

BUILDING THE SUCCESS OF FOOD HUBS THROUGH THE COOPERATIVE EXPERIENCE

MODULE 3. LAUNCHING THE FOOD HUB BUSINESS

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Module contents	Page
Part 1. Business systems	4
Part 2. Staffing & services	4
Part 3. Governance	5
Part 4. The Future	5
Pitfalls	6
Useful Resources	6
Supplemental Resources	7





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(Estimated time for completion 2 to 6 months)

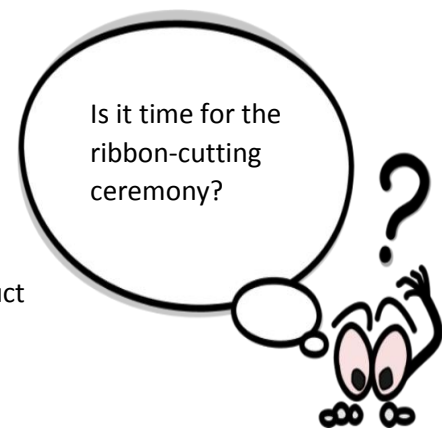
Actions: Set up the office and hire staff. Cross-train staff. Make sure warehouse/storage facility prepared to handle product volume and maintain product quality. Secure necessary machinery or contract for needed services. Market products and services provided by the food hub. Develop pre-season commitment plans with producers. Communicate with farmers to build trust and understanding of the product to be delivered and marketed through the food hub. Communicate with buyers to build trust and understanding of delivery and payment systems.

Outcomes:

- Business office established
- Website launched
- General manager hired (may have occurred earlier)
- Staff hired
- Inventory/accounting systems in place
- Payment and billing systems in place
- Sales materials finalized and distributed
- Relationships established with suppliers and buyers
- Number of suppliers or cooperative members and volume of product increases
- Operating funds secured

Who is involved?

- Manager
- Staff
- Accountants
- Business advisors
- Board of directors



Module contents	Page
Part 1. Business systems	4
Part 2. Staffing & services	4
Part 3. Governance	5
Part 4. The Future	5
Pitfalls	6
Useful Resources	6
Supplemental Resources	7

PART 1. BUSINESS SYSTEMS

Several systems need to be fully operational well in advance of when the food hub opens for business. These systems may or may not be specific to food hub enterprises. Billing systems are necessary to issue statements and monitor accounts receivable. Accounting software should be chosen that can generate useful reports to manage the business, provide information for a board of directors and allow for budget projections useful to lenders. Payroll systems should be in place to compensate employees and document payroll deductions.

Employees need to be skilled or trained to efficiently and accurately enter data into any given system before product arrives. Identification systems are necessary to receive the product and provide a tracking mechanism once the product is off-loaded at the dock. Databases should be created with contact information of farmer-suppliers and buyers. Systems need to be in place to anticipate the delivery of product by producers to the food hub based on the pre-season commitment plans. Software packages geared towards food hub businesses do exist. Many are modified to reflect individual circumstances and needs of each food hub. *(See Page. 6, Part 5. Useful Resources. Business systems)*

PART 2. STAFFING & SERVICES

Depending on the business structure and the size and scale of the food hub when it begins operations, managers (and the board of directors) will need to determine what functions of the hub provide with hired staff and functions that will be provided through service providers. Position descriptions need to be created and a hiring process completed in advance of the hub receiving product. For food hubs handling produce, employees need to accurately assess the quality of the product arriving on the dock. They need to be familiar with USDA grade and pack standards along with any additional standards set by the food hub. They have to develop the competency to enter data and assign the proper tracking label. They may need to be able to run forklifts and pallet jacks along with monitoring the temperature of product inside the warehouse. Consideration needs to be given to the number of seasonal workers that might be needed, their availability, and their training requirements.

