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## 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

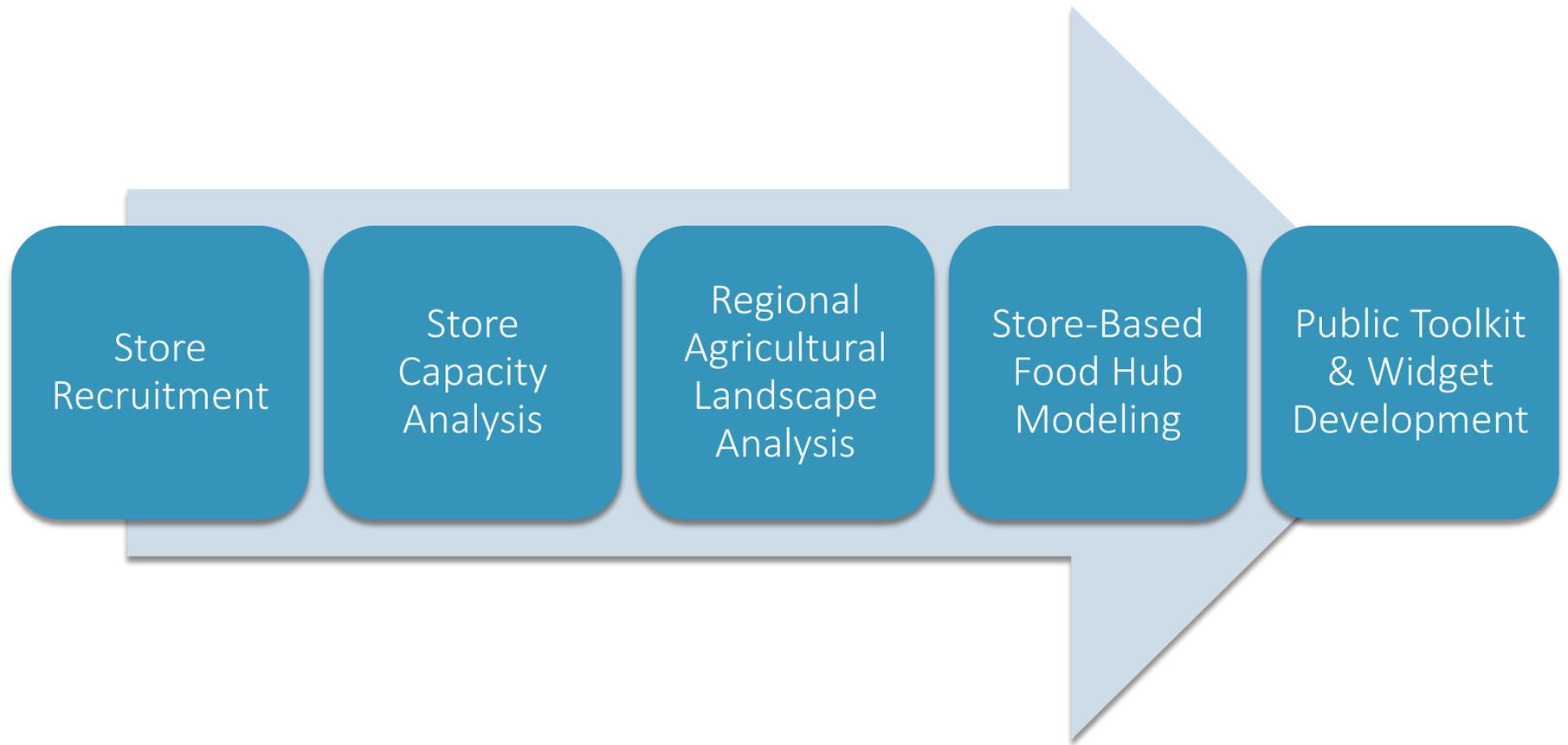
- Many are going out of business due to:
  - shrinking rural populations
  - competition from discount stores
  - meeting distributor minimums
  - lack of financing for store improvement
  - high operating costs
  - decreased community support
- Impact of store closures is loss of jobs, local spending, 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-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  $\leq 24$  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 ft<sup>2</sup>



Capacity:  
Dry: 150 ft<sup>2</sup>  
Cold: 300 ft<sup>2</sup>  
Sales: 8,000 cases  
Revenue: \$188,000  
Profit: \$12,000

## Store 2 – 6,500 ft<sup>2</sup>



Capacity:  
Dry: 150 ft<sup>2</sup>  
Cold: 150 ft<sup>2</sup>  
Sales: 5,000 cases  
Revenue: \$113,000  
Profit: \$4,000

## Store 3 – 54,000 ft<sup>2</sup>



Capacity:  
Dry: 1,000 ft<sup>2</sup>  
Cold: 1,200 ft<sup>2</sup>  
Sales: 45,000 cases  
Revenue: \$1,100,000  
Profit: \$120,000

