



Regional Food Hubs

Matt Ernst¹

Introduction

The term “regional food hub” refers to facilities that aid farmers in getting local food products to consumer markets. The term was formally defined in a 2012 publication as follows:

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

In Kentucky, fewer than 10 entities were cataloged by USDA as food hubs, as of January 2017. However, many endeavors throughout the state display efforts that meet or move toward the definition of a food hub. Blueberry growers in Metcalfe County 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, also meet much of the food hub definition, especially 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 websites of the USDA Agricultural Marketing Service and the Wallace Center of Winrock International, listed at the end of this fact sheet.

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

¹Matt Ernst is an independent contractor with the Center for Crop Diversification.

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 often emerge under the initiative of local producers in an area underserved by commercial wholesalers or distributors, but where emerging market potential for local products seems to exist.

► **Food hubs work closely with producers, often emphasizing sourcing from smaller-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 to meet growing consumer interest in local food. Food hubs 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.

A food hub is qualified as having community impacts beyond financial viability, and this may be the aspect of food hubs that most differentiates them from other farm product distributors. These 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.



The food hub experience in Kentucky has been mixed. The Grasshoppers Distribution in Louisville represented a classic USDA-style food hub with aggregation, processing, marketing, and distribution functions for Central Kentucky producers. It encountered, however, many of the similar challenges faced by other food hubs nationally with issues of highly seasonal sales, a challenging supplier compensation structure, and a high debt-to-assets load that limited growth and sustainability².

This fact sheet will now 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, scale, and market focus.)

Marketing and Market Outlook

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 that may apply to larger food operations 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 demand hiring personnel or outside firms with specialized skills in regulatory compliance.

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 aggregation, processing, storage, marketing, and distribution 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.

¹Barham, James, Debra Tropp, Kathleen Enterline, Jeff Farbman, John Fisk, and Stacia Kiraly. Regional Food Hub Resource Guide. U.S. Dept. of Agriculture, Agricultural Marketing Service. Washington, DC. April 2012. <http://dx.doi.org/10.9752/MS046.04-2012>

²Brislen, Lilian, Tim Woods, Lee Meyer and Nathan Routt. Grasshoppers Distribution Lessons Learned and Lasting Legacy. University of Kentucky Agricultural Experiment Station SR-108, January 2015. <http://www2.ca.uky.edu/agcomm/pubs/SR/SR108/SR108.pdf>

Selected Resources

- Kentucky Center for Agriculture and Rural Development (KCARD) <http://www.kcard.info>
- Regional Food Hub Resource Guide (USDA, 2012) 4.4 MB file <http://dx.doi.org/10.9752/MS046.04-2012>
- Findings of the 2013 National Food Hub Survey (Michigan State University) <http://foodsystems.msu.edu/resources/2013-food-hub-survey>
- Food Value Chains and Food Hubs (USDA-AMS) <http://www.ams.usda.gov/foodhubs>
- Food Hubs in Iowa (Leopold Center for Sustainable Agriculture) <http://www.leopold.iastate.edu/marketing/food-hubs>
- “Managing Cash Flow for a Low-Capital Food Hub Start-up” (Iowa State University, 2015) <http://store.extension.iastate.edu/Product/lf5-pdf>
- National Good Food Network (Wallace Center) <http://www.foodhub.info>

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Reviewed by Tim Woods, UK Extension Professor

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