Food Hub Startup: What we’ve learned in Iowa

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Our Food Hub

- 3 FTE (Coordinator; Driver; Inside Sales)
- 1 FTE Technical Assistant (me)
- $400,000 in sales before grant funding
- 1 Refrigerated Truck
- 25-30% gross margin
- Currently building a new cold storage facility
- We are roughly 1 – 1.5 years old
Who are we?

IOWA FOOD HUB
& THE VALUE OF LOCAL FOOD

LOCAL FARM SUPPLY
✓ Relationship-based
✓ Mission-driven
✓ Accountable
✓ Transparent

LOCAL DEMAND

DAIRY
FRUITS & VEGETABLES
MEAT & POULTRY
VALUE-ADDED
EGGS

SCHOOLS
RESTAURANTS
GROCERS
COMMUNITY GROUPS
WORKPLACES
Who are we?

• A rural distribution hub dedicated to information sharing, developing new markets, and developing trucking routes throughout Iowa.
  – We build the road as we travel.
Where do we work?

- NE Iowa > size of Delaware
- Population is approximately 80-100k folks
Why did we start the Food Hub?

• In 2006 community and farmer stakeholders came together and decided:
  – We need diversified markets for an agricultural economy that support multiple:
    • Production Practices
    • Size of farming operations
    • Types of farm products
Why did we start the Food Hub?

• Markets outside the region
  – 80-100k in NE Iowa; Northeast Iowa doesn’t have the population to support all of our farms.
  – Des Moines, Dubuque, Cedar Rapids, Waterloo/Cedar Falls
How did we start?

• Pilot programs started in 2012
  – Retail pilot program
  – CSA pilot program
  – Farm to school pilots

• Scaled up in mid-2013 and hired full time folks in 2014

• Initial Capital was $500 in a dormant non-profit/plus my salary
How did we start?

- Initial Facility: Beer cooler at a local grocery store
- Initial Truck: Rented from a nearby town or pooled with farm trucks
- Initial Funding: RBEG/Extension for my position
How do we approach business startup?

- There is a hungry tiger chasing you!
- If you run out of money, the tiger gets you.
How do we approach business startup?

• Cash flow is the most important metric to look at when starting up.
  – “We can lose money for years at this rate”
  – “Create the longest runway possible”

• It takes time to develop sufficient profitability.

The longer the runway, the better chances of success!!
Managing for Cash Flow

• Choose Markets that pay faster or prepay
  – Multi-Farm Food Subscription Service
    • Get paid 5 times before your first bill comes through
    – Get Institutions and retailers to pay you in 14 days

• Pay Vendors in 30 Days
  – Pay when you say you will pay is most important
How are we building markets?

Overall Business Profitability

- Institutional Accounts
- Food Box (CSA)
- Custom Hauling
- Farm to School

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Getting to Break Even

• Food Hub entity is “profitable”
  – My technical assistance subsidy
  – Capital subsidies

• New Investments
  – New sales and marketing associate
  – New facility
  – New expenses
Focus on the right things

• Focus on throughput while minimizing inventory
• Don’t focus as much on operating expense
• Generally a 10% increase in sales will generate more net income than a 10% decrease in costs
  – Spend your time on what makes you money
What have we learned?

• Paid, Focused Manager
  – You need a FTE fully focused on food hub management
  – This person needs to be measured on food hub success
What have we learned?

• At relatively small scales you need higher than average margins?
  – In real life distributors operate on a 15-20% gross margin
  – Compete on service, convenience, quality

• You need to be at 25%, 35%, or 45%
  – You need to do things that big distributors can’t
  – Create new markets/open market spaces
Willingness to Pay More for Food Produced Ethically

“88% are unwilling to pay more than a 10% premium for ‘ethical food’”

- 31%愿意支付1到10%的额外费用
- 57%愿意支付超过10%的额外费用
- 12%不愿意支付任何额外费用

Context Marketing: ‘Ethical Food’, 2010
What have we learned?

- Fail small, scale if successful
- Prove markets first, then invest in infrastructure
  - borrowed cooler space
  - rented truck
  - utilized college interns
- CSAs started locally, then expanded
What have we learned?

• Many local food markets are full
• Look for things others aren’t doing
  – Success
    • Targeted CSA programs at customers that did not
traditionally buy local food programs
  – Success
    • Source-verified conventional pork program to
institutions
  – Success
    • Farm to school programs focusing on meats and #2
produce