

Food Hub Startup: What we've learned in Iowa

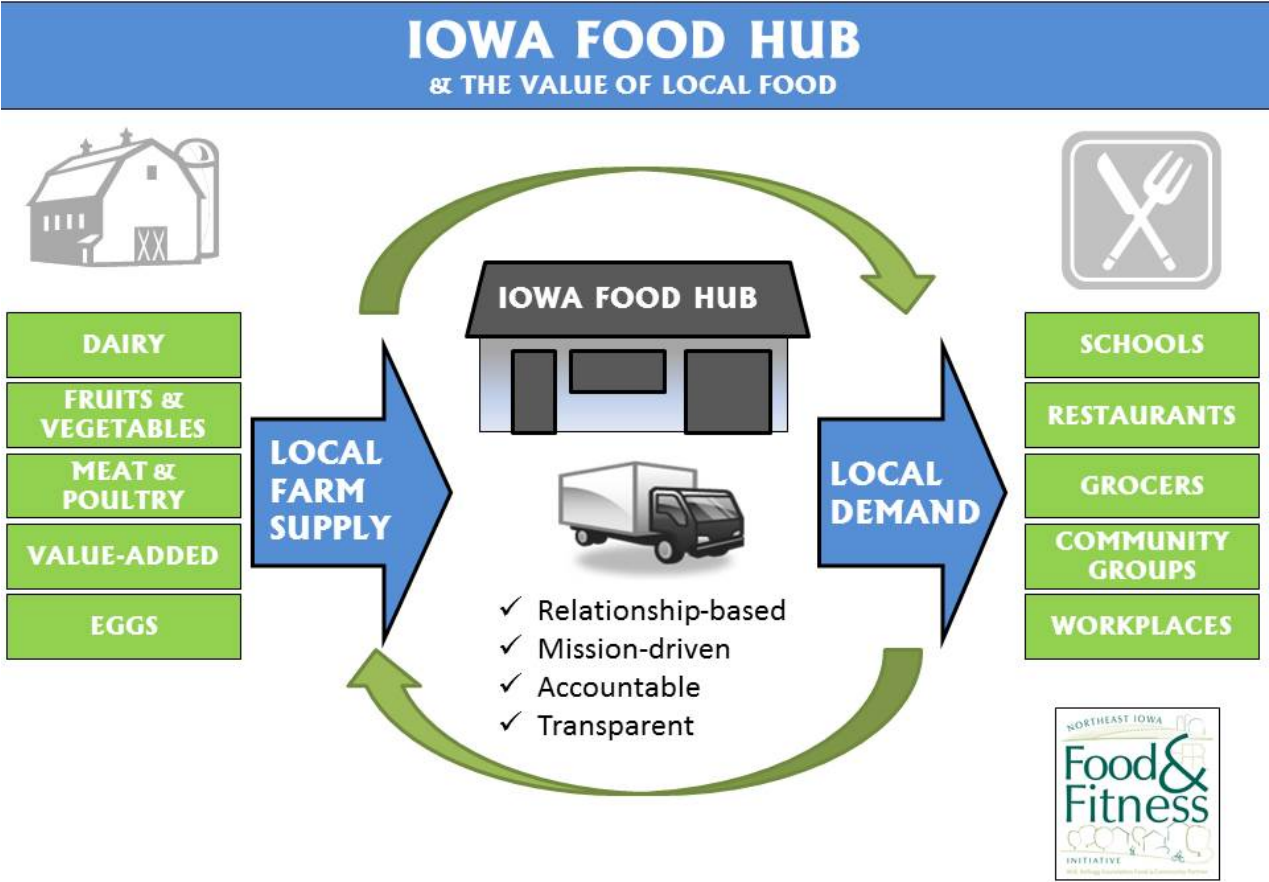
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Our Food Hub

- 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?