## Store 4 – 7,400 ft<sup>2</sup>



Capacity:  
Dry: 300 ft<sup>2</sup>  
Cold: 200 ft<sup>2</sup>  
Sales: 9,000 cases  
Revenue: \$180,000  
Profit: \$11,000

# Widget demo

## Food Hub Feasibility Tool for Rural Grocery Stores



Beta Version 1.0  
By New Venture Advisors

This tool is designed to provide a preliminary assessment of the feasibility of a food hub operating out of a rural grocery store. Users will be asked to provide basic data on their store's existing storage capacity, distribution capabilities and anticipated sales channels. The tool will combine the store data inputs with regional agricultural production data and assumptions from New Venture Advisors' previous rural grocery store-based food hub analysis and modeling to provide the user with a rough estimate of the potential throughput, sales and profit contribution of a food hub operating out of their store.

### Location

In which state is your store located? ⓘ

### Storage Capacity

	<b>Dry Storage</b>	<b>Cold Storage</b>
What is the total square footage of your existing storage space? <i>Please enter 0 if you do not have dry or cold storage.</i> ⓘ	<input type="text" value="200"/>	<input type="text" value="250"/>
What percent of your storage space is dedicated to stock versus aisles? ⓘ	<input type="text" value="50"/> %	<input type="text" value="40"/> %
Please estimate the excess capacity in your dry and cold storage. What is the maximum percent of storage space that could be made available for food hub use at any point in the week? <i>Please enter 0 if you have no excess capacity in your dry or cold storage.</i> ⓘ	<input type="text" value="40"/> %	<input type="text" value="50"/> %
How many levels or tiers of racking do you have in your storage space? <i>Please note that the floor level should be considered the first level.</i> ⓘ	<input type="text" value="5"/>	<input type="text" value="3"/>
How many cases can you stack on top of each other on a single rack? ⓘ	<input type="text" value="2"/>	<input type="text" value="3"/>
How many days per week do you receive major store deliveries? ⓘ	<input type="text" value="2"/>	<input type="text" value="2"/>
How many days on average does it take your staff to move delivered inventory from back of house storage to front of house retail space? ⓘ	<input type="text" value="2"/>	<input type="text" value="1.5"/>

### Distribution Capabilities

How many store vehicles do you have access to that could be used to pick up food hub product from growers or to deliver food hub product to buyers?  
*Please enter 0 if you do not have access to any delivery vehicles.* ⓘ

	Vehicle 1	Vehicle 2	Vehicle 3
In an average week, approximately how many hours would this vehicle be available for food hub product pick up and delivery service? ⓘ	<input type="text" value="20"/>	<input type="text" value="15"/>	<input type="text" value="0"/>
Approximately how many cases of produce can each of your vehicles hold at any given time? ⓘ	<input type="text" value="15"/>	<input type="text" value="15"/>	<input type="text" value="0"/>

### Anticipated Sales Breakdown

What percentage of product sales from your prospective store-based food hub do you anticipate coming from each of the following sales channels? ⓘ	Institutions in your region Hospitals, schools, universities	<input type="text" value="20"/> %
	Restaurants in your region	<input type="text" value="40"/> %
	Food Distributors Consider your store distributors	<input type="text" value="30"/> %
	Other Grocery Stores Stores in your chain or network	<input type="text" value="10"/> %
	In-Store Sales Retail sales to your customers	<input type="text" value="0"/> %
	Other Direct-to-Consumer Sales CSA or other consumer models	<input type="text" value="0"/> %
		<input type="text" value="100"/> %
		<input type="button" value="Submit"/>

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# Results



## 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 rural 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 rural 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	Dry Storage	Cold Storage
Cases moved per week	100	253
Cases Moved Annually	1480	5012
Acreage Requirements	2.2	7.5

### 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	
Average price per case paid to growers	\$20.00
Average price per case paid by buyers	\$23.90
Average additional distribution fee received per case	\$1.50

### 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 uses \$20 per case which was calculated using best practice pricing assumptions for the top 10 most commonly requested conventional fruits and vegetables in nationwide food hub studies conducted by New Venture Advisors. In practice, a specific product list that may include dairy, eggs, meat and/or organic produce 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 led to the blended 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 likely vary by distance and volume.

Potential Profit Contribution of Food Hub	Annual
<b>Total Revenue</b>	<b>\$160,000.00</b>
Product sales	\$147,000.00
Distribution ( <i>pick-up from farm &amp; delivery to buyer fees</i> )	\$13,000.00
<b>Cost of Goods</b>	<b>\$143,000.00</b>
Product sales	\$130,000.00
Distribution service	\$13,000.00
<b>Sales, General &amp; Administrative (SG&amp;A) Expenses</b>	<b>\$13,000.00</b>
Staffing	\$8,000.00
Other	\$5,000.00
<b>Operating Profit (EBITDA)</b>	<b>\$4,000.00</b>

### 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 enable you to evaluate the hub's level of respective value potential.

[Adjust Entered Information](#)

# 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

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

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