

BUILDING THE SUCCESS OF FOOD HUBS THROUGH THE COOPERATIVE EXPERIENCE

MODULE 1. IDENTIFYING THE OPPORTUNITY

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MODULE 1. IDENTIFYING THE OPPORTUNITY

(Estimated time for completion 3 to 6 months)

Actions: Develop an organizing or steering committee of persons interested in developing a food hub. Explore the market or economic need. Convene meetings of steering committee, identify business concept, conduct feasibility analysis, and share findings.

Outcomes:

- Food hub project steering committee formed with members committed to determining the need for a food hub.
- Economic need for food hub enterprise justified
- Scope and nature of food hub enterprise identified
- Public meetings held to explain concept of food hub and opportunities for producers to supply the hub and buyers to make purchases
- Funds (\$0 to \$10,000) raised to support feasibility analysis
- Consultant hired, feasibility analysis completed



Who is involved:

- Project steering committee
- Farmers and buyers
- Advisors, consultants, community members

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PART 1. BUILDING THE WAVE

EXPLORATORY EVENT #1: NETWORK SURVEY

A food hub enterprise will only be successful if it has sufficient volume to buy and sell. Network surveys are informal conversations in which one can determine whether an idea has traction. A food hub organizer should talk to farmers and to buyers interested in purchasing local, source-identified foods. Other useful conversations could be held with persons or non-profit leaders interested in the local foods movement, food security, and food justice. The organizer can connect with the networks of others by sharing information about a food hub concept with a community or economic developers, chamber of commerce leaders, or cooperative extension educators.

Measuring traction is difficult. Gauge traction by:

- Do the people who you talk to think there is a need?
- Who else would they suggest you talk to?
- Do they appear to be genuinely enthusiastic about the idea?
- Would they be interested in coming to a meeting for further discussion about the opportunity? Or engage through a virtual platform?
- Would they be interested in being part of a leadership team focused on food hub development?

The goal of the network survey is to determine if there is sufficient interest to hold a meeting and develop a list of persons who could be interested in supplying product to or buying from a food hub. If the idea of a food hub has traction, the person proposing the concept should convene a meeting of interested individuals.

Who did I talk to? Contact information	Date of conversation	Location of conversation	Conversation summary
Name:			
Email or phone			
Name:			
Email or phone			
Name:			
Email or phone			

EXPLORATORY EVENT #2: FORMING A PROJECT STEERING COMMITTEE

Convene a meeting of **all persons interested in the concept of a food hub** to discuss the need of the enterprise. Summarize the information gleaned through the network survey. Ask for additional comments. Consider bringing in someone who can serve as a meeting facilitator. Discuss if there is a true need for a food hub. Explain that the next steps could require a feasibility analysis and that funds need to be raised to support the study. Be aware that there may be naysayers in the audience. Naysayers do have a part to play in any discussion as they may raise issues of legitimate concern that should be addressed as the project moves forward. Remember that one cannot address all of the concerns of the naysayers. In many cases people are not willing to share publically what they think privately. Suggest that the group vote by paper ballot to see if there is a need to proceed. If the vote or consensus of the group is that there is merit in the idea, then select a steering committee. Steering committee members should be well respected within the community and have talent, knowledge, and experience useful to the development of the food hub. Steering committees are a useful tool when forming a cooperative or non-profit organization. An advisory team can be useful when developing an investor-owned food hub.

(SEE PART 2. RESOURCE #1: DEVELOPING A LASTING AND EFFECTIVE COMMITTEE PAGE: 8)

The steering committee will need to organize itself.

If worthy of further investigation, the group needs to decide:

- Who should provide the leadership for the group?
- What are the decisions that the steering committee needs to make to move forward?
- Who makes what sort of decisions?
- What sub-committees and coordinators are needed?
- What responsibilities and decisions will be delegated, and to whom?
- How will these decisions be made and communicated within the group and to the larger community?
- What additional expertise outside of the group is needed?
- Who can provide that expertise?
- If a feasibility study is to be conducted, what is the scope of the study?
- Are there costs involved? How much? How will funds be secured?

