

**CAN A DIVERSIFIED LOCALLY GROWN FOOD  
AGGREGATION (HUB) FACILITY BE ECONOMICALLY  
SUSTAINABLE IN IOWA?**

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An analysis of the opportunities and challenges associated with a diversified and scalable locally grown food aggregation enterprise in Iowa.

## OVERVIEW

Iowans and citizens across the U.S. are becoming more aware of the benefits of locally grown food. Demand is growing at a rising pace as we recognize the social, economic and health benefits. Yet in Iowa, most of our food still comes from outside the state. According to a “Survey of Buying Power,” Iowans spend over \$8 billion annually on food, but only 14% is produced within the state.<sup>1</sup> Mintel, a market research firm that studies consumer trends, reports: “Local procurement is a fast growing category with tremendous promise, and marketers that are aware of the many dynamics at play can generate significant revenues.”<sup>2</sup> Mintel found that one out of six Americans will go out of their way to buy local products. In addition, locally sourced fruits and vegetables was the product category with the greatest interest with 31% of consumers purchasing this product category from local sources at least once per week. In a survey by the National Restaurant Association, chefs ranked locally grown produce as the number one menu trend of 2010. Nine out of ten fine dining restaurant operators believed demand for locally sourced items will increase and according to the survey, 75% of adults say they are more likely to visit a restaurant that offers locally produced food items.<sup>3</sup> Sixty-seven percent of participants in a 2009 survey of institutional buyers conducted by Northern Iowa Food and Farm Partnership indicated they would purchase as much locally grown food as they could get. However, the respondents also indicated the reasons they aren’t purchasing more is due to: (86%) lack of reliable supply, (50%) cost and (67%) distribution bottlenecks.<sup>4</sup>

Iowa either leads or provides a significant portion of the nation and the world’s food, yet we continue to lag other areas of the country in the growth of sustainable year-round local food networks. For years there have been no fruit and vegetable processing operations in Iowa, although there is a new start up facility in Marshalltown and only one large scale cattle processing facility. While there are a number of locker operations across the state many struggle with economic viability and outdated facilities. Iowa does have large scale pork and poultry processing facilities, but they do not process what would be considered locally sourced products where farm of origin identity is preserved.

As communities try to capitalize on the nation’s appetite for locally grown food, farmers markets have grown exponentially across the U.S. In 2012 there were 7,900 farmers markets in the U.S. which is up 10% from the previous year and more than double the number from eight years earlier. According to Department of Agriculture data Iowa has 227 farmers markets.<sup>5</sup> While farmers markets have helped provide some social and economic benefits to the communities hosting them, they are seasonal and built principally around immediate consumption of fresh food. The success of the Des Moines Farmers Market has sparked a desire among other communities across the state to somehow replicate what they have done. Downtown promoters have used their markets to draw people into their communities to create economic activity, which in communities like the state’s metropolitan areas does have favorable economic implications for other retail and service outlets. A 2009 survey conducted by Iowa State University indicated that Iowa farmers markets generated \$38.4 million in sales based on consumer responses, which represents a 92% increase in revenue over similar studies done in 2004. However, the state’s five urban areas account for 72% of the sales.<sup>6</sup> In rural areas of the state farmers markets are more of a convenience to get some local food products rather than a realistic economic development tool. So many markets have opened across the state, smaller markets aren’t able to draw from outside their own community and in some cases may only have a handful of vendors each week. Some rural markets can’t even get their local farmers to attend their market because they save their product to sell at one of the state’s urban markets. In general, for rural communities in Iowa there is little evidence markets create any real sustainable economic activity. The problem with the traditional farmer’s market model is that while they are a nice social event for successful communities, for the growers they are seasonal, labor intensive and, in many cases, expensive to participate in. No doubt there have been additional economic opportunities for the producers particularly those attending urban markets, but participation by the producers is likely more of an important marketing tool rather than an income producing opportunity. In order to build an economically sustainable business model, producers must be able to capitalize on post farmer’s market sales opportunities.

Iowa is beginning to see some attempts at the creation of year-round markets and food hubs to help make local and regional food networks more sustainable, but these markets are driven more by urban area economic developers desire to capture the impact of farmers markets year round rather than creating an economically sustainable business model for the farmer. Communities like Waterloo, Cedar Rapids and Dubuque have created and invested in downtown facilities to extend the season for fruit and vegetable growers and to provide a year-round outlet for some of Iowa's meat, dairy and other non perishable product producers. Across the U.S. there are food aggregation centers or food hubs, some new and some that have been around for years. From the information available, even though there are private enterprises, the majority of these aggregation centers tend to be operated by non-profit organizations, cooperatives or public entities. Many have a limited scope of products they provide and less than 50% indicate they are economically viable.<sup>7</sup>

The purpose of this report is to explore the question of whether or not Iowa can establish a, for-profit food hub and aggregation center or centers that are economically sustainable and provide economic benefits to rural areas of the state. Rural Iowa needs more farmers and more economic development initiatives to strengthen our existing assets. Many of Iowa's rural regions continue to lose population and the average age of farmers continues to increase. Capital requirements for conventional commodity farm operations create significant barriers to entry for young and beginning farmers. Can a food hub create an opportunity for rural community and economic development and create sustainable opportunities for existing and beginning small farm operators? It is possible if the principal questions of reliable year-round supplier, economic sustainability, cooperative partnership agreements, capital adequacy, human, technical and financial capacity can be answered affirmatively.

## INTRODUCTION

Since the main purpose of this paper is to examine whether or not food hub or aggregation enterprise can be economically sustainable it is first important to understand what is meant by economic sustainability. For purposes of this report, economic sustainability means identifying and implementing strategies that make it possible to use resources to their best advantage and in a way that is efficient, responsible and will result in long term benefits. For a business enterprise it means utilizing resources so that the business continues to operate successfully over time providing a consistent return acceptable to its owners, while being a responsible corporate citizen.

