



**Wallace Center**  
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# FINANCIAL MANAGEMENT FOR FOOD HUB SUCCESS

ONE KPI AT A TIME

PHOTO: THE GOOD ACRE





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# EXECUTIVE SUMMARY OF 2018 BENCHMARK FINDINGS

## SCOPE

This benchmark study is based on 50 food hubs across the country who volunteered their 2017 financial and operational data for the good of the sector. We believe this represents only about 10-15% of US food hubs. Although definitive conclusions are not possible with a sample of this size and the high diversity of business models in the sector, the study offers us insight into how food hubs are managing their businesses and Key Performance Indicators (KPIs). We have presented two sets of scale-adjusted data (i.e. in percentages of gross income rather than in absolute dollars): the full benchmark (all 50 participants) and model hubs, who are the top performers ranked by net margin (the top 25% - that is top 12 hubs). Contrasting and comparing performance by model hubs to the full benchmark illustrates where hubs can improve performance and points to where the sector is heading as it evolves.

## CHARACTERIZING THE PARTICIPATING HUBS

Thirty-eight percent of the responding hubs had elected 'not-for-profit' tax status, meaning the majority of hubs (62%) file as for-profits. About half of the hubs are organized as corporations, about a quarter as LLCs, and the remainder as cooperatives (8%), or individuals, general partnerships, or opted not to share their business structure. This study's hubs tend to focus on wholesale channels, with 88% of product sold to restaurants, caterers, retailers, institutions, distributors, and processors.

## RESOURCE USAGE

Making the most of existing resources and assets and minimizing waste is an important management goal. Model hubs have found a way to make more efficient use of their physical resources (KPI = greater sales per square foot of warehouse), have generally found less expensive warehouse space (KPI = occupancy cost per square foot), and are able to spend significantly less on labor as a percentage of revenue (15% vs. 20%). When compared with the full benchmark, model hubs are devoting almost 7% less revenue towards overhead. With a narrow-margin business like food aggregation and distribution, 7% can be the difference between a thriving business and one that must cease operations. Note that because benchmark studies are normalized (calculated as percentages of revenue, rather than dollars), it is possible that larger hubs are better able to offset their overhead (particularly certain staff roles that are relatively inelastic with scale).



## COMMITMENT TO LOCAL AND REGIONAL

In large part, food hubs are mission-driven organizations – they’re focused on providing good food for people who wouldn’t otherwise have access or means, and at the same time, provide a better return to the farmer growing the product. Although many hubs fill in product gaps with more broadly sourced products, this study confirms that hubs are moving primarily local food. It is notable that in the four years between the 2013 benchmark study and this one, participating hubs’ average sourcing radius has gotten smaller – particularly the sourcing radius of model hubs. Although some of that change might be due to incomplete sampling, it is possible that as hubs have aged, and as producers have learned the value of working with hubs, more of an area’s local product is running through hubs, so that demand can be met without hubs needing to look beyond their local supply. Hubs are spending most of their revenue on the goods they are buying, to then resell (approximately 3 of every 4 dollars), meaning they are adding significantly to the wealth of their suppliers.

## MAKING THE MARGIN TO MEET THE MISSION

Model hubs, taken as a whole, are very close to breaking even, with some individual businesses turning a profit for the year. For the full benchmark, hubs were 10% short of meeting capital needs to operate their businesses, *before grant income is considered*. Model hubs’ EBITDA was 1% of sales, whereas the full benchmark hubs clocked in at -2%. Model hubs also have significantly mitigated business risk through lower concentration of buyers. While benchmark hubs sell nearly half of their product to their top 10 customers (and 20% to their single largest customer), model hubs sell only 1/3 of their product to their largest 10 customers (and only 8% to their single largest buyer). Hubs’ liquidity tended to be low – about 5% of annual expenses, which is particularly low considering the seasonal nature of most hubs’ businesses.

