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# *Running* A **FOOD HUB**



## **A BUSINESS OPERATIONS GUIDE**

VOLUME TWO



## Rural Development

### **Service Report 77, Volume II Issued July 2015**

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# Running a Food Hub

## *A business operations guide*

VOLUME TWO

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*The authors thank James Barham of USDA Cooperative Programs for his help in preparing this report. Thanks also to Sasha Feldstein, a UC Berkeley graduate student and intern at USDA, for her editorial assistance.*

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**Cover:** *Illustration by Sharon Szegedy Graphic Design, Inc. Cover and book design by Stephen Hall, Kota Design.*

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*These producers belong to the Sandhills Farm to Table Cooperative (SFTC), a multi-stakeholder food hub based in Whispering Pines, NC, with close to 40 producer-members and more than 1,000 consumer-members. Photo courtesy of SFTC.*

## Introduction

**THIS REPORT** is part of a multi-volume technical report series entitled *Running a Food Hub*, with this guide serving as a companion piece to other United States Department of Agriculture reports by providing indepth guidance on starting and running a food hub enterprise.

In order to compile the most current information on best management and operations practices, the authors used published information on food hubs, surveyed numerous operating food hubs, and pulled from their existing experience and knowledge of working directly with food hubs across the country as an agricultural business consulting firm.

The report's main focus is on the operational issues faced by food hubs, including choosing an organizational structure, choosing a location, deciding on infrastructure and equipment, logistics and transportation, human resources, and risks. As such, the guide explores the different decision points associated with the organizational steps for starting and implementing a food hub. For some sections, sidebars provide “decision points,” which food hub managers will need to address to make key operational decisions.



## Food Hub Definition and Functions

**USDA DEFINES** a food hub as “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.”<sup>1</sup>

In many cases, individual farmers and producers do not have enough product to satisfy a large buyer, such as local grocery chains, restaurants or institutions, including colleges, schools, and government institutions. Conversely, large buyers struggle to find local producers that can provide a consistent supply of locally grown food to meet consumer demand. By providing aggregation, distribution, and marketing services, food hubs can play a critical role in satisfying the needs of both farmers and buyers.

Food hubs can:

- Provide a link between farmers, producers, and buyers.
- Give individual farmers and producers the means to market and sell their products together as one larger entity, allowing them the opportunity to sell to high-volume buyers.
- Offer farmers and producers the ability to receive fair and consistent pricing for their products.
- Provide larger buyers with a supplier that can not only meet high levels of demand, but can also consistently provide fresh local foods.
- Educate buyers about food and facilitate information flow and sharing.
- Help farmers extend their season which, in turn, helps provide buyers with a more consistent supply of product.

The figure below shows the different elements of a food hub, how food hubs function, and the variety of producer, operational, and community services that a food hub can provide.

Food hubs can provide opportunities for local growers to access buyers that may otherwise be too large for individuals to access on their own. Food hubs essentially function as a link in the logistical chain to help convey food

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<sup>1</sup> Barham, James, Debra Tropp, Kathleen Enterline, Jeff Farbman, John Fisk, and Stacia Kiraly. *Regional Food Hub Resource Guide*. U.S. Department of Agriculture, Agricultural Marketing Service. Washington, DC. April 2012. Publication can be accessed at [www.ams.usda.gov/foodhubs](http://www.ams.usda.gov/foodhubs).

**Figure 1—Regional Food Hub Services<sup>2</sup>****Producer Services**

- Actively linking producers to markets
- On-farm pick up
- Production and post-harvest handling training
- Business management services and guidance
- Value-added product development
- Food safety training
- Liability insurance

**Operational Services**

- Aggregation
- Distribution
- Brokering
- Branding and market development
- Packaging and repacking
- Light processing (trimming, cutting, freezing)
- Product storage

**Community Services**

- “Buy Local” campaigns
- Distributing to “food deserts”
- Food bank donations
- Health screenings, cooking demonstrations
- Food stamp redemptions
- Educational programs
- Youth and community employment opportunities

products to mid-scale buyers who in turn provide the product for sale to the end consumer. As illustrated in Figure 1, food hubs can provide many of these services.

Along with providing core operational functions — including aggregation, distribution, and marketing — food hubs often coordinate efforts with producers in areas such as production planning and delivery logistics. They also provide training in areas such as post-harvest handling and packing, season extension, and food safety. At the same time, food hubs often engage directly with their community through donations, educational programs, and health-awareness campaigns.

<sup>2</sup> Barham, James, Debra Tropp, and Carolyn Dimitri. *Regional Food Hubs and Food Value Chains: Improving Market Access for Local Producers through Innovative Distribution*. Presentation for National Small Farms Conference, September 2012. United States Department of Agriculture, Agricultural Marketing Service. Presentation can be accessed at [www.ams.usda.gov/foodhubs](http://www.ams.usda.gov/foodhubs).

# Food Hub Classifications

**AN IMPORTANT BEGINNING STEP** in creating and implementing any business is to determine how it will be structured. Though many of the following classifications of a food hub are interrelated, they can be divided into three broad categories: tax designation, legal structure, and operational model.

The business structure of a food hub — or any type of business — will determine many aspects of the operation, including tax liability, sources of capital, general risk management, information flow and sharing, and even opportunities for growth and expansion. Basically, business structure determines how the business operates, both internally and externally.

## DECISION POINT

- *Which business structure is right for your food hub?*
- *How will the business be organized?*
- *Will the structure fill the needs of all parties?*

Food hubs can have as much, if not more, variety in their operational structure as other businesses. A food hub can be privately held or publically held; can be a nonprofit or for-profit. Ownership can be divided, just as any other business, into sole proprietorships, partnerships, corporations, cooperatives, or LLCs (limited liability companies).

There is no single clear choice for the “best” or “preferred” structure or operational model when forming a food hub. The “best” for any individual situation can be chosen by closely examining the needs of the food hub owners and stakeholders, as well as the business environment in which the food hub will operate.

## Food Hub Tax Designation<sup>3</sup>

The broadest division of entity types is determined by tax designation. For tax purposes, entities can be for-profit or nonprofit at both the State and national level. How the food hub is organized will typically influence how profitability is determined. Nonprofit food hubs may gauge success based on their capacity to fulfill the mission, while a for-profit organization

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<sup>3</sup> The following information is meant to provide general advice and information and is not intended as a substitute for legal counsel. In the formation of any business, both State and national laws must be considered, and entities wishing to legally organize are strongly encouraged to consult an attorney familiar with business formation in their area.

**What’s the difference between a for-profit and a nonprofit organization?**

**For Profit**

**Nonprofit**

Money returned to the owners

Money returned to the organization

Not exempt from Federal or State taxes

Typically exempt from Federal and State taxes

Assets distributed to owners after dissolution

Assets distributed to other nonprofits after dissolution

Funds are raised by offering investors a percentage of ownership

Funds are raised by soliciting donations and applying for grants

may determine success on its level of profitability.

**For-Profit Organizations**

A for-profit organization may be formed to conduct lawful business activities while also earning a profit. The majority of businesses in the United States operate as for-profit ventures. The profits earned by this type of organization can be used to pay operational costs and be distributed to the owners. For-profit organizations are not exempt from paying Federal or State taxes on profits. Any donations to the company are not tax deductible for the donor. Assets of a for-profit organization belong to the owners of the business. If the food hub dissolves, the assets are distributed to the owners of the business, based on their level of ownership.

For-profit organizations have many options when it comes to gathering funding. They can offer investors a percentage of the food hub ownership. These investors can provide property, services, and money in exchange for shares of the food hub’s stock. For-profits may still have the option to obtain funding from grants and solicited donations.

**Examples of For-Profit Food Hubs**

■ Cherry Capital Foods	Traverse City, MI	(Multi-Product)
■ Eastern Carolina Organics	Durham, NC	(Organic Produce)
■ Moore Farms and Friends	Woodland, AL	(Produce)

# Nonprofit Organizations

A nonprofit organization is created “for the purpose of serving a public or mutual benefit other than the pursuit or accumulation of profits for owners or investors.”<sup>4</sup> Nonprofit organizations can, and do, still earn an operational profit, but these profits can only be used for the operation of the organization, such as paying employee wages, rent, utilities, etc. Typically, nonprofit organizations raise funds by soliciting donations from other businesses and individuals. These organizations may sometimes find it easier to attract government and private grants.

## Examples of Nonprofit Food Hubs

■ ALBA	Salinas, CA	(Produce)
■ Common Market	Philadelphia, PA	(Multi-Product)
■ Local Food Hub	Charlottesville, VA	(Produce)

Entities seeking nonprofit status must file appropriate paperwork and undergo an application that can take months. During the application period, the entity is often allowed to operate as a nonprofit pending a final determination of its application.

Nonprofit organizations may also qualify for State and Federal tax exemptions, as determined by the Internal Revenue Service (IRS). Donations made to a qualified nonprofit organization are also tax deductible for the donor. If a nonprofit dissolves, the assets are donated to another nonprofit organization.

## Food Hub Legal Structure

Whether for-profit or nonprofit, a business can be organized as any of the following types of legal entities. Corporations, LLCs, and cooperatives are the most common choices for food hubs. Brief descriptions of some of the most common types of legal organization are presented below, and Appendix D presents a chart comparing some significant issues related to different business structures.

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<sup>4</sup> Luckert, Kate. “Nonprofit Organizations (Definition and Examples).” Case Western Reserve University [www.learningtogive.org/papers/paper41.html](http://www.learningtogive.org/papers/paper41.html)

## Corporation

Of all the legal organizations discussed, corporations are most common for large businesses in the United States. The structure offers the investor (stockholder) limited liability protection. Any liability is limited to the value of the stock held in the corporation. Businesses formed under this structure require oversight by State regulatory boards, at a minimum, and in some cases by the U.S. Securities and Exchange Commission. A corporation has a perpetual existence. Owners can routinely sell or reassign stock (or ownership) without disrupting ongoing operations.

## C-Corporation

A C-corporation (as distinguished from an S-corporation) is taxed separately from its owners.

### *Advantages and Disadvantages of C-Corporations*

- The C-corporation is the most complex of business structures because it acts as a legal entity that exists separately from its owners.
- Control depends on stock ownership.
- Stockholders are at risk only for money they have invested in the stock of the corporation.
- Capital can be raised more easily through the sale of stocks or bonds.
- The C-corporation can continue to function even without key individuals.
- Double taxation occurs because the business exists as a separate entity.

## S-Corporation

The S-corporation is a special tax designation applied for, and granted by, the IRS to corporations that have already been formed. It is a legal structure that can be used for so-called closely held corporations. To become an S-corporation, the business first must form a general or professional corporation, and the company must complete Form 2553, Election by a Small Business Corporation, and file it with the IRS.

Entrepreneurs and small business owners often take advantage of the S-corporation structure because it combines many advantages of the sole proprietorship, partnership, and corporate forms of business.

### *Advantages and Disadvantages of S-Corporations*

- Taxes are passed through to the members of the corporation.
- Restrictions on the number and type of ownership include: U.S. citizenship or residency requirements; only real individuals can be

members; and one share class limitation.

- There are limitations on passive income for the S-corporation.
- S-corporations have many of the same basic advantages as a general corporation (see above).

## B-Corporation

Also known as a benefit corporation, a B-corporation is a type of certification or designation that also falls under the umbrella of corporations. A B-corporation's goals include having positive impacts on society and the environment, in addition to making a profit. Not all States have legislation in place to recognize B-corps. Certification is issued by B Lab, a nonprofit organization.

### Examples of Corporation Food Hubs

■ Capay Valley Farm Shop	Esparto, CA	(Multi-Product)
■ Sonoma Organics	Sebastopol, CA	(Produce, Cheese, Mushrooms)
■ This Old Farm	Colfax, IN	(Meat, Produce)
■ Veritable Vegetable	San Francisco, CA	(Multi-Product)

## Limited Liability Company

An LLC's purpose is to combine the limited liability for its members usually found in the corporate structure (and to limited partners in limited partnerships) with the pass-through tax advantages of a general partnership (any profits/losses pass through to the individual investor and appear on the individual's tax return). So, an LLC has some, but not all, of the characteristics of each entity. An LLC may be formed by just one person but it more commonly requires two or more persons.

LLC formation and liability characteristics are similar to that of a corporation. To form a corporation or LLC, the necessary documents must

### Examples of Limited Liability Company Food Hubs

■ Firsthand Foods	Durham, NC	(Beef and Pork)
■ Sprout MN, LLC	Brainerd, MN	(Produce)
■ Farm to Family Naturally	Fairdealing, MO	(Multi-Product)

be filed with the designated State agency. Unlike a general partnership, shareholders are not personally liable. Other characteristics may be similar to or different from corporate characteristics, depending upon how the LLC members wish to structure the entity and comply with IRS regulations to receive favorable tax treatment.

### *Advantages and Disadvantages of LLCs*

- Provides its members limited liability.
- Allows members to escape double taxation.
- Any “person,” either natural (an individual) or legal (another legal entity, such as a partnership), can be a member.
- Members may actively manage the LLC without incurring personal liability.
- Uncertain tax status.
- Drafting the agreement can be fairly complex.

## **Cooperatives**

A cooperative is a business owned and democratically controlled by the people who use its services and whose benefits are derived and distributed to the users.<sup>5</sup> The user-owners are called members. A cooperative is headed by a board of directors, and members hold the voting power within the business. Although this report focuses on agricultural cooperatives, this business structure can be found in many other areas. According to the U.S. Small Business Administration, “Cooperatives are common in the healthcare, retail, agriculture, art, and restaurant industries.”<sup>6</sup>

Statistics from the United States Department of Agriculture (USDA) Cooperative Statistics for 2012 reports that there are about 2,238 farmer, rancher, and fishery cooperatives in the United States. These cooperatives had a combined membership of 2.1 million people and total gross business volume of \$235 billion. Collectively, cooperatives employed 129,000 full-time employees and 56,000 part-time and seasonal employees.<sup>7</sup>

### *Advantages and Disadvantages of Cooperatives*

- Maintain or increase market access.
- Allow producers to have access to additional pricing and marketing opportunities.