Management will have to determine which service providers they will rely for outside support. Will there be an employee with the capability to monitor and service refrigeration equipment? How fast can service providers respond in emergency situations? If a truck fleet is owned by the food hub, is there a need for a mechanic on staff? How much redundancy is needed to operate the food hub effectively, efficiently, and profitably?

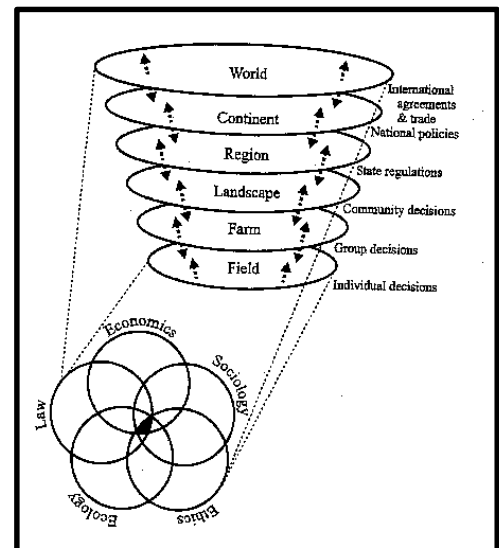
PART 3. GOVERNANCE

Food hubs organized as cooperatives, corporations, and limited liability corporations are required to hold an annual meeting each year. Financial information is shared with members or shareholders and directors of the organization are elected based on criteria stipulated in the bylaws. Cooperative board members should strive to promote the business and build membership. Directors are bound the 'duty of care' or a fiduciary responsibility to exercise good business judgement, due diligence and act in good faith in the operation of the company. They also have a 'duty of loyalty' or refrain from conflict of interest where the personal interests of a board member would supersede the interests of the company. The failure to exercise the duty of care and duty of loyalty can make the directors and managers personally liable for losses that might occur. To mitigate this risk many companies will purchase directors and officers (D & O) liability insurance.

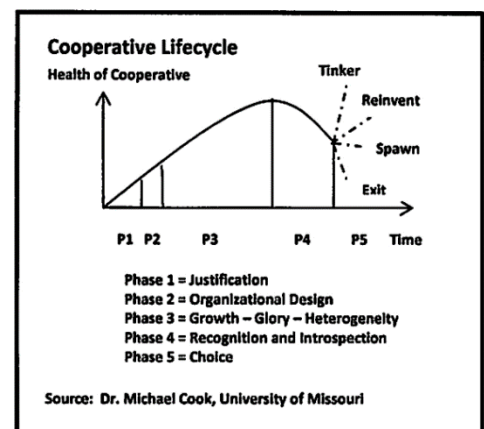
PART 4. THE FUTURE

Food hubs are a gateway for small and mid-sized farms to access intermediary market channels such as retailers, wholesalers, and institutional buyers. Starting a food hub is a daunting challenge. When starting a food hub it is important that governance documents allow for flexibility to achieve long goals of the organization. Investments need to be made to ensure short term success with an eye towards long-term viability. The leadership team needs to be inspired and committed to the long-term vision of the organization. Resources will occasionally be short. The competitive environment will change. Regulations will change. The competition will adapt to the new and different needs of consumers. The circumstances of farmers will change. Some farmers will expand the product they deliver to the food hub and others will choose to not do business with the food hub. New opportunities may emerge. Food hubs may choose to expand into value-added processing. They may diversify their product mix. They may seek markets further away or engage in joint ventures. The food hub will need to change to remain a viable option to suppliers and buyers.

Businesses move through a life cycle. A business life cycle predicts that an organization moves from inception to growth, to maturity, to decline OR redevelopment. These phases are sequential in nature and become increasingly complex through time. The three modules have focused on starting a food hub. The leadership team needs to be cognizant that operations of the food hub will plateau at some point and there will be a need to devise new strategies to remain in business. The founders of the food hub have an obligation to embrace this change and identify and train the new leaders who will move the business forward.



