Presenters

Jim Slama
FamilyFarmed.org
Oak Park, IL

Kathy Nyquist
New Venture Advisors
Chicago, IL
The Business of Food Hubs
Planning Successful Regional Produce Aggregation Facilities

FamilyFarmed.org
National Good Food Network Webinar
September 30, 2010
Objectives

• Present a framework for planning successful local food hubs
  – Uses a business planning approach which assesses the entire value chain
  – For-profit orientation

• Demonstrate how it works with two case studies for developing wholesale businesses
  – Illinois Ready to Grow Feasibility Study
  – Virginia Local Food System Assessment
Definitions

• **Food Hub**: small or large warehouses that aggregate food and facilitate sales to wholesale customers or directly to consumers. Ideally: located near to the farms they serve.

• **Packing House**: an aggregation facility that receives and prepares raw fruits and vegetables from farmers to then sell fresh and in some cases frozen to wholesale customers. Packing house roles vary; they may offer such services as washing, cooling, sorting, grading, packaging, labeling, and sales, marketing and distribution.
About FamilyFarmed.org

• Work to build regional food systems
• FamilyFarmed EXPO
  – Trade Show, Food Policy Summit, Financing Conference, Food Festival
• Farm to School
  – Chicago Public Schools to purchase $2.3 million in produce from regional farms
• On Farm Food Safety Project
  – Developing tool to help farmers create food safety plan
About FamilyFarmed.org

• Connect wholesalers with local food producers
  – Whole Foods Market
  – Chipotle
  – SYSCO
  – Compass Group
  – Goodness Greenness
  – Irv and Shelly’s Fresh Picks
  – Other large scale buyers
Training
• New York
• Washington DC
• Southern California
• Florida
• Indiana
• Illinois
Wallace Center Partnership

- Wallace + FamilyFarmed.org – a long history
- Wallace brings
  - National perspective
  - Significant talent
Agenda

1. Business Planning Process Overview
2. Case Study: Illinois Ready to Grow Feasibility Study
3. Case Study: Northern Virginia Local Food System Assessment
The Business Planning Process

What is a Feasibility Study anyway?
“If Work”

Feasibility Study
- Starts with a list of queries that inform the overall question of financial sustainability
- Answered through initial due diligence
- If conclusion is positive, proceed to...

Business Plan
- Takes findings to the next level of detail and rigor
- Blueprint for starting and running the business
- Executive summary is used to raise capital
- Refined with operating experience and market feedback
Feasibility Study

- Examines the viability of the business concept
  - Company mission or objective
Feasibility Study

• Examines the viability of the business concept
  – Company mission or objective
  – Technology
Feasibility Study

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  - Business risks
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  - Operation issues
  - Management team
  - Financial information
  - Business risks
  - Comparables and analogs, antilogs
Due Diligence Process

- Primary research | your interviews, surveys
- Secondary research | done by others
- Analogs | SEC filings, business case studies
- Analyze | how is this data relevant?
- Synthesize | use data to answer questions and refine
- Model | rough financials/P&L
What is a positive assessment?

- Enough evidence that the business will become financially sustainable
- Risks can be mitigated
- If overly risky → pinpoint barriers and either retool or watch the market for a future window
- If positive → biz plan → fundraise → startup
Case Study: *Illinois Ready to Grow*

A Plan for Increasing Illinois Fruit and Vegetable Production
Action Plan and Feasibility Study

[http://www.familyfarmed.org/readytogrow/](http://www.familyfarmed.org/readytogrow/)
Background

• Strong interest from buyers wanting Illinois grown produce
• Recognition that produce aggregation infrastructure is largely missing in Illinois
• Funding from Illinois Dept. of Agriculture to assess barriers to “Scaling Up” plus feasibility study examining packing house
Methodology

• Develop study team: buyers, growers, NGOs
• Primary research: grower survey, interviews, live meetings
• Secondary research: SEC filings, case studies, market studies
• Analysis and discussion of findings with stakeholders
Methodology

• Synthesis of all inputs into total business design
• Simple financial model with sensitivities to price and supply
• Release of findings to Illinois stakeholders
Grower/Buyer Meeting
Survey Findings

• 181 growers responded to survey
• Key barriers:
  – Marketing
  – Processing capacity
  – Risk of not selling
  – Financing
  – GAP certification cost
  – Liability Insurance cost
Survey Findings