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<sup>5</sup> USDA Rural Development. “Cooperatives.” [www.rurdev.usda.gov/lp\\_coopprograms.html](http://www.rurdev.usda.gov/lp_coopprograms.html)

<sup>6</sup> SBA. “Choose Your Business Structure: Cooperative.” [www.sba.gov/content/cooperative](http://www.sba.gov/content/cooperative)

<sup>7</sup> Ali, S. & Eversull, E. (2013). “Cooperative Statistics 2012.” USDA Rural Business-Cooperative Programs Service Report 74.



- Reduce risk.
- Generate more profits.
- Reduce costs.
- Can be complex to organize.

### *Cooperative Structure*

Cooperatives have a unique form of organization with distinct characteristics, strengths, and difficulties. A cooperative is organized and incorporated under applicable State laws. To qualify as a cooperative, attributes must include:

■ Management controlled by a board of directors elected by the members. One unique feature of a cooperative is that all, or most, of the directors must be members of the cooperative. Thus, the leaders are regular users of the business' products or services.

■ Equity mainly comes from the members, rather than outside investors, although cooperatives are allowed to raise equity from outside sources. Equity is obtained by direct contributions through membership fees or sale of stock, by agreement with members to withhold a portion of net income based on patronage, or through retention of a portion of sales proceeds for each unit of product marketed. If a cooperative fails, the liability of each member is limited to the amount he/she has invested.

■ Earnings/losses on business conducted on a cooperative basis, often called net margins, are allocated to the members on the basis of the use they made of the cooperative during the year, not on the basis of equity held. The allocations may be distributed in cash or retained in members' accounts in the cooperative, to be distributed at a later time. Members usually receive a combination of cash and an allocation of equity.

#### **Examples of Cooperative Food Hubs**

■ Idaho's Bounty Co-op	Hailey & Garden City, ID	(Multi-Product)
■ La Montañita Co-op	Albuquerque, NM	(Multi-Product)
■ Tuscarora Organic Growers Co-op	Hustontown, PA	(Organic Produce)

### *Multi-Stakeholder Structures*

The way a food hub and most businesses are structured typically gives benefits to only one group of stakeholders; the benefiting class is determined by whether the business is producer-owned, worker-owned, or consumer-

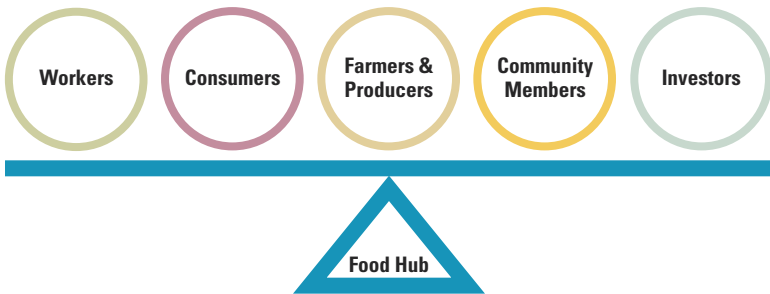
owned. Many food hub ventures are experiencing increasing difficulty successfully operating a single-stakeholder business. At times, the goals of a food hub include benefiting multiple groups (i.e., farmers, consumers, workers) within the same structure, which can represent a challenge for some ventures and often makes operations for the hub more complicated as the hub tries to balance the needs of the many groups working together.

To help address the diverse concerns of members, a unique organizational format has arisen, mostly among food hubs organized as cooperatives, that includes multiple membership classes, such as producers, workers, consumers, community members, and investors, in the ownership of the business, thus addressing all classes of stakeholders involved. A multi-stakeholder organization is often identified as containing at least two groups of stakeholders.

*A multi-stakeholder food hub balances the needs of stakeholder classes*

In the governance of such a multi-stakeholder structure, care must be taken to balance the needs and interests among all classes of stakeholders. Typical “one-member, one-vote” formats are often modified in some way, with some groups utilizing directors as representatives for an entire class of stakeholder in order to maintain the balance of governance.

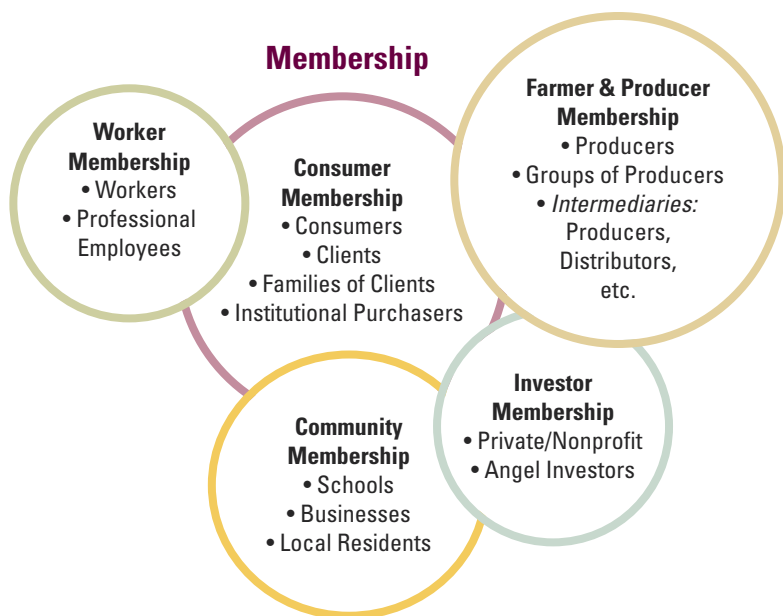
This type of business approach doesn’t just balance the needs of



stakeholders, but also embraces their different needs. According to the Cooperative Development Center at Kent State University, multi-stakeholder businesses “represent a diversity of interest, but a commonality of need or aspiration on the part of the stakeholders, capturing a range of types of interest and impacts that an organization has, while recognizing the interdependency between them.”<sup>8</sup> Put simply, multi-stakeholder businesses

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<sup>8</sup> Lund, Margaret. “Solidarity as a Business Model: A Multi-Stakeholder Cooperative Manual.” Cooperative Development Center at Kent State University.



help create solidarity between groups that would normally have differing sets of needs.

The multi-stakeholder approach creates unique challenges regarding benefits and information flow. Membership within a multi-stakeholder business can vary depending on the needs of the venture. Typically, membership can be grouped into five main categories: Consumer Membership, Worker Membership, Investor Membership, Community Membership, and Producer Membership. Not all food hubs will have all of these groups as formal members. For example, the food hub may work closely with the community but may not have this group represented with a membership class. Some food hubs may group or classify these members differently.

### Examples of Multi-Stakeholder Food Hubs

■ Sandhills Farm to Table	Whispering Pines, NC	(Multi-Product)
■ Fifth Season Cooperative	Viroqua, WI	(Multi-Product)
■ Nebraska Food Cooperative	Belgrade, NE	(Multi-Product)

## **Subsidiary Food Hubs**

Several U.S. food hubs have been formed as subsidiaries of an existing company with a larger mission. These food hubs usually operate independently, although technically they are a subsidiary of the parent organization. There are examples of this arrangement with both for-profit and nonprofit entities.

There are numerous examples of food hubs using this process. La Montañita, a for-profit cooperative, began its Co-op Distribution Center (CDC) to provide access for mid-scale farmers and producers that would otherwise have difficulty accessing local markets. GrowNYC is a nonprofit company headquartered in New York City that began a wholesale distribution service, Greenmarket Co., to make local products available to wholesale buyers. Seattle Tilth is a nonprofit organization located in Seattle, the mission of which includes education and promoting a sustainable local food system for the Seattle community and beyond. As part of this mission, the association began the Seattle Tilth Produce food hub and offers a community supported agriculture (CSA) program to area consumers.

## **Other Legal Organizations**

While most food hubs in the United States are structured as corporations, LLCs, or cooperatives, other legal structures exist, including sole proprietorships and partnerships. These types of organizations have traditionally been less common, due to liability issues and difficulties in raising capital.

There are multiple factors to weigh when determining the best business structure for a venture, which can vary depending on the type of structure. For a better understanding of the differences between common business structures, a comparison table has been included in Appendix D of this document.

## **Food Hub Operational Models**

While all food hubs are engaged in the aggregation and distribution of food, they approach this function through many different methods of operation. These methods, or “operational models,” can be categorized based on what market the food hub is serving. Direct-to-consumer, wholesale, and hybrid operations (which are a combination of these and other methods of operation) are the three primary types of aggregation ventures, as USDA defines a food hub. Within these broad divisions there are numerous categories of food hub models. This section presents descriptions of some of the most common operation models.

## *Direct-to-Consumer Food Hubs*

Direct-to-consumer food hubs are intermediary service providers that connect farmers with community members. Sale of farm products directly to consumers is a fast-growing sector of the food economy.

In general, direct-to-consumer food hubs often have the following characteristics:

- Usually are based on the sale of produce.
- Customers usually pick up items from various drop-off locations.
- Are operated by a mix of staff and volunteer labor.
- Typically distribute directly to the end consumer.
- Usually charge retail prices for their products.

The following are some common examples of direct-to-consumer operations.

### • *Community Supported Agriculture (CSA)*

In many CSA models, a consumer pays up front, as with a magazine subscription, and then receives a share of product weekly or biweekly for the duration of the season. A CSA manager (a farmer or hired staff) organizes the aggregation of farm products, packs the individual orders, and distributes the share orders to designated drop-off sites, which are often an on-farm location, but may also be a community site.

The idea behind CSAs, also known as “subscription farming,” originated during the 1960s in Japan and Switzerland as a way for consumers to ensure the health and sustainability of their local agricultural producers. The idea has steadily gained momentum since being introduced in the United States in the 1980s. While the Government does not track the number of CSA programs, LocalHarvest.org lists more than 4,000 individual programs in its directory.

A CSA can be as varied as the communities it serves and the producers who participate in it. While typically based around fruit and vegetable production, CSAs increasingly include an array of farm-based products, from vegetables, fruits, eggs, meat, and fish, to more processed items, such as jellies and jams.

Though most CSA-type food hubs generally provide various types of shares that CSA members can choose between, there may also be some customization. Common options for customization include adding products such as eggs; shelf-stable items such as jams, jellies or salsas; or even meats and other protein foods. For some consumers, a weekly or bi-weekly share can be overwhelming during the abundance of peak growing season. To



*The Local Food Hub (LFH) in Charlottesville, VA, offers a wide array of local produce, such as heirloom tomatoes, to retail grocery and institutional customers, including schools and hospitals. Photo by Justin Ide, courtesy of LFH.*

### Examples of Community Supported Agriculture Food Hubs

■ Good Earth Food Alliance CSA	Farmington, IL	(Produce)
■ Common Wealth CSA	Greenfield, MA	(Produce)
■ High Country CSA	Banner Elk, NC	(Produce)

address this issue, some CSA food hubs permit consumers to donate their shares to third-party charities.

### • *Virtual Food Hubs*

One type of direct-to-consumer food hub rapidly gaining popularity is the virtual food hub, which can exist primarily online. Advantages of a virtual food hub include reduced operational costs and more efficient ordering and communication. A typical virtual food hub uses an online platform where consumers can order local food from multiple area farmers. Pickup of complete orders can be made at a central location.

This type of food hub often serves as a virtual, online farmers market

or buying club. Buyers may pay an initial fee to join, but can order “a la carte.” Producers set prices just as they would at a farmers market. The aggregation of farm products, individual orders, and distribution to designated drop-off sites (community sites, workplace, home delivery, etc.) can be operated by members (either producers or consumers) or through a third-party (hired) enterprise.

This model benefits farmers with limited staff who now have access to large numbers of consumers without having to dedicate staff, time, and money to being physically present at farmers markets. Consumers benefit because they can shop with as many farmers as they like, at hours that are convenient to them, and from the comfort of their home. Customers can see exactly what is for sale at any given time without the necessity of physically going to a farmers market in the hopes that a product may be available.

A virtual food hub provides a way to personalize and guarantee delivery of every order, but may be costly to initially implement due to the large start-up cost of the software development.

#### Examples of Virtual Food Hubs

■ LuLu’s Local Food	Richmond, VA	(Multi-Product)
■ FarmieMarket Online	Albany, NY	(Produce)
■ Red Hills Online Market	Tallahassee, FL	(Multi-Product)

- *Box Delivery Enterprise*

This type of direct-to-consumer operation is typically operated by a for-profit entity that provides an online grocery store experience, with a strong emphasis on locally grown or raised food products. Similar to the virtual food hub, this type of operation may require initial fees to access the site or require minimum orders.

Because this type of food hub often acts as a full-service grocery store, it may offer both local and non-local products. The consumers pick the products that they want included in their next food box delivery. The enterprise organizes the aggregation of products, packs individual orders, and distributes to the customer. While many of these hubs feature home delivery, they may also use centralized drop-off points, such as churches, schools, or community centers, as do other types of direct-to-consumer operations.

This type of food hub can face higher-than-average distribution costs

compared to the other operational food hub models; however, it offers maximum choice for consumers.