Eighty-six percent of Iowa's land area is devoted to agricultural production. We either lead the nation or are a major producer of grains, meats, dairy and eggs for national and global consumption. While commodity agriculture has its critics, it is and always will be an extremely important part of the state's economy. Iowa farmers are among the most productive and efficient anywhere in the world. Technology and changes in production practices have increased the capacity of farmers to cover more ground in less time and with less labor than ever before. These improvements in efficiency are, in part, driven by the fact that there are fewer farmers in Iowa and they are getting older. The correspondent negative impact in rural communities of fewer farm families is being felt by our school districts, churches and business districts across the state.

Rural communities are constantly looking for opportunities to create jobs and draw young families to their community. They offer great school systems, are safer and provide a quality of life not found in urban areas. Until the 1980's farm crisis, most rural regions of the state did fairly well economically, but the farm crisis eliminated nearly a generation of farm families and related businesses, such as feed dealers, implement dealers, small manufacturers and others who were responsible for a large part of the economic activity in these communities. Today many rural communities are overlooked by expanding companies due to the perception of a lack of infrastructure, smaller labor pools and difficulty in recruiting a quality workforce, little of which is accurate.

On the other hand, with our abundant capacity for growing food, Iowa is uniquely positioned to expand local and regional food production. Such an expansion presents us with the opportunity for

sustainable economic growth and job creation in rural regions of the state. While there are several definitions of what local is, most focus on the distance between where food is produced and where it is consumed. In 2008, Congress adopted a definition put forth by the Food, Conservation and Energy Act (2008 Farm Bill), which states that the furthest food can travel and still be considered local is less than 400 miles from its origin or within the state in which it is produced. While there are many who might think 400 miles is too far, it is notable that most food travels an average of 1,500 miles.<sup>8</sup>

In 2010, the Iowa Legislature directed the Leopold Center for Sustainable Agriculture to prepare an Iowa Local Food and Farm Plan containing policy and funding recommendations for supporting and expanding local food systems in Iowa. As a result the Center submitted a report containing 34 recommendations to implement a Local Food and Farm Plan in Iowa<sup>9</sup>. To date, few of the 34 recommendations have been implemented, or if they have been implemented, few people know about them. Many of the recommendations would require additional legislative action along with correspondent funding, which has not taken place.

Since 1995, the Leopold Center has funded a number of pilot projects across the state designed to stimulate the growth of the local food industry in Iowa. During this time a number of other organizations, some beneficiaries of Leopold Center funding, have initiated local food pilot projects. Organizations and institutions like Northern Iowa Food and Farm Partnership, Northeast Iowa Food and Farm Coalition, Drake University, University of Northern Iowa, Practical Farmers of Iowa and others have all contributed to the research and development of building local food systems. As a result of the Leopold Center efforts, no less than 15 Regional Food Systems Working Groups (RFSWG) have been formed to establish local and regional food networks. Recently released reports regarding the work of the RFSWG's suggest there are economic and community development opportunities to be gained through the broadening of local food networks.<sup>10</sup>

As the RFSWG's and other groups search for sustainable models for local food production and sale, more food hubs and aggregation centers are beginning to surface in Iowa and throughout the country. In January 2013, USDA released a report titled *The Role of Food Hubs in Local Food Marketing*.<sup>11</sup> This was a subsequent to a 2012 USDA sponsored report called *Regional Food Hub Resource Guide*.<sup>12</sup> Both of these reports explain the role of food hubs and the potential economic impact they can have on rural communities. Through their research, USDA interviewed the majority of food hubs operating in the U.S. Their working definition of 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." Generally food hubs work on the supply side of locally grown foods by working with producers on sustainable production practices, production planning, season extension, packaging, branding, certification and food safety. The studies identified 168 food hubs operating in the U.S. While this study only identified three hubs in Iowa, a more recent summary from the ISU Community Vitality Center indicated there are at least eight different types of hubs operating in the state.<sup>13</sup>

Forty-eight percent of the hubs in the U.S. are located in the Northeastern and North Central regions of the U.S. many of which are near major metropolitan areas like Boston and Philadelphia. While there are privately held food hubs in the U.S., most (60%) are operated by non-profits, cooperatives, public entities or have no formal structure at all. Some hubs have been in existence for many years, but many have been newly formed in the last five to ten years and as mentioned less than 50% consider themselves to be economically viable. Of the hubs in Iowa at least two, Iowa Food Cooperative and the Northeast Iowa Food Hub depend mostly on web based ordering systems and specified delivery points once or twice a week.

With all of the information available and locally grown and delivered food emerging as a growth industry, why are there few (if any) established economically sustainable and diversified food hubs as a privately held for-profit enterprise in Iowa? Because in large part there are a number of barriers making formation of a sustainable food hub very challenging.

## BARRIERS TO FOOD HUB SUCCESS

**Capitalization:** While several hubs have been in existence for a long time many struggle with being undercapitalized, which in turn leads to a host of problems. Poor distribution practices, poor product quality or product monitoring, inability to pay producers in a timely manner, and other issues. At startup, any business enterprise must be properly capitalized. However, sometimes in the rush and passion to get started, many businesses begin operations without sufficient working capital to carry them through the inevitable startup difficulties. Many new hubs have relied on grants or other temporary sources for their initial operations. The problem is they don't have good contingency plans for when these initial funds are expended and become dependent on getting that next grant to survive. Having adequate capital at startup, including sufficient working capital, is of critical importance. Startup enterprises cannot count on sales to build working capital. If they do, they will be doomed from the start. Food hub operators also need to recognize that in order to acquire a market presence they must displace other wholesale providers who are already operating in the spaces they want to occupy. Many of these providers are large food distribution companies with strong balance sheets who have the ability to wait out the food hub providers through price cutting and or their distribution network advantages. Startup enterprises need to have well defined markets and enough capital to have staying power in order to displace existing providers.

