

Selling to Food Hubs in North Carolina

Introduction

The USDA defines a regional food hub as “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.”¹ The USDA reported more than 230 food hubs in operation nationally as of July 2013, including more than 10 in North Carolina.

A 2013 report by USDA Rural Development noted that the USDA definition of food hubs

might be broadened in two ways. First, food hubs “may also seek to educate their buyers about the importance of retaining food dollars in the local economy or keeping agricultural lands in production.”² That is, food hubs frequently have an inherent bent toward promoting local products or explicitly supporting local production and/or farming lifestyles. Second, the Rural Development report notes that some food hubs function in a virtual space, aggregating products and filling consumer orders online, such as the website <http://carolinagrown.org/>, based out of Sanford, NC.



Image from: Great lakes food hub network

¹ Barham, James, Debra Tropp, Kathleen Enterline, Jeff Farbman, John Fisk, and Stacia Kiraly. *Regional Food Hub Resource Guide*. U.S. Dept. of Agriculture, Agricultural Marketing Service. Washington, DC. April 2012. <<http://dx.doi.org/10.9752/MS046.04-2012>>

² James Matson, Martha Sullins and Chris Cook. *The Role of Food Hubs in Local Food Marketing*. USDA Rural Development Service Report 73. January 2013.

Three main roles for food hubs are often identified: product aggregation, distribution and processing.³ Food hubs that aggregate product may do so in a physical space, completing tasks like washing and packing products into containers for commercial wholesale, or they may function online as a sort of clearinghouse for producer products. Online hubs provide a web portal for customers to purchase farm products without the food hub ever taking ownership of the product. Food hubs may even take the form of shared commercial kitchens that provide an outlet for farm products to be utilized for processing and value-added products. This fact sheet will work to help you understand how you can interact with food hubs regardless of their form to leverage them best for your particular farm business.

The key considerations for selling to food hubs includes:

- **Product Branding**
- **Packaging**
- **Pricing**
- **Labeling**
- **Product Presentation**
- **Insurance and Risk Management**
- **Certification Requirements**
- **Relationships and Communications**

Additional resources are listed at the end of this fact sheet.

● **Product Branding**

A product brand “is the combination of name, words, symbols or design that identifies the product and its company and differentiates it from competition.”⁴ Some farms develop their own local product brand, selling into multiple market channels such as restaurants, farmers markets, CSAs and local groceries.

Food hubs may provide help with branding for farms that may be too small to develop their own brand, or for those who have decided not to pursue a brand identity for their farm. “Group branding” is a strategy by which products from different sources are aggregated under a name that is secondary from the point of production.



³ “Building Successful Food Hubs A Business Planning Guide for Aggregating and Processing Local Food in Illinois.” (Illinois Department of Commerce and Economic Opportunity, University of Illinois Business Innovation Services, Illinois Department of Agriculture, FamilyFarmed.org) January 2012.

⁴ Giddens, Nancy. “Building Your Brand.” Ag Decision Maker, Iowa State University. <http://www.extension.iastate.edu/agdm/wholefarm/html/c5-50.html>



Some food hubs may also base efforts in state-based promotional programs, such as “Got to be NC agriculture,” www.gottobenc.com. Others may offer more local designations, such as “Piedmont Grown” www.piedmontgrown.org. There may be potential value to the producer when a food hub performs the function of developing a marketable brand. Aggregates that are produced under that brand will be monitored to ensure all incoming products to meet brand specifications. It is not unusual to see a markup of at least 20 to 30 percent of a food product’s retail price to cover such services.

Key questions regarding food hub branding for producers include:

- How is a food hub developing its own brand?
- How will brand quality be monitored and enforced?
- What price advantages will be realized from that brand?

Since food hubs manage the aggregation and distribution of products, the food hub may provide the final stage packaging for the product. This can create an advantage for producers, especially smaller producers, who may be able to deliver smaller amounts of farm products to food hubs for packing into a food hub’s customized containers, allowing them to take advantage of economies of scale and more extensive market reach.

More frequently, food hubs may be grouping products that meet certain quality standards into larger lots. To avoid labor and other costs of repacking, especially for fresh produce crops such as tomatoes and fruit, the food hub may have quality and packaging standards for products upon delivery. Some food hubs may provide producers with packaging with custom logos and other brand information. Food hubs and similar businesses can also help defray producer costs by purchasing packages in bulk.

Producers selling to food hubs should:

- Identify packaging specifications for each product to be sold
- Determine whether the cost of packaging is incurred directly by the producer or included in the food hub’s aggregation and distribution services

Pricing

One of the defining characteristics of a regional food hub is that it “uses product differentiation strategies to ensure that producers get a good price for their products.”⁵ Many food hubs work with farm producers to determine product volume needs before the season begins in order to coordinate pricing with demand. Food hubs that are involved in reselling producer products typically charge a fee for the services they provide.

Research published by the USDA in 2010 showed that the costs for farms to bring their products to local retail markets totaled between 13 and 62 percent of the retail price.⁶ The same study showed that price premiums are difficult to maintain when “local” is the only defining characteristic; however, when local or regional production is combined with other product differentiation (certifications, brands, quality), higher producer prices can be maintained.

