Building Rural Grocery Viability through Food Hubs

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BUILDING RURAL GROCERY VIABILITY THROUGH FOOD HUBS

NATIONAL RURAL GROCERY SUMMIT V

June 2016
A few definitions before we start

- Rural grocery stores – independently owned and operated, located within areas with population <20,000

- Food hub – entity that “actively manages the aggregation, distribution, and/or marketing of source-identified food products from local and regional producers to strengthen their ability to satisfy wholesale, retail, and institutional demand” – USDA
The problems we seek to address

For Rural Growers

- Small to mid-size growers in rural communities face challenges getting their products to market
- Food hubs, designed to improve market access, are often unviable in rural communities
  - large distances between growers and buyers resulting in prohibitive distribution costs
  - challenges securing necessary volume of supply and demand

For Rural Grocery Stores

- Many are going out of business due to:
  - shrinking rural populations
  - competition from discount stores
  - meeting distributor minimums
  - lack of financing for store improvement
  - high operating costs
  - decreased community support
- Impact of store closures is loss of jobs, local spending, healthy food access, community center
Our solution hypothesis

By embedding food hubs into rural grocery stores, we could:

1. create a new revenue stream for the grocery store, contributing to its financial sustainability
2. provide a new sales and distribution channel for local growers and food producers, without incurring the high upfront investment costs of a standalone food hub
Project approach and status

Store Recruitment
Store Capacity Analysis
Regional Agricultural Landscape Analysis
Store-Based Food Hub Modeling
Public Toolkit & Widget Development
## Store-based food hub model

### Design
- Maximum cases using existing dry and cold storage capacity
- Adjust throughput by growing season
- Project steady state revenue and cash flow

### Services
- Buy/sell
- Inbound/outbound distribution w/ existing vehicle
- Wash/pack using existing facility
- Receiving and storage does not disrupt store operation

### Assumptions
- Product mix aligned with cold, dry storage capacity - produce, eggs, finished goods
- Turnaround ≤24 hours
- Season: 8 weeks peak + 6 weeks tails + off season

### Next Steps
- Confirm supplier/buyer volume and pricing levels to match input/output requirements
- Develop more robust pro forma P&L to aid in decision-making
## Case studies: 4 stores, 3 states

### Store 1 – 9,000 ft²
- **Capacity:**
  - Dry: 150 ft²
  - Cold: 300 ft²
- **Sales:** 8,000 cases
- **Revenue:** $188,000
- **Profit:** $12,000

### Store 2 – 6,500 ft²
- **Capacity:**
  - Dry: 150 ft²
  - Cold: 150 ft²
- **Sales:** 5,000 cases
- **Revenue:** $113,000
- **Profit:** $4,000

### Store 3 – 54,000 ft²
- **Capacity:**
  - Dry: 1,000 ft²
  - Cold: 1,200 ft²
- **Sales:** 45,000 cases
- **Revenue:** $1,100,000
- **Profit:** $120,000

### Store 4 – 7,400 ft²
- **Capacity:**
  - Dry: 300 ft²
  - Cold: 200 ft²
- **Sales:** 9,000 cases
- **Revenue:** $180,000
- **Profit:** $11,000
Widget demo
Your Results: Preliminary Food Hub Feasibility Assessment for Your Store

Below you will find a preliminary assessment of the feasibility of a food hub operating out of your retail grocery store. The output below was calculated using the store data inputs you provided, regional agricultural production data, and assumptions derived from New Venture Advisors' previous retail grocery store-based food hub analysis and modeling. This should be viewed as a rough estimate of the potential throughput, sales and profit contribution of a food hub operating out of your store at steady state. If you find the potential profit contribution of a hub in your store promising, we recommend that you consider further analysis. Recommended next steps include interviewing or surveying potential food hub suppliers and buyers within your region to better understand interest, desired products, pricing, and distribution needs. Once a supplier and buyer have been identified, a pilot or operational simulation will help.

To access a toolkit with additional information and case studies, please contact the New Venture Advisors team.

### Maximum Food Hub Throughput

<table>
<thead>
<tr>
<th>Category</th>
<th>Dry Storage</th>
<th>Cold Storage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cases moved per week</td>
<td>100</td>
<td>203</td>
</tr>
<tr>
<td>Cases Moved Annually</td>
<td>1480</td>
<td>5012</td>
</tr>
<tr>
<td>Average Requirements</td>
<td>2.2</td>
<td>7.8</td>
</tr>
</tbody>
</table>

**Maximum Food Hub Throughput Explanation**

This section presents an assessment of how many cases of food hub product your store could move on a weekly and annual basis, and how many acres would be required to supply that volume of product. The data you provided on your store’s storage capacity is the primary driver of these numbers, along with assumptions on average acreage required per case of produce.

### Estimated Food Hub Product Pricing

<table>
<thead>
<tr>
<th>Category</th>
<th>Price per case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average price per case paid to growers</td>
<td>$20.00</td>
</tr>
<tr>
<td>Average price per case paid by buyers</td>
<td>$25.00</td>
</tr>
<tr>
<td>Average additional distribution fee received per case</td>
<td>$1.50</td>
</tr>
</tbody>
</table>

**Estimated Food Hub Product Pricing Explanation**

This section begins with an estimate of the average price per case that your prospective food hub can expect to pay growers for their produce. For simplicity purposes, the model used $20 per case which was calculated using best practice pricing assumptions for the top 15 most commonly requested conventional fruits and vegetables in nationwide food hub studies conducted by New Venture Advisors. In practice, a specific product list may include dairy, eggs, meat and/or other produce, which will drive variation in the average price per case. The data you provided on anticipated sales breakdown by channel utilized assumptions on anticipated gross margin by channel with related to the blend average price per case paid by buyers. The average additional distribution fee received per case was developed using data from nationwide food hub studies conducted by New Venture Advisors. The actual fee your hub may charge growers and buyers for product pick-up and delivery will largely vary by distance and volume.

### Potential Profit Contribution of Food Hub

<table>
<thead>
<tr>
<th>Category</th>
<th>Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>$180,600.00</td>
</tr>
<tr>
<td>Product sales</td>
<td>$147,000.00</td>
</tr>
<tr>
<td>Distribution (pickup from farm &amp; delivery to buyer fee)</td>
<td>$13,500.00</td>
</tr>
<tr>
<td>Cost of Goods</td>
<td>$142,890.00</td>
</tr>
<tr>
<td>Sales, General &amp; Administrative (SG&amp;A) Expenses</td>
<td>$13,600.00</td>
</tr>
<tr>
<td>Selling</td>
<td>$6,000.00</td>
</tr>
<tr>
<td>Other</td>
<td>$5,500.00</td>
</tr>
<tr>
<td>Operating Profit (EBITDA)</td>
<td>$4,690.00</td>
</tr>
</tbody>
</table>

**Potential Profit Contribution of Food Hub Explanation**

The data in the previous two sections are used to generate this estimated profit and loss statement for a food hub operating out of your store, at steady state. This is the maximum level of operating profit that the hub is expected to generate based on storage and vehicle capacity, and regional agricultural production season duration. These financials should be interpreted as directional, and should be compared to your store’s overall profit and loss statement to allow you to evaluate the hub’s level of respective value potential.

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Discussion

- What impact could you envision this model having on growers and grocery stores in your community?

- What challenges do you anticipate?

- What additional feedback or ideas do you have?

- How might we engage grocery store owners in testing out the Rural Grocery Food Hub Self-Assessment widget beta?
Stay engaged

Contact us to receive a link to the Rural Grocery Food Hub Self-Assessment widget and toolkit!

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