### Examples of Box Delivery Food Hubs

■ The Produce Box	Raleigh, NC	(Multi-Product)
■ Relay Foods	Charlotte, VA	(Multi-Product)
■ Good Eggs	San Francisco, CA	(Multi-Product)

### *Wholesale Food Hubs*

Wholesale-type hubs focus on distributing food to other “intermediates” in the supply chain, such as restaurants, schools, institutions, or retail stores. The term “wholesale food hub” is an umbrella term that can apply to food hubs with a variety of target markets. Local restaurants, individual or regional grocery stores, large-scale grocery chains, and institutions can all be considered “wholesale” markets. Typically, this business aggregates product from multiple producers, and prepares the product for larger volume orders to service distribution hubs and/or other specialty and foodservice distributors. It then handles the delivery of the product.

Wholesale food hubs often have the following characteristics:

- May be more focused on retailers as the main customer base.
- Offer a larger variety of products, which helps expand the seasonality of sales.
- Deliver products to end customers.
- Rely on staff to repack items and deliver product.
- Often offer technical support services for producers.

To facilitate larger scale aggregation and delivery, this type of food hub often uses a packing shed or warehouse located close to major production areas, and sometimes located on a farm. The products the hub receives from producers may already be sufficiently packaged to fulfill orders, or the hub may do sorting, grading, and packing onsite.

These types of hubs also frequently support producers by offering training in areas such as production planning, food safety, sustainable production practices, and strategies for extending their season. However, because of their scale of activity, these hubs may end up in competition with established supply chain intermediaries and brokers. This can result in having lower markup margins on the food they distribute, as they strive to



remain competitive.

- *Small Wholesale Distributor Food Hub*

This variation of a wholesale food hub is more focused on selling to smaller wholesale clients, such as restaurants and convenience and specialty stores. These hubs tend to work with producers by offering the technical support services mentioned above.

- *Institutional Distributor Food Hub*

These hubs target larger buyers, including schools and institutions, such as hospitals, assisted-living facilities, or colleges. Buyers targeted by these hubs increasingly require third-party food safety certifications for the hub facility and from their producers.

Due to the scale of their operations, these types of food hubs may require large minimum orders. They often have a warehouse facility that is located closer to a higher population urban marketplace. They also tend to be more sophisticated in their use of information technology (IT) in tracking, inventory, and sales platforms. Services provided by these larger scale food hubs are often oriented to buyers and end-consumers. These services may include marketing, branding, “buy local” campaigns, and similar activities.

If there is a sufficient volume of sales and a strong marketplace, some of these hubs may have facilities that provide a range of processing activities. These may include light processing (slicing/dicing, bagging), preservation (canning, pickling, fruit preserves, smoked meats), or product transformation of value-added goods (sausages, sauces, purees, etc.)

### *Hybrid Food Hubs*

A hybrid food hub combines functions of several other operational models, often simultaneously. These hubs often sell products to wholesale clients while also running a direct-to-consumer business. Combining these two business models may enable the food hub to reach a larger, more diverse customer base than the separate models could reach on their own.

A hybrid food hub that starts as a wholesale hub can often infill sales activity with direct-to-consumer sales and obtain higher profit margins from retail pricing. Because of its existing wholesale activities and access to infrastructure, it can often utilize existing space and delivery trucks to begin new sales activities. Direct-to-consumer orders are simply included with regular wholesale orders, and drop-off locations are added along the hub’s current delivery routes.

A hybrid food hub often gets its start as a direct-to-consumer hub or a

wholesale hub. The easier transition is from wholesale food hub to a hybrid hub, then to add direct-to-consumer sales. This is due to the certification process and regulations already in place for a more structured wholesale operation. This type of transition also allows easier adjustments in pricing and profit margins.

### **Food Hub Challenges**

When choosing both legal and operational structures for a potential food hub, there are several unique challenges that need to be addressed. In addition to the standard considerations of tax benefits and ownership concerns, operational structures can change and grow over time to meet changing needs.

To increase sales, a food hub needs to increase its product supply. Food hubs often face the challenge of building a network of producers who are able to supply the quality produce consumers demand. Because a food hub's



*Tuscarora Organic Growers (TOG) Cooperative, a producer-owned food hub based in Hustontown, PA, partners with New Morning Farm to transport organic produce to markets in Washington, DC. Photo courtesy of TOG.*

supply is often limited to only what is grown and produced locally, growing the number of producers within the network may become problematic; as more producers are added, the issue of competition among the hub's producer-members may arise.

Seasonality is another barrier that many food hubs face. No matter the location of the food hub, producers are subject to seasonality and the possibility of damaging weather. The food hub's customers require products throughout the year, so many food hubs have had to encourage season-extending services, such as value-added processing, or to consider offering products that still promote the hub's mission, even if they are not locally produced.

Along with an increase in a food hub's network of producers, it will also need to increase its customer base to facilitate growth. The food hub's strategy for expanding its customer base should involve making changes and/or additions that better meet consumer needs. This may involve making infrastructure and procedure changes that give consumers more control, more variety, and more choice.

To maintain consistent supply and sales, food hubs must decide what incentives will be offered. Food hubs can have a tremendous impact on their producer-members by returning a percentage of food dollars spent.

The food hub can also allow producer-members to receive prices that are above the prices they would receive in a wholesale market. By selling through a food hub, farmers can reduce the cost of hiring employees to sell their products. Consumer-members benefit from a food hub's ability to bring together multiple producers and consistently deliver high-quality, fresh local products. Consumers also have the opportunity to interact with producers and learn more about how and where their food is produced.

Sharing information with food hub stakeholders and staff is an important aspect of the business. An annual meeting can be an effective method of information sharing with consumers, producers, and/or workers. This can give consumers the opportunity to meet farmers and producers and continue developing working relationships. A newsletter, website, or other form of periodic correspondence can maintain open communication channels with members.

As with any new business idea or venture, enthusiasm is often at its peak in the early days of the venture. Over time, interest can wane and more and more people can move towards casual involvement. A food hub must seek to maintain membership classes and individual stakeholders who are highly engaged and motivated to ensure the growth and long-term effectiveness of the food hub.

# Food Hub Operations

**THE EVERYDAY OPERATIONS** of a food hub will differ for each business depending on the size, scale, and even location of the venture. As a smaller venture competing with established food distributors, a food hub will likely face higher costs; however, the food hub has flexibility in daily operations that may prove to be an advantage, including how many days during the week it operates and what type of products and services it provides.

For any size and scale of food hub, specific operational concerns arise. To understand how a prototypical food hub operates, these concerns have been highlighted below. This section will explore the various categories of general operations, such as location and infrastructure, equipment, logistics and transportation, human resources, business software, supply, product selection and packaging, and funding.

## Location

Owners will need to evaluate the area in which they intend to open a food hub and determine if the location has all the necessary components for success. A good location is essential to establishing a successful business, as

the location often helps determine many

components for the business, including the customer base, possible funding sources, and transportation opportunities. To facilitate the meeting of producer-members and the efficiency of delivery to customers, the food hub ideally should be centrally located in the region which it intends to serve.

When determining the location of a food hub, the owners and management should evaluate the infrastructure in the area, such as major roads and institutions. This will help determine how easy it will be to transport product in and out of the facility, as well as the ease of customers accessing the business. The facilities should be located near a major roadway, and any visibility obtained by the food hub's location will also benefit its community awareness and allow

### DECISION POINT

- *What location would best benefit the producers and buyers?*
- *What location requirements does the food hub have?*
- *Will the structure fill the needs of all parties?*
- *What location would best benefit the producers and buyers?*
- *What location requirements does the food hub have?*

for signage to function as a marketing tool for the food hub.

Another consideration for the food hub's location is the level of interest within a community. Because agricultural businesses, including food hubs, are seldom "9-to-5" operations, considering the community atmosphere when locating a potential food hub is important. Depending on the perception of the community, new businesses can often face "Not in My Backyard" attitudes in a community, creating barriers and obstacles before a hub has even been established.

### *Zoning*

When choosing a location, zoning requirements will play a role in the selection process. Zoning is the enactment of county ordinances to regulate land use to conform to State land conservation and development laws and the county comprehensive land-use plan. Areas are typically zoned for residential, commercial, industrial, or other uses.

All of the 50 States have zoning-enabling legislation for municipalities. Many States also have zoning-enabling legislation for counties. Zoning laws are found in virtually every municipality in the United States, affecting land use, lot size, building heights, density, setbacks, and other aspects of property use.

Zoning regulations become especially important when a business seeks to expand its current operations through either the addition of production or a physical increase in the building and/or property that will change the use of the land and existing facilities. The current operation's legality does not guarantee the right of the owner to expand or modify in the future and is subject to current zoning restrictions and codes.

### **Infrastructure**

Once a location has been established, a business must determine what

type of infrastructure is needed. Many food hubs operate in some sort of physical space that is owned, rented, or leased. Many utilize office space, trucks, and/or a warehouse in their infrastructure. The site should have space to handle the initial operations and room for growth, should an increase in demand make this necessary.

Owners can choose to avoid the risks and cost of new construction by instead finding an existing warehouse and site that will meet

#### **DECISION POINT**

- *What type of infrastructure does the food hub require? (Facility, trucks, etc.)*
- *Will the owners lease or purchase the necessary buildings and structures?*

its needs while still allowing for future expansion. Repairs and/or modifications may need to be made to an existing warehouse. These costs should be compared to the cost of constructing a new building. The owners may also encounter less regulatory hurdles, such as zoning requirements and building permits, when using an existing building.

The typical work flow of a food hub begins with the arrival of product at a facility. Depending on the logistic arrangements of the food hub, storage may be kept to a minimum. Producers can drop off their product the morning of, or day before, the product is delivered to the customer. It is also possible for smaller producers to aggregate deliveries with other producers in their area to consolidate delivery. This reduces costs for the producers involved and allows the food hub to deal with fewer total deliveries.

A prototypical food hub site is a warehouse of about 3,000-10,000 square feet with room for multiple climate zones, coolers, a small walk-in freezer, dry-storage space, and office space. The general space is typically used to handle reception, loading, unloading, grading, re-packing, and delivery of fresh produce. Dry-storage space is used to store materials such as boxes and packaging as well as cleaning and general-use items. Cold and freezer room space can be used for both short-term and long-term storage. This may include subdivided compartments to provide optimum storage conditions for products that require specific temperature and humidity conditions. Office space should be available for administrative functions as well as other needs related to personnel and employees, such as bathrooms and break rooms.

Ideally, the building should include paved areas for receiving and cooling, outside storage, parking for cars and trucks, ramps, and covered dock space. Paved areas facilitate movement of product as well as the ability to utilize product cooling equipment that does not have to be housed within the building. Outside storage is necessary for various equipment. Adequate parking for staff while still allowing for easy entry and exit of large delivery vehicles is essential.

### Facility

- Reception/delivery
- Office space
- Retail Space
- General warehouse space
- Dry-storage space
- Cold and freezer room space:
  - Cooler units
  - Wet-cold room
  - Dry-cold room
  - Dry-warm room
  - Freezer space
  - Bathrooms, break rooms, etc.

Requirements for the warehouse space may include food-safety considerations as well as separation of storage and fulfillment spaces. The facility should be chosen with the mitigation of contamination risks in mind. Logistical considerations include load-bearing requirements, climate control, and storage- and packaging-space requirements.

The warehouse must also meet specific requirements for the optimal storage of fresh produce. Excess exposure to the elements can cause unfavorable effects, so the site should house sufficient cold storage for fresh

### Regional Warehousing Costs

The cost of a warehouse can vary among different States and will depend on the area in which the facility is located, both in regard to real estate prices as well as region of the country. The following warehouse costs are estimated through Reed Construction Data using 2013 RSMeans data and are based on a 30,000-square-foot, one-story building. Though this sample is larger than the average food hub, it reveals the variations in warehousing costs across different regions of the United States and how the location of a warehouse can impact the overall cost.

State	Price per Square Foot	Total Price of Warehouse
■ California	\$112.39	\$3,371,600
■ North Carolina	\$83.56	\$2,506,700
■ Maine	\$94.88	\$2,846,300
■ Minnesota	\$115.85	\$3,475,400
■ Texas	\$80.73	\$2,421,800

As shown in the table above, warehouses located on the West Coast and Midwest typically have a higher price per square foot than those located in South and along the East Coast. Texas had the lowest warehouse cost out of the five sample States, while Minnesota had the highest.

produce. The amount of storage needed in the food hub will depend on the logistical agreements the hub has with the producers and suppliers. On one hand, a “just in time” delivery model will mean the food hub does not need a large amount of storage space. On the other hand, larger amounts of space will be needed should the hub need the capability of storing product for several days.

Required inventory space — to accommodate both future growth in volume handled as well as for producer services — should be addressed in the site-selection process. The food hub may consider providing equipment for washing, packing, cooling, and storage for its producer-suppliers, all of which will likely impact future space requirements. Infrastructure (such as access to transportation corridors, etc.) should factor into location decisions.

## Equipment

Most equipment purchased during the first year of operation is used to provide for start-up operations. Additional equipment is added over time as the business grows. While major pieces of equipment are often a central focus of capital budgeting and cost projections, smaller items — such as cleaning supplies, product-movement equipment, furniture, and other general items — can add up quickly.

A food hub will need to acquire at least a basic level of equipment and operational supplies to function efficiently. The amount and type of equipment necessary will vary, depending on the food hub’s intended product (produce, fruits, meat, dairy, etc.) but also based on the intended market (wholesale, retail, CSA). The amount and size of the equipment needed will also depend on the scale of the food hub operation and the services it will offer to producers. This could include equipment for washing, grading, or re-packing.

### *General Considerations*

- *Installation and Setup* — With equipment, especially larger equipment that requires in-line installation or a dedicated power supply, the cost of installation and setup can be significant. It may not be included in initial quotes by equipment manufacturers. Additional costs may include shipping, installation, setup, or training. These costs should be considered when choosing whether to offer specific services or to purchase additional equipment.
- *Leasing versus Owning* — Certain pieces of equipment are often available for rent or lease, rather than purchase. Particularly in the sensitive start-



up phase, the flexibility provided by short- or medium-term leasing may provide a way for a food hub to “test the waters” without investing in significant fixed-cost assets.

