and Character," RAFI USA. <http://rafiusa.org/farmers-five-cs/>.

do not have sufficient collateral to fully secure a loan. The fact that a food hub's inventory is usually mostly perishable and, thus, can become valueless quickly, can contribute to this difficulty.

As lenders use the "5Cs" to understand potential risks for a food hub, they will attempt to mitigate those risks through the way that they structure the deal – the requirements in terms of collateral and capital, the rate of the loan, the term of the loan, and other conditions.

Equity investors are equally concerned as lenders about character and conditions, but focus on other issues as well. Instead of capacity to repay and collateral to secure the investment, **equity investors are concerned about the return on equity and potential strategy for exiting ownership of the business.** For return on investment, investors are interested in how the value of their equity will increase with the growth of the company. Investors have different goals for returns but given the margins that food businesses face, investors should not anticipate the same level of returns they might expect in other industries. Investors also have different goals for exit strategy, but, generally, the goal is to sell their ownership in the company for more than they invested initially and cash out on the growth of the company. Among impact investors, goals for returns also include the social, environmental, and economic impact the investors seek to spur with their capital. In addition, impact investors' goals for exit strategy may include certain impact goals, such as selling their ownership in the company into community- or worker-ownership. There are also various examples of non-traditional "near equity" instruments that allow impact investors to provide capital for social enterprises in ways that do not require the entrepreneurs to give up control or force them into early exits.

Food hub operators should also do a thorough evaluation of potential investors or lenders as they are working to structure a deal. A food hub should consider the character of the investor and lending entity – are they someone you trust and that you can ask for advice, guidance, and understanding? A food hub operator should also make sure the investor or lender is aligned with the mission and goals of the food hub. Important to consider as well are what resources, skills, or connections an investor contributes to the food hub. Taking a look at the line up of investors or lenders, food hubs may ask what role each investors fills and

how well this composition works for the food hub. In turn, investors and lenders should see themselves as not just providing money to a food hub, but also as providing human capital and formal or informal oversight of and insight into the business.

Just as each food hub business is unique and each investor and lender has their own unique requirements and goals, each deal among food hubs and investors will be unique. As an emerging sector that seeks not only profitability but also impact creation, **food hubs need creative leaders at their helms and also need entrepreneurial lenders and investors willing to work with partners and develop novel and complex deal structures to meet the food hubs' financing needs.**

Many deals with food hubs will require using layers of different kinds of capital (or capital stacking) that work together to meet the funding needs of the food hub without exposing the investors to risk beyond their limits and without placing an untenable burden on the business. While structuring and closing the deals can be tricky, investing in a food hub provides a wonderful opportunity to generate financial return and create meaningful social, environmental, and economic impact.



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Stay in touch

Regionalizing our food systems helps decrease the environmental impact of food production, increase the prosperity of farmers and rural economies, and bolster communities' food security. Healthier regional food systems are critical to the future of our rural and urban communities and a good investment in a food hub is also an investment in building a stronger, safer, and more resilient food system.

We have created and shared this toolkit with investors and food hub operators because we want to encourage informed investment in food hubs to help build strong regional food infrastructure. We very much hope that you take the tools we've provided to create change throughout our food system and local economies.

As you use the toolkit, please share with us how you are using it and adapting it to your needs. We see this toolkit as a living document based on our and others' experiences and want to revise our approach to reflect your experience as well.

We are at a very early stage of understanding food hubs as a class of businesses and impact investing as an industry. There will be many more innovations and best practices than are codified here, and the sector will evolve rapidly. We encourage you to make or catalyze many creative investments into food hubs and experiment with many different approaches. As you do so, we ask that you share your learnings and innovations with us and the field.

Please reach out to us if you are looking for assistance. If you are food hub operator or developer seeking investment, contact Wholesome Wave as we may be available to help you through the financing process. If you are an investor looking for a consultant to assess a food hub, Wholesome Wave may be available to offer those services.

We look forward to hearing from you at investments@wholesomewave.org or (203) 226-1112.