Although some annual profit is required for a business to be sustainable (to weather lean times, to make improvements, to be able to grow the business to meet new and expanded markets, etc.), food hubs are mission-based

businesses and most strive to trade a certain level of profit for social impact such as paying better prices to their farmers, building capacity of their partners, or reducing barriers to healthy food for low income communities. Philanthropic, governmental, and other mission-based support – through grants, tax abatement, under-market loan or credit line rates, etc. – help underwrite the social impact goals of hubs which can be difficult to achieve relying solely on sales revenue and market forces. Indeed, when grants are added into the calculations, model hubs’ revenue exceeds their expenses, and overall, benchmark hubs’ total revenue does not quite meet their expenses. Considering most hubs are young businesses, many having recently taken on expansions, and seek both financial stability and social impact, hubs remain a promising enterprise for developing local and regional food value chains if properly supported by committed entities. This study offers food hubs information they can utilize to continue to improve their financial performance and meet their social goals as demand grows for local and regional food produced in a manner that reflects a growing set of shared values.





# INTRODUCTION

In 2014, the NGFN Food Hub Collaboration conducted a benchmarking study to generate financial and operational performance benchmarks for Food Hubs. In late 2016, the Wallace Center built upon this with financial technical assistance to food hubs so hub operators could better understand their financial reports, set specific goals for profitable growth, and develop meaningful key performance indicators against which they can monitor performance. What follows illustrates 'how' food hubs are managing their businesses, and to highlight the Key Performance Indicators (KPIs) that food hub owners, managers, and operators can use to manage their business and increase their profitability. This report is not intended to be a 'state of the food hub sector' report, as it encompasses only 50 food hubs that were in operation in 2017, which is just a small cross-section of the sector. It's not intended to be a description of 'what' food hubs are doing, as there have been many good studies covering this ground (for example, the [MSU/Wallace Center Food Hub Survey](#)). However, it can serve as a valuable resource for food hubs to better understand how they can improve the function of their businesses.

All resilient mission-driven organizations need to generate profit. 'For profit' and 'not-for-profit' are tax statuses, not business strategies. Whether hubs are structured as corporations, LLCs, cooperatives, or sole proprietors, generating profit is critical. A business can't be sustainable without sound financial management. A well-run food hub is a sustainable business in more ways than one: not only does it cover expenses and meet debt obligations, it reinvests in growth, evolution, and mission impact. A better understanding of food hub KPIs gives owners and managers the ability to plan, to set goals, and to achieve their mission.

## ABOUT THE PARTICIPANTS

This study analyzed financial and operational data from 50 participating food hubs (see Appendix A for the questionnaire). The participants represent 30 US states from coast to coast and border to border, as well as two hubs from outside the US (one Canadian and one Australian). Annual sales ranged from \$50,000 to \$8 million. Participants employed an average of 4.3 full-time equivalent (FTE) employees, which was spread over an average of 11.3 part-time employees. Profits ranged from 27% of sales to -22% (i.e. 22% loss), so there is a wide range of financial performance on the business side. EBITDA (earnings before interest, taxes, depreciation, and amortization; see Glossary for more information) was quite similar, ranging from 27% to -17% of total sales.

While we know that *"If you've seen one food hub, you've seen one food hub,"* the aim of the benchmark study and resulting tools is not to illustrate the perfect food hub, but to help you perfectly understand the food hub you have so you can achieve everything that's on the wish list for your hub.

## METHODOLOGY

We began 2017 with a series of webinars (see <http://ngfn.org/webinars/finances-for-food-hubs-series>), outlining the form, function and use of:

- A common chart of accounts
- The Balance Sheet
- The Income Statement
- The Statement of Cash Flows

A final webinar, entitled "Tying it all Together" illustrated how the reports can be used together as a tool to successfully manage a food hub. Hub operators had these webinars as resources to guide them through their management record-keeping for 2017.

## WHY DO WE NEED PROFIT?

- Repay loan principal
- Replace outdated equipment
- Make capital purchases
- Attract and retain good talent
- Build liquidity
- Save for retirement
- Invest in mission-based activities

...so you'll want to keep doing this!

Why else?