“Never doubt that a small group of thoughtful, committed citizens can change the world; indeed, it’s the only thing that ever has.”
– Margaret Mead

The steering committee may need to meet several times. Outside experts can be invited to attend to share useful information relevant to the formation and development of a food hub. The steering committee can utilize the Internet to learn about existing food hubs – what they do and how they operate. This information is collected and shared with other committee members.

EXPLORATORY EVENT #3: FRAMING THE FEASIBILITY ANALYSIS

Through this process, some food hub concepts, i.e. business structure, services provided, location, etc. will be worthy of further investigation and others will not. Relevant concepts can be further refined and explored through a feasibility analysis. Answering the following questions and identifying appropriate assumptions provides a means by which the steering committee or investor-owners can frame the feasibility analysis.

(SEE PART 2. RESOURCE #2: USEFUL QUESTIONS TO DEVELOP ANALYSIS FRAMEWORK, Page 9)

A feasibility analysis contributes to the successful launch of the food hub. Ideas are tested through financial analysis, surveys and focus groups. Taking an idea from concept to an operational stage is complex. Even with a feasibility analysis there is a high failure rate. While the costs of a feasibility analysis may seem high, they are relatively minor compared to the total project investment. The study is based on assumptions identified by the steering committee. A feasibility analysis presents the risks and returns associated with the project. Most start-ups requires some debt capital early on. Lending sources require an objective evaluation of the start-up when they consider making the loan.

The food hub steering committee should consider the following criteria when hiring a consultant:

- Previous experience conducting feasibility analyses
- Experience in the industry or access to industry professionals
- Ability to work independently and objectively
- Willingness to listen to the ideas of the project steering committee
- Works closely with the steering committee or designated contact person
- Willing to revise study upon feedback from the steering committee
- Accomplishes study within designated time frame and budget
- Strong writer with analytical skills
- Provides clear, useful information in the final study

Feasibility studies do have some limitations. It is not an academic research paper, nor is it a business plan. It is not intended to identify new avenues for the project as those ideas should have been clarified before the study was initiated. Studies with negative conclusions can be useful to the project steering committee. The result of the study is to collect project-specific information to assist the steering committee in making decisions.

Several pitfalls can emerge in this process. They are:

- ***Group may have lack of agreement on the problem the food hub can address.***
- ***Lack of confidence in leadership can emerge.***
- ***Steering committee has limited understanding of roles and responsibilities.***
- ***Poor quality feasibility analysis.***



EXPLORATORY EVENT #4: PUBLIC OUTREACH

The steering committee for a proposed cooperative or non-profit organization will convene successive events for **persons interested in forming a food hub**. The results of the feasibility survey will be shared. Continue discussion on the merits and need for a food hub at these events. The steering committee will work with the feasibility study consultant to refine the assumptions, analysis and conclusions. The steering committee will accept the final report. The steering committee should examine the following questions before moving forward to organize a food hub enterprise.

FOOD HUB BUSINESS CONCEPT VIABILITY - CRITICAL QUESTIONS

The food hub feasibility analysis is complete. Does the analysis show:	Yes	No
That near the designated location of the business, there a critical mass of farmers with the desire to market product through the hub?	<input type="checkbox"/>	<input type="checkbox"/>
What is necessary to attract producers to sell product through the food hub?	<input type="checkbox"/>	<input type="checkbox"/>
There is a critical number of buyers with the desire to purchase product through the hub?	<input type="checkbox"/>	<input type="checkbox"/>
What is necessary to attract buyers to want to purchase product through the food hub?	<input type="checkbox"/>	<input type="checkbox"/>
There are qualified leaders committed to forming and directing the business enterprise?	<input type="checkbox"/>	<input type="checkbox"/>
If a cooperative structured business, then member needs will be balanced with achieving cooperative profitability?	<input type="checkbox"/>	<input type="checkbox"/>
Their sufficient volume of product sold through the hub to make it financially viable?	<input type="checkbox"/>	<input type="checkbox"/>

If participants agree to proceed they need to identify who will serve as the founding board for the organization if the business is to be organized as a cooperative, corporation, or non-profit organization. If a cooperative, it is appropriate to solicit memberships.