Producers considering selling to food hubs should consider asking these questions about price:

- Will price and quantity be established before the season, such as through a contract, or can price fluctuate according to seasonal changes?
- What product attributes will ensure receiving full price?
- How will prices be docked for quality, and is there a demand for lower-grade products for processing?
- Will product prices be tied at all to commodity markets or wholesale price trends throughout the season?

Labeling

Food hubs may be able to aid the producer as products are aggregated, sorted and labeled for sale. Some food hubs market products under the food hub’s own label or brand. That can relieve a smaller producer from developing farm-specific labels that address the needs of food retailers, like product lookup numbers (PLU) for fresh produce items or



⁵ Barham et al., p. 4.

⁶ King, Robert P., Michael S. Hand, Gigi DiGiacomo, Kate Clancy, Miguel I. Gomez, Shermain D. Hardesty, Larry Lev, and Edward W. McLaughlin. Comparing the Structure, Size, and Performance of Local and Mainstream Food Supply Chains, ERR-99, U.S. Dept. of Agr., Econ. Res. Serv. June 2010.

UPC codes for processed foods. Some food hubs can even help maintain farm or field-level identity and traceability.

There are precise state and federal guidelines for how food can be labeled. Make sure you become familiar with those guidelines. You can visit the FDA website at: <http://www.fda.gov/Food/GuidanceRegulation/GuidanceDocumentsRegulatoryInformation/LabelingNutrition/ucm2006828.htm>.

A food hub, or any other food distributor, must understand the potential impact of improperly labeled food products.

Producers considering sales to a food hub should inquire about the following areas concerning labeling:

- What labels or branding will the food hub use for products?
- What experience does the food hub have and can they provide examples?
- What are the costs of these labels, and how is the food hub covering its branding and labeling costs?

Product Presentation (Delivery)

Producers should present regional food hubs with products of the highest quality. This means following the food hub requirements for product quality, delivery times and other receiving guidelines.

Produce should be graded, cleaned and packaged according to a buyer's standards. Standard grading and packaging for fresh produce items are available at the USDA Agricultural Marketing Service as well as the produce industry publication *The Packer*, <http://www.thepacker.com/>. Individual food hubs may also establish requirements for meats and value-added or processed products.

Some food hubs are interested in also dealing with seconds. Producers should enquire about this on a case-by-case basis. Certain food hubs may also have different expectations about vendor managed inventory (where the producer may be responsible for monitoring their product inventory at the food hub), consignment commission percentage and sales engagement. In short, producers should understand to what extent the food hub will be responsible for marketing farm products.



Insurance and Risk Management

Food hubs may provide some level of liability insurance for the products they are handling and selling.⁷ Other food hubs operate in such a way that the producer continues to maintain ownership of the product, leaving any liability responsibility with the producer.⁸

There are two general areas of risk that might be incurred when selling products through a food hub. General business liability, the risk that occurs in the course of routine business operations, and Product liability, the risk that comes from food products that may be unsafe when entering the food chain. You will want to verify if the food hub is carrying these coverages or not and what effect that will have on your risk and involvement.

Producers should check with food hubs potentially buying their product to determine what level of risk management is available. If the food hub is not acquiring title to food products and insuring themselves, producers should decide if they themselves can obtain a suitable level of product liability insurance to manage potential risks.

For specific information about farm food safety plans, review the resource from Penn State University Extension, “Write a Food Safety Plan,” listed at the end of this fact sheet.

Certification Requirements

Certifications often utilized by food hubs include organic or sustainably grown certifications; participation in state department of agriculture initiatives; and third-party certifications for farm production and food safety practices. Food hubs may sometimes utilize in-house programs to certify farm products are produced according to specific production and/or ethical guidelines. Food hubs may also facilitate certifications, such as GAP (Good Agricultural Practices) certifications, for producers interested in selling goods through those channels.



⁷ Barham et al., 7.

⁸ Matson et al., 35.



In addition to product liability insurance, food hubs purchasing directly from a farm or producer may require third-party food safety audits or other certifications. Third-party programs, like PRO*ACT, that verify fresh produce safety are becoming food industry standards. Meats and value-added products must originate in properly inspected facilities; requirements may vary by state.

Meat and poultry products are regulated by the North Carolina Department of Agriculture and Consumer Services – Meat and Poultry Inspection Division. Information about pertinent regulations is located at <http://www.ncagr.gov/meatpoultry/index.htm>.

The Food and Drug Protection Division of the North Carolina Department of Agriculture and Consumer Services regulates several kinds of food businesses, including:

- Packaged foods other than meat products
- Seafood
- Dairy products (including milk, frozen dessert, cheese and butter)

More information can be obtained about these, and all other food products, at the website <http://www.ncagr.gov/fooddrug/food/foodbiz.htm>.

Products containing 7% or more alcohol are regulated by the Alcohol, Tobacco, Firearms Tax and Trade Bureau. For more information about these regulations, go to www.ttb.gov.