**Producer Collaboration:** Producer collaboration is one of the more difficult challenges to overcome. Food producers, like most farmers, are very independent by nature. Even though farm cooperatives have been around for years, producers tend to have a scarcity mentality of pushing their product to market before another producer to capture more sales. This is especially accurate for producers of perishable products and in true pure competition economics, there will always be a willing seller. In times of surplus producers will end up selling at any price in order to move their product and avoid shrink. Producers historically also don't like sharing production or financial information. There is not a lot of information available about the actual production costs for fresh food operations on an aggregate basis. Many producers don't keep good records and there are not enough producers willing to share accurate data about their operations so an accurate analysis can be made for enterprise budgets. Producers involved in a food hub must be willing to share financial and production information with other producers in an aggregate format in order to find ways to improve efficiencies. They must also be willing to cooperate amongst themselves and not sell outside the enterprise to the same or similar buyers within the same markets.

**Lack of Producers and labor:** The average age of farmers in Iowa is growing. Less than 2% of Iowa farmers are under age 35, and clearly commodity production is the production of choice because of capacity, scale and access to markets. However, it is also capital intensive and, unless you have a generational family operation, entry into commodity agriculture is next to impossible. Even though not as capital intensive, food production agriculture tends to be very labor intensive. In order to have the scale necessary to be economically sustainable, operations must be large enough and have access to markets to provide a reasonable standard of living for their operators. Participation by a collaborative group of growers who are willing to share resources will provide access to larger markets, allow for more specialization and allow for labor, information and knowledge sharing among the growers which will benefit all members of the organization.

**Disaster Preparedness:** Regardless of what the farmer is producing, the industry is subject to uncontrollable events such as weather and disease. Essential to the success of any food hub enterprise is to be a reliable, year-round supplier of products. Contingency plans for crop failures, disease or other animal health issues should be addressed at startup. One obvious way to mitigate this risk is to have multiple geographically dispersed farmer suppliers. That way if one region has a product failure the other region may not. The odds of having wide spread disasters across an entire region, while not impossible, as we saw in 2012, are generally fairly low. If one livestock producer has a herd health issue another one may not. Because there is no viable specialty crop or livestock insurance program available, the risk of losing a producer because of a production failure is higher with food hubs. While a contingency plan still

needs to be in place to replace this production, keeping producers in the hub long term is essential to success. As a part of any hub establishment there should be some sort of production insurance product developed that all producers are required to participate in. Since there is no state or federal program to protect growers other than low interest disaster loans it may be necessary to create a self-insurance fund for this purpose that is funded at least in part by the owners of the enterprise.

**Product Liability:** Food enterprises have a major risk related to food borne illnesses due to poor product handling, preparation or processing. Any kind of problem related to the quality of product being sold could potentially be a fatal blow to a food hub. While you cannot absolutely guarantee there will never be a problem, measures must be in place from farm to end user to assure food quality standards are maintained. While the hub could reduce liability exposure by avoiding chain of title until it reaches the market they cannot afford the reputation risk that would result if a producer associated with their enterprise does not maintain quality standards. Any producer selling to the hub should be GAP certified. While producers may resist this certification there is too much risk in not being certified from both a quality and market value proposition standpoint to not have this requirement. There is assistance available for GAP certification and USDA has technical assistance grant programs that could be utilized in order to get producers certified. Product liability insurance would be required for any food hub enterprise regardless of the chain of title, because in the event of a problem every person/entity involved in the chain will be pulled into any suit regardless of liability.

**Lack of Processing and Handling Facilities:** Many food hubs do not do any further processing or packaging of product. They are simply aggregation centers to bring a larger quantity of product to the market at one location. Although there is one new start-up fruit and vegetable processing facility in Marshalltown Iowa, the state historically lacks access to these facilities which is an important part of building a sustainable local food infrastructure. In order to be a reliable year-round supplier, there has to be a relevant way to process and package perishable products for post season distribution. While many producers are finding ways to extend their growing seasons, winter does come in Iowa and there needs to be a plan in place to continue providing product to the market. Meat processing for locally grown product in Iowa depends on a few federally inspected locker operations scattered across the state. Many small meat processing facilities are in need of updating, but they lack sufficient funding or market scale to justify making the needed improvements. There are some livestock producers who are collaborating with processing facilities who have been able to carve out a niche and are marketing meat products through farmers markets and hubs within the state. Some meat producer products have even made it into grocery stores and institutional buyer operations, but there does not appear to be any sort of effort to aggregate enough of a supply to have the scale necessary to be a large and reliable provider of locally grown meat products necessary for the desired food hub operation. This topic needs further research to understand the capacity that may be available to supply the target markets of the food hub, but if meat processing facility owners would collaborate together as a part of the development of a larger scale operation, it would seem there may be enough processing capacity to capture the supply needed. A 2010 report by Iowa State University shows there were 277 meat processing facilities across Iowa (Exhibit A).<sup>14</sup> Of these 115 were federally inspected, 71 state inspected and 91 just do custom processing. A regional coordinated effort to utilize these existing facilities as part of food hub would improve the economic viability of the processing facilities and help the rural communities they are located in by creating additional job opportunities. This collaboration would also improve the economic viability of the food hub by giving it access to several facilities for sourcing of a variety of meat products for private labeling.

**Market Penetration and Development:** Market penetration and development is a long standing barrier to most new enterprises. As previously mentioned, in order to have long-term sustainable success, food hubs must either open completely new markets or displace wholesale providers who are already in the market. Both of these options require a keen understanding of the market they are attempting to enter as well as the strengths and weaknesses of the competition. Defining and delivering well-defined value propositions are critical to success. Based on information available, most food hub's value propositions of locally grown and fresh food are legitimate and strong. However, if the desire is to establish a sustainable business model, additional value propositions should be defined and delivered. Maintaining

the farmer connection, GAP certification, local processing, healthy living, reliable delivery, etc. are all value propositions that need to be incorporated into any strategy for the enterprise. Getting buyers to make an emotional connection to any enterprise is very important, but especially so for a food hub if there is to be long term viability. End users can be very fickle. What they like today may not be the same tomorrow, so constant education of the end user of the proposed value propositions is important. A related and possibly more significant challenge to market development in some respect goes along with producer collaboration. There is ample evidence and feedback from buyers that they want single source and simplified ordering processes as well as reliable year-round supplies in sufficient quantities to meet their demand. Few individual producers, especially in Iowa, operate on the scale that enables them to devote adequate resources to distribution, packaging and ordering systems to satisfy this need. In addition when buyers do have to deal with multiple producers, product identity can get lost and farmers may lose some of the value proposition supporting the sale of locally grown food. Another challenge for farmers is that most of them will freely admit they do not care for the marketing part of their business. They are not confident with it and most lack the skill set and networks necessary to approach institutional and wholesale buyers. They are very good at production and that is what they prefer to do. A collaboration/marketing agreement among multiple producers working together to meet the demands of buyers would be necessary to create the scale and processes necessary to satisfy the demands of potential buyers.

