PATHWAYS TO FOOD HUB SUCCESS: FINANCIAL BENCHMARK METRICS AND MEASUREMENTS FOR REGIONAL FOOD HUBS

August 15, 2013
Presentation Outline

- Technical Orientation
- Introduction

Jeff Farbman
Wallace Center at Winrock International

- Food Hub Benchmarking
  - Description and Motivation
  - Methods
  - Data and Analysis

- Questions and Answers
- Upcoming Opportunities, etc.
WALLACE CENTER at WINROCK INTERNATIONAL

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

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

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

Policy Change
• Policy makers are informed by the results and outcomes of the NGFN and have enacted laws or regulation which further the Network goals.

http://ngfn.org | contact@ngfn.org
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Food Hub Benchmarking
- Description and Motivation
  Gary Matteson – Farm Credit Council
- Methods
  Chad Gerencer – Morse Marketing Connections, LLC
- Data and Analysis
  Erin Pirro – Farm Credit East

- Questions and Answers
- Upcoming Opportunities, etc.
FOOD HUB BENCHMARKS

A Collaboration of

THE FARM CREDIT COUNCIL
and
FARM CREDIT EAST
WHAT IS A “REGIONAL FOOD HUB”? 

“A business or organization that actively manages the aggregation, distribution, and marketing of source-identified food products primarily from local and regional producers for the purpose of strengthening producer capacity and access to wholesale, retail, and institutional markets.”

USDA/NGFN Food Hub Collaboration Working Definition
WHY FOOD HUBS?

- Fill a critical gap in regional food systems
- Positive impacts in their communities
- Variations on a theme:
  - Farm to business
  - Farm to consumer
  - Hybrid model
WHY BENCHMARKS?

- Benchmark projects in other segments of agriculture
  - Dairy Farms
  - Retail Agriculture
  - CSAs
  - Wineries
  - Greenhouses
  
- Lack of data on local food systems

- Need to understand the trends!
  - local food purchasing, building regional food systems
WHAT’S A BENCHMARK?

- Collection of historical financial results and operational information from similar food hub businesses
- Comparison to peer group
- Analysis of information to identify range of performance
GOALS OF BENCHMARKING

- Identify descriptive metrics of value in assessing performance
- Recognize different models for food hubs
- Compare food hub performance across business models
- Provide snapshot of sector from a financial standpoint
- Resource for improving profitability, thus sustainability
- Visualize capacity of sector
METHODOLOGY OF THE STUDY

- Food hubs volunteered to participate
- Confidentiality of the utmost importance
- Good Records, Data questions via survey
- Reviewed complete financials to ensure reconciled, accrual earnings
- In/Out?
  - Actually distributing food, not just renting space
  - Lack of detail or ability to provide financials
WHAT GOES INTO A BENCHMARK?

- Good financial records
- Operational information
  - Production measures
  - Safety ratings
  - Human resources practices
- Input from member businesses
DATA COLLECTION

- Confidential collection and analysis
- 2012 Data
- First financial study of Food Hubs
- Diverse product mix

Due to the limited sample size, this study reflects only the general performance level of the peer group, not the entire food hub sector.
THANK YOU AGAIN, PARTICIPANTS

The study and its ultimate findings rely on the volunteer participation of our member food hubs.
SCOPE OF OPERATIONS

- Average Age of Food Hubs: 11 Years
- Average Revenue: $1.65 million
- Annual Operations: 301 Days
- Facilities:
  - Square Footage: 9,018
  - Number of Loading Docks: 2
  - Delivery Fleet (annual miles driven): 54,001
THE PRODUCT

- Sourcing Distance (miles) 521
- Strictly Organic 20%
- Grow Some of Own Product 27%
- Buy From Own Incubator Farmers 33%
ORGANIZATION AND OPERATION

- “Not for Profit” status: 53%
- Take ownership of product: 73%
- Sales from in-house processing: <1%
- Sales from value-added products: 4%
- Membership Fees Charged:
  - To Vendors – 13%
  - To Customers – 20%
SOURCES OF REVENUE

- Product Sales: 83.78%
- Grants/Contributions: 6.35%
- Other Enterprises: 0.75%
- Delivery/Trucking Income: 0.13%
- Miscellaneous Income: 8.99%
FINANCIAL POSITION

- Net Worth: 57%
- Current Ratio: 1.6:1
- Blended Debt Term: 14 years
- Blended Effective Interest Rate: 1%
## WHAT’S EVERYONE DOING?

