



**Introduction to Wholesome Wave's  
Food Hub Business Assessment Toolkit**  
*A framework for evaluating business fundamentals*

Michigan Food Hub Network  
July 2014 Webinar



## OUR FOCUS AREAS



Increase Affordability and Access to Healthy, Locally Grown Food



Improve Health Outcomes



Bolster Local and Regional Economies



Generate Revenue for Small & Mid-Sized Farms

## OUR IMPACT

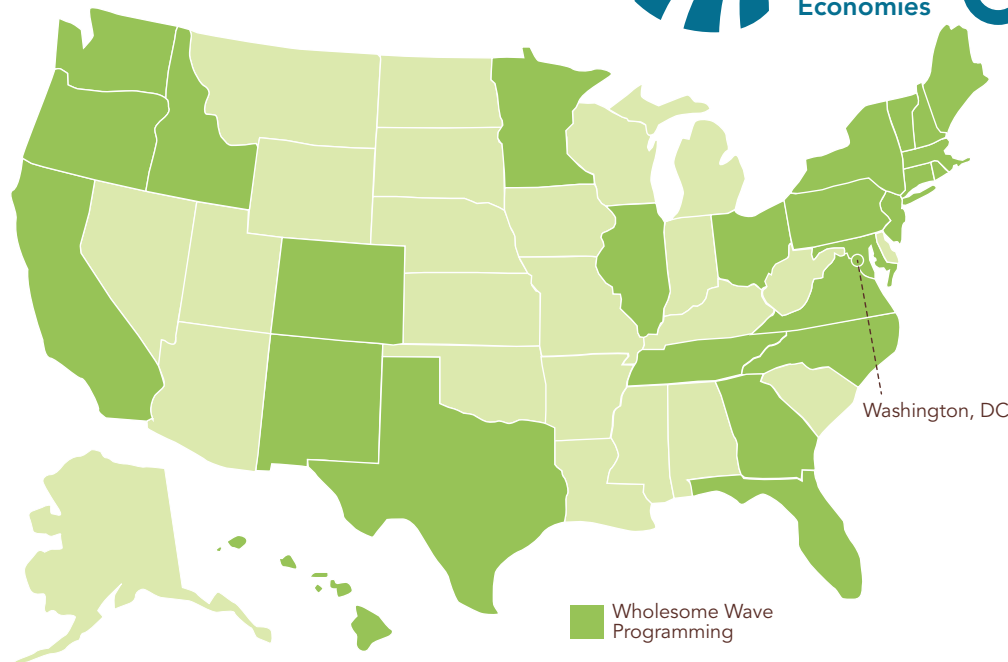
Programming in 25 States and DC

More than **3,500** participating farmers

**73** community-based partners

**350** participating markets

And partnerships with hospitals, community health centers, and food hubs



# Wholesome Wave Investments works with food hubs to structure investments and enter wholesale markets

## WORKING

with local food businesses

## TRAINING

lenders and investors

## INCUBATING

a food hub trade network

## ADVOCATING

for policies that promote viable regional food businesses

## IMPACT AND RESULTS

### DRIVING INVESTMENT

**\$4 million** in investment triggered by HFCI in 2013 in 5 regional food hubs that:

- Aggregated food from over **350** farmers and fisherman
- Created or supported over **50** jobs in 2013, with over **80** new jobs expected in 2014
- Paid over **\$7 million** to local food producers



### SHARING KNOWLEDGE

Trained over **450** people on how to understand and assess food hub businesses using the HFCI Food Hub Business Assessment Toolkit