**Regulatory Requirements:** The state, federal and, in some cases, local environment for pretty much anything related to food delivery will have direct and indirect costs and requirements that need to be addressed. Food safety and food security issues cannot be taken lightly and represent a serious part of the success of the enterprise. While the regulatory environment presents challenges, a food hub would seem to be in a much better position to deal with the regulations than individual producers would be. One question that needs to be answered is what scale of production would be necessary to adequately deal with the regulatory requirements of aggregating, processing and packaging food for delivery to consumer and institutional buyers? Having access to qualified sources or staff to establish and monitor food safety standards and regulatory compliance is often a major challenge for locally established food hubs.

## SOLUTIONS AND OPPORTUNITIES

Given these challenges, are there relevant solutions and opportunities? Yes there are, however, in order to get to yes there must be a fundamental paradigm shift in the way the industry is emerging in Iowa. There will always be growers who only want to grow fresh products for farmers markets. These growers have no desire to participate in a collaborative effort to increase the scale of their operations to a level where they are economically sustainable and that's okay. However, there are more and more growers who have a desire to participate in wholesale market opportunities and growth. Wholesalers, grocery stores and restaurants recognize the value of locally grown and sourced foods and their customers are demanding to know more about where their food comes from. There are numerous studies in Iowa and across the country indicating sufficient market demand exists to support a local and regional food network.<sup>15</sup> What seems to be missing is:

- A scalable business model that indicates it can be economically sustainable.
- A large enough and broad based group of producers fully committed to building an enterprise that will meet local and regional demand year-round.
- Legislative initiatives that put real financial and human resources behind the Iowa Local Food and Farm Plan recommendations.
- A well defined distribution infrastructure and support network for such an enterprise.
- A facility that can handle aggregation, light processing, packaging and distribution of multiple products lines.
- A public/private partnership may be needed to help launch the enterprise, but ultimately the model needs to be privately owned and operated.

As noted above, there is increasing activity in Iowa through a variety of groups and organizations with a common goal of increasing the production, distribution and consumption of locally grown foods. The economic and rural community development opportunities appear to be significant, but for the reasons listed above this is a difficult process. In addition, with a state-wide population of just over three million, Iowa lacks large densely-populated urban centers like Chicago or Minneapolis, so the business model will need to include a distribution network to a broader area and will necessitate strategically placed regional operations that are all part of one parent organization in order to have the scale necessary to be financially feasible (Exhibit B). Having a business model that makes sense and can be easily communicated to producers and investors is imperative. Producers and investors need to be able to see the business value of participating in the value chain even if it means they take lower margins at the farm level in order to participate in the added margin as food moves through the chain.

The model should include core services that will assure year-round operations, which also necessitates that receiving, processing, packaging and shipping areas of the facility be designed in a way that meets all food safety regulations and provides an efficient flow of product. Being a year-round supplier also means the facility will either need to have its own or have access to quick freeze and other food preservation, processing and packaging equipment. A new produce processing facility is under construction in Marshalltown that includes quick freeze equipment and processing. In the future this facility could be accessed as a co-pack facility for the food hub. Above all, the food hub plan must include plans for GAP/GHP certification at the facility, GAP certified producers and a Hazard Analysis Critical Control Point plan. Reputation risk and food safety risk are two issues that, if either one is not maintained, will be fatal to the organization.

## RECOMMENDATIONS

**Organizational Structure:** The formation of a New Generation Cooperative (NGC) would seem to be the most appropriate business structure for an Iowa food hub operation. In all of the studies and information available there is no indication any existing hubs are NGC's, nor are there any recommendations in any of the feasibility studies examined to form an NGC. (*Author's note: This does not mean there are no food hubs operating as NGC's, it's just not specifically stated in the reports. Further investigation into the legal structure of these organizations may reveal they are NGC's, but this would seem to be a relevant point to make in the research given the operating structure of an NGC*) This suggests there may be a reason not to operate as such, but this is not readily apparent. Characteristics of NGC's that are relevant to this model are: specific design for value added processing of member commodities, higher capital investment by members, specific delivery rights and obligations and the ability to trade delivery rights and equity shares. Yet in a traditional cooperative fashion, NGC's retain patronage based on member participation and one member one vote characteristics. In addition to delivery rights and obligations, NGC's have specific marketing agreements with members that govern identity preservation, contract pricing of member production and product quality requirements. Because members have contractual obligations to deliver a certain amount of product it prevents them from selling outside the cooperative to other enterprises. The NGC could have two classes of stock. Class A (voting) stock for producer members and Class B (non-voting) stock for non-grower investor members, which may make capital acquisition for the cooperative easier as the organization can tap into other individuals and organizations that support the development of a food hub. While a Limited Liability Company would be another option it is not specifically designed for a value added processing operation. Member delivery rights and obligations would need to be carefully spelled out in the Operating Agreement and voting rights are determined by the number of units owned vs. one member one vote provisions of an NGC. Exhibit C contains an organization chart laying out the possible organizational structure of the enterprise. The facility will require professional management by someone very familiar with wholesale and retail food processing and marketing.