Products like jams and jellies, dried mixes, spices and some sauces are examples of value-added foods being produced under the jurisdiction of the NC Department of Agriculture. These products also require testing by a process authority before they can be produced and sold. In North Carolina, process authorities are at NC State University:

(http://ncsu.edu/foodscience/extension_program/food_product_testing.html)

Products classified as acidified (i.e. pickles) and low acid (i.e. green beans) require the processor to have a Better Process Control School certificate and registration of their facility and process with the Food and Drug Administration. This is a requirement of the FDA and must be done before registering the product with NCDA.



Relationships and Communication

Like any market channel, selling to a food hub involves cultivating a good business relationship with the customer. Furthermore, food hubs have often been formed by community-based organizations that are committed to “developing the capacity of the producers they support, and creating infrastructure that supports and maintains market access for them.”⁹ This aspect of food hub development could actually require more communication from producers.



Specific communication between producers and food hubs will vary according to the role performed by the food hub, especially whether the food hub is focused on product aggregation or processing. Common communication points for producers include product variety, volume, and changes in production conditions that can affect delivery times.

Food hubs may be especially attentive to the producer’s cost of production, as a stated goal for many food hubs is to improve the local community’s food production capacity through profitable farms. Understanding actual production costs can help both producers and food hubs make production and handling or stocking decisions, based on the customer’s willingness to pay a price that covers all actual costs. Producers and food hubs should remember that their business relationship is both interdependent and mutually beneficial.

Other tips for developing a good business relationship with food hubs, as well as other market channels, include those recommended in a 2008 Iowa State University report:¹⁰

- Make sure that the scale interests and guiding principles of a potential supply chain partner are complementary to your own
- Articulate the expectations of a transaction as precisely as possible
- Make sure the business dealing is mutually beneficial
- Successful relationships are built on three things – loyalty, transparency and integrity – and maintained by three things – communication, communication, communication.

⁹ Matson et al, p. 9, 2013.

¹⁰ “Making Value Chains Work: Best Practices for Success – Workshop Proceedings.” Iowa State University, 2008.
<http://www.leopold.iastate.edu/pubs-and-papers/2008-04-making-value-chains-work>

Conclusion

Food hubs have gained traction as consumers increase interest in local foods. Food hubs may be an especially good fit for smaller producers, as the food hub can aid in product aggregation, market access, certifications, risk management and other aspects of entering product supply and value chains. Some farm producers may also find common goals with a local food hub's ethical and philosophical approach to farm production practices. Indeed, food hubs can help move food along a food value chain – a business network relying on coordination between food producers, distributors, and sellers to achieve common financial and social goals.¹¹ Many of the first food hubs, under the USDA definition, formed to further value chain development.

Producers should approach food hubs like any other market, inquiring about product packaging and delivery guidelines, pricing practices, labeling, and certification requirements. As with any business relationship, producers should maintain loyalty and integrity in the business relationship. Clear communication between both food hub and producers is necessary for a long-term, mutually beneficial marketing arrangement.

Additional Resources

Fischer, M., Hamm, M., Pirog, R., Fisk, J., Farbman, J., & Kiraly, S. (September 2013). Findings of the 2013 National Food Hub Survey. Michigan State University Center for Regional Food Systems & The Wallace Center at Winrock International. Retrieved from <http://foodsystems.msu.edu/activities/food-hub-survey>

Food Hubs from Good Food Network
<http://www.wallacecenter.org/our-work/current-initiatives/food-hub-collaboration>

Barham, James, Debra Tropp, Kathleen Enterline, Jeff Farbman, John Fisk, and Stacia Kiraly. *Regional Food Hub Resource Guide*. U.S. Dept. of Agriculture, Agricultural Marketing Service. Washington, DC. April 2012. <http://dx.doi.org/10.9752/MS046.04-2012>

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¹¹ Adam Diamond, James Barham. Moving Food Along the Value Chain: Innovations in Regional Food Distribution. U.S. Dept. of Agriculture, Agricultural Marketing Service. Washington, DC. March 2012. <<http://dx.doi.org/10.9752/MS045.03-2012>>

Food Hub Survey <http://foodsystems.msu.edu/activities/food-hub-survey>

“Regional Food Hubs.” University of Kentucky Center for Crop Diversification.
<http://www.uky.edu/Ag/CDBREC/marketing/foodhubs.pdf>

“Write a Food Safety Plan.” Penn State University website.
<http://extension.psu.edu/food/safety/farm/how-do-i-write-a-food-safety-plan>

North Carolina Food Hubs

FOOD HUB	LOCATION
Christopher Produce	Waynesville, NC
Eastern Carolina Organics	Pittsboro, NC
Farmer Foodshare	Chapel Hill, NC
Farmhand Foods	Durham, NC
GO Local NC Farms	Concord, NC
High Country CSA	Banner Elk, NC
North Carolina Natural Hog Growers Association	Beulaville, NC
Pilot Mountain Pride	Pilot Mountain, NC
Raleigh State Farmers Market	Raleigh, NC
Sandhills Farm to Table Cooperative	Whispering Pines, NC
SENC Foods Processing & Distribution Center	Burgaw, NC
The Produce Box	Raleigh, NC
Western North Carolina Farmers Market	Asheville, NC

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