Recognize and accept that not everyone will be supportive of the idea. Others may be supportive but unwilling to commit publicly. Others may be interested but unable to attend public outreach events. And still others may take a “wait and see” attitude before willing to commit.

PART 2. USEFUL RESOURCES

RESOURCE #1: DEVELOPING A LASTING AND EFFECTIVE COMMITTEE

An effective Steering Committee will be the driving force behind a well-organized cooperative development effort. It will also be an important organization for carrying the effort beyond the planning phase. There are a few basic, yet often overlooked methods for turning a group of volunteers into an effective, enduring organization.

Select an effective chairperson

The ideal chairperson is a good meeting facilitator, skilled at delegating tasks and monitoring progress. The chairperson should be a respected member of the community, able to serve as a spokesperson for the planning effort, and skilled at building coalitions and collaborative efforts.

Build committee skills

Community projects such as a food hub can falter when a key individual leaves. Share tasks and cultivate skills to ensure that no one person is indispensable.

Establish set meeting times

Frequent meetings at regularly scheduled times give the committee continuity and stability. Keeping your meetings at the same time and place will encourage consistent attendance.

Communicate, communicate, communicate!

Sending out agendas, meeting notes, and background materials keeps members informed and prepared for upcoming meetings. These mailings also lend professionalism to your efforts.

Make every meeting count

At each meeting, have an agenda and stick to it. See that the group makes decisions to move forward and that members leave with assignments to be completed within specific time frames.

Reinforce and celebrate the spirit of collaboration

If multiple groups are involved in a collaborative food hub project, then it's essential that all groups receive credit for their participation in the coalition. Publicize the diversity of the people involved and make sure that single individuals or groups do not get credit for what is a collaborative endeavor.

Provided by the Cooperative Development Institute, PO Box 422, Shelburne Falls, MA, 01370 and Adapted from Hubbard, Alice and Clay Fong. 1995. Community Energy Workbook: Guide to Building a Sustainable Economy, Rocky Mountain Institute, Snowmass, CO. pages 22-23.

RESOURCE #2:

USEFUL QUESTIONS TO DEVELOP ANALYSIS FRAMEWORK

1. What is the competitive advantage of or need for the proposed food hub?
 - a. Is someone currently doing food hub-type activities with the desire to expand?
 - b. What is the need for a new business to source locally produced foods?
 - c. What/Where is local?
 - Hyper-local – within 25 to 50 miles from point of sale
 - Within state boundary
 - Within 250 miles
 - USDA definition – within 400 miles of point of sale
 - “As local as we can source it at a given time”
 - Other?
2. Where might the food hub be located?
3. When would the food hub operate – seasonal, year-round?
4. Who are the potential food hub suppliers?
 - a. Who are the potential farmers (volume they would provide) who would sell to the hub?
 - b. What is the likelihood they would expand production?
 - c. What sort of food safety protocols would farmers need to adopt?
 - d. What is the willingness of farmers to adopt the required protocols?
 - e. What are the locations of farmers who would sell to the hub?
 - f. What and how much can they grow?
 - g. What would be purchased – produce, meat, dairy, shelf-stable, value-added, etc.
 - h. What are the benefits, i.e. enhanced marketing, higher prices, etc. to those farmers who participate?
5. How does the food hub fit into the market place?
 - a. What are expected costs of goods sold?
 - b. What are the expected mark ups?
 - c. What are the desired margins?
 - d. In which market channels will the hub sell product?
 - e. What market share might the food hub expect to serve?
 - f. What are the strategic alliances that the food hub might develop along the supply chain?
 - g. What is the policy of the food hub (if a cooperative) about soliciting buyers already served by its farmer-members?
6. What are the components of the facilities necessary to store the product?
 - a. Refrigeration (number of cold rooms)
 - b. Freezers
 - c. Loading docks (how many)
 - d. Dry goods storage

