Addendum to the National Good Food Network Webinar “The Million Dollar Question: Breakeven and Viability for Different Food Hub Operational Models”

The following is an addendum to the National Good Food Network webinar presented by James Barham and James Matson on March 19, 2015. This document provides answers to questions posed by listeners during the presentation as well as presents some corrections or clarifications to the presented information.

Correction to the Wholesale Food Hub:
A correction was made to the wholesale food hub since the presentation of the webinar. The utility expenses that had been incorrectly classified as a fixed facility costs, have now been correctly placed under the variable cost category. With this adjustment, Wholesale and Hybrid facility costs are nearly equivalent, with a slight variation due to differences in rates charged by the two locations.

This correction to the utilities expense will not affect annual sales, EBITDA or net income figures for the wholesale financial model. The variable margin will decrease, as it is now taking into account the annual utilities expense, which results in the Wholesale Food Hub’s variable margin being slightly higher than the Hybrid Model’s variable margin.

The following table shows the corrected viability comparison pro forma. The breakeven and growth pro formas will also be affected by this correction, but the total amount of sales, operating profits and net income figures will not change.

<table>
<thead>
<tr>
<th>Table 1: Updated Viability Pro Forma</th>
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<tbody>
<tr>
<td><strong>Viability</strong></td>
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<tr>
<td>Revenues (Sales)</td>
</tr>
<tr>
<td>Total Variable Operating Costs</td>
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<tr>
<td>Variable Margin (Loss)</td>
</tr>
<tr>
<td>Total Equipment Costs</td>
</tr>
<tr>
<td>Total Facilities Costs</td>
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<tr>
<td>Total Selling and Marketing Costs</td>
</tr>
<tr>
<td>General and Administrative Expenses</td>
</tr>
<tr>
<td>Unforeseen and Contingency Expenses</td>
</tr>
<tr>
<td>Earnings EBITDA (Loss)</td>
</tr>
<tr>
<td>Interest Expense</td>
</tr>
<tr>
<td>Depreciation Expense</td>
</tr>
<tr>
<td>Net Venture Income (Loss)</td>
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**Listener Questions**

1. **What was used to determine the marketing costs?**
Many food hubs do not utilize traditional promotion and marketing campaigns, and choose instead to focus on lower-cost relationship, word-of-mouth, or social media approaches to building awareness. As a result, the financial analyses do not include large promotional budgets.

2. **How does local supply factor in here and into the broader conversation?**
The Food Hubs financial analysis does not focus on products offered in any distinct segment of the country; instead, the growing period for the produce sold by the food hub falls in the median range, as opposed to the longer or shorter growing seasons exhibited by certain regions.

3. **I know the assumption is 6500 sq ft, but are there some documented economies of scale based on volume (or scaling up?)**
The square footage was chosen with the assumption the hubs would have extra space for growth. The Hybrid Food Hub takes advantage of this extra space by assuming that the addition of the direct to consumer segment to a wholesale food hub would utilize this extra available space. By the growth phase of the Hybrid model, the food hub would be reaching maximum capacity as opposed to the wholesale model where there may be more available space and the opportunity to remain in the building for a longer period of time.

4. **What is EBITDA?**
Earnings Before Interest, Taxes, Depreciation and Amortization.
www.investopedia.com/terms/e/ebitda.asp

5. **What types of equipment are assumed in your example?**
Examples of equipment items included are tables, pallet jacks, cooling systems, fire extinguishers and other safety equipment, as well as office and break room items. No processing equipment is included.

6. **How would the operational costs look different if serving a rural area?**
Some costs items may be reduced such as lease rates and employee wages.

7. **Clarification: Is this saying 70% of all operating are payment to producers?**
For the wholesale model, the 70% refers to the fact that 70% of total sales dollars are returned to producers.

8. **Why is there such a big difference between your model's figure for payments to producers and the national average?**
This assumption of a 70/30 split, with 70% of sales returned to farmers, came from work with previous food hub clients and how they have set up their cost structure.
9. Are food hub delivery trucks leased or purchased?
The financial models assume that delivery trucks were purchased and in operation at the start of the breakeven period. While there is an option for leasing the vehicles, we have found that there is not a significant difference the average costs over the lifetime of the vehicles.

Correlation between community support of food hubs and support of McDonalds or other fast food restaurant chains:
The average gross sales for McDonalds in 2013 $2.5 million; Krispy Kreme and Panera Bread had slightly lower gross sales for the same period. The food hub sales levels in the growth phase also fall within this range. Urban, suburban, and rural areas are all able to support the $2.5 million of sales needed to maintain McDonalds and other similar restaurant chains. Because the food hub requires a similar sales level to be viable, it can be inferred that a food hub will also be able to be supported by urban, suburban, and rural communities.

Further Explanation of the Viability Point:
For the purposes of the food hub financial models, we defined viability as the point at which the food hub is retaining around 5.5% of sales dollars as operating profits over the annual period. At this point if the food hub is a for-profit entity, it may consider beginning to provide a return to investors or owners; if it is a non-profit, it may begin to expand its involvement in community activities, or be able to internally fund activities that have previously relied on outside funding sources such as grant or community funds.

While this is looked at as a point of viability, even at this level of sales, the food hub should continue to look towards the future. It is assumed that at this level of income, the business is nearing the maximum capacity or workload for some areas such as equipment, labor or warehouse space. In order to continue on the path of growth towards long term sustainability, the hub will need to expand these areas. This point is not meant to be the point of highest profitability and viability, but instead the beginning of a move towards a longer term goal of expansion in the market, and increased profits for the food hub.
Additional Labor Information

Many viewers expressed an interest in learning more about the labor assumptions included in the food hub financial analyses. While there was not enough time to provide more detail on this during the webinar, the following data should provide more clarification on labor.