# WW looks at food hubs in terms of **types of activities**



# Business assessment is part of a process

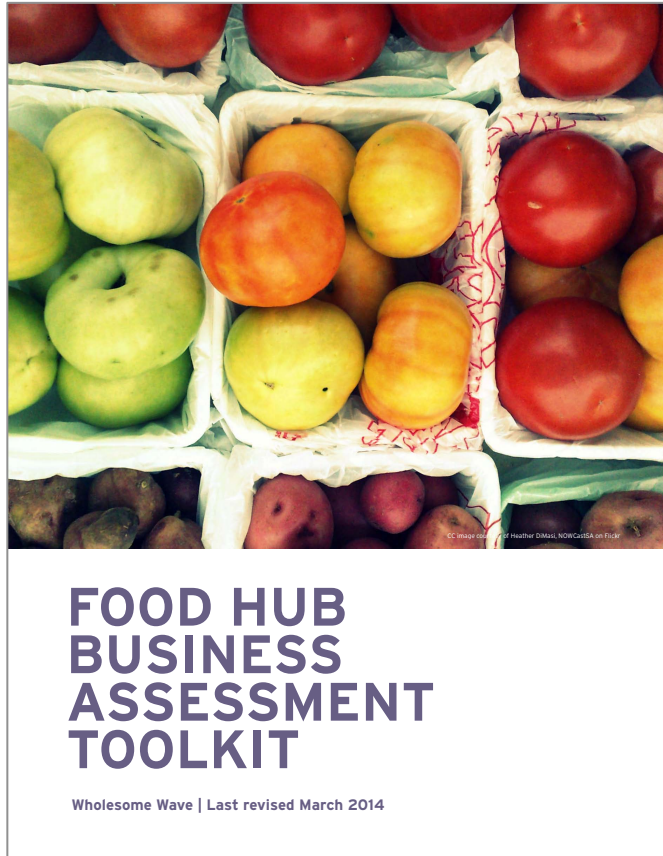


<b>Purpose</b>	Get to know organization	Determine business's strengths and weaknesses: do they need TA or other help?	Lay groundwork to secure investment
<b>Key Questions</b>	Is this a social enterprise that fits our criteria for investment and mission impact?	What is the enterprises' potential for growth, impact on the food system, and financial viability?	Which investors would be interested in this opportunity? How might each fit in a capital stack?

# WW assesses 9 major dimensions of a regional food hub

	<b>BUSINESS MODEL &amp; STRATEGY</b>	Business justification, revenue generation mechanism, value proposition, competitive advantage
	<b>IMPACT POTENTIAL</b>	Social, environmental, and economic impact potential
	<b>MARKET OVERVIEW</b>	Market size and growth, key customer segments, competitive environment, regulatory climate, trends and other market influences
	<b>MARKETING &amp; SALES</b>	Target customers, customer and supplier value proposition, customer acquisition plan, product and service description, pricing strategy, go-to-market strategy
	<b>OPERATIONS</b>	Core activities, use of physical resources, supplier and product mix, supplier management, processes and procedures, legal and regulatory compliance
	<b>ORGANIZATION &amp; MANAGEMENT</b>	Organizational structure, CEO/Executive Director, senior management, staff, board, board governance, professional services, special relationships and resources, support network
	<b>RISK MITIGATION</b>	Food safety, labor, supplier, policy environment, liability and legal coverage
	<b>TECHNOLOGY &amp; SYSTEMS</b>	Technology and systems used for all aspects of operations including interactions with suppliers, customers, and employees and management of orders, delivery, accounting, inventory
	<b>FINANCES</b>	Analysis of and metrics from the income statement, balance sheet, and cash flow statement

# WW's Food Hub Business Assessment Toolkit shares this assessment system



Toolkit available for  
download at  
[wholesomewave.org/hfci](http://wholesomewave.org/hfci)

# How to use this assessment framework

## Who should use this assessment?

- **Investors:** Structured way of looking at food hubs; does not teach you how to be an investor
- **Food hubs:** Framework to assess your own food hub and prepare for investment
- **Policymakers:** Overview of key components of food hub businesses for areas developing food hubs

## What is covered and what's not?

- Covers assessment in 9 major areas; not legal due diligence; does not teach how to structure a loan or equity investment
- Tool for discussion and decision making, does not spit out an answer
- It's a framework, we expect and encourage adaptation

## How to use it?

- **Express:** Gather info from existing sources and quick interview with food hub
- **In-depth:** Interviews with food hub, suppliers, customers; site visit; validate info provided
- **Outsourced:** Hire WW or other consultant