• Key findings:
  – Many willing to scale up
  – 550 to 700 acres of new fruit and vegetables land in production by 2015 if barriers addressed
  – 83% said a packing house would be valuable
Buyers Indicate $23 Million Demand for IL Produce

- SYSCO—$10,000,000
- Sustainable Foods/Goodness $5,000,000
- US Foods—$2,000,000
- Whole Foods Market—$1,250,000
- Compass Group/Chicago Schools—$500,000
- Lettuce Entertain You—$500,000
- Fresh Picks—$250,000
- Hy-Vee—$400,000
- Chipotle $150,000
Barrier Mitigation
Recommendations

1. Regional packing house development
2. Support farmers to access financing
3. Implement food safety cost share program
4. Help farmers access labor
5. Educate and train growers about best practices for post harvest handling
Feasibility Study Findings

• Favorable environment

Demand > Supply

– Food Hub solves the pain
– Growers ready to step up

• Business model

– 2 profit centers: packing and sales
– Based on positive economic incentives for packing house and growers
Feasibility Study Findings

• **Financial model:** from acres to net income

```
Acres → pound yield/acre → pounds/case → cases processed (≈plant capacity)

Cases processed x price/case + cases sold x commission/case = gross revenue

Gross revenue – bad debt expense = net revenue

Net revenue – direct costs = gross margin

Gross margin – general and administrative expenses = operating income

Operating income – financing expense, depreciation, taxes = net income
```
# Feasibility Study Findings

<table>
<thead>
<tr>
<th>Acres</th>
<th>Net Revenue</th>
<th>Gross Margin</th>
<th>Operating Income</th>
<th>Net Income</th>
<th>Seasonal Utilization</th>
<th>Annual Utilization</th>
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<tbody>
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<td>$1,767</td>
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<td>($143)</td>
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<td>1,000</td>
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<td>($107)</td>
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<tr>
<td><strong>1,260</strong></td>
<td><strong>$4,453</strong></td>
<td><strong>$537</strong></td>
<td><strong>$180</strong></td>
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<td><strong>33.7%</strong></td>
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<td>281.0%</td>
<td><strong>92.6%</strong></td>
</tr>
</tbody>
</table>

Dollar figures in thousands
Feasibility Study Findings

• Risk mitigation
  – Management team skill is critically important, particularly in marketing and sales
  – Establish a wide and cooperative network of growers
  – Collaborate with other intermediaries to strengthen the market
  – Engage all stakeholders to maintain a supportive climate
Next Steps

• Recommended to IL DOA a pilot facility with the plan to build 1 or 2 hubs

• Beginning the business planning process now
  – Site selection
  – Ownership/management team
  – Detailed operating and marketing plans
  – Pricing and production planning with customers and growers
  – Complete financial projections
  – Fundraising
Case Study: Virginia LFS Assessment
Local Food System Assessment for Northern Virginia
Key Findings

• $16.8 Billion is spent annually on fruits and vegetables in Washington DC, Virginia, Delaware, Maryland

• Northern Neck Farmers Market is an excellent example of an aggregator serving farmers and markets

• Inadequate production to supply a new aggregator, but interest from many growers in scaling up
Barriers

- Soils
- Farmers capacity to grow at wholesale level
- Labor
- Equipment to provide high quality post harvest handling/packing
- Price—farmers are concerned about commitment of buyers and getting a fair price
Analogous Models

- Appalachian Sustainable Development
- Good Natured Family Farms
- Local Dirt
- Locavore Food Distributors
- Organic Valley
- Red Tomato
- State Owned Packing Houses
Northern Neck of Virginia Farmers Market

Oak Grove, VA
Q&A Panelists

Jim Slama
FamilyFarmed.org
Oak Park, IL

Kathy Nyquist
New Venture Advisors
Chicago, IL

Kelly Liddington
Virginia Cooperative Extension
Warsaw, VA

Megan Bucknum
Wallace Center
Arlington, VA
Contact Us

Jim Slama
FamilyFarmed.org
7115 W North Ave #504
Oak Park, IL 60302
708-763-9920 tel
708-763-9925 fax
jimslama@familyfarmed.org
www.familyfarmed.org

Kathy Nyquist
New Venture Advisors LLC
630 W Wrightwood #5W
Chicago, IL 60614
773-315-1885 tel
773-857-5636 fax
knyquist@newventadvisors.com
www.newventadvisors.com

Thank you!