The efficient operation of the food hubs will require numerous roles to be fulfilled to operate successfully. While the information regarding human resource needs is presented using personnel titles, the titles are intended to represent a role within the venture that will need to be filled along with associated functions. It is intended that in many cases multiple roles can be fulfilled by one individual employee, and where possible, individuals may be shared for several roles within the business based on availability. Additionally, the number of full time employees (FTE’s) associated with each model may vary over the course of the year depending on the sales seasonality and labor demands.

Each food hub employs salaried and hourly labor. A cost for fringe benefits and overhead expenses related to salaried labor has been included in the financial model as a percentage of the annual salary of the individual. The rates for the hourly employees fall in line with the Bureau of Labor Statistics and the average pay rates for comparable labor positions in the United States.

The main salaried labor positions are general, sales and production managers. The general manager is responsible for organizing, overseeing, and directing all food hub operations. The sales manager oversees the acquisition of new customer accounts in order to grow the sales of the food hub. A production manager works to coordinate farmers with each other and the food hub to maximize their ability to meet the demand of customers and to prevent the oversupply of products during the peak growing season and minimize waste during slower periods.

**Wholesale Financial Model:**

The Wholesale model includes the following labor roles:

- General Manager
- Sales Manager
- Production Manager
- Driver
- General Labor
- Line Supervisor
- Office/Administrative

During the viability period, when sales are at their highest, the wholesale food hub will require the man hours of approximately 6.27 full time equivalents. For the annual period each full time equivalent would earn around $45,800. This labor cost is consistent with results from the benchmark survey and various other resources.

The general, sales and production managers are salaried labor positions; the remaining four labor categories are hourly. Office and administrative labor is considered fixed and does not vary directly with sales, while driver, general labor and line supervisor hours are directly determined by sales levels.
Salaried labor will transition over the three year period from part time to full time. This is a result of the role based approach. In years when management positions are considered part time these individuals will likely be fulfilling other roles such as delivering or receiving packaging. The following table shows the annual costs for hourly and salaried labor including the overhead expense for salaried labor.

**Table 2: Wholesale Labor Costs**

<table>
<thead>
<tr>
<th></th>
<th>Breakeven</th>
<th>Growth</th>
<th>Viability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hourly</td>
<td>$60,765</td>
<td>$76,952</td>
<td>$106,324</td>
</tr>
<tr>
<td>Salaried</td>
<td>$98,475</td>
<td>$127,075</td>
<td>$180,700</td>
</tr>
</tbody>
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**Direct to Consumer Financial Model:**
The Direct to Consumer model includes the following labor roles:
- General Manager
- Production Manager
- Volunteer Coordinator
- Driver
- General Labor
- Pickup Point Labor
- Volunteer Labor

Because the direct to consumer food hub is a substantially smaller business as compared to the wholesale model, the amount of FTE’s will also be lower than the wholesale requirements. At viability, the direct to consumer hub will need the equivalent of 1.81 full time equivalents. This results in each FTE earning around $33,000 for the annual period.

The managers and volunteer coordinator are salaried positions, all others are hourly. Driver, general labor, pickup point labor and volunteer labor hours are all directly based upon sales levels. The pickup point laborers are employees of the hub, while volunteers are unpaid community members aiding the food hub.

Utilizing volunteer labor can help to reduce labor costs, particularly during the startup period. Volunteer programs can be a way for food hubs to gain community involvement and find permanent staff; however, volunteer laborers can also be less reliable than paid staff. There are indirect costs in using volunteers that should not be overlooked. As the food hub grows, the availability of volunteer labor becomes less important to the overall profitability of the food hub.

The following table shows the annual costs for hourly and salaried labor including the overhead expense for salaried labor.

**Table 3: Direct to Consumer Labor Costs**

<table>
<thead>
<tr>
<th></th>
<th>Breakeven</th>
<th>Growth</th>
<th>Viability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hourly</td>
<td>$13,171</td>
<td>$17,640</td>
<td>$18,021</td>
</tr>
<tr>
<td>Salaried</td>
<td>$23,725</td>
<td>$33,150</td>
<td>$41,600</td>
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</table>
Hybrid Financial Model:
The Hybrid model includes the following labor roles:

- General Manager
- Sales Manager
- Production Manager
- Driver
- General Labor
- Pickup Point Labor
- Line Supervisor
- Office/Administrative
- Volunteer Labor

For the hybrid model, the hub will require around 6.27 FTE’s when the business reaches the viability level. This is on par with the requirements of the wholesale model. At this level, each FTE will earn approximately $44,800 for the year, which is again on par with the wholesale food hub given a slight margin for error or other factors.

As the hybrid model is combining wholesale and direct to consumer sales, this food hub will require the largest amount of labor positions. Labor efficiencies have been captured when combining these two segments so that again employees are fulfilling labor needs based upon roles, as opposed to overlapping the requirements of wholesale and direct to consumer model and operating with two distinct labor groups.

This model also includes the use of volunteer labor. As with the direct to consumer financial model, volunteer labor can help to reduce labor costs during the startup period, but as the business grows, the effect that volunteer labor has on viability and profitability decline.

The following table shows the annual costs for hourly and salaried labor including the overhead expense for salaried labor.

**Table 4: Hybrid Labor Costs**

<table>
<thead>
<tr>
<th></th>
<th>Breakeven</th>
<th>Growth</th>
<th>Viability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hourly</td>
<td>$63,215</td>
<td>$75,123</td>
<td>$100,217</td>
</tr>
<tr>
<td>Salaried</td>
<td>$104,975</td>
<td>$136,825</td>
<td>$180,700</td>
</tr>
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