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For each element of the 9 dimensions, we **collect data**, **analyze it**, and **compare it to benchmarks/examples**



## BUSINESS MODEL & STRATEGY

BUSINESS JUSTIFICATION	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> <li>• What issue/need is the business addressing?</li> </ul>	<ul style="list-style-type: none"> <li>• A food hub should be able to explain what value it provides and why its business is necessary. Because most food hubs are launched in order to address unmet needs for farmers and/or consumers, the operators should be able to articulate how the business helps these market constituents. This justification is made stronger when the food hub can speak to specific needs in its locale or region, and has supporting research.</li> </ul>	<ul style="list-style-type: none"> <li>• The business can clearly articulate why its services and products will be accepted in the market area it plans to serve. The hub has supporting data and analyses.</li> </ul>	<ul style="list-style-type: none"> <li>• The business only vaguely explains the need for its services and does not have sufficient data to support its claims of learning.</li> </ul>	<ul style="list-style-type: none"> <li>• The business neglects to clearly outline what are its services and why they are needed.</li> </ul>
<b>CONTEXT/EXAMPLES</b>					
<ul style="list-style-type: none"> <li>• Many of the microbreweries that have popped up across the country value local and do their best to incorporate local products in their beers. However, with barley spread across the country and the world and only a handful of facilities in the country processing barley into malt, most breweries are not able get one of their key ingredients from local sources. Valley Malt built its facility in Hadley, MA to address this need.</li> </ul>			<ul style="list-style-type: none"> <li>• With the decline of tobacco production in North Carolina, many farmers were looking for new crops and new markets. Some had begun to grow vegetables, even organic vegetables, but did not have sufficient outlets for their production. Eastern Carolina Organics stepped up to work with farmers transitioning their fields from tobacco production to organic produce production connecting farmers with wholesale markets.</li> </ul>		

# A full assessment might look like this

SUMMARY ASSESSMENT		●	COMMENTS AND NOTES
	<b>BUSINESS MODEL &amp; STRATEGY</b>	■	It is hard to separate out which costs belong to which activities. Strong value prop. Need to strengthen competitive advantage.
	<b>IMPACT POTENTIAL</b>	■	This company provides affordable produce for WIC and SNAP users
	<b>MARKET OVERVIEW</b>	■	Suppliers use sustainable practices, not clear how many, and if these practices are widespread
	<b>MARKETING &amp; SALES</b>	■	This company provides clear growth opportunities for farmers, and quality jobs for employees
	<b>OPERATIONS</b>	■	It is not clear if there is a strong, diverse base of customers in this geographic region
	<b>ORGANIZATION &amp; MANAGEMENT</b>	■	The company does not have a clear sales strategy. But knows go-to-market strategy
	<b>RISK MITIGATION</b>	■	The operations meet current needs, but the company needs to establish a scalable operation strategy
	<b>TECHNOLOGY &amp; SYSTEMS</b>	■	The management has deep commitment to creating impact, and diverse range of relevant experience
	<b>FINANCES</b>	■	The team does not have diverse sales, or detailed risk management plans
			The company is underutilizing available technology, and needs more efficient strategies
			Strong sales track record, but needs to control expenses. And really large existing debt.

Now, let's practice **assessing** a regional food hub!



We've prepared a case-based activity:

1. Read the case
2. Walk through example assessment altogether



## Good Food Co: A fictional regional food enterprise based in Wadesboro, NC

- Aggregates from 50 local and regional producers
- Sells wholesale to restaurants, schools, grocery stores, universities, and company cafeterias
- Light-processes and freezes produce to sell to institutions
- Works with local carriers and distributors to transport product
- Sold \$850k in product in 2013