**Product and Process Distribution:** A diversified, fruit, vegetable, meat and dairy aggregation, processing and packaging facility should be established. The food hub facilities that exist in Iowa today are either virtual or primarily focus on fruit or vegetable aggregation. Other than the Iowa Food Cooperative, which is a web-based ordering system, there are no known diversified aggregation and processing facilities in Iowa. Diversification is necessary to eliminate seasonal peaks and valleys that are inherent in the industry. Core services and functions would include light processing, packing, marketing and distribution. The facility should either have its own or have access to processing and packaging equipment in order to be a year-round supplier of perishable products. There should be a collaborative effort implemented to pool locker operations across the state or a region to aggregate meat production and supply.

**GAP Requirements:** Grower members should either be GAP certified or have a plan to become certified within two years of entry into the organization. GAP certified members should be paid a premium for their product as long as all standards are maintained. A public/private partnership can be established with USDA to provide technical assistance with producers to achieve GAP certification. The hub operations should also be GAP/GHP certified and will need to have a HACCP plan in place.

**Capitalization:** Feasibility studies seem to suggest a minimum sales level of \$1 million or more annually in order to achieve a sustainable level. Considerably more than \$1 million of annual sales potential exists in Iowa, so it would appear the market potential exists to support such an enterprise. However, business startup costs will be significant for this enterprise, and it will need to assure sufficient working capital at start-up to carry it through startup and full scale operations. There is no question many producers who may like to participate in the formation of the enterprise have limited capital resources. Many of them have very small operations so their access to investment capital will be limited. Since the Class A shares of the NGC structure are based on defined delivery rights smaller producers should be able to participate at a level commensurate with their operations. Since the NGC structure also holds to a one member one vote standard, smaller producer will not be disadvantaged in the governance of the cooperative over larger producers. A financial feasibility study should be conducted to determine the startup and operational costs for the proposed enterprise in order to more accurately reflect the overall capital that will be necessary to meet the objectives.

## CONCLUSION

Iowa has at least fifteen active Regional Food System Working Groups. If they would all come together to focus on a single food hub network, a substantial amount of human, financial and technical expertise could be leveraged to move this project forward. Partnerships can and should be formed with existing food hub operations to pool resources, product and producers. Partnerships can also be formed with significant potential buyers such as Wheatsfield Cooperative, New Pioneer Cooperative, Whole Foods, State and private universities across the state all of whom understand the value of nurturing and growing local food production in Iowa.

Creating and sustaining opportunities for young, beginning and small farm operations is very important to the future of agriculture and food production in Iowa, be it commodity production or locally grown food production. Given the cost of entry into commodity agriculture, a local/regional farm to consumer food hub operation would seem to present an opportunity for economic growth and development in our rural regions. However, this enterprise must provide sufficient capacity so the member owners can achieve economic sustainability. As mentioned above commodity agriculture will continue to be an important industry for the state of Iowa. The growth in local food production will in no way have a negative impact on the state's capacity to meet growing world demand for food, but building a sustainable food hub enterprise may provide the opportunity for economic development and jobs in our rural regions. A vital component of any economic and community-development strategy is to strengthen existing assets. Rural Iowa's most important asset is the land. If we can harness the potential that exists

through strengthening our capacity as communities and regions and leveraging our existing asset of land, labor and production expertise, this enterprise can become reality. Certainly there will be challenges associated with undertaking such an endeavor. But, if Iowa wants to really be serious about building a locally grown and economically viable food hub enterprise that has real economic power and impact, we must be willing to collaborate across the state to form one unified coalition of leadership around a single parent organization that guides the process across all regions of the state.

Finally, success will depend on the coalition's ability to meet the four P's of entrepreneurial success: Passion, Purpose, People and Plan. There is no question there is plenty of passion and a broad based desire to build regional food networks. This passion needs to be focused into a clear understanding of what will drive the economic engine of the enterprise, and what it can and needs to be the best at.

The organization needs a very clearly understood and stated core purpose, core values and long term vision, or what Jim Collins calls a BHAG (Big Harry Audacious Goal).<sup>16</sup> Without a stated core purpose, values and BHAG, and adhering to them, the operation will be subject to wandering off course into areas it has no business being in. No organization can achieve its goals without the right people doing the right things. Strong, servant leadership, along with the right people and constituencies at the table and responsible for running the operation, will be paramount in guiding the operation from startup through stabilization and growth. Leadership will need to get the right people on the bus and in the right seats, keep them engaged and focused on the destination (BHAG). Professional management and marketing of the organization will be crucial. Even if the board make up is primarily farmers they must understand that their expertise is in production and they should not attempt to manage an enterprise of this nature themselves. There are a number of examples of farmer owned value added enterprises that either failed or nearly failed because they were unwilling to invest the necessary resources in professional management. Lastly there must be a plan. The old saying of failure to plan is a plan to fail is absolutely accurate. What many entrepreneurs fail to understand is, owning a business is vastly different than working for a business. There must be a comprehensive, balanced strategic plan, financial and operating plans including startup estimates and three to five year pro forma financial statements. The strategic plan at a minimum should include financial, customer, internal process and learning and growth goals with measurable targets that are monitored on a regular basis. Capital acquisition should include sufficient investment resulting in a minimum tangible equity of 30% at startup with enough working capital on hand to cover six to twelve months of operations. Not having sufficient working capital at startup will assure a greater than 50% chance of failure for the enterprise. A sample strategic plan format, startup sources and uses budget are attached (Exhibits D and E). A realistic pro forma financial plan is beyond the scope of this paper, but should be developed as a part of a financial feasibility study implemented as a next step.

The appetite for building food networks in Iowa is growing and strengthening, but there appears to be fragmentation across the state. There are fifteen RFSWG's working in the state, along with several other organizations, all of whom have a common goal. While these groups have done great work and laid a foundation for local foods, they should now come together and pool their resources to build one state-wide network that will create sustainable, economic opportunities for growers, rural communities and regions across the state. Doing so has the potential to create a major economic engine across the state that will strengthen rural communities through job creation, improvement in the tax base and provide opportunities for existing farmers as well as young and beginning farmers, to build and enhance the economic viability of their operations. Can a locally grown food hub/aggregation facility can be economically sustainable in Iowa? It can if we have the will to focus our passion, purpose, people and plan in a way that assures the greatest opportunity for economic sustainability. Will it be easily accomplished? No, but if we truly want to create a sustainable business model that has the scale necessary for success, this structure may be a viable option to consider.