Toward the end of 2017, hubs were invited to participate in the Benchmark Study by providing information via a secure web portal at FarmCreditEast.com/FoodHubs. Next, they answered a series of questions to gather operational metrics of their hub (see Appendix A for list of questions.) They were also asked to provide internal financial reports for the food hub: the beginning and ending balance sheets, the profit and loss statement, and the statement of cash flows to reconcile earnings and the change in net worth.

The benchmark information presented here is the weighted average of all participants with complete, reconciled data. The 'model hubs' you'll see mentioned are the top quartile of respondents (i.e. the top 25%), measured by profit as a percent of sales.

The summary of the findings were presented via [webinar](http://ngfn.org/webinars/2018-food-hub-benchmark-study) (see <http://ngfn.org/webinars/2018-food-hub-benchmark-study>). Individual participants received a "dashboard" report that compared their own Key Performance Indicator (KPI) calculations to the rest of the participating hubs, complete with guidance on possible managerial decisions indicated by the data (see sample in Appendix C). As a final product, this summary report shares the general findings and the KPIs we recommend food hub owners and managers start with when they begin to develop their own management dashboards.

## THE FOOD HUB BENCHMARKS

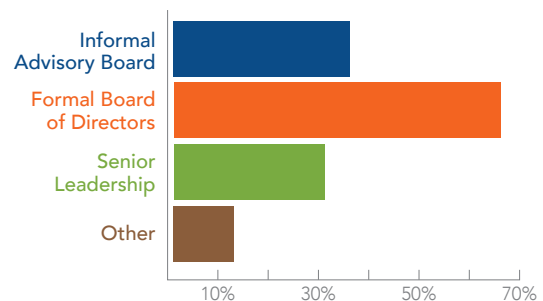
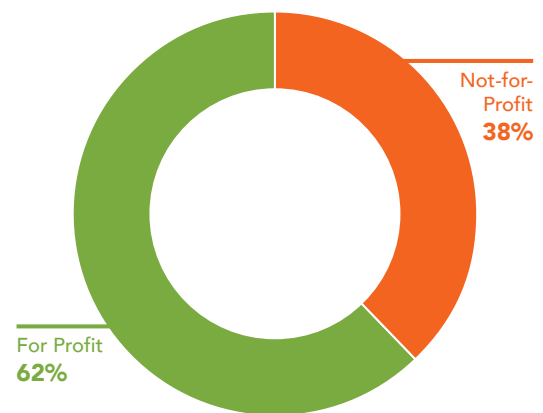
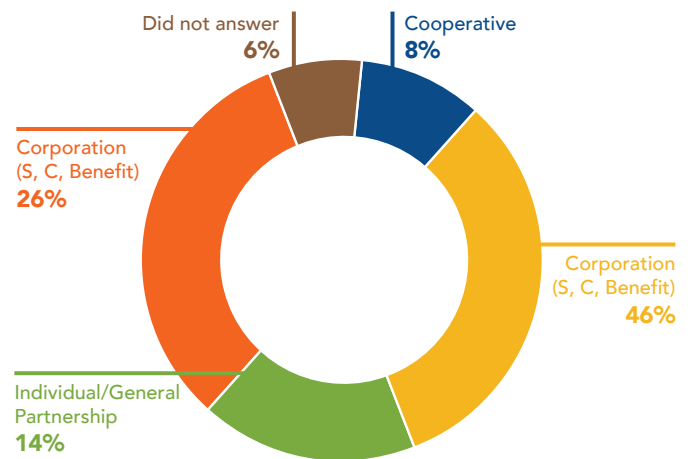
Let's look in detail at the data we collected.

### BUSINESS STRUCTURE AND LEADERSHIP

Forty-six percent, or just about half, of the respondents, are organized as Corporations. LLCs account for just over one quarter, and eight percent of responding hubs are organized as cooperatives. The remaining 20% are comprised of general partnerships, individuals, and those who did not share their business structure.

Thirty-eight percent of the responding hubs had elected 'not-for-profit' tax status. This is a decision separate from the business structure mentioned above (except there needs to be an organization – an individual can't be a non-profit). This decision is driven by the purpose of the organization (a list of those purposes have been authorized by Congress and usually have to do with religious, charitable, scientific, or educational purposes) and the foundation documents that limit the organization's purpose to that mission. Those documents also commit the organization's assets and earnings to the mission, rather than to the benefit of an individual.