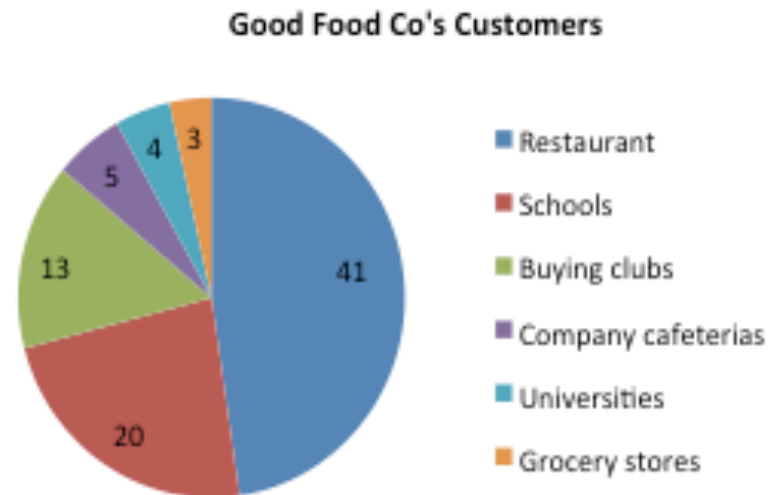


# Let's read about Good Food Co's customers



**Customers** Good Food Co connects consumers and food businesses with local and regional producers. GFC offers customers excellent service and makes it easy for them to get farm fresh local products through one centralized process. With over 80 regular customers, Good Food Co is proud to report that it receives positive feedback from over 90% of customers on its annual survey.

Good Food Co prides itself on reaching a large cross-section of the population. The company's customers serve food to a wide range of consumers, from school children to nurses to corporate professionals. GFC's lightly-processed and frozen vegetables are particularly popular with schools and universities.





## Now, let's read about Good Food Co's suppliers




2013 Sales and Return to Farmer			
	Sales	Return to Farmer	% Returned to Farmer
In-house processed-frozen products	\$200,000	\$84,000	42%
All other wholesale products	\$650,000	\$507,000	78%

**Suppliers:** A core focus of Good Food Co's mission is to support small and mid-sized farmers across the Carolinas. Good Food Co works with over 50 farmers and suppliers and believes in creating value for suppliers by maximizing the return they receive for their products and creating transparency in pricing. GFC takes a fixed 22% of wholesale price to cover its costs. While prices for products fluctuate throughout their seasons, GFC works with farmers during a pre-season annual meeting to establish a floor price for each item and always informs producers of the wholesale price during any given week.

For its processed-frozen products, GFC buys and processes farmers' blemished or off-size produce ("seconds") for which farmers often have difficulty finding markets. GFC prices frozen products to cover processing costs. While farmers are not involved in the final pricing, GFC returns to farmers at a minimum 40% of the final price for processed-frozen products.

# Tool: Portion of Wholesome Wave’s Food Hub Assessment Toolkit on **value proposition**

 <b>VALUE PROPOSITION</b>	<b>DATA</b>	<b>INTERPRETATION</b>	<b>STRONG</b>	<b>MEDIUM</b>	<b>WEAK</b>
	<ul style="list-style-type: none"> <li>• Why would customers buy this product or service from this business?</li> <li>• Why would farmers/suppliers work with this business?</li> </ul>	<ul style="list-style-type: none"> <li>• At a basic level, the reasons why customers buy hinge on the price and quality of the offered product/service. In the case of food hubs, factors like product quality, range of product selection, and service experience are major drivers of value for customers. Suppliers and farmers focus on factors like price, trade terms, and ease of transaction. For mission-driven businesses, value also includes social and environmental impact, which is detailed in "Impact Potential."</li> </ul>	<ul style="list-style-type: none"> <li>• The business can articulate specific reasons why customers will buy its products/services and has sufficient research to support its claims.</li> <li>• The business also clearly explains why farmers/producers will sell crops to the hub over other market outlets.</li> </ul>	<ul style="list-style-type: none"> <li>• The business only partially explains why customers will buy products/services and why suppliers will sell, and/or there is insufficient research to support the business's claims.</li> </ul>	<ul style="list-style-type: none"> <li>• It is unclear why customers will value and purchase products and/or why farmers will sell to the food hub; the business has no research to support its claims.</li> </ul>
<b>CONTEXT/EXAMPLES</b>					
<ul style="list-style-type: none"> <li>• Customers use Farm Fresh Rhode Island (FFRI) because it is an easy, convenient, and reliable way to source from over 70 local producers in one place. Farmers work with FFRI because they get control over pricing and FFRI pays farmers quickly. FFRI pays farmers within 2 weeks of receiving product, even though FFRI's customers often have longer payment schedules.</li> </ul>			<ul style="list-style-type: none"> <li>• Red's Best, a seafood aggregator based in Boston, offers fisherman transparency and quick payments unheard of in the industry. Through Red's Best's proprietary software, fisherman can see exactly where their fish were sold and for how much and are paid for their catch within a week. Red's Best also takes the whole catch from fisherman, allowing fisherman to fish for whatever is in abundance that time of year.</li> </ul>		





