

Northwest Connecticut Food Hub Feasibility Study

March 2016



Report prepared by:



Funding was provided in part by the Connecticut Department of Agriculture through the Community Investment Act

EXECUTIVE SUMMARY

PROJECT OVERVIEW

The Northwest Connecticut Feasibility Study was spearheaded by the Northwest Hills COG and Partners for Sustainable Healthy Communities, funded by the CT Dept. of Agriculture, and conducted by New Venture Advisors. The study was pursued as part of an effort to strengthen Northwest Connecticut's local food landscape and support the region's farmers in expanding and improving the profitability of their operations.

The USDA defines a regional food hub as a business that actively manages the aggregation, distribution, and/or marketing of source-identified products from regional producers for the purpose of strengthening producer capacity and their access to markets. As described by the National Good Food Network's recently released "Counting Values" food hub benchmarking study, "though hubs share many features, they operate using a wide diversity of business models." Because of this, the team entered into the feasibility study with no specific vision for the appropriate business model for a Northwest Connecticut Food Hub. This feasibility study consisted of two main components:

- **Phase I: Market Assessment:** The market assessment is comprised of supply, demand, and infrastructure analyses. These steps are all completed through qualitative research (interviews, in-person convening), quantitative research (in-depth online surveys of both producers and buyers) and detailed secondary research.
 - **Market analysis:** Assessment of current and future potential production of local food in the region, and barriers that producers face when entering or expanding their presence in local wholesale markets.
 - **Demand analysis:** Assessment of current wholesale demand for local food in and around the region, and evaluation of the barriers that buyers face when purchasing local.
 - **Infrastructure analysis:** Evaluation of existing infrastructure in the region, to determine what new infrastructure investments are needed to better connect Litchfield County producers with wholesale markets.

The objective of this phase of research is to determine an optimal operating model for a food hub in the region, based on research conducted on each of the above three components.

- **Phase II: Business Analysis:** After finalizing a food hub operating model for Northwest Connecticut, the project moved to the Business Analysis Phase. This phase includes financial modeling, a pro forma P&L representing the food hub's forecasted financial performance at steady state, and scenario testing.
 - **Financial assumptions:** Establish concrete assumptions for all components of the food hub's revenue, cost of goods, fixed costs and overhead, and startup costs and potential financing terms for capital expenses.
 - **Pro forma P&L:** Develop a robust pro forma P&L representing the food hub's forecasted financial performance at steady state.
 - **Scenario testing:** Conduct scenario testing to assess the impact of increases or decreases in assumptions that are key profitability drivers (including price, throughput, fixed costs, etc.) on the enterprise's bottom line.
 - **Startup costs:** Determine the startup costs required for the food hub, including buildout and equipment. This does not include the cost of running preliminary pilots or of operating the food hub at a loss until breakeven is achieved.

The objective of this phase of research is to determine the financial viability and upside potential of a Northwest Connecticut food hub, to enable the team to make a thoughtful decision on if and how to move the effort forward.

PRIMARY RESEARCH

Primary research included:

- Kickoff meeting, which engaged 14 Steering Team and Advisory Council Members from the NWCT region
- Online survey, via Survey Monkey, with 66 producers and 23 buyers respondents

- Interviews with 9 producers, 7 buyers, and 5 food systems leaders
- Planning Forum, which engaged 18 producers, 5 buyers and 8 food systems stakeholders

The following chart summarizes key trends and data collected through these research steps.

Production Trends	Demand Trends
<p><i>Note: Interested producers are those who indicated that they are “extremely” or “very” interested in working with a NWCT food hub in their survey or interview responses.</i></p> <p>28 interested growers identified through research</p> <ul style="list-style-type: none"> • ~335 acres of current fruit and veg production, with potential to expand into an additional ~70 acres. ~150,000 square feet under season extension. <ul style="list-style-type: none"> ○ Interested producers indicated willingness to sell ~25-40 total acres of produce into a food hub. • 615 chickens, 325 laying hens and 75 hogs among interested producers. Willingness to direct ~15-20% of this production into a food hub. <p>Interested producers generate ~60-65% of sales through direct-to-consumer channels</p> <p>Food safety is limited: 14 interested producers have an on farm food safety plan, no interested producers are GAP certified.</p> <p>Top products producers are interested in selling into the hub include: Apples, berries, garlic, sheep / lamb (mostly for meat, some sheepskin), poultry, pumpkins, beef, eggs, greens, hogs, rhubarb, squash (summer and winter), sweet corn and tomatoes.</p>	<p><i>Note: Interested buyers are those who indicated that they are “extremely,” “very,” or “somewhat” interested in working with a NWCT food hub in their survey or interview responses. Somewhat interested buyers are included because their broader survey responses suggested a very high level of enthusiasm for the food hub and procuring local farm products.</i></p> <p>21 interested buyers (including four somewhat interested buyers) identified through research</p> <ul style="list-style-type: none"> • Eight are grocery stores, one is a distributor, eight are institutions, three are restaurants and three self-categorized as “other.” <p>Annual spend among these buyers</p> <ul style="list-style-type: none"> • ~\$9.7 million on fresh, whole produce • ~\$800 thousand on processed produce • ~\$7.1 million per year on proteins/dairy <p>Buyers purchase 10-50% of their products locally already, many purchasing direct from farmers who participated in the producer survey.</p> <p>Top products buyers are interested in purchasing from a food hub include: Tomatoes, greens, cucumbers, berries, lettuce, squash, chicken/poultry, eggs, milk and beef</p>

