Regional Food Hubs

Introduction
The term “regional food hub” has been devised by the USDA to refer to facilities that aid farmers in getting locally produced products to consumer markets. The USDA formally defined regional food hubs in a 2012 publication as:

A regional food hub is a business or organization that actively manages the aggregation, distribution, and marketing of source-identified food products primarily from local and regional producers to strengthen their ability to satisfy wholesale, retail, and institutional demand.\(^1\)

The USDA identified four regional food hubs operating in Kentucky as of May 2013: one cooperative and three privately held businesses. However, other efforts fulfilling the working definition of a food hub are present in the state. For example, blueberry growers in Metcalfe County have established a freezing and packing facility to distribute the region’s blueberries to local schools.

Kentucky’s produce auctions, offering products to both resellers and consumers, would appear to be functioning as food hubs, especially those auctions initially designed to benefit a certain community or group of growers. Informal cooperation between producers, such as sourcing products for farmers market stands and CSA shares, also moves toward the concept of a food hub.

It is helpful for farmers and food producers to understand that the term “food hub” is a general term referring to many different kinds of businesses and organizations that are all responding to meeting consumer demand for local foods. For example, not every agricultural cooperative will meet the definition of a food hub; some co-ops may only be wholesaling commodity crops or selling to one specific market channel. In addition, food hubs can include members that are not farmers, such as individuals or businesses involved in the aggregation and processing of food products.

This fact sheet summarizes the impetus behind food hubs and identifies resources and opportunities for Kentucky farm producers interested in exploring the concept. Expanded resources for those interested in food hubs are available through the Web sites of the USDA Agricultural Marketing Service and the Wallace Center of Winrock International, listed at the end of this fact sheet.

Additionally, the latter part of this fact sheet will overview a few economic and enterprise management considerations for regional food hubs. (Note: this is not intended to be an exhaustive list. Considerations for food hubs will vary greatly between region and individual scenarios.)
Clarifying the Definition of a Regional Food Hub

Many kinds of food businesses could meet the definition of regional food hub. To advance the concept, the USDA’s Agricultural Marketing Service lists some defining characteristics of a food hub in a 2012 publication.

These include:

➢ Food hubs carry out or coordinate the aggregation, distribution, and marketing of primarily locally/regionally produced foods from multiple producers to multiple markets.

To be classified as a “food hub,” an organization must be serving multiple markets. Under this definition, a group that forms to serve one market – for example, a producer cooperative that groups products into larger shipments to retailers – would not be a food hub. Food hubs are sending products into multiple market channels.

➢ Food hubs consider producers as valued business partners instead of interchangeable suppliers and are committed to buying from small to mid-sized local producers whenever possible. Food hubs work closely with producers, particularly small-scale operations, to ensure they can meet buyer requirements by either providing technical assistance or finding partners that can provide this technical assistance.

Food hubs, as defined by USDA, are developed to enhance opportunities for sourcing local food. This capitalizes on the observed, rising consumer interest in purchasing local food and efforts to develop more accessible and efficient local food distribution networks for wholesale and retail buyers. The food hub may also be a vehicle for helping smaller farmers and food producers navigate the necessary regulatory and distribution requirements for food products.

➢ Food hubs use product differentiation strategies to ensure that producers get a good price for their products. Examples of product differentiation strategies include identity preservation (knowing who produced it and where it comes from), group branding, specialty product attributes (such as heirloom or unusual varieties), and sustainable production practices (such as certified organic, minimum pesticides, or “naturally” grown or raised).

“Product differentiation” is an important marketing concept that has aided many Kentucky farmers as consumer interest grows in buying local food. Food hub operations can assist producers to ensure safety, quality, and production guidelines. However, producers should remember that it is the consumer’s willingness to pay for products that determines product demand and profitability. Before launching food hubs or other marketing projects, a thorough market and feasibility study should be completed to demonstrate a project’s likelihood for success.

➢ Food hubs aim to be financially viable while also having positive economic, social, and environmental impacts within their communities, as demonstrated by carrying out certain production, community, or environmental services and activities.

Perhaps the aspect of food hubs that most differentiates them from other farm product distribution businesses is that a food hub is qualified as having community impacts beyond financial viability. Such impacts may be broad and far ranging. However, for a food hub to have such impacts – most often desired by those interested in developing food hubs – the business has to demonstrate financial viability.
Marketing and Market Outlook
To be sure, discussions of regional food hubs have gained traction as American consumers demonstrate greater interest in purchasing local food products. That interest among Kentucky consumers in buying locally grown or locally processed foods has been well-documented. At the same time, consumers desire certain levels of quality and safety assurance in their food purchases. The market for local food appears to be stable to growing at this time but, as more products claim the “local” label, product quality and presentation standards may become even more demanding.

Potentially changing regulatory standards may also impact efforts to develop food hubs. Some regulations may apply to larger food operations; regulations that could differ from standards applied to smaller or home-based operations. Those investing their time, energy, and financial capital into a food hub should realize that the nature of grouping and distributing products from different farms will demand expertise and energy that may not be accessible unless qualified and capable personnel are hired.

Business Considerations
Experiences in Kentucky and across the U.S. indicate that businesses combining efforts from a diverse set of farm producers or other stakeholders are more likely to be sustainable when those who benefit from product aggregation and marketing are willing to pay reasonable amounts for such services. Some regional food hubs may be fortunate enough to obtain grants or other financial endowments to foot feasibility and startup costs. However, a sound business and marketing plan must outline how the food hub will cover its operating costs after such funds are exhausted.

In Kentucky, resources are available for those considering regional food hubs and other farm marketing efforts combining products from different locations. The Kentucky Center for Agriculture and Rural Development is a group that could provide guidance and expertise for rural businesses, such as regional food hubs. Other resources can be determined by consulting local and state resources, such as the University of Kentucky Cooperative Extension Service.

Economic Considerations
Startup expenses for regional food hub projects include the cost of conducting business and enterprise feasibility studies as well as market feasibility evaluations. Additional costs, if a project is deemed feasible, may include equipment, land, physical plant construction, permits, signs, and expert labor. Operating costs will vary according to the specific type of business activities planned.

The expense of establishing regional food hubs and other product aggregation and distribution can seem high, but consumers continue to demonstrate interest in purchasing local food products. Producers willing to invest financial resources and time into developing regional food hubs could potentially realize long-term benefits, beyond financial returns, that complement existing local food distribution channels.

Selected Resources
- Kentucky Center for Agriculture and Rural Development (KCARD)
  http://www.kcard.info
- Food Hubs: Building Stronger Infrastructure for Small and Mid-Size Producers (USDA-AMS)
  http://www.ams.usda.gov/foodhubs
- National Good Food Network (Wallace Center)
  http://www.foodhub.info
- Regional Food Hub Resource Guide (USDA, 2012) 4.4 MB file
  http://dx.doi.org/10.9752/MS046.04-2012

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Photos: Matt Ernst (pg. 1, boxed produce) and Tim Woods (pg. 2, warehouse), University of Kentucky; and USDA (pg. 1, food hub truck)