## Case: Good Food Co's value proposition

### Customers:

- Good customer service; positive rating from 90%.
- Easy access to local food.

### Suppliers:

- Maximize return to farmers; 78% of wholesale price, 40% of processed product price.
- Transparency and inclusion in pricing; works with farmers to set floor for wholesale prices.

## **Assess:** How strong is Good Food Co's value prop for customers and suppliers?



- Value prop for customers
  - Rather generic: provide customer service and food
  - But goes beyond just selling regional and local food
  - Some evidence/data
  - Rating: Medium
- Value prop for suppliers
  - Fair pricing and good payment terms – great!
  - No evidence that suppliers like it
  - Rating: Strong-medium
- Overall, **Medium**

# Sneak Peek: Market Overview



## MARKET OVERVIEW

MARKET SIZE AND GROWTH	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> <li>What is the size of the addressable market for local food (i.e., the offerings of the business)?</li> <li>Population drives food purchases and consumption (local or not). A market sizing will rely on population, per capita consumption, and as growth indicators, consumer trend data</li> </ul>	<ul style="list-style-type: none"> <li>"Addressable" refers to the part of the market that is relevant to the products and services offered by the business being evaluated. The USDA's estimate of a \$5 billion market for local food nationally is not relevant to a business starting operations in, for example, Detroit, MI. Rather, a small subset of this figure-based on Detroit's population, purchasing players, and regional consumer growth trends—would be the size of the addressable market.</li> <li>The business must determine the size of the area in which it will serve customers and then estimate the size of demand for local food within that region. This figure provides a sense of the market opportunity available to the food hub and allows you to ask: if the food hub captured 1% of the area market for local food, what volume of sales would it achieve? What about 5%? 10%?</li> </ul>	<ul style="list-style-type: none"> <li>The business demonstrates a clear understanding of its addressable market.</li> <li>The business has sized the addressable market with supporting data and indicators of growth.</li> <li>The food hub's addressable market is large enough to support the hub's projected sales.</li> </ul>	<ul style="list-style-type: none"> <li>The business demonstrates a good understanding of its addressable market; the operator can at least describe the addressable market, if not size it.</li> <li>The business cites broad data. For example, the business provides data on a market size, but one that is larger than the addressable market.</li> <li>The food hub's addressable market is just barely large enough to the hub's projected sales.</li> </ul>	<ul style="list-style-type: none"> <li>The business cannot describe or identify the addressable market.</li> <li>The business offers no supporting data about any market size.</li> <li>If the business can identify the market, its addressable market is not large enough to support projected sales.</li> </ul>
<b>CONTEXT/EXAMPLES</b>					
<ul style="list-style-type: none"> <li>Free tools, such as New Venture Advisors' Local MarketSizer available at <a href="http://newventureadvisors.net/marketsizer.php">http://newventureadvisors.net/marketsizer.php</a>, can help you get a sense for the size the area's market.</li> </ul>					