<table>
<thead>
<tr>
<th>Employee Role</th>
<th>FTE*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production/Growing</td>
<td>0.5</td>
</tr>
<tr>
<td>Sales</td>
<td>0.9</td>
</tr>
<tr>
<td>Delivery/Distribution</td>
<td>2.1</td>
</tr>
<tr>
<td>Management</td>
<td>0.7</td>
</tr>
<tr>
<td>Office/IT</td>
<td>0.8</td>
</tr>
<tr>
<td>Marketing</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5.2</strong></td>
</tr>
</tbody>
</table>

*paid equivalents

| Number of W-2s issued       | 10   |
# Food Hub Customers

<table>
<thead>
<tr>
<th>Type of Customer</th>
<th>% of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grocery/Food Stores</td>
<td>43.25%</td>
</tr>
<tr>
<td>Restaurants and Caterers</td>
<td>21.52%</td>
</tr>
<tr>
<td>Other Distributors</td>
<td>18.81%</td>
</tr>
<tr>
<td>Direct Retail</td>
<td>6.13%</td>
</tr>
<tr>
<td>Institutions (school, hospital, government)</td>
<td>4.51%</td>
</tr>
<tr>
<td>Processors</td>
<td>3.74%</td>
</tr>
<tr>
<td>Other</td>
<td>2.04%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>
CONCENTRATION - CUSTOMERS

- Average Number of Customers: 326
- Product Sales to Largest Customer: 19%
- Product Sales to Largest 10 Customers: 64%
<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Number of Vendors</td>
<td>79</td>
</tr>
<tr>
<td>Farmer Vendors</td>
<td>57%</td>
</tr>
<tr>
<td>Food Safety Certification</td>
<td>33%</td>
</tr>
<tr>
<td>Required</td>
<td></td>
</tr>
<tr>
<td>Purchases with Largest Vendor</td>
<td>16%</td>
</tr>
<tr>
<td>Purchases with 10 Largest</td>
<td>50%</td>
</tr>
<tr>
<td>Vendors</td>
<td></td>
</tr>
</tbody>
</table>
# BENCHMARK PROFIT & LOSS

<table>
<thead>
<tr>
<th>Section</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>100.00%</td>
</tr>
<tr>
<td>- Cost of Goods</td>
<td>-67.63%</td>
</tr>
<tr>
<td>- Cost of Sales</td>
<td>-11.04%</td>
</tr>
<tr>
<td><strong>Gross Margin</strong></td>
<td>21.33%</td>
</tr>
<tr>
<td>- Overhead Costs</td>
<td>-24.29%</td>
</tr>
<tr>
<td><strong>Net Margin</strong></td>
<td>(2.99%)</td>
</tr>
</tbody>
</table>
OPERATIONAL EFFICIENCY

- Markup Multiple: 1.24
- Gross Margin: 21.3%
- Labor Costs as a Percent of Sales: 17.4%
- Labor Costs per Paid FTE: $48,867
- Sales per Worker Equivalent: $286,788
BUDGET FOR PROFITABILITY

Set a profit goal

+ Overhead expenses

Gross Margin $ Needed

÷ Gross Margin as a Percent of Sales

Sales Needed

Now you have the basis for a marketing plan.
QUESTIONS?
Questions and Answers

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Webinars are Archived

TOPICS!

http://ngfn.org/webinars
NGFN Webinars

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

- Sept 19 – State of the Food Hub - National Survey Results
- Oct 17 - Food Hubs and Farm to School

http://ngfn.org/webinars
Two Notable Websites

- **www.FoodHub.info**
  - Food Hub “hub”
  - Research, case studies, list and map of hubs across the country, much more.

- **www.FoodshedGuide.org**
  - Case study-based business and financial training
  - Includes a “One Page Business Plan” and a “One Page Financial Plan”
Get Connected, Stay Connected

http://ngfn.org/database

National Good Food Network Database
Click to learn more

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