- *New versus Used* — Choosing whether to purchase new or used equipment also requires careful consideration. While the lower prices of used equipment may seem attractive at first, purchasing used gear can carry hidden costs. While the initial purchase price for used equipment will almost always be lower, the cost of disassembly, retrofitting, upgrading, ensuring compatibility with other equipment and maintenance costs – as well as efficiency and quality concerns – are all factors that can add to the actual “bottom line” of purchasing used equipment. New equipment may also offer other advantages, such as a service/parts warranty or other guarantees.

### *General Equipment*

A food hub with a warehouse will typically need equipment for large-scale product moving and handling, delivery, and storage. The table below lists some sample items that a typical food hub may need for general warehousing and storage.

#### **Examples of General Warehouse/Storage Equipment**

Forklift, Hose, Spray Nozzle, Misc. Cleaning Supplies, Misc. Tools for Maintenance, Ladder, Boxes, Mop Bucket, Mops/Brooms, Walk-in Cooler, Curved Floor Squeegee, Hand Truck, Truck, Pallet Jack, Crates, Trash Cans, Roller Conveyor, Shelving, Pallets, Janitorial Cart w/Equipment, Work Tables, Water Hoses for Cleaning, Thermometer Gun, Temperature/Humidity Indicator, Tarps

While it is easy to remember larger items within each category that represent a larger portion of a food hub’s total costs, such as trucks or forklifts, the cost of many smaller items (mops, brooms, or cleaning supplies) can easily add up when purchased in the necessary quantities. For example, a basic smoke detector costing \$20 seems like a minor expense. But purchasing 25 of them for use throughout a facility or office can result in a total cost of \$500. In budgeting for items such as these, avoid the “lump sum” mentality that often underestimates the total cost of an item.

Basic items — such as hand trucks, pallet jacks, tables, and storing and

stacking equipment — are usually necessary in a warehouse. Daily operational and cleaning equipment and supplies — industrial trash cans, floor squeegees, mops, brooms, and consumables — are used on a daily basis and require frequent replacement.

Along with warehousing and storage equipment, a food hub will also need equipment to provide for the safety of employees, office equipment for administrative functions, and items for the break room or other employee areas. Typical equipment items associated with these categories are listed in the tables below.

Some of the safety equipment listed are required by law. For example, the number and type of fire extinguishers is often dictated by several factors, such as the size of the facility. A business must be in compliance with the Occupational Safety and Health Administration's (OSHA) fire-protection standards. These and other OSHA requirements will need to be taken into account when purchasing and maintaining safety-related equipment.

### **Examples of Safety Equipment**

Fire Extinguishers, Exit Signs, Smoke Detectors, First Aid Kit, Carbon Dioxide Detectors, Emergency Shower

Costs of maintenance and depreciation should be included in equipment budgets. Machines of all types require regular maintenance to extend their life. Costs to replace worn-out components must be considered. Lack of attention to maintenance often results in equipment failure at the worst possible times, such as peak sales seasons. All equipment has a useful life, which should be considered when deciding whether to invest in used, rather than new, equipment.

A designated area maintained for administrative functions will require office equipment. Although an office may occupy only a small portion of the space, its equipment needs still must be addressed. Typically, the largest expenses will be related to computers and furniture. Office supplies

### **Examples of Office Equipment**

Desk, Filing Cabinet, Office Chairs, Air Conditioning Unit, Lamps, Telephone, Shelving/Storage, Credit Card Processing Machine, Trash Cans, Computer, Software, Vacuum Cleaner, Printer/Scanner/Fax

represent another recurring expense.

Depending on the number of hours worked by employees and the number of staff, areas for breaks may be needed. Break or lunch rooms should be equipped with the necessary appliances and supplies for storing food and eating. OSHA does not have specific requirements pertaining to a designated break room or the equipment used.

### **Examples of Break Room Equipment**

Coffee Maker, Tables, Water Cooler, Chairs, Misc. Paper/Plastic Dishware, Microwave, Refrigerator, Misc. Bathroom Supplies.

### ***Direct-to-Consumer Equipment***

A food hub that makes direct-to-consumer sales will have different equipment requirements than will food hubs that only deal with wholesale accounts. Although some of the larger and basic equipment will be the same, a food hub interacting with individual customers will need additional items that are more customer-oriented. If the food hub operates any type of retail storefront, this equipment could include tables, shelves, displays, and registers, and will likely resemble the equipment found in a typical grocery store.

### **Examples of Consumer-Oriented Equipment**

Bags, Desk, Cash Registers, Point-of-Sale Software, Flat Screen TV w/DVD Player, Refrigerated Display Case, Credit Card Machine, Folding Chairs, Refrigeration Units, Storage Containers, Compressor, Product-Specific Display Shelves, Misc. Bins, Sink, Industrial Shelving, Folding Tables

If a food hub is setting up pick-up locations, portable tables and other items will be needed to maintain efficiency in handling groups of customers. Some of the items listed above will be seen in most retail settings. A flat screen TV, on the other hand, is one item that may not be associated for a retail setting, but which could be useful for product displays or to communicate information about the unique mission of the food hub or for general promotion or education. Refrigerated display units and product-display shelving will be among the larger equipment purchases, particularly

if the food hub will sell dairy, meat, or other cold-storage items.

Equipment and displays for fresh produce are much different than those required for shelf-stable or locally produced canned goods. A food hub's product selection will have a large impact on the type of equipment needed. The following section highlights some specific gear that may be necessary for major product categories.

### Software

Food hubs use different methods for handling customer orders. Customers can place orders directly, using special software, which helps ensure the proper allocation of available products for customers. This can ensure sufficient time to guarantee product is available and delivered on time.

Depending on the software used by the food hub, customers may be able to browse a dedicated site operated by the food hub to see what products are available. Once an order

is placed, the food hub can use an order cut-off date to coordinate with the producers for the hub and communicate the quantities of product necessary to be allocated and fulfill the week's orders.

A variety of software can be used to fulfill the ordering and sales needs of a food hub. Programs such as Delivery Biz Pro and CSAware facilitate the management of customer orders as well as the implementation of inventory and allocation procedures. Many existing food hubs have

foregone food hub-oriented software packages, such as these, and instead created their own inventory and ordering programs, usually based on a mix of general ledger software and Microsoft Excel spreadsheets.

#### DECISION POINT

- *Will the food hub use software to manage customer orders, inventory, and other functions?*
- *What ordering and processing software best suits the food hub's size and demand?*

#### Examples of Food Hub Software

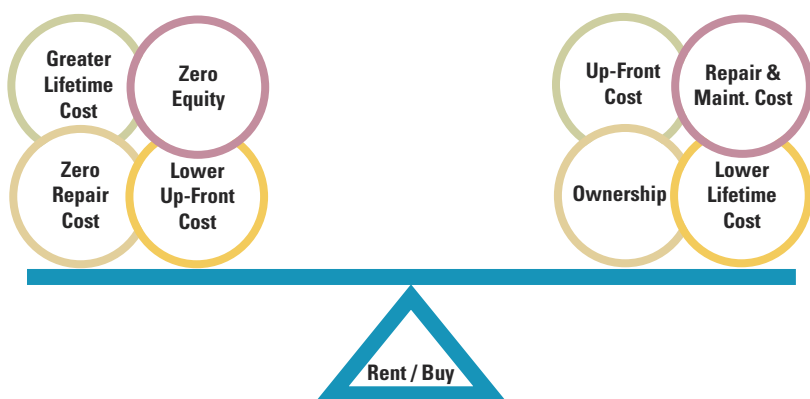
- |               |                 |                    |
|---------------|-----------------|--------------------|
| ■ Local Orbit | ■ bcFood        | ■ Delivery Biz Pro |
| ■ CSAware     | ■ Entrée        | ■ Lulus            |
| ■ Produce Pro | ■ Blue Link ERP | ■ FoodConnex       |
| ■ MS Dynamics |                 |                    |

## Transportation and Trucks

One of the biggest decisions faced by food hubs is how to handle the logistics of trucking and transportation. Vehicles are often used on a daily basis for pickup of product from producers, delivery to customers, movement of product from location to location, set-up and operation of drop-off locations, and general supply movement. As a result, the food hub becomes highly dependent on the reliability of these vehicles.

The cost of operating the vehicles represent all major cost categories discussed for equipment: large up-front costs, regular and routine maintenance costs, catastrophic failure costs, as well as consumable and recurring costs for fuel. The heavy reliance of food hubs on transportation and vehicles means that every decision affecting cost and operational continuity is magnified in importance. The loss of a truck during peak season can cripple the operation and damage the reputation of a food hub.

**Figure 2—**Truck Decisions



Choosing between leasing a vehicle and purchasing it can affect both the upfront and future costs. Some food hubs seek to mitigate the upfront and maintenance costs of owning a truck by leasing their vehicles. Repairs and maintenance are typically covered by the leasing entity, and the user is not financial responsible. Should a leased vehicle break down, the agency will often replace the vehicle. The upfront cost to rent a truck is usually minimal when compared to an initial purchase; however, depending on the time period, renting a truck can become more costly in total than an initial purchase would have been.

Depending on the relationship established with the leasing company, and the proximity of the food hub to the nearest service center, leasing may provide little relief from the issues related to maintenance and vehicle breakdowns. Leasing also provides the ability to tailor the transportation equipment used by a food hub to its seasonal needs. The number of trucks necessary during peak seasons may not be the same number required during slower sales periods. Leasing additional trucks, as needed, can help a food hub keep costs to a minimum yet still operate efficiently.

Ownership, on the other hand, places the responsibility for upkeep and maintenance squarely on the food hub. With financial resources quite likely already at a minimum, the food hub may find it difficult to address catastrophic repairs that may be necessary with trucks that experience heavy, continuous use. However, food hubs that are able to purchase their own vehicles outright are able to lower their monthly costs by not having to make lease payments. Purchasing a truck also provides a tangible asset that may prove beneficial in the future, and, when purchasing a new vehicle, a vehicle warranty is often included.

Interviews conducted with food hub staff indicate that regardless of whether a hub chooses to purchase or lease a vehicle, the average costs over a lifetime are often comparable. A potential food hub should carefully weigh its options and circumstances to make the decision that best suits the hub's intended operations. The owners of the food hub will need to determine what best suits the business. Many times, it can be beneficial for a business to rent a truck during start-up, waiting until later to purchase one. The frequency of use and cost of the rental will affect this decision.

### *Meat, Dairy, and Other Cold-Storage Items*

A food hub offering meat and dairy products will need cold-storage equipment, including refrigerated display and storage units. Freezers may also be required. If the food hub elects to deliver cold or frozen products or to pick up the product from producers, a refrigerated truck will be required to maintain the appropriate temperature. Wholesale food hubs that are more focused on simple storage may simply use basic cooler and freezer units.

### *Food Processing, Washing, Packing, or Grading*

Should a food hub — whether wholesale or retail — choose to offer services to producers, such as washing, packing, cooling, grading, or further value-added processing, additional large-scale, expensive equipment will likely be necessary. The table below lists some common equipment related to such activities.

## Fuel Costs

The cost of diesel fuel across the United States varies from State to State and region to region, and over time can be quite volatile even within one region of the country. Overall, diesel prices tend to be lower in the southern region of the United States versus the northern region, and pricing variations are influenced by the proximity of the gas stations to refineries, as well as local and State regulations and taxes. The following figures were captured during the spring of 2014 and are intended to show the range of pricing exhibited by different regions. There is an almost 30-percent difference between the highest and lowest reported prices.<sup>9</sup>

State	Avg. Fuel Cost
■ California	\$4.11
■ Maine	\$4.27
■ Minnesota	\$3.99
■ Mississippi	\$3.75
■ North Carolina	\$3.98
■ Texas	\$3.74

State	Avg. Toll Cost
■ California	\$5.55
■ Texas	\$0.62
■ Delaware	\$3.33
■ Virginia	\$3.01

## Toll Costs

Depending on where the business is located and what delivery routes drivers use, the business may need to account for the cost of tolls. It is difficult to determine the regional variations of transportation costs, specifically in terms of toll expenses. These costs may change depending on the type of vehicle using the toll. The above table shows the average toll cost for some of the States in 2014 for a two-axle vehicle with single rear tires.<sup>10</sup>

<sup>9</sup> Gas prices were reported from [www.gasbuddy.com](http://www.gasbuddy.com).

<sup>10</sup> Toll costs were reported from [www.costtodrive.com](http://www.costtodrive.com).

## Human Resources

Efficiently operating a food hub requires numerous roles to be filled. In many cases, multiple roles are filled by one employee, helping a food hub save on staffing costs. This approach has been taken in a number of food hubs with staffs of less than 10 people and sales of up to \$3 million per year. In addition, full-time staff is frequently supplemented with both part-time

seasonal labor as well as volunteer staff. Because food hubs often function based on an underlying social mission, using volunteer labor helps to engage the community and provide cost savings for the food hub.

Staffing levels for a food hub obviously vary depending on the size of the operation. Smaller food hubs with average annual sales of about \$500,000 or less average two full-time employees, two part-time employees, and three seasonal employees. On the other end of the scale, food hubs operating at \$5 million-\$10 million average 42 full-time employees and 3 part-time employees.

Typically, larger food hubs tend to hire

more full-time employees. Food hub volunteers are more prevalent in smaller food hubs.

While volunteer labor can help save on labor costs, using volunteers can also have drawbacks related to efficiency and consistency. While volunteers may be willing and enthusiastic, they frequently lack the agricultural experience to take on key leadership roles that can affect the performance of the food hub.