KEY CUSTOMER SEGMENTS	DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
	<ul style="list-style-type: none"> <li>Profiles and data on relevant customer groups.</li> <li>List of major customer segments or types of customers in the market.</li> <li>Size or how many customers are in each group.</li> <li>Needs or purchasing criteria of each group.</li> <li>Estimated total purchasing sales for each group.</li> </ul>	<ul style="list-style-type: none"> <li>In the overview, the business should demonstrate a basic understanding of the current market by profiling major customer groups that make up the market space in which it will operate (Who buys or will buy local food, not just from the business but from any provider).</li> <li>If a food hub segments the market and clearly understands the needs and wants of each segment, they are poised to make informed choices about which customer to target as part of operations (expanded further in subsequent sections on Marketing and Sales and Operations).</li> </ul>	<ul style="list-style-type: none"> <li>The business presents customer segments with supporting data and information on estimated size, needs, and composition of each segment.</li> <li>An excellent market overview would include estimates of the number of customers in each segment, what each group needs or values in purchasing, and estimated total food purchases in each segment.</li> </ul>	<ul style="list-style-type: none"> <li>The business presents customer segments and demonstrates some understanding of their needs, but does not include sufficient supporting data.</li> </ul>	<ul style="list-style-type: none"> <li>The business does not clearly identify customer groups, does not provide supporting data, and generally demonstrates no understanding of customer needs.</li> </ul>
<b>CONTEXT/EXAMPLES</b>					
<ul style="list-style-type: none"> <li>A typical list of customers would break out as: <b>Retail</b> (sales directly to consumers)   <b>Wholesale</b> (restaurants, grocery stores)   <b>Institutions</b> (food service for schools, hospitals, prison, university, corporate dining)</li> </ul>					



## COMPETITIVE ENVIRONMENT

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
<ul style="list-style-type: none"> <li>Profile the competition in the region. From where are customers currently purchasing food (local or not)?</li> <li>Are competitors consolidated (a few make up most of the market's sales) or fragmented (many comprise the majority of market sales)?</li> <li>Where and what size are the competitors' suppliers/farms?</li> <li>How does the competitor price key local food products?</li> <li>What poses indirect competition or are substitutes?</li> </ul>	<ul style="list-style-type: none"> <li>All food hubs will have competitors. Competition may include traditional food distributors, traditional grocery stores, grocery delivery services, or large CSAs. Consumer always have alternatives—consumers can choose between local and organic or local and conventional items.</li> <li>With a thorough understanding of the competition, a food hub can determine how to offer differentiated value for both its suppliers and customers and can market its services and products accordingly. With this information, you can assess the strength of the food hub's plan and ability to capture sales in a competitive market.</li> </ul>	<ul style="list-style-type: none"> <li>The business demonstrates a full view of the competitive landscape.</li> <li>The business plan clearly identifies local, regional, and national competitors, including any alternative or substitute options for customers.</li> <li>The business has researched competitors and understands each competitor's value, pricing and target customers.</li> </ul>	<ul style="list-style-type: none"> <li>The business demonstrates a partial view of the competitive landscape.</li> <li>The business plan lists out a few local and regional competitors, but largely ignores national competitors and substitutes.</li> <li>The business has not researched competitors and, thus, has little understanding of competitors' pricing, value, or target customers.</li> </ul>	<ul style="list-style-type: none"> <li>The business claims it has no competition.</li> <li>While it may have no direct local food competitors in its immediate market, it likely has many substitutes for its products and services.</li> </ul>

## CONTEXT/EXAMPLES

For an example of factors to consider in analyzing the competitive landscape, please see the example competitor comparison included in the resources downloadable with this toolkit.