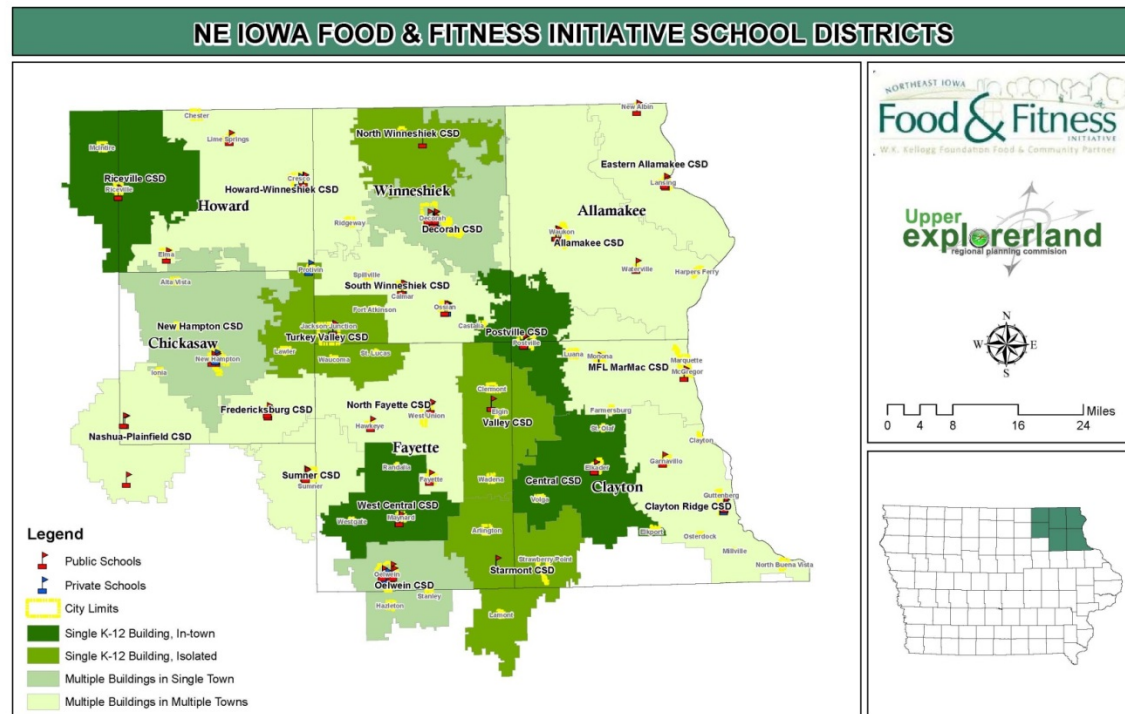
Who are we?

- 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!!

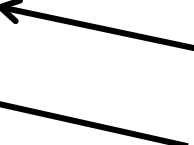
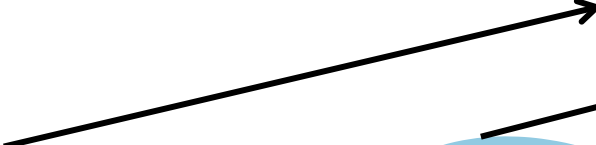


Managing for Cash Flow

- 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

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?

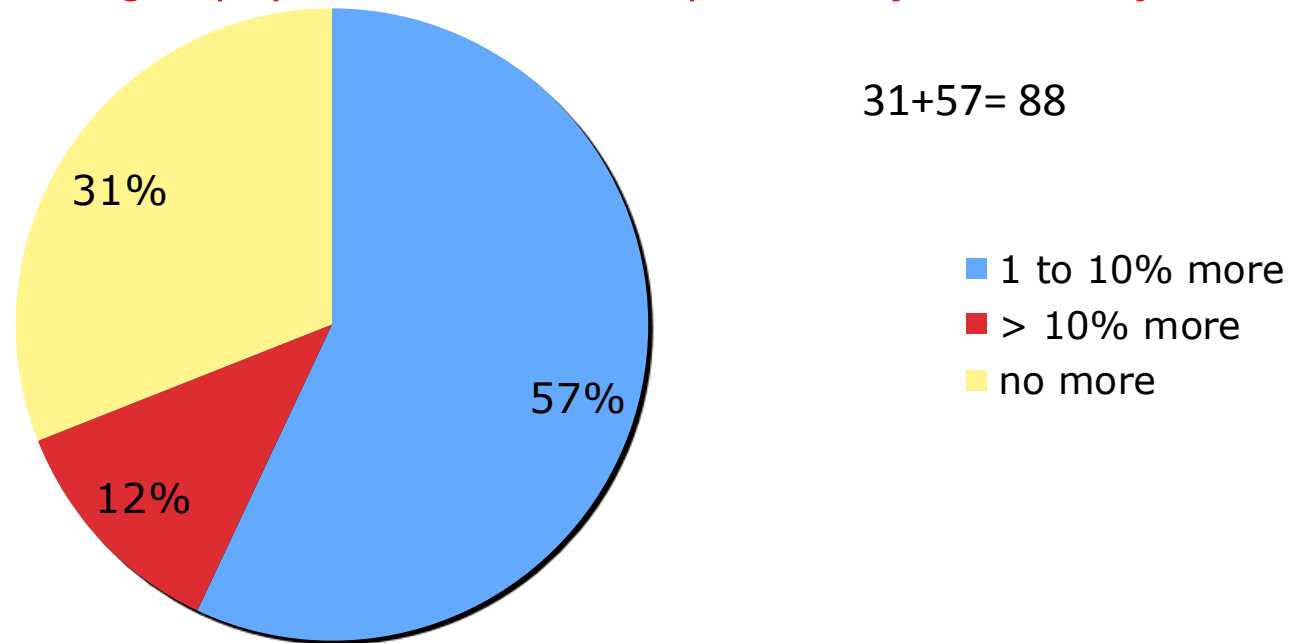
- **Paid, Focused Manager**
 - You need a FTE fully focused on food hub management
 - This person needs to be measured on food hub success

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’”



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