Another issue related to volunteer labor is that while it may provide a significant cost savings that can help the venture achieve a successful start, sustaining consistent volunteer labor over long periods of time can be difficult as initial enthusiasm wanes or as normal issues and complications arise. Particularly when a food hub reaches a point of consistent sales and growth, having unstable or inconsistent human resources can prevent the entity from reaching the next growth stage.

As a food hub grows, it will require more work and organization to keep up with the increases in production and commercialization efforts.

### DECISION POINT

- *How much labor is needed for the food hub's scale?*
- *At what point will management add more labor?*
- *What type of labor will be used (part-time, full-time, volunteer)?*

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<sup>11</sup> Fischer, M., Hamm, M., Pirog, R., Fisk, J., Farbman, J., & Kiraly, S. (2013). Findings of the 2013 National Food Hub Survey. Michigan State University Center for Regional Food Systems & the Wallace Center at Winrock International.



Therefore, it may be necessary to hire additional management and other human resources in future phases of the operation as sales and the infrastructure of the business grow.

The remainder of this section highlights some of the typical roles found within a food hub. The personnel titles used are intended to represent a potential role within the venture, along with associated functions. Staffing roles that have been identified generally fall under the following categories and sub-roles.

## **Labor Roles**

### *General Management and Operations*

The general management of the food hub requires organizing, overseeing, and directing the food hub's day-to-day operations. In combining duties from other roles, functions may also include developing initial sales contacts for the food hub or answering customer inquiries. As the business grows and takes on additional personnel, certain functions may be passed on to other individuals. Other roles commonly found in this category include:

- *Office Management*

Due to the volume of sales documentation and order processing, as well as the addition of other administrative personnel, staff may be necessary to oversee these internal functions.

- *Operations Supervision*

At some point in operations, it will likely be necessary to have supervision of general labor staff. This role often ensures that management directives are carried out.

- *Food Safety Oversight*

Depending on what food safety certifications the food hub intends to acquire, this role entails maintaining compliance, including records and plans, as well as readying the food hub for any audits or inspections included in acquiring the certifications.

### *Sales and Customer Service*

Sales and customer service often involve the acquisition of new customer accounts and growing the volume of existing customer purchases. This often includes travel and face-to-face interaction with current and potential customers. This work may also include addressing needs or concerns that arise with customers, as well as coordinating the placement of orders for

products. Individuals fulfilling these roles will also need to closely coordinate with the other personnel to organize the efficient movement of product through the food hub to the end customers.

- *Order-Taking and Customer Interaction*

The function of this role is to serve as a contact point for customers wishing to purchase products from the food hub. This includes receiving and organizing orders from end customers, either by phone or online, both in an office setting and in the field to communicate availability and promote the purchase of additional volume.

- *Marketing*

Depending on the volume of customer orders and the outreach activities of the food hub, the need may arise for dedicated marketing staff to support sales staff. These functions often include carrying out various marketing activities related to community awareness or increasing sales volume.

### *Producer/Production Coordination*

Producer/Production coordination is an essential role in the operation of a food hub. Functions chiefly include the coordination of supply for orders and addressing any logistics or supply chain issues affecting the ability to fill orders and make timely deliveries. Individuals in this role typically interact with producers on a daily basis, both face to face and through other forms of communication, helping to avoid large oversupply or undersupply of product, based on seasonal changes.

### *Transportation and Logistics*

Another key function is the planning and coordination of product pickup and order delivery routes and schedules. This position is chiefly responsible for ensuring that products are efficiently delivered in a timely manner.

- *Product Pickup*

If producers are not responsible for dropping off their products at the food hub's aggregation point, this function entails coordination with producers for scheduling product pickup.

- *Order Fulfillment and Delivery*

Food hubs in the wholesale business often require personnel to deliver products to customers. This role includes loading, unloading, and delivering product to customers, as well as fueling the truck, cleanup after

the delivery is complete, and light vehicle maintenance.

### *Financial Oversight*

Much like any other business entity, separation of duties is a key internal control, especially in the handling of a food hub's financial information. Proper tracking information management can also provide key information for managerial decisions.

- *Bookkeeping and Accounting*

Maintaining and tracking financial information, both for reporting and managerial decisionmaking is an essential role within any entity. Often, this role includes general administration functions such as filing, recordkeeping, tabulating sales, and maintaining customer files, including products sent and returned. This is also a role that is frequently contracted to an outside agency.

### *IT/Web Management*

Whether the food hub uses proprietary inventory and ordering software or third-party software to track orders, inventory, and deliveries, managing a food hub's information system's infrastructure will be necessary. Depending on the food hub's reliance on software, it may be more efficient to contract for these services.

### *General Labor*

Several functions of the food hub will fall under the category of general labor. Product reception, storage, handling, repacking, and fulfilling orders are all examples of such activities. General cleaning and maintenance of food hub facilities is also necessary. Other functions may also be necessary depending on the individual food hub.

- *Product Movement and Handling*

Once product arrives at the food hub, it will require general movement and storage or preparation for aggregation and other activities.

- *Maintenance*

The food hub facility will require regular maintenance. Depending on the level of equipment used, these activities may be performed by the food hub's general labor staff. Should the food hub use special equipment, additional staff, maintenance contracts, or employee training may be necessary.

- *Volunteer Labor*

Because food hubs are often established with a social mission or community improvement mindset, they are frequently able to tap community support in the form of volunteer labor.

## **Labor Positions**

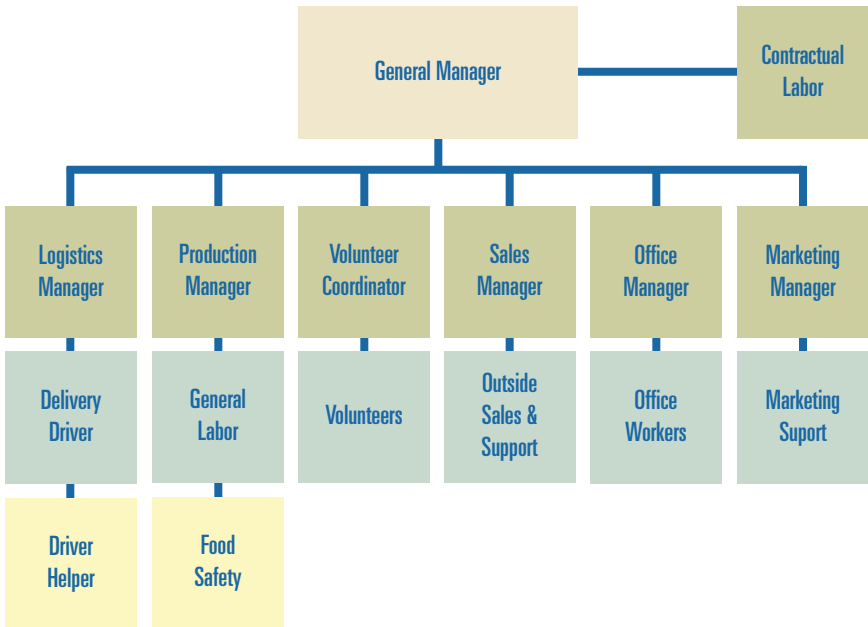
This section outlines a list of positions that are often involved in fulfilling the general roles discussed above during the normal operation of a food hub. The following information shows how different specific positions combine to carry out the necessary responsibilities and tasks in day-to-day operations, along with a sample hierarchy tree and more detailed position descriptions. The information is intended to be representative and does not necessarily describe the exact positions seen in any one food hub; rather, each individual food hub will need to assess the roles necessary for efficient operation and then determine the exact positions that will be required to carry out those roles.

While the roles necessary for operations are generally similar from food hub to food hub, the actual positions employed will vary widely based on intended operations. Particularly during the startup phase of a new venture, many of the roles that overlap are assigned to one individual, while medium-scale entities may require the division of functions among multiple individual workers. Management roles — such as general manager, sales manager, or production manager — are involved in nearly all daily aspects of the operation. Growth in sales will likely necessitate more human resources and a greater depth of organization. A food hub may require additional management and human resources in the future, and options should be carefully reviewed when considering any increase in costs.

The descriptions of duties that are included are generic and intended only as a guide. While the information below is presented using personnel titles that are based on the roles identified in the preceding section, these titles will vary widely in application, as will their associated functions. In practice, it is common for multiple positions to be fulfilled by a single full-time employee, or for the duties of one position to overlap with another. Some positions can often be filled by utilizing multiple part-time employees rather than a single individual. The food hub leadership should consider its options and choose a personnel plan that best suits its operations.

In addition to personnel that may be directly employed by the food hub, there are also roles that can be filled by outsourcing or contracting. Examples of these types of functions include accounting and bookkeeping, legal counsel, Web administration, or IT activities. Listed below is a business organizational chart. Basic job descriptions of the positions are briefly included next.

**Figure 3**—Food Hub Labor Organization Chart



### *General Manager*

The general manager is a full-time employee who reports to the owners/board of directors. Duties include organizing, overseeing, and directing all food hub operations. This role is also responsible for developing sales contacts for the food hub and serves as the liaison between the board of directors/owners and the general staff.

### *Logistics Manager*

The logistics manager role will be responsible for the coordination of delivery routes and the scheduling of delivery personnel in order to efficiently deliver customer orders in a timely manner. During the startup of the venture, this role may also include actual delivery duties, but it may become a separate position as sales increase and greater time is required to coordinate delivery routes and schedules.

### *Delivery Driver*

To move product to the customers, a delivery driver is employed to load, unload, and deliver the produce. Numerous drivers may be required as the venture expands. Delivery driver responsibilities include arrival in time to load the truck with that day's delivery, fueling the truck, and cleanup and

maintenance of the truck. The driver should be able to lift at least 50 pounds repeatedly and may be required at times to lift up to 100 pounds.

### *Delivery Driver Helper*

The delivery helper's role will be to support the delivery driver in daily responsibilities and assist with the loading, unloading, and delivery of product to customers.

### *Production Manager*

The operations manager is responsible for coordinating the supply of products for orders and for addressing producer service issues. This employee implements policies and manages the production and supply aspect of the food hub to ensure that there is sufficient product to meet sales goals. This manager may also be responsible for the oversight of the general labor staff of the food hub, especially ensuring that product is picked up and brought to the food hub on schedule if the food hub offers this service to producers.

### *General Labor*

General labor positions are responsible for receiving product deliveries, storage, and handling to aggregate and move product to fulfill orders. These employees also assist with loading trucks and perform some administrative duties related to ensuring timely delivery of product to customers.

### *Food Safety*

This position, or a similar one, is responsible for maintaining protocols and policies related to any food safety certifications or programs. Typical tasks may include inspection of product received by the food hub, data recording (such as temperatures and chain of custody), enforcing proper handling procedures, and maintaining readiness of the facility for inspections or audits.

### *Sales Manager*

The role of sales manager includes significant travel. The sales manager may spend about 3 out of 5 business days on the road, visiting current and potential customers as well as addressing any needs or concerns that arise. The sales manager is also responsible for supervising the outside sales and field-support staff.

### *Outside Sales and Field Support Staff*

Field sales personnel work closely with existing customers to

communicate the availability of product, capture new sales, and work to resolve customer issues in the field. They should report to the sales manager.

### *Office Manager*

The office manager is responsible for the oversight of all office staff, including accounting and support staff, as well as customer support/marketing and office sales/data-entry positions. This role will also be responsible for tabulating sales and keeping track of the number of products sent and returned.

### *Office Workers*

Office workers' duties include accounting and general office support and labor. Customer support/marketing staff work with other office staff to ensure a positive customer experience. This includes resolving any marketing issues. Internal sales personnel are responsible for order taking, which includes inputting orders into software for allocation and delivery. These positions are under the direction of the office manager.

### *Marketing Manager*

The marketing manager is responsible for all aspects of a food hub's marketing campaign. This includes working closely with any contract web-service providers to ensure that the co-op's website is informative, up-to-date and engaging. The marketing manager is also responsible for other marketing materials, such as print ads and signs.

### *Marketing Support*

These individuals carry out the marketing activities under the direction of the marketing manager.

### *Volunteer Coordinator*

The volunteer coordinator is responsible for ensuring that there are sufficient numbers of volunteers to help the food hub accomplish its goals. Specific duties may include recruiting more volunteers and the coordination of volunteer meetings and training.

### *Contract Labor*

Some positions are outsourced to contract labor. These are often skilled positions but not required on a full-time basis for the hub. IT/Web services, maintenance, accounting, and legal help are all functions that are often outsourced or contracted.

## Regional Wages and Labor Costs

A food hub’s location will greatly affect its labor rates and costs. Information is compared below among States that were selected to represent major regions of the United States and is intended to demonstrate the variety of wage rates exhibited throughout the country for the same job classifications.

Consider the following information regarding the “driver/sales worker” position (Standard Occupational Classification System (SOC) Code 53-3031). This position is described as a person who drives trucks or other vehicles over established routes or within an established territory and sells or delivers goods, such as food products — including restaurant take-out items — or picks up or delivers items, such as commercial laundry. This worker may also

take orders, collect payment, or stock merchandise at point of delivery. This includes newspaper delivery drivers. It excludes “coin, vending, and amusement machine servicers and repairers” (49-9091) and “light truck or delivery service drivers” (53-3033).