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<sup>1</sup> *Overview of Iowa's local food assets, resources and successes, Leopold Center for Sustainable Agriculture Power Point Presentation slide 12, 2010 sourced from 1998 Survey of Buying Power, Sales and Marketing Management.*

<sup>2</sup> *Central Minnesota Food Hub Feasibility Study. 2012, pg 4, Happy Dancing Turtle*

<sup>3</sup> *2010 National Restaurant Survey of Chefs, www.restaurant.org, 2010*

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- <sup>4</sup> *2009 Survey of Buyers, Northern Iowa Food and Farm Partnership*
- <sup>5</sup> *USDA Agricultural Marketing Service* <http://www.ams.usda.gov/AMSV1.0/farmersmarkets>
- <sup>6</sup> *Consumers, Vendors, and the Economic Importance of Iowa Farmers Markets: An Economic Impact Survey Analysis, Dr. Daniel Otto, pg 1*
- <sup>7</sup> *Regional Food Hub Resource Guide, USDA Agricultural Marketing Service April 2012 pg 75*
- <sup>8</sup> *Checking the food odometer: Comparing food miles for local verses conventional produce sales to Iowa institutions, July 2003 pg 1*
- <sup>9</sup> *Iowa Local Food and Farm Plan, Leopold Center for Sustainable Agriculture 2011 pg 6*
- <sup>10</sup> *Economic Impact of Iowa's RFSWG's Statewide Report, October 2013*
- <sup>11</sup> *The Role of Food Hubs in Local Food Marketing, USDA Rural Development, January 2013, pg 33*
- <sup>12</sup> *Regional Food Hub Resource Guide, USDA Agricultural Marketing Service April 2012, pg 14*
- <sup>13</sup> *Food Hubs: A Snapshot of the Iowa Experience, Jan Libby, Healthy Harvest of North Iowa, Dr. Mark Edelman, ISU Community Vitality Center, Power Point presentation slide 23*
- <sup>14</sup> *Exploring Small-Scale Meat Processing Expansions in Iowa, Dave Swenson, April 2011, pg 6,7*
- <sup>15</sup> *National Good Food Network web site [www.ngfn.org](http://www.ngfn.org)*
- <sup>16</sup> *Good to Great: Why Some Companies Make the Leap....and Others Don't, Jim Collins, Harper Business Publisher October 2001*

#### About the Author

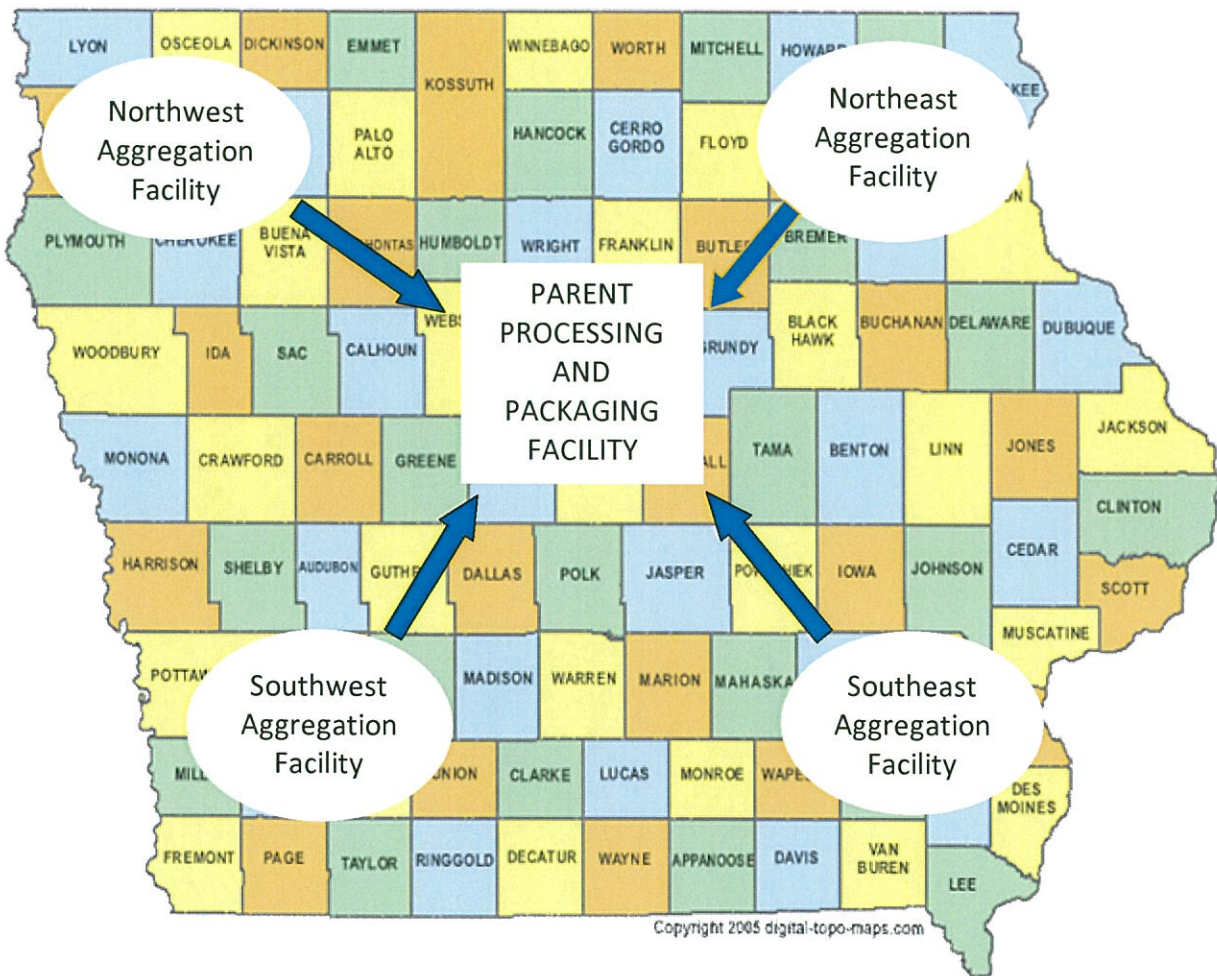
Shane Tiernan is Sr. Vice President and Chief of Lending for GNB Bank. He also facilitates and organizes the strategic planning activities for GNB Bank and their sister bank Ackley State Bank. GNB Bank is a \$343 million locally owned rural community bank organization headquartered in Grundy Center Iowa. GNB Bank has four locations in Grundy Center, Conrad, Marshalltown and Manchester. The parent organization GNB Bancorporation is owned by some 260 shareholders with the largest shareholder being the employee group through their KSOP.