Supply in the region is highly diverse – ranging from standard vegetable products (tomatoes and potatoes) to proteins and dairy to maple syrup and honey. Production of any one particular product is fairly limited, and in general, growers are fairly small scale in the size of their fruit and vegetable production. Only four interested fruit and vegetable producers have over 10 acres of fruit and vegetable production.

Growers are extremely concerned about what price they can get by selling their product through the hub, and they prefer the hub to serve specialty grocers and restaurants – higher priced, but lower volume customers. Interested buyers vary in terms of their pricing expectation. Seven (39%) expect that pricing for local product should match standard market pricing while others are willing to pay a premium. The large number of private and independent schools within the region represents a large market opportunity for a food hub. Private schools interviewed mentioned how healthy and local food is viewed as a strategic marketing strategy utilized by many of the regional admissions departments.

There is significant interest in local sourcing in the region. Buyers are already sourcing from some farms directly and/or are able to receive local produce from the distributors with whom they work. That said, they face several challenges in these efforts – limited seasonal availability, pricing and finding the necessary volume and diversity of product.

Growers and buyers indicated strong interest in the development of a regional brand that reflects and celebrates the diverse local food efforts and geography of Litchfield County. Buyer and grower respondents suggested that a unique regional brand could be more powerful in driving high end sales than the CT Grown brand. These efforts would have to be executed alongside a focus on farm identification.

While the region itself is not home to any food hubs, there are existing and emerging hub efforts happening in neighboring regions, including Red Barn Produce, food hub development work in the Berkshires and the Hartford Regional Market. This “competitive landscape” is better described as “coopetition”, as competitors in this space can also be suppliers and buyers. While these existing efforts pose some threat to a food hub in NW CT as they may target producers in the region who may be unwilling to work with multiple hubs, it is more likely that their presence serves as an opportunity for a NWCT food hub, as these companies may serve as suppliers to, buyers of and infrastructure partners to a NWCT food hub – thereby expanding the hub’s potential beyond the baseline supply and demand identified through this research. Several buyers also expressed interest in providing infrastructure support or even housing the food hub.

SECONDARY RESEARCH

In 2012, Litchfield County was home to 1,207 farms total, across 90,963 acres, of which approximately 36,000 acres was crop land. With these numbers, the county ranks number one in the state for the highest number of farms, and has a fairly high diversity of crop and animal production throughout. Despite their high number of farms, Litchfield County was the 6th (of 8) most agriculturally productive county in the state in 2012, with farm gate sales just over \$46 million – likely suggesting that the county is home to smaller farms than are found in other counties.

About half of the county’s farms (583 of 1,207) are very small scale, generating less than \$2,500 per year in reported agricultural product sales. An additional 433 farms have yearly agricultural product sales between \$2,500-25,000, and just 64 of these farms generate more than \$100,000 in annual agricultural sales.¹

The county’s top agricultural product categories in 2012 were dairy (\$15.3M; more than six times higher than any other food product), vegetables (\$2.8 million, with a 7% decline since 2007), fruit (\$2.7 million) and cattle/calf (\$2.2 million).²

Demand for local food is increasing in the state. In 2014, Strolling with the Heifer’s Locavore Index ranked Connecticut as the 20th most “locavore-oriented” state in the U.S., whereas in 2015—with 156 farmers markets, 119 CSAs, 46 percent of school districts participating in farm-to-school programs and two food hubs—Connecticut rose to 10th. *It is important to note that the National Good Food Network recognizes seven food hubs in Connecticut versus Strolling with the Heifers, which identified two. The National Good Food Network is a more robust database and for the purposes of this report, is the data that is utilized to understand the competitive landscape. Factoring this in would serve to improve Connecticut’s locavore ranking even further.* Estimated unmet demand for local fruits and vegetables, proteins, and grains in Litchfield County is substantial, estimated to be over \$108 million dollars across all farm product categories according to New Venture Advisor’s MarketSizer tool.