As is evident by the table above, wages for the position of “driver/sales workers” can vary from \$11.66 per hour to \$15.27 per hour, a difference of \$3.61 per hour. Totaled over a year’s worth of

### State Wage Rates: Driver/Sales Workers, May 2012

Area Name	Hourly Mean Wage
■ California	\$15.27
■ Illinois	\$14.24
■ Kentucky	\$11.66
■ Massachusetts	\$14.79
■ Minnesota	\$12.76
■ New Mexico	\$12.80
■ North Carolina	\$13.09
■ Texas	\$11.97
<b>U.S. National Mean</b>	<b>\$13.33</b>

wages, one full-time individual working an average of 2,000 hours could represent an increased cost of more than \$7,000, a factor that would need to be taken into consideration when determining labor and wage rate costs for a food hub. The highest hourly mean wage among the selected States is California, where the mean wage of \$15.27 is nearly 15 percent higher than the national mean.



# Marketing

**UNDERSTANDING THE MARKET** is vital for a successful business. A distinguishing feature of a food hub is its ability to adapt to suit the demand of customers in a given region. This includes the ability to adapt its operations to changes in the market.

## Choosing a Sales Focus

A food hub will often sell product at wholesale, directly to consumers at retail prices, through a CSA-type business model, or through some combination (hybrid) approach. Typically, a food hub focuses on one or two approaches for sales, so food hub owners will need to evaluate the area and the potential of each market as well as the viability of the food hub reaching and selling through these markets.

A wholesale market for a food hub typically includes larger buyers, such as:

- Restaurants;
- Institutions, such as assisted-living facilities, hospitals, schools, and colleges;
- Resorts;
- Military bases;
- Local or regional grocery store chains.

A food hub focusing on direct marketing to consumers will either have an actual location where customers can shop for and purchase products, or it will facilitate direct sales through the use of online ordering and pickup locations. With this model, the food hub is able to reach individuals, families, and some larger buyers, such as restaurants. The customer base for a CSA-type food hub also usually includes families or individuals.

CSA food hubs do not usually sell to larger buyers. Depending on the scale of the food hub, it may have the potential to sell to many different markets. Typically, a food hub will focus on one main market, but its leaders should be cognizant of other markets in the area that could provide options if more outlets are needed.

## DECISION POINT

- *What markets are available to the food hub?*
- *Which markets will the food hub use?*

## Promotion

To stand out in the marketplace, particularly when faced with

competition, a food hub must communicate its mission and commitment to local foods by creating some form of contact with its producers and customer base.

### *Price Sensitivity*

In general, marketing systems must be selected that generate differentiated products that consumers demand. To enter into a quality, high-end market, a food hub must promote the concept of product differentiation and communicate why its products are different from others available in the area. This can take place through production, processing, or through attribute identification, such as “organic.” Three important features that can be focused on may include:

- *Local foods and the connection to family farms*

Surveys show that the American consumer has compassion for farmers, especially local ones. The “locally produced by family farmers” connection is a valuable marketing tool. Most consumers support small- and medium-sized producers who add to the quality of their rural communities in many ways.

- *Flavor and nutrition*

Because “local” is often viewed as a premium product that is fresher or more flavorful than grocery store varieties of the same item, promoting these attributes can result in higher prices for the food hub’s products. If a product is recognized for quality and taste, sales will increase.

- *Preserving open spaces/education*

In some areas, especially those near urban centers, viable small farms can help slow the rate of urban sprawl and provide “close in” educational opportunities for school field trips and other groups wishing to learn about how food is produced.

### *Branded Products*

Consumer confidence and trust are directly contained in the brand name; the value of this brand identity often goes well beyond the actual items being sold. The higher the quality of the product, the more likely it can be differentiated from competition. This can lead to less price sensitivity for that product, resulting in higher sales margins. Some food hubs further differentiate and promote their products through development of their own brand/label. The brand and trademark ultimately chosen by the food hub should be used in all communications materials.

### *Relationship Marketing*

The food hub should seek to cultivate relationships with its stakeholders and customers. Establishing clear communication channels with producers, customers, and the community can help the food hub respond to changing needs, keep the customers informed about products and their specific attributes, and provide awareness of seasonality, the quantity available, and the timing of deliveries. Food hubs often cultivate this type of marketing through face-to-face interaction with producers, consumers, and wholesale customers.

### *Websites and Social Media*

Websites and social media outlets are other methods often used by food hubs as a primary method of marketing. A website offers a way for a food hub to explain its mission and provide customers with the hub's history and information about its products and services. Using social media as a promotion platform can provide a significant cost savings over traditional promotional methods and allow a food hub to reach a large audience. Social media can also be tailored to reach core demographic groups such as the hub's supporters. Social media can also foster enthusiasm among stakeholders to help spread the community mission and principles of the hub.

Social media websites offer an ideal opportunity to connect with people seeking local foods. They offer a more direct level of interaction between businesses consumers than traditional marketing methods. People can "like" posts made by the food hub; receive access to updates, pictures, and comments from the hub; provide direct feedback; and leave comments about the food hub for others to see, including recommendations, questions, or compliments/complaints.

Social media websites also offer ways to increase sales by posting promotions, coupons, and information about events to encourage sales of products. In addition, links can be provided to the hub's website or a newsletter subscription page to increase traffic. All of these options are free.

Blog sites and micro-blog sites offer platforms where users can post updates, share links, and connect with other users. They offer access to new and changing consumer markets that may not otherwise be accessible.

## Producers & Suppliers

**THE SUCCESS** of a food hub can often hinge on its ability to develop lasting relationships with producers and deliver high-quality products. Getting producers engaged with the food hub is an important part of establishing those lasting relationships that will, hopefully, lead to increased commitment to it.

Food hubs play an important role in marketing food from small- and mid-sized producers. The more producers a food hub works with, the more options that hub has when it comes to supply. The number of producers a food hub will need will vary depending on the size of the operation. As found in the 2013 National Food Hub Survey, hubs typically operate with about 36 producers and suppliers.

### DECISION POINT

- *How much will each producer supply?*
- *What are the quality standards and will the food hub require producers to be certified?*
- *When and how much will producers be paid?*
- *At what point will more producers be added?*

A food hub will need to work with producers to determine how much each can supply and the frequency of delivery. This will help ensure the food hub is able to offer products consistently throughout the growing season. The food hub may also be able to help with activities that extend the season, helping to ensure a consistent product supply year-round. Helping producers diversify their production will not

only help the farmers grow their farm, but will also give the food hub a larger selection of products.

The quality of the products supplied by these producers is an important factor to consider when forming partnerships. The farming and handling practices producers use may have an impact on the customers that purchase from the hub. Food hubs may work with producers to standardize such basic practices as washing and grading. Others require producers to follow certain food safety and certification practices, such as Good Handling Practices, USDA Certified Organic, and Certified Naturally Grown. Many food hubs prefer that their producers carry certifications or use certain production practices, but they may not be required. Food hubs may also have a strong preference for producers to use integrated pest management (controlling insects and other pests with minimal, if any, chemical pesticides), or adhere to total organic farming practices, although, again, these practices may not

be required to sell to the hub.

Another key decision is when to bring more producers into the food hub, how much they will be paid for their products, and the payment schedule. For the food hub to attract producers, it will usually need to at least meet what local growers are earning from a blend of retail and wholesale sales. A food hub is typically just one out of many product outlets for producers. For producers to expand or re-direct their production (switching over to organic production, for example), prices offered by the food hub typically must at least meet wholesale prices. Produce farmers typically operate on very slim margins. Labor is costly and land prices are high, especially for small farms. So, any expansion must provide some additional benefit to be a viable option.

Some food hubs allow producers to set their own price and then simply add a margin sufficient to cover the food hub operations. Other food hubs purchase product outright from producers and maintain all the risks of storage and sales. Some hubs take a partnership-type approach, in which a specific percentage of revenue is set to be returned to producers as payment for their product.

Written agreements between producers and the food hub can help alleviate any confusion over the requirements of the hub and help maintain transparency.

### Examples of Certifications and Agricultural Practices

- Marine Stewardship Council
- USDA Certified Organic
- Integrated Pest Management
- Good Handling Practices Certified
- Certified Naturally Grown
- Good Agricultural Practices Certified
- Antibiotic-Free
- Free Range/Pasture Raised
- Chemical Free
- Practicing Organic
- Certified Humane
- Fair Trade



*Loading pallets on the back of a Greenmarket Co. truck. Greenmarket Co., a program of GrowNYC, was launched in 2012 with a focus on wholesale distribution of locally sourced farm products. Photo by Vitaly Piltser, courtesy of GrowNYC.*

# Products, Packaging, and Services

**FOOD HUBS TYPICALLY OFFER** more than one type of product, both to supply the needs and demands of their customers and to diversify their product line. But a feature that differentiates them from simple food brokers is their focus on offering services that help producers and the community.

## Products

Food hubs can carry and sell a variety of products, ranging from fresh produce to alcoholic beverages. A food hub can choose to focus on mostly one type of product, such as meat and poultry, or a wide variety of products. The variation of products for each food hub will differ depending on the local and regional consumer market, the types of product local producers are supplying, and the size and scale of the hub. Product selection can impact other areas of the hub's operation, including the type of storage space needed and the frequency of deliveries.

### DECISION POINT

- *What type of products will the food hub carry?*
- *How many product lines will the food hub offer?*
- *What type of services will the food hub offer?*
- *Will a food hub offer processing?*

Diversifying a hub's product selection can help combat "seasonality" and provide consumers with more buying options, but it can also add to a hub's operating costs. Fresh produce is the most common product offered by food hubs and usually accounts for the largest amount of sales. Food hubs also may offer processed goods and produce, grains and beans, fish, alcoholic beverages, baked goods, milk and other dairy products, as well as coffee and tea.<sup>12</sup>

All products sold by the food hub may not be of "high-dollar" market quality. Food hubs should thus have the flexibility to move surplus products into high-volume markets. This means having separate strategies for the various products handled.

The following list is of the major product categories sold by food hubs.

- *Fresh Fruits and Vegetables*

Fruits and vegetables make up the vast majority of products sold through

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<sup>12</sup> Fischer, M., Hamm, M., Pirog, R., Fisk, J., Farbman, J., & Kiraly, S. (2013). Findings of the 2013 National Food Hub Survey. Michigan State University Center for Regional Food Systems & the Wallace Center at Winrock International.

food hubs, whether to individual customers or to wholesale customers.

- *Herbs and cut flowers*

Herbs and cut flowers can supplement a hub's sales and heighten its visibility. Because of low volumes, limited shelf life, labor-intensive production and extreme seasonality, these products typically cannot sustain a venture.

- *Baked Goods*

Bread and baked goods are increasingly popular items for food hubs. About 73 percent of farmers' markets sell some type of baked goods. Fresh baked breads are popular items, as are desserts, such as pies, cakes, and sweet rolls.

- *Canned Fruits and Vegetables (shelf-stable items)*

Increased health consciousness, combined with greater demand for local foods, is not only creating new markets for fresh produce but is also increasing demand in many markets for preserved fruits and vegetables. Local preserved fruits and vegetables are popular items for many food hubs, especially if minimal processing is used (such as no added chemical preservatives).

- *Meat and Poultry*

A 2013 USDA Economic Research Service (ERS) report<sup>13</sup> reveals that the most cited barrier to bringing more local meats to markets is the lack of local livestock processing facilities. If a food hub would like to offer meats, it needs to evaluate local access to processing facilities.

- *Milk and Dairy Products*

Small-scale, direct-marketing ventures are becoming more prevalent as demand rises for local foods. While fluid milk can present logistical challenges for food hubs, cheeses are becoming increasingly popular with food hubs.

- *Other Products*

To extend a food hub's sales season, it may handle local grains and flours, fair trade or organic oils and nuts, or locally finished items, such as locally roasted coffee.

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<sup>13</sup> Gwin, Lauren, et al. "Local Meat and Poultry Processing." (June 2013). USDA Economic Research Service. Report Number 150. [www.ers.usda.gov/media/1131316/err-150.pdf](http://www.ers.usda.gov/media/1131316/err-150.pdf)

## Market Seasonality

Seasonality is an important issue for every agricultural venture because the customer expects orders to be filled as they are placed. All local produce has a specific cycle of production, and yet there is a need to furnish products for sale all year if a food hub is to remain viable over the long term. For the business to grow and thrive, the food hub must be prepared to supply what its customers demand.

Seasonality is not just a concern within a given region, but also between regions. The products that are available during a longer growing season in U.S. southern or western regions are not likely to be available for the same period of time in midwestern or northern regions. To combat seasonality and to grow produce that is in demand for a given region, food hubs may need to source products with storage potential so that they can be sold outside of the traditional seasons. This is often accomplished through the addition of off-season, shelf-stable, or non-perishable items. Non-seasonal product lines — including local dairy products, eggs, and broilers — can significantly boost year-round sales totals.

## Packaging and Labeling

In general, boxes and packaging should be suited to handling and storing each type of product. Typically, this will include cardboard boxes for vegetables, or more rigid plastic containers for “delicate” fruits and berries. Most food hubs require that product delivered by producers be “ready for sale.” However, product packaging can vary for different operations, depending on the services and type of products offered.

A food hub focused on retail sales may require packaging suited for sales to individual consumers, with appropriate sizes and that is visually attractive. This packaging will often be similar to that used in more mainstream retail grocery stores. Product labels may include information about the farm where it was produced. Food hubs, like all food retailers, should ensure that their labels and packaging comply with regulatory requirements.

On the other hand, a food hub that is selling only to wholesale buyers will need product packaging that can withstand shipping and can hold larger amounts of product. Typically, a wholesale client will either repackage the product for sale, or will use the product “in bulk” from the box. Labels for wholesale packaging may not be as detailed or as “visual” as retail labels.



Product packaging for a CSA market can combine elements of both retail and wholesale packaging. A typical CSA delivers boxes of produce to its members, but the packaging still needs to offer basic product information and be visually appealing when delivered. CSA packages may also include newsletters or flyers with information about the food hub and the products included.

