Food Hub Feasibility Study: Northeast Kansas

A REPORT FOR THE
DOUGLAS COUNTY FOOD POLICY COUNCIL
Produced by SCALE, Inc.
June 2014
Executive Summary

Context

In the 1990’s, kitchen incubators came into being in scores of communities around the nation. The idea seemed simple enough, and really, rather compelling: Produce has a limited shelf life, and matching what you grow with what the market demands at any given moment can be difficult. Why not take the extras, or those items not quite pretty enough for market, and turn them into value added products with a long shelf life and a higher retail value? Based on this belief, many communities built a kitchen incubator, sometimes also called a shared use commercial kitchen.

Unfortunately, managing and operating such facilities turned out to be far more challenging than most people realized. The majority, in fact, proved financially unsustainable for a variety of reasons, from the cost of staffing the facilities to the challenges of keeping them filled with vendors utilizing the equipment. Food hubs today are in a similar place to where kitchen incubators were twenty years ago, facing many of the same or comparable challenges. Yet they are also being propelled, sometimes prematurely, as the next critical step for the local food system.

Local farmers, chefs, farmers market leaders, Cooperative Extension, the Douglas County Food Policy Council (DCFPC) and many others have helped build a vibrant local food system in Lawrence and other parts of northeast Kansas. The consultants at SCALE, Incorporated (SCALE) believe that the region’s food system stakeholders are in a position to develop a food hub that further builds markets, expands production and develops the essential infrastructure to support them. SCALE offers this advice, however, with the history of kitchen incubators in mind, and with the caveat that the food hub itself is not the goal, but a tool towards a stronger regional food system.

Overview

The Douglas County Commission established the DCFPC in 2009 with the goal of strengthening the local food system for farmers, consumers and buyers in the greater Douglas County area. Between 2009 and 2012, the DCFPC worked with key stakeholders to consider strategies to strengthen the local food system. One priority was to investigate the potential for a food hub as a means to accelerate, strengthen and expand the local food system. In October 2013, the DCFPC selected SCALE to lead this examination.

In northeast Kansas and around the nation, a critical challenge has emerged: Can the “local foods movement” enter the mainstream while maintaining its fundamental values of health, land stewardship and sustainability and economic viability for small to mid-size
farmers? With a broad base of experience in the development, management and analysis of food hubs, SCALE undertook this study understanding the pros and cons and the potential impacts of a food hub.

Both Douglas County, KS and KC Healthy Kids simultaneously initiated, feasibility studies for regional food system infrastructure. The Douglas County Food Hub Feasibility Study includes sixteen counties in northeast Kansas, while the Kansas City study encompasses a broader, 250-mile radius centered on KC. The two teams coordinated their efforts and collaborated wherever possible.

To gain a full understanding of the food system in northeast Kansas, SCALE used research, surveys, interviews, site visits and in-depth conversations with a wide range of stakeholders in order to gather both quantitative and qualitative data, and more fully understand the local food community.

Analysis of the food system in northeast Kansas

The sixteen county region encompassed in this analysis offers a microcosm of the local food system around the nation: Lawrence and Kansas City have developed relatively mature local food systems in terms of both the farmers producing the food, and the chefs, cooperatives and individual consumers buying from them. Indeed, a strong local food culture can be said to exist there, especially in Lawrence. Most of the rest of the region is in earlier stages of development of their food system, both in terms of supply and demand. Common to all the region is a twofold challenge: Farmers struggle to find sizable, secure, well-paying markets, and the vast majority of consumers do not participate in local food transactions, whether because of awareness, cost or accessibility.

To date, much of the food system work that has taken place has helped build the demand, particularly in CSAs, farmers markets and specialty grocers. However, the region lacks both the infrastructure and the organizations and systems needed to connect local, small and mid-sized farmers to larger and more conventional markets where most people still shop.