RECOMMENDED FOOD HUB OPERATING MODEL

The recommended food hub operating model has two central components: (1) traditional food hub and (2) value chain facilitation/branded niche products. These components are explained in more detail below:

¹ (NASS 2012)

² (NASS 2012; NASS 2007)

- 1. Traditional Food Hub Model:** A physical food hub facility that purchases, aggregates and provides cold storage of farm products from Litchfield producers. This component of the business model will earn its revenue by purchasing product from growers at a negotiated price and selling it to customers at a profit. This component of the food hub offers growers and buyers several critical value propositions, including: proactive sales and marketing on behalf of growers, pre-season crop planning between growers and buyers, aggregating product across multiple growers, and supply chain support, including distribution and cold storage. How this food hub is best established and operated is still an open question. However, for the purposes of financial modeling, the food hub is assumed to be a standalone entity, housed in an existing building that would likely require standard retrofitting and buildout.
- 2. Value Chain Facilitation / Branded Niche Products:** This component of the food hub model includes value chain facilitation services focused on expanding production of high quality, specialty products such as unique heirloom vegetable varieties and on developing and promoting a unique regional brand (e.g. “Pride of Litchfield Hills”) to represent and market these products. These products would be sold to farm-to-table restaurants in and around Litchfield County. These services will include: educating growers on the benefits of growing niche products, developing and promoting regional brand, managing an online marketplace to facilitate transactions, and connecting buyers and sellers with third party logistics providers that can distribute goods. The food hub will not be purchasing and selling these goods and this component of the hub will earn revenue through a brokerage fee charged on the transactions completed through its online marketplace. Note that Value Chain Facilitation or Value Chain Coordination are terms being used to describe an increasingly prevalent strategy of developing an entity whose role is to connect dots across the value chain. [This webinar, hosted by the National Good Food Network](#), provides more background and commentary.

BUSINESS ANALYSIS

Business analysis yielded positive results, indicating that, based on research conducted as part of this study, the previously described Northwest Connecticut food hub model would have a high likelihood of achieving breakeven within several years and, because of significant upside potential with respect to both supply and demand beyond what was identified through primary research, high potential for long-term profitability.

Using baseline, conservative assumptions driven by primary research and supplemented by secondary data, the Northwest Connecticut food hub would generate approximately \$1.5 million in revenue annually within three to five years. At this point, the hub would generate a gross margin of 25%, or approximately \$385,000 and would just break even financially. The hub’s ability to generate a net positive cash flow using baseline assumptions and while covering the cost of a Value Chain Facilitator position is extremely favorable, especially when compared to both data on food hub revenues as collected by the 2015 National Good Food Hub Network survey and many similar studies conducted by New Venture Advisors.

The base case supply and demand assumptions are based on actual input received from growers and buyers through the course of this research. Once a food hub is up and running, and has a sales person engaged, it is likely to identify a much larger and more robust buyer base. Additionally, the food hub will work with producers to expand their production volumes, and may have access to additional supply through growers in other regions of Connecticut and suppliers like the Hartford Terminal Market.

If the food hub can successfully move 50% more supply across both of its business lines than is outlined in the base case assumptions, it would generate \$115,000 in cash annually.

STRATEGIC RECOMMENDATIONS AND NEXT STEPS

Overall, demand and supply levels are strong, and the envisioned food hub would fill gaps in the marketplace – aggregation, logistics, brand development and promotion, and the expansion of availability of specialized niche crops, to name a few. Business analysis suggests that this food hub has strong potential to be financially self-sustaining within three to five years, and to generate competitive profits longer-term. Finally, the local project team is engaged, highly

committed and represents diverse interests and skillsets, and is well positioned to both successfully secure needed resources to move the hub forward and provide strategic guidance to a hub operator during planning and launch phases.

Based on these favorable results from both the market assessment and business analysis, it is strongly recommended that the planning and development of a Northwest Connecticut food hub moved forward into the next phases of work. These phases include:

1. Identification of an operator through a formal search process. This could be an individual or existing entity or organization.
2. Conduct analysis, alongside operator, to identify additional supply and demand within and beyond the Northwest Connecticut region. This may include larger producers in surrounding counties and even states, as well as other suppliers such as the Hartford Regional Market.
3. Development of a detailed business plan, including robust five year pro forma financials – income statements, balance sheets, statements of cash flow, and sources and uses of funds. These financials will enable the team and operator to determine the full set of fundraising needs (including funds to cover operating losses through breakeven) and the optimal sources of funds for each category of expenditures. The business plan will also include in-depth sales and marketing strategy, operational strategy, management and staffing plan, and risks and mitigation strategies.
4. Launch food hub, potentially in pilot form, in the spring of 2017. The specifics of the launch strategy will be developed alongside a selected operator and will be contingent on funding secured. Based on initial discussions, the launch year may include a low-infrastructure approach to the long-term vision for the food hub. The narrowed focus would be on securing a small cluster of growers (located in relative proximity to each other) and a small set of interested buyers with similar needs, and facilitating pre-season planning, sales and fulfillment of transactions between the two groups. Additionally, during the pilot year, the hub would likely invest resources in the development of a regional brand (including the name, logo, marketing material and awareness building campaign) and working with growers on niche crop production planning. It is likely that no (or perhaps a minimal volume) niche products would be moved by the food hub in 2017.

These recommendations were endorsed by the Northwest Hills Council of Government on March 10, 2016.