*Local Promotion Labeling*

Food hubs also often take advantage of local and State food promotion programs to create consumer awareness and/or to participate in branding and marketing activities on behalf of producers. State designations — such as “Certified South Carolina,” “Virginia Fresh,” and “Kentucky Proud” — are often used to designate products that meet the requirements to be labeled as a product of a State or region.

*Universal Product Code (UPC)*

The use of UPCs may be necessary if a food hub deals with a large variety of items, specifically such shelf-stable items as jams and canned goods. UPCs may be more common in a food hub with a retail location, since they can help with customer transactions and inventory control.

Universal Product Codes are a 12-digit identifier used mainly with point-of-sale devices to enable more efficient sales transactions. UPCs are

constructed and sold by GS1 US, a nonprofit group. Purchasing new UPC codes entails paying a membership fee to GS1 US, as well as an annual maintenance fee. Some companies re-sell previously issued UPC codes, charging for each UPC purchased. Some customers require that UPC

**Examples of State Agriculture Marketing Programs<sup>14</sup>**

■ California	CA Grown
■ Maryland	Maryland's Best
■ Maine	Get Real. Get Maine!
■ New York	Pride of New York
■ Connecticut	Connecticut Grown
■ New Jersey	Jersey Fresh
■ Texas	Go Texan
■ Louisiana	Certified Product of Louisiana

<sup>14</sup> Adapted from “Catching the ‘Local’ Bug: A look at State Agricultural Marketing Programs.” Choices Magazine. Retrieved from [www.choicesmagazine.org/magazine/article.php?article=112-6-3-14](http://www.choicesmagazine.org/magazine/article.php?article=112-6-3-14).

codes be used for product designation, inventory management, and sales.

## Services

### *Payment Processing*

The administrative burden of billing and payments, particularly if a farmer is attempting to sell products to a variety of customers, can be cost-prohibitive for smaller producers. A food hub is able to achieve better efficiency while handling such functions in aggregate for many producers. This, in turn, allows producers to focus on farming or other operations, rather than administration.

### *Safety Certifications (group certification for GAP)*

At the time of publication, this program is still in the pilot phase with USDA, but it is intended to be available to food hubs. Given the interest in food safety and the rise of certification and auditing activities, such as GAP (Good Agricultural Practices), food hubs provide a possible avenue for group certifications. In this case, a centralized entity (the food hub) serves as a repository for agreed-upon food safety protocols that are followed by all member-producers of the hub. Certification and auditing takes place in a corporate, rather than individual, format, decreasing the often prohibitive expense of auditing and certification.

### *Washing, Packing, Grading*

Food hubs often work with producers to provide access to equipment for basic washing and packing. Smaller producers are often unable to afford the equipment or infrastructure to perform these activities on their own. Many food hubs provide these services, helping smaller producers to supply better quality products to the marketplace.

### *Processing*

Depending on the infrastructure, food hubs are able to provide access to equipment needed to further process fresh farm products. Some food hubs do flash freezing and individual quick freezing (IQF) to further extend the selling season of fruits and vegetables for their producers. Other light processing activities may include slicing, washing, chopping, or alternative packaging.

Further processing, or “value-added” processing, is used to preserve items or to incorporate them as ingredients in (for example) salsas, chutneys, or pickled vegetables. They may also be used in sauces or other flavorings. Some food hubs produce their own salad mixes.

## *Education and Training*

Many food hubs provide education and training for their members and the broader community. These activities can include cooking and canning classes and recipes in the hub's newsletter or website that highlight healthy nutrition. Information for producers may cover basic food safety training, Good Agricultural Practices (GAP), and Good Handling Practices (GHP) — even general production techniques. Some food hubs operate educational or incubator farms intended to increase urban access to land for cultivation as well as to encourage new farmers.

## *Storage*

Food hubs with unused space in their facilities often provide storage space for their larger producers, or lease space to other agricultural entities.



*Inside La Montanita's Co-op Distribution Center in Albuquerque, NM, where they take advantage of a multi-tiered racking system to optimize storage capacity. Photo courtesy of La Montanita.*

# Risks

**IT IS THE RESPONSIBILITY** of business owners to be familiar with Federal, State, county, and local laws governing their business. Failure to do so may result in penalties, fines, and cessation of business. Following is a general overview of the registration and regulatory aspects of a business, as well as associated risks that could affect a food hub.

## *Capital Risks*

With any new business, there is always a capital risk. Insufficient access to capital is a major reason new businesses fail. Unexpected cost overruns can endanger a venture. Depending on the nature of the food hub's operations, significant capital may be needed, especially for equipment.

## *Cash-Flow Risks*

Even with a for-profit food hub, there are periods of the year when the venture may experience negative cash flow. Business liquidity should be closely monitored. A small change in price or payment period could quickly turn a profit into a loss. Because of the perishable nature of most food hub products, there is the potential for large revenue losses resulting from spoilage or other loss of inventory.

## *Management Experience Risks*

The selection and oversight of management is critical for business success. It is thus imperative that management have experience in the industry. Since food hubs are a relatively new industry, there are fewer sources of information regarding the operation and administration of the business. The food hub may be subject to a “trial and error” approach during the startup and early years of operation.

## *Legal Liabilities and Risks*

The venture will face legal liabilities and potential risks due to the perishable nature of the product, food safety and transportation issues, worker safety, and environmental risks. These issues need to be properly addressed. Risk should be reduced with insurance and written policies, where possible.

## *Regulatory Risks*

There are a large number of regulatory risks and hurdles that the venture must address as it moves forward. These factors could substantially affect the

ability of the venture to operate profitably. Regulations are in constant flux. Regulations that may not affect the operation today could have a dramatic impact on it in the future.

### *Market Development Risks*

A food hub will need to establish itself as a vendor in a competitive industry with previously established players. There is no guarantee that a newly established food hub will succeed in attracting sufficient buyers. It is assumed that the hub has determined that consumers actually have an interest in a food hub and that these consumers are prepared to pay for local products.

### *Price Risks*

While consumers are becoming far more interested in how and where food is produced, the local foods industry will continue to evolve according to consumer demand. For this type of growing market, it is not unusual for prices to go through wide swings and periods of significant price depression.

### *Food Contamination Risks*

Concern over food contamination has been on the rise in recent years, with a number of major incidents making major headlines. Bacterial contamination can cause illness, product recalls, and damage to a brand. Care should also be taken when the food hub supplies product to retail outlets. Careless handling and storage techniques by the retailer could also introduce such risks.

### *Product Supply Risks*

Because quality outputs are dependent on the quality of inputs, the interaction of weather and terrain are very important. Weather variables can affect the ability of the food hub to source sufficient quality product.

### *Inventory Risks*

If sales fail to meet projections, inventory may increase and lead to negative cash flow. A food hub may then be unable to comply with short-term obligations. In addition, because the food hub handles perishable products, holding of inventory longer than planned carries the risk of product loss.

### *Contingency Planning*

No matter how thorough and complete it is, startup plans rarely proceed according to plan in every aspect. Every business should consider

incorporating contingency planning into its long-term strategy. Flexibility allows a food hub to take advantage of new opportunities, as well as to deal with unexpected obstacles.

In the event that sales expectations are not met or that implementation does not proceed according to plan, a food hub should have a fallback plan that could allow it to operate as a smaller or different type of hub operation.



*Ryan Ploch of Ploch Farms in Vineland, NJ, checks on a field of green onions. Ploch Farms is one of more than 40 farms that works with Red Tomato, a food hub based in Plainville, MA. Photo by Diane Stalford, courtesy of Red Tomato.*



## Additional Considerations

**ALMOST ALL BUSINESSES** face a crisis at some point. Major changes in a business can represent a risk, even if the change is made to accommodate the growth and further success of a business. Most businesses will face one, or both, of the two situations discussed below at some point.

### **Business Transition and Succession<sup>15</sup>**

During the life-span of a business, there will be changes in personnel and operations. These transitions can occur when the leadership changes, when the owners decide to sell a business, or when new opportunities dictate a different direction for the business. In some cases, leadership is aware that a transition will need to take place. At other times, transitions can be unexpected. Food hubs should carefully consider how they will handle such transitions to minimize the impact on sales and to reduce the risk of failure.

When a food hub faces a leadership transition, the institutional knowledge and working relationships staff have developed over time will be of primary importance. Those who have worked at the food hub, especially during the critical startup phase, often have established relationships with producers, customers, and community leaders that are difficult to replace. They also have a wealth of knowledge, based on experience.

There is no “one-size-fits-all” plan for business transition or leadership succession. But there are key principles that can be adopted to minimize the effects of these events. According to SCORE (Service Corps of Retired Executives), a group of small business counselors, there are five main steps in developing a succession plan,<sup>16</sup> several of which have been adapted below.

The first step of developing a succession plan is to determine a successor — the individual who will replace the current leader. This includes hiring new personnel for any essential position, such as an outgoing director, or sales or production manager. Often, the successor comes from within the current labor pool of the food hub. This decision process is not always easy, but using a board of directors or a search committee may help with the process. This process may take some time as an immediate successor may not be evident. The process should begin as early as possible during the transition so that a qualified individual can be found.

After choosing an individual as a successor or replacement, the next step

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<sup>15</sup> Small Business Administration. “Plan your exit.” *Getting Out*. [www.sba.gov/content/plan-your-exit](http://www.sba.gov/content/plan-your-exit)

<sup>16</sup> SCORE (2013). “Developing a Succession Plan.” [www.score.org/resources/developing-succession-plan](http://www.score.org/resources/developing-succession-plan)



*Producer-members of the Fifth Season Cooperative (FSC), a multi-stakeholder food hub based in Viroqua, WI. Many of the producer-members use growing season-extending technologies, such as this “high tunnel,” to ensure they can service Wisconsin school districts — one of the co-op’s primary markets. Photo courtesy of FSC.*

is to create a formal plan to train the new employee. This training period provides the opportunity to pass along institutional knowledge, information about operational lessons learned, and to help the new leader establish relationships that will ensure a successful transition. The training plan should allow adequate time to focus on all of the main functions of the business. The training plan should allow the successor to develop his or her

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<sup>17</sup> Office of Advocacy (2012). “Frequently Asked Questions.” Small Business Administration. [www.sba.gov/sites/default/files/FAQ\\_Sept\\_2012.pdf](http://www.sba.gov/sites/default/files/FAQ_Sept_2012.pdf)

<sup>18</sup> Office of Advocacy (2011). “Frequently Asked Questions.” Small Business Administration. [www.sba.gov/sites/default/files/sbfaq.pdf](http://www.sba.gov/sites/default/files/sbfaq.pdf)



own management style.

A succession plan should also include a timetable that maps out how long, and when, training should occur and how best to transfer decisionmaking duties. Setting clear time goals will help alleviate confusion between current owners, management, employees, and the successor. The final step for developing a succession plan is to install the successor and notify the other employees in the company that the new leader's official duties have begun.

## **Business Closure and Exit Strategy**

Since 2007, more small businesses have closed than opened. The survival rate of small businesses is typically associated with the firm's age. According to the Small Business Administration, about half of all new establishments survive 5 years or more; only about one-third survive 10 years or more.<sup>17</sup> According to census data, survival rates for small businesses were similar across all States and major industries.<sup>18</sup>

An exit strategy should be included as part of the normal planning process of a business. Such a plan can provide guidelines or serve as a strategy in the event that the owners need to transfer ownership or dissolve the business. Exiting a business does not always have to be a negative experience. Exiting can also entail selling the business, going public with stock offerings, retiring, or simply ceasing operations for a variety of reasons.

A major part of the exit strategy should include resolving any financial obligations the owners or the business may have. The distribution of revenue after the dissolution of the business will depend on how the business is legally structured. For example, if the business is a nonprofit organization, the assets may be distributed to other nonprofits; a for-profit business would distribute assets to its owners.

On the "Small Business and Self Employed" portion of the IRS website,<sup>19</sup> there is a checklist to complete when closing a business that helps ensure that all financial issues are covered.

The social-based missions of many food hubs also may affect how a business is closed. Leadership should look for ways to transfer the knowledge and contacts cultivated by the food hub to another entity with similar goals. Producers who have depended on the food hub as a sales channel may need help in finding other outlets for their production. Customers should be made aware of other local food sources. Whenever possible, a food hub should seek to provide solutions to these issues and minimize the effects of its closing.

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<sup>19</sup> Internal Revenue Service (March 2014). "Closing a Business Checklist."

[www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Closing-a-Business-Checklist](http://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Closing-a-Business-Checklist)

## Conclusion

**THE LONGEVITY** of a business ultimately depends on its ability to adapt to the changing factors surrounding it. Taking time to develop a plan can help avoid serious problems later. While not all circumstances can be planned for in advance, sound business practices — such as preparation, documentation, follow-through, and reassessment/adjustment — can dramatically improve performance.

In addition to this guide, leadership should seek help from additional resources. Professionals and experts in specific areas can help the leaders of the business gain a deeper understanding of business issues and opportunities, improving the odds of success.

Every entity will face different economic, social, and business environment circumstances. Thus, the path to implementation, operation, and success will be unique for each venture. Each of these stages presents new areas of focus, new challenges, new opportunities, and obstacles that will need to be evaluated and acted upon as the business grows.

## Appendix A

### **Sample Staff Descriptions / Qualifications**

When establishing human resource guides and protocols, leadership should develop staff descriptions that include duties, qualifications, and desired skill sets to serve as a guide for hiring employees. The following examples are provided as samples and include basic staff descriptions, with qualifications. Each entity will need to determine its own position descriptions and required qualifications based on its unique requirements and operations plan.

## General Manager

### *Duties and responsibilities:*

The general manager will be responsible for planning, directing, and coordinating all food hub operations. He or she will be responsible for developing policies, managing the daily operations of the business, and planning for the most efficient use of inputs and human resources. Also, the candidate shall be held accountable for the accuracy of financial reporting for the business.