Market Findings

While there is no doubt that the overall demand for local food exceeds the current supply in northeast Kansas, the precise picture is more complicated. The relationship of supply to demand varies considerably across the region. This analysis focused on projected demand for local foods in six market segments believed to be compatible with the region’s farmers and the DCFPC’s goals: Small, independent retailers; mid-sized retail; restaurants; organic; institutions; CSAs. Overall sales and revenue projections for all of these demand segments in the first five years are highlighted below.
Table 1: Overall Sales and Revenue Estimates for Whole Produce

<table>
<thead>
<tr>
<th></th>
<th>WEEKLY TOTALS</th>
<th>MAIN 12 WK. TOTALS</th>
<th>OTHER 18 WK. TOTALS</th>
<th>YEARLY TOTALS</th>
<th>GROSS REVENUE @20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>$43,750</td>
<td>$525,000</td>
<td>$262,500</td>
<td>$787,500</td>
<td>$157,500</td>
</tr>
<tr>
<td>Year 2</td>
<td>$57,375</td>
<td>$688,500</td>
<td>$344,250</td>
<td>$1,032,750</td>
<td>$206,550</td>
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<tr>
<td>Year 3</td>
<td>$71,625</td>
<td>$859,500</td>
<td>$429,750</td>
<td>$1,289,250</td>
<td>$257,850</td>
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<tr>
<td>Year 4</td>
<td>$79,025</td>
<td>$948,300</td>
<td>$474,150</td>
<td>$1,422,450</td>
<td>$284,490</td>
</tr>
<tr>
<td>Year 5</td>
<td>$130,650</td>
<td>$1,567,800</td>
<td>$783,900</td>
<td>$2,351,700</td>
<td>$470,340</td>
</tr>
</tbody>
</table>

Producer Findings

Many local foods farmers in northeast Kansas are pioneers in the movement, having built a diverse base of markets, usually encompassing some combination of farmers markets, CSAs, restaurants, and for some, on-farm or on-line sales. The most common concern which farmers expressed about producing for a food hub was first and foremost price, followed by: risk of product not selling; delivery expectations and expenses; costs associated with scaling up; and buyers’ requirements, such as GAP certification, insurance, etc.

A small group of six to ten farmers are strongly interested in producing for a food hub on a modest but significant scale, creating the potential for a pool of anchor farmers who would make building a reliable, high quality supply more feasible. Taking likely anchor farmers and smaller farmers together, SCALE estimates an initial base of production of 60 – 100 acres of produce, distributed across 15 – 25 farms. Depending upon the crop selection, this would amount to $600,000 - $750,000 of production (at above market wholesale prices) at the outset, growing to over a million dollars in sales by the third year, from the core group of farmers.

Infrastructure Findings

In northeast Kansas and Kansas City, several elements of food system supply chain infrastructure already exist and offer potential for collaboration with a food hub. To the degree feasible, integrating existing supply chain businesses into a food hub would likely offer a lower cost, sensible way to undertake a food hub. This is especially important during the start-up phase, when both production and markets are uncertain. There are, however, critical gaps in infrastructure, including a central site for aggregation, cooling and packing produce, along with limits in meat processing capacity.
Overall Sales and Revenue Projections

Table 2: Total Net Revenue Projections for Northeast Kansas Food Hub

<table>
<thead>
<tr>
<th></th>
<th>YEAR 1</th>
<th>YEAR 2</th>
<th>YEAR 3</th>
<th>YEAR 4</th>
<th>YEAR 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Oper. &amp; Staff Costs</td>
<td>$296,620.00</td>
<td>$320,758.00</td>
<td>$417,706.30</td>
<td>$454,220.00</td>
<td>$504,668.00</td>
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<tr>
<td>Sales</td>
<td>$785,772.00</td>
<td>$1,030,986.00</td>
<td>$1,291,536.00</td>
<td>$1,740,870.00</td>
<td>$2,381,184.00</td>
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<tr>
<td>Rev. @ 20%</td>
<td>$157,154.40</td>
<td>$206,197.20</td>
<td>$258,307.20</td>
<td>$248,174.00</td>
<td>$476,236.80</td>
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<tr>
<td>Net Revenue</td>
<td>-$139,120.00</td>
<td>-$114,208.00</td>
<td>-$159,856.30</td>
<td>-$169,730.00</td>
<td>-$34,328.00</td>
</tr>
</tbody>
</table>

Note that these projections do not include protein sales, nor the modest additional costs that would be incurred in managing a line of meat, eggs and cheeses. It is believed that inclusion of meats in the food hub would improve net revenue projections by year 5.

Recommendations

In spite of the risks and need for subsidization for the first 4-5 years, SCALE recommends moving forward in the development of a regional food hub. SCALE believes this is the best opportunity to energize the market and grow the local food economy to the benefit of farmers and consumers in the region. The local food movement in Lawrence and other parts of Kansas, Missouri, and the Mid-west has made great strides over the past two decades. However, it runs the risk of stalling, or being absorbed by larger, non-local food corporations, unless a concerted, locally rooted initiative is launched to overcome current obstacles and build a new base of customers and supporters. SCALE believes this is possible, even plausible, given the steps already taken by the DCFPC and its partners.