Source: Thomas Lyson, Cornell University



Pitfalls:

- *Ineffective board of directors*
- *Unqualified manager*
- *Poor marketing plan to secure suppliers*
- *Poor marketing plan to attract buyers*
- *Under-capitalized, operating capital, cash flow*
- *Sub-standard quality of products or services*
- *Weak sector or industry down turn*
- *Poorly trained employees*
- *Business systems not properly tested or fully operational*



Adapted from: Henahan, Brian M. and Bruce L. Anderson. 2001. Considering Cooperation: A Guide for New Cooperative Development. Cornell University, Department of Applied Economics and Management. Ithaca, NY.

PART 5. USEFUL RESOURCES

BUSINESS SYSTEMS

1. Legal
 - a. Corporate documents – Articles of incorporation, bylaws
 - b. Contracts – Marketing agreements, rental agreements, service provider agreements
 - c. Litigation
 - d. Inspections
 - e. Certifications
2. Financials
 - a. Profit and Loss: annual, monthly, weekly
 - b. Balance Sheet: annual, monthly, weekly
 - c. Accounts payable
 - d. Accounts receivable
 - e. Bank accounts established
3. Human Resources
 - a. Payroll
 - b. Benefits
 - c. Personnel
4. Forms/database
 - a. Customer database
 - b. Supplier database
 - c. Vendor database
5. Sales & Marketing
 - a. Advertising materials
 - b. Website
 - c. Sales brochures
6. Information Technologies
 - a. Online banking
 - b. Firewalls
 - c. Identify who has access to what
7. Communication systems
 - a. Phone
 - b. Internet
 - c. Social media platforms
8. Inventory
 - a. Tracking mechanism – food safety traceability
 - b. Warehouse/dry goods inventory
9. Fleet vehicles
 - a. Monitoring system
 - b. Maintenance schedule

PART 6. SUPPLEMENTAL RESOURCES

Iowa Food Hub: Managing Cash Flow for a Low-Capital Food Hub Start-up. (ISU Extension and Outreach and the Leopold Center) For food hubs, or businesses that aggregate and distribute local food, limited funds can be a barrier to growth. If food hub managers pay close attention to cash flow, however, they can grow their business using the income generated by the business itself, and reduce the need for grants or loans in the start-up phase. This publication explains the idea of cash flow and how food hub managers can use it to their advantage, drawing on the real-world experiences of Iowa Food Hub. <https://store.extension.iastate.edu/Product/Iowa-Food-Hub-Managing-Cash-Flow-for-a-Low-Capital-Food-Hub-Start-up> and watch the webinar here: <https://connect.extension.iastate.edu/cashflow>

Using Accounting Software for Food Hubs: Processing Traceable Orders. (ISU Extension and Outreach and the Leopold Center) Based on an actual Iowa food hub, this tutorial takes a step by step approach, guiding users to expand their use of QuickBooks to improve product traceability, accounting, basic inventory management and recordkeeping. Using QuickBooks in combination with Microsoft Excel Spreadsheets and a few other low cost tools can provide an effective, low cost solution for data management. <https://store.extension.iastate.edu/Product/Using-Accounting-Software-for-Food-Hubs-Processing-Traceable-Orders>

Production Planning for Aggregators. (ISU Extension and Outreach and the Leopold Center) This 21-page guide is designed for aggregators — businesses and organizations that create a single sales outlet through which large-volume buyers can purchase products from several local farmers. This fact sheet reviews the basics of coordinated production planning, explains how aggregators operate, and suggests things to consider when getting started. Examples from other aggregators are included. <http://www.leopold.iastate.edu/pubs-and-papers/2014-06-production-planning-aggregators>

This completes Module 3. Launching the Food Hub Business.

Please see Module 1. Identifying the Opportunity.

Components of Module 1 include forming a steering project steering committee, framing a feasibility analysis, and considerations for business structure.

Please see Module 2. Creating the Food Hub Business

Components include identification of the leadership team, organizational documents, and securing farmer and buyer commitment.