

Assessing the Viability of Food Hubs

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Food Hubs are Businesses Operating in A Highly Competitive Market

- Produce distribution is a multi-billion \$ industry
- Food Hubs compete against established, highly efficient commercial distributors
- Stringent quality control assurances are essential
- Distribution is a capital-intensive activity
- Profit margins are slim

Physical Infrastructure

- Location
- Cold Storage
- Wash Lines
- Packaging Equipment
- Truck(s)

What is the True Cost of Development?

Expense	Estimated Cost
Facility acquisition and upfit	\$150,000 and up
Equipment	\$40,000 to \$60,000
Project Oversight	\$30,000 to \$50,000
Refrigerated Truck	\$40,000 to \$60,000
Estimated development cost	\$250,000 to \$400,000

Key Costs of Operation

- Personnel
- Utilities
- Goods purchased from farmers
- Packaging and Supplies
- Distribution
- Shrinkage

Personnel

- General Manager (fixed cost)
- Warehouse Manager (fixed cost)
- Sales Agents (variable cost)
- Truck Drivers (variable cost)
- Grading and Packaging staff (variable cost)
- Administrative Support (fixed cost)

Utilities

- Electricity
- Water
- Natural Gas or Propane
- Communications
- Security services

Costs of Goods Sold

- Produce from Growers
 - Goods distributed and sold
 - Produce shrinkage
- Supplies
 - Boxes, bags, pallets
- Utilities and gas
 - Fuel for trucks
 - Electricity in excess of normal fixed expenses
- Labor
 - Grading and packaging
 - Sales Agent
 - Labor for distribution

What Are Fixed Costs of Operations?

Fixed Costs	Annual Cost
Facility lease or debt service	\$0 to \$24,000 per year
General Manager	\$35,000 to \$50,000 per year
Warehouse Manager	\$25,000 to \$35,000 per year
Base Utilities	\$4,800 per year (\$400/month)
Workers Comp	5% of total wages
Unemployment Insurance	3% of total wages
SS and Medicaid	8.5% of total wages
Liability Insurance	\$5,000 per year
Payroll and Accounting	\$6,000 per year
Estimated Fixed Costs	\$85,700 to \$127,175 per year

What Are Variable Costs of Operation?

Item Based on \$1,000,000 in Sales	Total Cost
Sales commissions (5%)	\$50,000
Truck Driver (.10 per mile, 30,000 miles)	\$3,000
Additional personnel overhead	\$10,335
Gas and Maintenance (30,000 miles)	\$16,500
Produce bought from growers	\$840,000 (80% paid to growers)
Shrinkage of product	\$40,000
Packaging (boxes)	\$80,000 (8% of goods sold)
Utilities (over and above fixed minimum)	\$3600 (\$300/month)
Facility supplies (towels, mops, cleaning)	\$2,000
Total Variable Costs	\$1,077,800

Profit & Loss on \$1M in Sales (Based on 80% Paid to Growers)

Item	Value
Personnel and overhead, all	\$153,762
Utilities	\$8,400
Product Liability Insurance	\$5,000
Purchased goods for resale	\$840,000
Boxes	\$80,000
Gas and Maintenance	\$16,500
Product Shrinkage	\$40,000
Facility Supplies	\$2,000
Gross Expense	\$1,139,662
Gross Sales	\$1,000,000
Sales Minus Expenses	(\$145,662)

How Can We Make it Work?

- Reduce costs of operation and/or increase margins.
- The policy of returning 80% of sales to growers does not seem economically viable.
- Prices should vary according to markets.
- Growers should incur some expenses (boxes, shrinkage)

Suggestions

- Pay growers a % of estimated wholesale value of produce (70%?) regardless of sales value realized;
- Develop varied sales channels with different price points (supermarkets, restaurants, etc);
- Do not purchase produce that does not meet wholesale quality requirements;
- Charge growers for boxes/packaging

New P&L for \$1M in Sales

Item	Value
Personnel and overhead, all	\$153,762
Utilities	\$8,400
Product Liability Insurance	\$5,000
Purchased goods for resale	\$740,000
Boxes (1/2 charged to growers)	\$35,000
Gas and Maintenance	\$16,500
Product Shrinkage (1/2 charged to growers)	\$20,000
Facility Supplies	\$2,000
Gross Expense	\$974,662
Gross Sales	\$1,000,000
Sales Minus Expenses	\$19,338

Conclusions

- Food Hubs have difficulty establishing viable economic models;
- Food hubs that do succeed have unique characteristics, especially in product differentiation;
- Often operate as for-profit businesses;
- Usually receive some level of community support;
- Aggregate sales should be >\$1M.