The general manager will be part of an energetic and progressive team with a passion for quality and the environment. The manager believes in a commitment to customer service and exhibits a high level of professionalism and integrity.

### *Qualifications and Experience:*

The candidate for this position must have the following:

- A bachelor's degree (BA) or equivalent; MBA is preferred;
- A “hunter” attitude to generate new business and leads;
- Sales experience in specialty products in the food industry is desired;
- Agricultural and food-industry-related experience is desired;
- Well-developed skills for negotiation and project and account management;
- Good judgment and the ability to make timely and sound decisions;
- Strong organizational, problem-solving, and analytical skills;
- Excellent written and verbal communication skills;
- Ability to make successful presentations to individuals and/or groups at all levels of an organization;
- Ability to work independently and as a team member;
- Ability to calculate figures, including discounts, interest, commissions, and percentages;
- Proven ability to handle multiple projects and to meet deadlines;
- Proficient with basic computer software, including Microsoft Word, Excel, PowerPoint, and Outlook;
- Valid State driver's license.

## Production Manager

### *Duties and responsibilities:*

Under the direction of the General Manager, the Production Manager is responsible for efficiently and effectively assisting with the planning, directing, and coordination of all producer-related operations. The Production Manager will assist in coordinating 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 for the entire season and during short periods to minimize waste.

### *Qualifications and Experience:*

The candidate for this position must have the following:

- Ability in customer service and working with the public;
- Strong organizational skills and attention to detail;
- Knowledge of the agricultural and food industries, including safety regulations;
- Professional appearance and demeanor;
- Must be at least 21 years old;
- 3–5 years' related experience preferred;
- High school diploma or equivalent desired;
- Basic skills in Microsoft Office, including Word and Excel;
- Ability to stand and walk for long periods of time;
- Must be able to lift up to 50 pounds repeatedly.

## Warehouse Manager

### *Duties and responsibilities:*

Under the direction of the General Manager, the Warehouse Manager is responsible for efficiently and effectively assisting with the planning, directing, and coordination of all daily food distribution operations. The Warehouse Manager will schedule delivery with farmers and customers for all food hub products. The Warehouse Manager will also oversee the receiving and delivery schedules, as well as monitor the quality of the product as it arrives and leaves the warehouse. He or she will also make sure all drivers and line workers have the appropriate safety training and certifications.

### *Qualifications and Experience:*

The candidate for this position must have the ability to:

- Supervise the activities of workers engaged in receiving, storing, testing, and shipping products or materials;
- Interview, select, and train warehouse and supervisory personnel;
- Plan, develop, or implement warehouse safety and security programs and activities;
- Prepare or direct preparation of correspondence; reports; and operations, maintenance, and safety manuals;
- Confer with department heads to coordinate warehouse activities, such as production, sales, records control, or purchasing;
- Review invoices, work orders, consumption reports, or demand forecasts to estimate peak delivery periods and to issue work assignments;
- Inspect physical conditions of warehouses, vehicle fleets, or equipment and order testing, maintenance, repairs, or replacements;
- Schedule or monitor air or surface pickup, delivery, or distribution of products or materials;
- Lift up to 50 pounds repeatedly;
- Perform basic tasks in Microsoft Office, including Word and Excel;
- Stand and walk for long periods of time.

## Marketing/Sales Manager

### *Duties and responsibilities:*

The Marketing/Sales Manager will work to expand distributor sales and develop a new product area. He or she will be responsible for furthering the food hub's image and sales. This position will be "hands-on" and responsible for all aspects of distributor sales. This manager will spend at least about one-fourth of the time traveling to support the distributors.

This manager is also responsible for preparing and executing the marketing plan, fulfilling the general manager's objectives. He/she will do marketing research and collaborate with the rest of the team to identify those products that best suit the needs and tastes of customers. This manager will provide innovative marketing solutions to increase the overall profitability of the food hub.

The ability to create sales plans, formulate wholesale pricing, evaluate distributor performance, manage compliance, construct promotional budgets, understand and evaluate market demographics, and make tactical sales decisions will all be necessary components of this position.

### *Qualifications and Experience:*

The candidate for this position must have the following:

- Degree in business/marketing or equivalent related experience;
- Four or more years of experience in "brand" marketing in the food industry;
- Strong analytical, written, and verbal reasoning skills;
- Proven negotiation and relationship-building skills;
- Minimum 2-year distributor management experience, desired;
- Five years, minimum, experience with distributor sales, and familiarity with individual distributors in various States;
- Ability to lift heavy boxes (50 lbs.);
- Ability to travel extensively with overnight stays.

# Appendix B

## Sample Equipment List

The following list provides examples of some of the items likely to be needed for starting a food hub. The actual required equipment will depend on the unique circumstances of the food hub, including: whether or not facilities will be shared, what level of services the hub will provide to producers, how sales will be conducted, etc.

General Warehouse/Storage Equipment	Qty
Forklift	1
Truck	1
Pallet Jack	3
Work Tables (60" x 30")	6
Used Walk-In Cooler (800 sq. ft.)	1
Cooling Tunnel	1
Water Hoses for Cleaning (100')	4
Hose Connectors	2
Hose Spray Nozzle	4
Curved Floor Squeegee (3-Pack)	6
Hand Truck	6
Janitorial Cart w/Equipment	3
Extra Mops	8
Extra Mop Bucket	3
Extra Brooms	8
Misc. Cleaning Supplies	1
Internal Use Crates (pack of 10)	3
Boxes	variable



## Sample Equipment List

### General Warehouse/Storage Equipment Qty

Roller Conveyors	3
Shelving (12' x 8' x 42")	20
Pallets (48"x40", 2200lb)	50
Tarps (40' x 40')	5
Misc. Tools for Maintenance	1
Trashcans (50 gal)	12
Ladder	5
Thermometer Gun	10
Temperature/Humidity Indicator	4

### Retail Equipment Qty

Bags (Cases)	15
Misc. Wood Bins	20
Produce — Display Bin	8
Prepackaged Item Shelves	60
Refrigerated Display Case	2
Refrigeration Units	1
Shelving	6
Inventory Software & Hardware	3
(cash registers, credit card machines, etc.)	
Sales Racks	5
Stereo System	1
Industrial Shelving	1

### Safety Equipment Qty

Fire Extinguishers	5
Smoke Detectors	20
Carbon Dioxide Detectors	20
Exit Signs	4
First Aid Kit	4
Emergency Shower	1

## Sample Equipment List

### Office Equipment

	Qty
Used Office Desk and Chair	4
Used Office Chairs	4
Lamp	6
Shelving	2
Trashcan	4
Vacuum Cleaner	2
Used Filing Cabinet	4
Air Conditioning Unit	1
Telephone	2
Credit Card Processing Machine	2
Computer/Printer/Scanner/Fax	1

### Break Room Equipment

	Qty
Used Tables	2
Used Chairs	8
Used Microwave	1
Used Refrigerator	1
Used Coffee Maker	1
Water Cooler	1
Misc. Paper/Plastic Dishware	2
Misc. Bathroom Supplies	2

### Build-Out Costs

	Qty
Outdoor Floodlights	4
Camera/Basic Security System	1
Pallet Scales	1
Portable Fan for Staff Use (36")	4
Additional Build-Out Costs	1
Unforeseen and Misc.	1

## Appendix C

### Sample Questions for Software Selection

- Does software already exist that meets our needs?
- What do we need software to do?
  - Take orders?
  - Track inventory?
  - Perform general ledger functions?
- What is the total cost?
- One-time purchase or ongoing payments?
- Is the software well suited to our current operations? (Is it a good fit?)
- Is the software easy to implement?
- Will it work with our existing business software? (General ledger, current inventory tracking, etc.)
- Does the software offer a trial evaluation period?
- Will the software allow for expansion of services in the future?
- Is the software well supported by the manufacturer?
- What are the intangibles? (saving time, professional presence, customer relations)
- Should we consider custom software creation?

## Appendix D

### Business Structure Comparison

The table on the following page was prepared with the assistance of Lenhart Obenshain Attorneys at Law, a firm familiar with the legal organization of businesses in the Commonwealth of Virginia and with a long tradition of representing agribusiness, their managers, and owners. The table compares the differences between a partnership, LLC, corporation, and an agricultural cooperative. Business attributes explored in the table include the type of taxation for the entity, governing documents required, and many other considerations.

The information is intended to be general and does not represent legal advice. Entities interested in legal formation should consult legal experts familiar with their specific locality and the nature of their business.

# Comparison of Common Business Structures<sup>20</sup>

	Partnership	LLC
Formation	<b>General partnership:</b> No documentation required. <b>Limited partnership:</b> Certificate of Partnership.	Articles of Organization
Limited Liability for Owners	<b>General partnership:</b> No <b>Limited partnership:</b> Yes, for limited partners.	Yes
Taxation	Pass-through entity — owners are taxed, not the entity. Pass through of taxable income to owners cannot be delayed.	Pass-through entity — owners are taxed, not the entity. Pass through of taxable income to owners cannot be delayed.
Transferability of Interests	Partnership interests are freely transferable unless limited by agreement (typically called a Partnership Agreement).	Membership interests are freely transferable unless limited by agreement (typically called an Operating Agreement).
Securities	Yes, partnership interests are securities.	Yes, membership interests are securities.
Governing Documents	No statutory requirement, but Partnership Agreement advisable.	Must have at least “short form” operating agreement; if more than one owner, should have full operating agreement.

<sup>20</sup> Adapted from “Virginia Business Legal Structures.” (2011). Virginia Foundation for Agriculture, Innovation & Rural Sustainability.

## Corporation

Articles of Incorporation

Yes

**C corporations:** Corporation pays corporate tax and stockholders pay income tax on dividends (so-called “double tax”).

**S corporations:** Pass-through entity. Pass through of taxable income to owners cannot be delayed.

Stock is freely transferable unless limited by agreement (typically called a Stockholders Agreement).

Yes, stocks are securities.

Must observe more formalities than the LLC, including having bylaws and annual meetings. If more than one owner, should have Stockholders Agreement.

## Agricultural Cooperative

Articles of Incorporation

Yes

For tax-exempt cooperatives, the cooperative is generally treated as a pass-through entity — owners are taxed, not the entity. Non-exempt cooperatives may have tax at corporate level. Pass through of taxable income to members can be delayed by using nonqualified allocations.

Stock is freely transferable unless limited, typically by the cooperative’s bylaws.

Yes, stocks are securities; special exemptions available.

The governance and economic “rules” of a cooperative are typically set forth in the cooperative’s bylaws and its contract with member-patrons.

## Comparison of Common Business Structures

	Partnership	LLC
<b>Management</b>	<b>General partnership:</b> Managed by one or more general partner(s). <b>Limited partnership:</b> Managed by general partner. Partner voting is typically based on percent ownership in the partnership.	May be managed by one or more managers or members. Member voting is typically based on percent ownership in the LLC.
<b>Owners</b>	Anyone (referred to as “partners”).	Anyone (referred to as “members”).
<b>Classes of Ownership</b>	Very flexible — may create a variety of classes of ownership.	Very flexible — may create a variety of classes of ownership.
<b>Tax Treatment of Annual Earnings</b>	All distributions to an active, individual owner must be treated as self-employment income. Typically, this means general partners must pay self-employment income.	All distributions to an active owner who is an individual must be treated as self-employment income.
<b>Incentive stock options, ESOPs<sup>21</sup></b>	No	No

.....  
<sup>21</sup> ESOP stands for employee stock ownership plan.

**Corporation**

Must have a board of directors and officers. Stockholder voting (including the election of the board) is based on how many shares of stock the stockholder holds.

**Agricultural Cooperative**

Must have a board of directors (at least one of whom must be a public director) and officers. Member voting (including board elections) is per capita — one vote per member — not on percent ownership in the cooperative.

For S corporations, only up to 100 U.S. residents and citizens (referred to as “stockholders”).

Agricultural producers, commonly called “members.” Non-ag producers may invest, but they cannot vote.

S corporations may not have more than one class of stock (but non-voting stock doesn’t count as a second class).

May have more than one class of stock, but only common stock may vote (common stockholders are the members, as above).

Opportunity to classify payments to an individual owner as salary or general corporate earnings not subject to employment taxes. This presents slight tax advantage over an LLC.

All qualified distributions to individual members must be treated as farm income.

Yes

No



# Comparison of Common Business Structures

	Partnership	LLC
Fiduciary Liability	<b>General partnership:</b> Managing partners are fiduciaries. <b>Limited partnership:</b> General partners are fiduciaries.	Yes, managers are fiduciaries.
Capitalization	No limit on investments	No limit on investment

**Corporation**

Yes, directors and officers are fiduciaries.

**Agricultural Cooperative**

Yes, directors and officers are fiduciaries.

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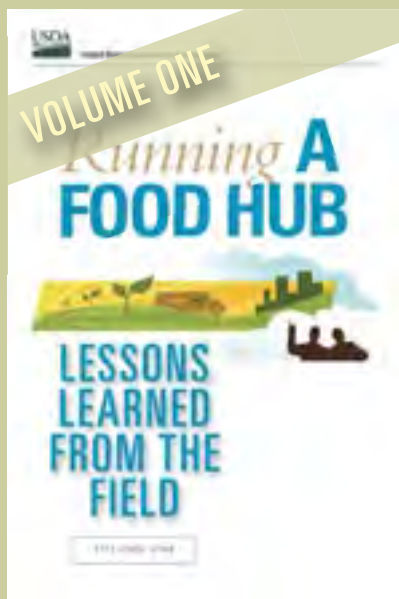
No limit on investment

Only agricultural producers may be common stockholders. Non-ag producers may invest but dividends are limited.



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