The following recommendations are a subset of the more extensive recommendations detailed in the body of the document, representing what SCALE believes to be the most critical steps that the DCFPC and its partners should consider.

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SHORT TERM RECOMMENDATIONS (JUNE, 2014 – DECEMBER, 2015)

1. Designate a Lead Organization for the first 12 – 18 months to coordinate and carry out the work described below, including development of the action plan. This should be considered an interim organization, which may or may not ultimately manage the food hub.

2. Form a Project Planning and Implementation Team to consider the findings of the feasibility study, set goals for the food system initiative, and develop a realistic action plan. The Team should be lean – no more than 10 people – yet representative, both in terms of geography and food system stakeholders. Farmers must have a strong voice on the Team. The Team should be “housed” within the Lead Organization, but will be broader in its membership.

3. Develop a draft Action Plan by the end of 2014. The plan should have clearly stated goals and objectives, with concrete steps for implementation over a 2 – 3 year period. At the same time, any plan must anticipate and allow for learning from experience, including challenges and new opportunities. It should be seen as a living document, rather than a blueprint.

4. Develop a timeline, including a target date for launching a food hub or food system initiative.

5. Research potential sites for an aggregation facility in Lawrence, Douglas County and the Topeka area, guided by the specifications outlined in the report. SCALE strongly recommends a lease rather than a purchase for the first few years.
   • Explore feasibility of shared space (and coolers/freezers) with other food system businesses, including Pines International, Hilary’s Eat Well and others

6. Work with Fresh Food Express, Hildebrand Dairy and other supply chain enterprises to develop a detailed infrastructure and logistics plan, along with cost estimates. Tim White of the Hiawatha Thriftway should be involved in this process as well.

7. Develop a funding plan that includes both capitalization and operational needs. The role of both grants and loans should be considered, the latter more likely once the hub is well established. Begin seeking funds based on the Action Plan and timeline.

8. Begin outreach to farmers, focused on those expressing strongest interest in a food hub, to determine the probable base of production once a food hub is launched. Include both produce and meat producers in this outreach, with greater initial focus on produce farmers.
   • Clearly identify and begin working with 6 – 10 “anchor farmers”
   • Organize a Producers Network in 2015 to begin building relationships among farmers, promote peer learning and facilitate demand-based production planning.

9. In 2015, begin outreach to potential buyers, including a sampling from each of the market segments described in the report leading to a detailed, realistic market plan. The objective is to identify a core of buyers willing and able to work with the
food hub, whose products, pricing and requirements are compatible with the farmers with whom you are working.

- Identify and build relationships with 3 – 5 larger employers interested in a CSA.

10. **Undertake branding research, including testing of possible brands, in concert with KDA and others with brand development experience.** Have a brand ready for use by the end of 2015.

11. **Make plans for the transition from the interim Lead Organization to a more permanent entity.**

**MEDIUM TERM RECOMMENDATIONS (2016 – 2018)**

1. **Work with Cooperative Extension, the Kansas Farmers Union, the Kansas Rural Center and seasoned farmers to develop a support system that will help farmers scale up production, improve farm management and productivity, and secure organic certification and GAP certification as needed.**

2. **Secure specific commitments from buyers** for a range of 12 – 15 core produce items, and undertake production planning in the fall and winter of 2015/2016.

3. **Launch a pilot food hub in 2016,** based on the demand projections of committed buyers and production plans of farmers. The hub should include 2 – 3 work place CSAs.

4. **Develop a plan for supplying public schools, universities and hospitals with high quality produce “seconds”** that provide a market for farmers, while better meeting the budget limitations of institutional buyers.

5. **Begin incorporating proteins (meats, eggs, cheese) in year two of operations.**

6. **Work with Kansas Department of Agriculture and regional farmers market leaders to explore how a food hub might strengthen regional farmers markets.**

7. **Develop and launch an initiative to reach and foster a new tier of local food consumers,** mainly among those “vaguely concerned, sporadically motivated” in relation to local food.

**LONG TERM RECOMMENDATIONS (2019 AND BEYOND)**

1. **Work with Kansas Organic Producers to explore development of regional markets and processing for regionally produced grains, beans and other food items.**

2. **Conduct a careful review** of operations, revenues and expenses after year 3 and revise operational model accordingly.