



Assessing the Economic Viability of Food Hubs

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A summary of ***Economic Viability of a Food Hub Business: Assessment of Annual Operational Expenses and Revenues***, by Olya Rysin and Rebecca Dunning, published in the summer 2016 issue of the *Journal of Agriculture, Food Systems, and Community Development*, 6(4), 7-20. See the full paper at <http://dx.doi.org/10.5304/jafscd.2016.064.002>

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What is the issue?

Over the past decade, growing interest in local foods has led to a rise in the number of farmers markets and food hubs around the United States. These local food infrastructures have been important in promoting local economies, supporting sustainable agriculture practices, and advocating for resilient, equitable food systems. As social enterprises, food hubs have played a key role in executing such social objectives.

A food hub is defined 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 [those producers’] ability to satisfy wholesale, retail, and institutional demand” (Barham, Tropp, Enterline, Farbman, Fisk, & Kiraly, 2012, p. 4). Food hubs are often described as a way to revitalize local agriculture, stem the declining number of smaller-scale farms, and keep food dollars circulating in the local community. While food hubs perform many of the same operations as those of private wholesale and distribution businesses, their focus on smaller-scale local producers can increase the per-unit costs of operations. Food hubs often receive funding for both investment and subsequent operational costs from public sources—typically federal, state, or local grant funds, foundation funds, or subsidization of some costs (e.g., facility rental, utilities).

Public funding for food hubs is typically seen as a startup investment in an operation that will become economically self-sufficient in 3 to 5 years. Earlier quantitative studies from 2011 and 2013 concluded that financially viable hubs generated over US\$600,000 in annual revenues. However, a 2014 survey showed that the majority of food hubs

generated US\$500,000 or less in annual revenues, with an average profit margin of negative 2%.

Plenty of qualitative research attests to the benefits of food hubs. Many funders have recognized the important role of food hubs, and there is a continued growth in funding on national, regional, and local levels for food hub creation and operational support. However, there is limited research on the quantitative evidence of the impact of food hubs on economic development outcomes. As a result, funders tend to lack detailed estimates of the operating costs and returns required to help food hubs reach the expected self-sufficiency.

What were the study’s main objectives?

While food hubs can have numerous social and economic benefits, it is evident that the majority of food hubs need ongoing public financial support in order to continue operations. This study was conducted to provide information to communities considering a food hub investment, and complements existing food hub research.

By looking at four food hubs in North Carolina in 2014, all of which were initiated with public funding and three of which continue to be publicly subsidized, this study (1) presents an economic comparison of operating expenses and returns for the four food hubs, (2) generates a composite model operating budget, and (3) conducts a sensitivity analysis to provide informed estimates of what communities can expect when making the investment in a food hub.

How was the study conducted?

In 2015, the authors of this study visited four food hubs that were operating in North Carolina and collected detailed information regarding the hubs’ management and financial records for 2014.

All four food hubs served as intermediaries between small and midscale farmers and their grocery stores, restaurants, or institutional food services. Two of the food hubs focused on direct-to-restaurant sales, while the other two focused on sales to a grocery distributor.

The authors identify the multiple assumptions they made in creating their model. They assumed a mark-up of 20%, which was consistent with the average values reported by the focal food hubs. They also assumed that revenues were from food sales exclusively. Costs of operation were gathered from each hub.

The authors also conducted a sensitivity analysis of different levels of average mark-up (10% to 40%) and different levels of annual operating expenses to consider how changes in these would affect hub revenues.

What did the authors find?

■ **Estimated breakeven sales for a food hub business: US\$800,000**

The authors found that approximately US\$800,000 in sales would be needed to cover the operating costs of a generic food hub business.

■ **Key barriers to growth: Inadequate infrastructure and staff**

Three of the four hubs were not earning sufficient revenue to cover operating costs. The food hub management attributed their insufficient revenues to the lack of adequate infrastructure (transportation, cooling and storage equipment, etc.) and the number of staff.

■ **The higher the mark-up, the lower the level of required annual sales**

The sensitivity analysis showed that the higher the mark-up, the lower the level of required annual sales to cover a particular level of annual operational expenses. Thus smaller hubs can still break even if they charge a higher mark-up to hub growers.

What do the authors recommend?

The authors conclude with recommendations for communities considering public investment in a food hub, and propose additional research questions:

- Communities considering investing in a food hub should consider the market channels realistically available to the hub and prices associated with each.
- Communities considering investment in a food hub should balance the expected benefits of subsidies against alternative uses of these funds.
- Food hub infrastructure can provide a valuable tool for economic development, but realistic assessments of the public or foundation funding needed for their successful operation should be considered from their inception.
- Investigation of the impact of higher food hub mark-up fees on food hub viability as well as on the existing and potential economic impact of these fees on the small-scale growers and agricultural communities served by hubs.

Reference

Barham, J., Tropp, D., Enterline, K., Farbman, J., Fisk, J., & Kiraly, S. (2012). *Regional food hub resource guide*. Washington, D.C.: USDA AMS. Retrieved from <http://dx.doi.org/10.9752/MS046.04-2012>

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