Tiernan has more than thirty years experience working with rural communities, farmers and rural community business owners providing financial technical assistance and funding. He is the recipient of three Governor's Volunteer Awards for his work in rural community and economic development and has been recognized by USDA and the Federal Home Loan Bank, Des Moines for his rural community development contributions. He was a founding board member of the Conrad Main Street program who has the distinction of being the first self-initiated Rural Main Street program in Iowa and the first Main Street program in the nation to use the Main Street Approach on a community-wide basis.

In addition to his work with communities and farm operations he was the lead person for GNB Bank in establishing start-up market operations in Conrad and Marshalltown Iowa, both of which were profitable in less than six months and he was heavily involved in the bank's 2012 acquisition of First State Bank in Manchester, Iowa. Tiernan is a member of the Northern Iowa Food and Farm Partnership advisory board, past president and director for BCLUW School Board, Conrad Main Street Inc, Conrad Chamber of Commerce, Conrad Community Development Committee and is currently President of Heart of Iowa Communications Cooperative board of directors. For the last six years GNB Bank has sponsored Taste Iowa, an event with the primary purpose of promoting the social, economic and health benefits of agriculture and locally grown food in Iowa.



## EXHIBIT B FUTURE IOWA FOOD HUB NETWORK



Regional aggregation facilities established in partnership with the Regional Food System Working Groups in each region of the state who would work as advocates with the producers in their region to capture sufficient supply of products. Product would be delivered or transported for a fee to the aggregation facility and subsequently transported to the parent facility for further processing, packaging and distribution. All delivery logistics to wholesale buyers are coordinated and managed through the parent facility.