## REGULATORY CLIMATE

DATA	INTERPRETATION	STRONG	MEDIUM	WEAK
<ul style="list-style-type: none"> <li>The food hub's plans for complying with regulations governing its operations (e.g., GMP, HACCP, on-farm food safety such as GAP, OSHA).</li> <li>State and local activity, programs, or mandates that support or hamper the growth of the food hub's sales.</li> </ul>	<ul style="list-style-type: none"> <li>A food hub is subject to a variety of regulations, such as food safety and workplace safety. Some regulations are under active revision, such as the FDA's rules for the Food Safety Modernization Act, and food hubs should articulate their understanding of what is required of them and their plans to adapt to changing requirements (and, if possible, how compliance will affect the costs of operation).</li> <li>Many states and localities have programs that encourage or mandate the purchase and sale of local food—a food hub should have knowledge of such programs in order to benefit and possibly lower sales and marketing costs.</li> </ul>	<ul style="list-style-type: none"> <li>The food hub clearly describes what regulations it must comply with to operate and how it will comply (e.g., written plans, warehouse practices, farmer audits).</li> <li>The food hub is well connected with supportive state and local regulators and works to take advantage of any local, regional, or national support for local food/economic development.</li> </ul>	<ul style="list-style-type: none"> <li>The business acknowledges regulations that apply to its operations, but has not clearly explained how it will comply.</li> <li>The food hub has contacted state and local regulators but does not have a strong working relationship with them.</li> </ul>	<ul style="list-style-type: none"> <li>The business demonstrates no understanding of regulations that impact its business or does not have adequate plans and practices in place to comply.</li> <li>The food hub has no relationship with state and local regulators.</li> </ul>

## CONTEXT/EXAMPLES

Local purchasing policies established within states can generate market activity for the food hub. A variety of policies can stimulate local purchasing and 15 states have adopted policies that encourage state organizations, agencies, and schools to use local produce by allowing purchasing preferences for state-produced agricultural products.<sup>2</sup>

A supportive state agricultural department can also greatly contribute to the success of a food hub through support for farmers scaling for food hub sales, policy, and funding.

# Market Overview: Some example tools/resources

NEW VENTURE ADVISORS LLC  
helping communities & entrepreneurs build sustainable businesses

773-245-3570

MarketSizer™ Publications Resources Contact

Home About Approach Clients & Projects Expertise Team

## Local Food MarketSizer™ by NEW VENTURE ADVISORS

ABOUT OUR METHOD >

Select Food Categories

- Dairy
- Meat
- Poultry & Eggs
- Fruits & Veggies

Submit

Reset Form

Select a State

Vermont

Optional

Select a

Or

Select a

Results for Vermont Dairy

Local Quotient ?	941%
Local Food Demand ?	\$ 96,431,752
Local Food Supply ?	\$ 907,129,754
Unmet Market for Local Food ?	See below*

in wholesale dollars in wh

Unmet Market for Local Food is the difference between the value of (supply) in the chosen categories. The unmet market may be far greater than the value of production marketed outside the state. Local food systems provide a pathway to local customers and increase area production by providing a robust local food system.

\* In this instance, local demand could be fully met with local supply if a robust local food system.

ABOUT OUR METHOD >

## Segmenting the Market

**Product | what you sell**

**Customer | to whom**

Commodity types  
Fresh vs. value-added

Consumer  
Chef  
Distrib  
Store m

**Channel | how reached**

**Geograph**

Retail – direct  
Wholesale – through intermediaries

Primary  
Entire t

	Local Wholesaler A	Local Wholesaler B	Local Wholesaler C (Organic)	Local Wholesaler D	Food Hub	Local Wholesaler F	Regional Wholesaler G	Regional Wholesaler H (Organic)	National Wholesaler I
Service Area	NYC	NYC	NYC	NY	NY	National	National	National	National
Corporate Structure	501C3	Private	501C3	501C3	Private	Private	Public	Private	Public
Size (Lbs delivered daily)	5,000	20,000	15,000	50,000	75,000	250,000	750,000	1,000,000	3,500,000
Pricing strategy	Fixed Price	Price/lb	Fixed Price	Fixed Price	Price/lb	% of sales	% of sales	Price/lb	Price/lb
# of suppliers (farms)	2	6	4	10	9	47	168	217	347
Institutional									
Direct to consumer									
Processing services									
Co-Branding									



# Thank you!



Malini Ram Moraghan  
Managing Director  
Investments



Darrow I-VW  
Portfolio Manager  
Investments



Raphael Leonard  
Analyst  
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DOWNLOAD TOOLKIT: [wholesomewave.org/hfci](http://wholesomewave.org/hfci)  
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