7. What is the best organizational business structure to meet the goals of the owners?
(See PART 2. Resource #4: Business Structure, Page 12)
 - a. Sole proprietorship
 - b. Partnership
 - c. Limited Liability Corporation (LLC)
 - d. Corporation
 - e. Cooperative

8. What are the financial and organizational needs of the food hub?
 - a. What are the capital needs of the cooperative?
 - b. What is the level of needed financing?
 - c. Who might provide that financing?

9. What about the decision to be made
 - a. If a bad decision is made, what is the cost?
 - b. If no decision is made, what would be is the cost?
 - c. If the cost of a poor decision is small, spend little time, money or effort on the decision
 - d. If the cost of a poor decision or error is large, then spend additional time and resources for additional information.

RESOURCE #3: FEASIBILITY STUDY OUTLINE FOR FOOD HUB OPERATION

(Note: Feasibility study based on the concept that develops from answering the 8 critical questions.)

- 1) Executive Summary
 - a) Summary of key findings and recommendations
- 2) Introduction
 - a) Description of project, the need for a food hub
 - b) Work already completed, relevant dates, persons involved
- 3) Industry background
 - a) Basic background of the farm and food sector
 - b) Economic conditions of the farm and food sector relevant to food hub development
 - c) Implications and feasibility of a food hub entering the sector
- 4) Methodology
 - a) Informant surveys and interviews
 - b) Data analysis (supply by producers and demand from buyers)
 - c) Focus groups
- 5) Marketing
 - a) Market potential for goods handled by the food hub
 - b) Market potential for services provided by the food hub
 - c) Market channels to be served (current, future, location) and their attributes
 - d) Ease and challenges of food hub in entering the market
 - e) Marketing plan – buyers, product volume, expectations
 - f) Summary of marketing situation and opportunities
- 6) Operations
 - a) Business structure
 - b) Product supply – number of growers/producers with volume and product type available for the food hub
 - c) Assessment of size and scale of the facility
 - d) Food hub location characteristics
 - e) Characteristics of the facility, the buildings, site attributes (utilities, parking, truck maneuver ability)
 - f) Staff requirements – management, employees
- 7) Regulatory Issues and Risk Factors
- 8) Financial statements (pro forma statements)
 - a) Projected income, operating costs and net income
 - b) Capital requirements (sources of equity, sources of debt capital, grants, philanthropy)
 - c) Pro forma cash flow statement
 - d) Income statement, balance sheet, and sources and uses of funds
 - e) Equity accumulation plan and financial ratio analysis
 - f) Breakeven Analysis, Financial Plan Summary
- 9) Summary
 - a) Concise summary of major findings
 - b) Recommendations for next steps
- 10) Appendix
 - a) Copies of surveys, focus group and interview questions
 - b) Additional financial spreadsheets
 - c) Relevant supplemental information
 - d) Notes, persons involved, credentials, and references, etc.

A feasibility plan is used to determine if an idea has merit and viability and worthy of the investment in time, effort and resources to be successful.

A business plan is an action plan with strategies and tactics useful to grow the enterprise and contribute to its sustainability.

Adapted from: Brockhouse, John W. Jr. and James J. Wadsworth. 2010. Vital Steps: A cooperative feasibility study guide. U.S. Department of Agriculture, Rural Business-Cooperative Service. Washington, D.C. Service Report 58. December.

RESOURCE #4: BUSINESS STRUCTURE

Several business structures have been utilized by food hubs to conduct business. Many are formed as limited liability companies (LLC), corporations, cooperatives or non-profit organizations. When considering the best business structure for the enterprise consider the goals of the business, property ownership, earnings distribution, and the system of governance.