**EXHIBIT C**  
**IOWA FOOD HUB**  
**POSSIBLE NEW GENERATION COOPERATIVE**  
**ORGANIZATIONAL CHART**

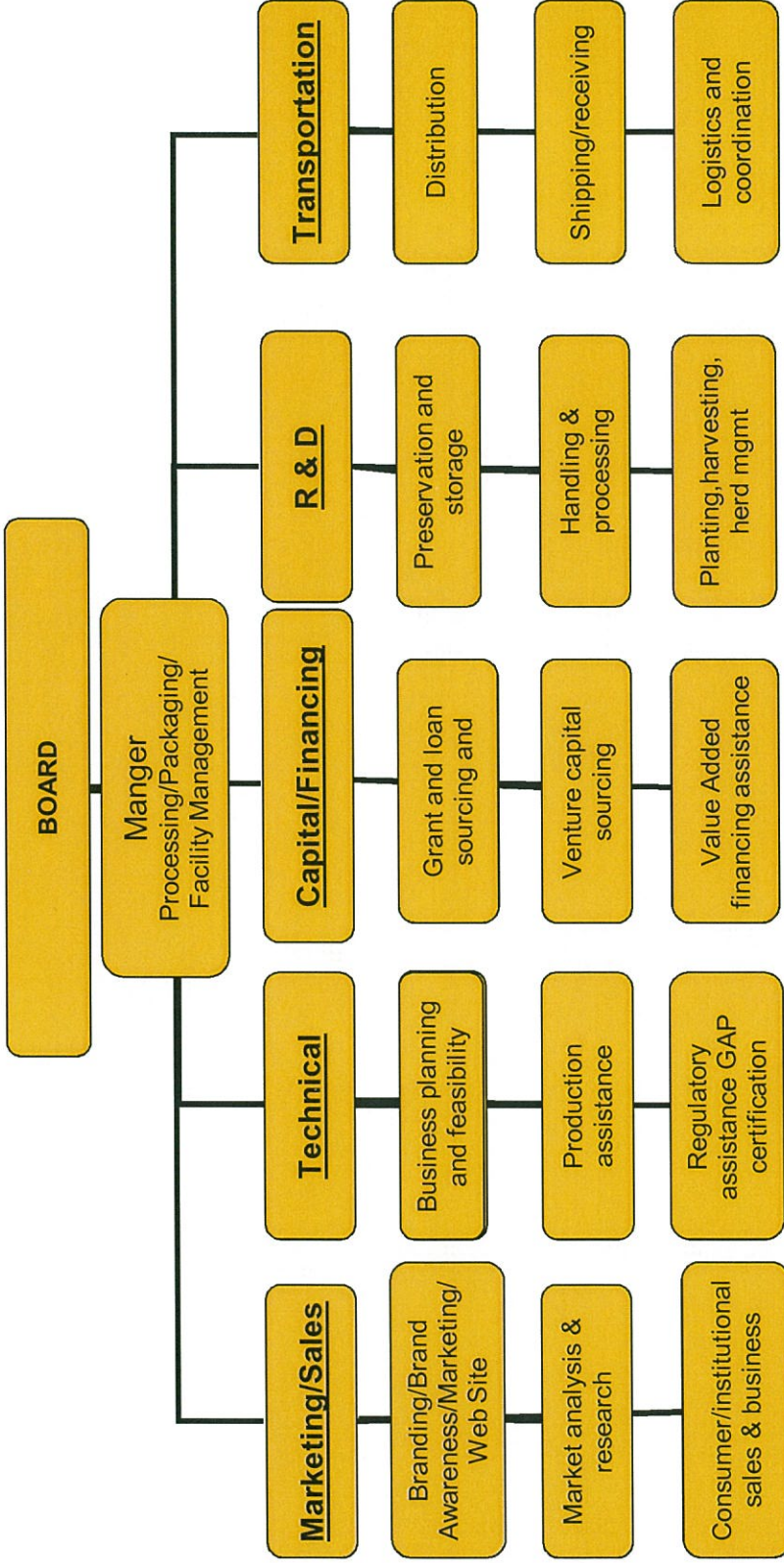
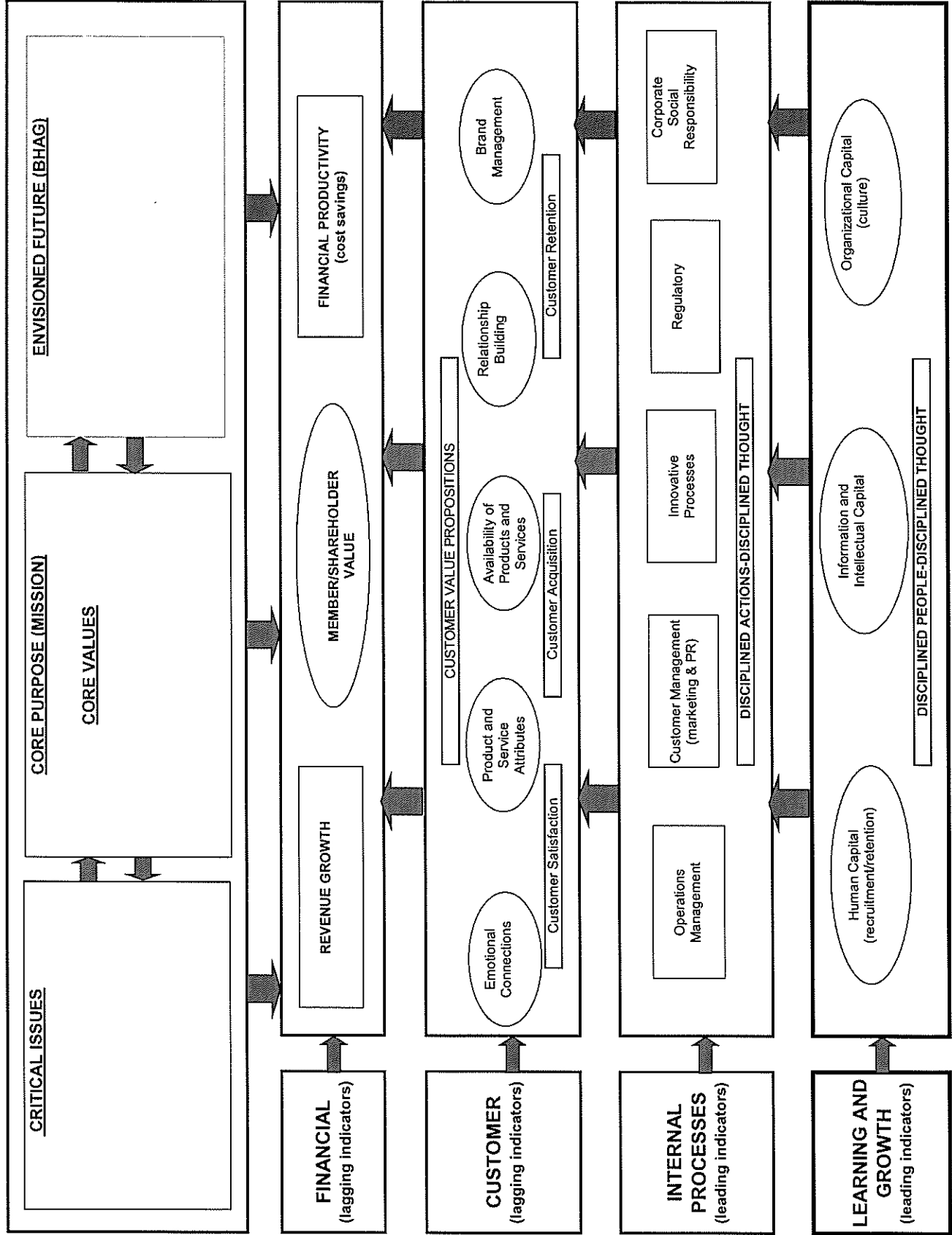


EXHIBIT D  
BALANCED STRATEGIC PLANNING MAP



**EXHIBIT E  
NEW BUSINESS  
START UP PROJECT  
SOURCES AND USES OF FUNDS**

**Business Project Start-Up Estimated Costs**  
PROJECT COSTS (any costs that will be capitalized)

Purchase Real Estate	
Construction/leasehold improvements	\$ -
Site preparation	
Machinery and equipment	
Computers and software	
Vehicles	
Other	
	\$ -
<b>TOTAL</b>	<b>\$ -</b>

**START-UP EXPENSES (one time costs generally expensed at start up)**

Legal and accounting fees	
Loan fees	\$ -
Utility deposits	
Initial advertising and promotion	
Consultants	
Other	
<b>TOTAL START UP</b>	<b>\$ -</b>

<b>TOTAL PROJECT AND START UP EXPENSES</b>	<b>\$</b>	<b>-</b>
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Working Capital requirements \$ -

**TOTAL PROJECT START-UP COSTS** **\$ -**

**Sources of Funds**

Owners Capital Injection \$ -

**Loan Sources**

\$ -  
\$ -  
\$ -  
\$ -  
\$ -

**Grants and Other non loan/non owner capital sources**

\$ -  
\$ -  
\$ -  
\$ -  
\$ -

OTHER SOURCES - \$ -

<b>TOTAL SOURCES FOR PROJECT FUNDS</b>	<b>\$</b>	<b>-</b>
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**Funding Gap (should be \$0.00)**