Who owns the business?

In corporations shareholders own one or more shares of stock which is an intangible form of property interest. The shareholder has an indirect interest in the business. The corporation may place limitations on how shares might be transferred from one owner to another. Shareholders are not obligated to do any business with the corporation.

In cooperatives members own shares of stock or member interest in the business depending on how the business is organized. The cooperative may issue different types of equity interests to its members depending on the patronage capital system. Such interests are intangible and represent indirect ownership of the business. Charter documents, applicable laws and agreements among members may limit transfers of such interests. Members (the owners) of a cooperative utilize the services provided by the business.

In limited liability companies, membership interest is intangible and the member has an indirect interest in the business assets. Agreements among members may place transfer restrictions upon membership interests.

In non-profit organizations there are no ownership interests. If the non-profit was to cease operations, any assets of the organization must be distributed to other non-profits fulfilling similar missions.

How are earnings distributed?

In a corporation earnings are distributed to shareholders based on the ownership interest. The board of directors could decide to pay a dividend on each share of stock.

In cooperatives earnings are distributed to the members who utilize the business in proportion to use. This distribution is commonly known as a patronage refund or for agricultural cooperatives can be known as the 13th check.

In limited liability companies, earnings are distributed based on the language outlined in the operating agreement.

In non-profit organizations profits are not allowed to distribute profits. Net earnings are used to support the mission of the organization and for the betterment of society. It is appropriate for non-profits to be profitable.

What about personal liability associated with business ownership?

In a corporation shareholders generally do not have personal liability. Shareholders cannot be forced to use personal assets to pay the debts of a corporation. Shareholders could lose their money invested in the corporation.

In a cooperative members are afforded the same liability protections as those of a shareholder in a corporation. Cooperative members can be called upon to make additional capital contributions when requested by the board of directors.

In a limited liability company members are shielded from personal liability in the same way of corporate shareholders. Members may also make 'loans' to the LLC when additional funds are needed.

In a non-profit organization, the directors of the organization are shielded by the organization. They cannot be forced to use personal assets to pay the debts of the non-profit.

What about the system of governance?

In a corporation management is through the board of directors. Control is exercised by shareholders who vote for directors. Directors may or may not be shareholders.

In a cooperative the business is controlled by the member/owners who vote for the directors (they have to be members of the cooperative). The directors hire the general manager who manages the organization.

In limited liability companies members can act as the managers of the business or hire people to perform the management function.

In a non-profit organization the board of directors act as the managers. They can hire staff to perform management functions.

What about organizational leadership?

Corporations, cooperatives, and non-profit organizations are led by a board of directors. The board of directors has a 'duty of care' or a fiduciary responsibility to exercise good business judgement, due diligence and act in good faith in the operation of the company. They also have a 'duty of loyalty' or refrain from conflict of interest where the personal interests of a board member would supersede the interests of the company. The failure to exercise the duty of care and duty of loyalty can make the directors and managers personally liable for losses that might occur. To mitigate this risk many companies will purchase directors and officers (D & O) liability insurance.

PART 3. SUPPLEMENTAL INFORMATION

Brockhouse, John W. Jr. and James J. Wadsworth. 2010. Vital Steps: A cooperative feasibility study guide. U.S. Department of Agriculture, Rural Business-Cooperative Service. Washington, D.C. Service Report 58. December.

Rapp, Galen, and Gerald Ely. 2010 (revised). How to start a cooperative. U.S. Department of Agriculture, Rural Business-Cooperative Service. Washington, D.C. Cooperative Information Report 7. November.

This completes Module 1. Identifying the Opportunity.

Please see Module 2. Creating the Food Hub Business.

Components of Module 2 include development of a business structure and associated documents, completing a business plan, capitalization plan, and securing producer commitment.

Please see Module 3. Launching the Food Hub Business

Components include identification of operating systems, staffing and services, and the business lifecycle.