Hubs take leadership seriously. Two-thirds of the respondents have a formal board of directors (note that while not-for-profits are required to have a formal board of directors, this only accounts for about half of the hubs that have a formal board). Over one-third have an advisory board. Other leadership includes the management team, shareholders, and even empowering employees to take on this responsibility.



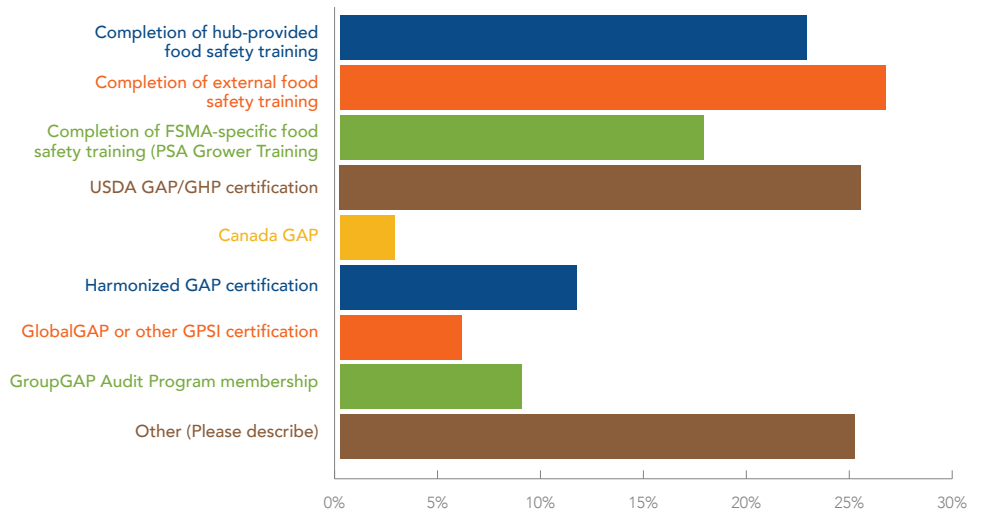


## FOOD SAFETY

### SUPPLIERS

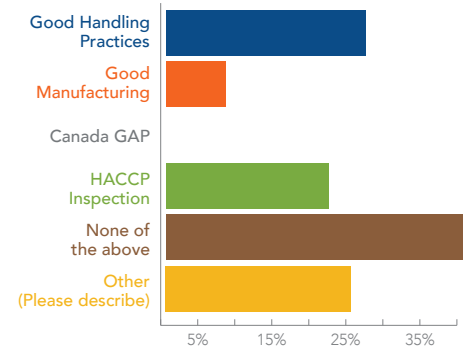
There is a wide range of food safety requirements hubs have of their suppliers, from GAP to FSMA to a hub's own internal food safety training. Many hubs accept multiple standards, and this chart shows the percentage of hubs that purchase product with a variety of certifications.

In addition to the requirements we asked about, almost 25% of the participating hubs tracked or required certifications other than those listed here.



### HUB OPERATIONS

Some hubs themselves were also required by their customers to meet safety standards. It's interesting to note that while these vary widely in their complexity, 40% of hubs did not face any specific requirements. Other, less common requirements included local health department certifications, SQF Level II, special licensing or certification (processing, catering, retailing, wholesale), as well as basic traceability and/or AIB.



## SALES CHANNELS

For 2017, the majority of the responding hubs focused on wholesale channels, with 88% of product sold to restaurants, caterers, retailers, institutions, distributors, and processors. This is in stark contrast to the previous benchmark study, which showed more than three times the dollar volume flowing through direct-to-consumer channels. Please note that it is beyond the scope of this study to explore the cause of this change. We did not explore if this is the result of local demand, the complexities of retail logistics and customer service, a channel preference by owners, or simply the result of a different set of hubs participating in the studies. Recall that only 50 hubs participated in this study, which likely represents less than 20% of US-based food hubs.







## PRICING STRATEGY

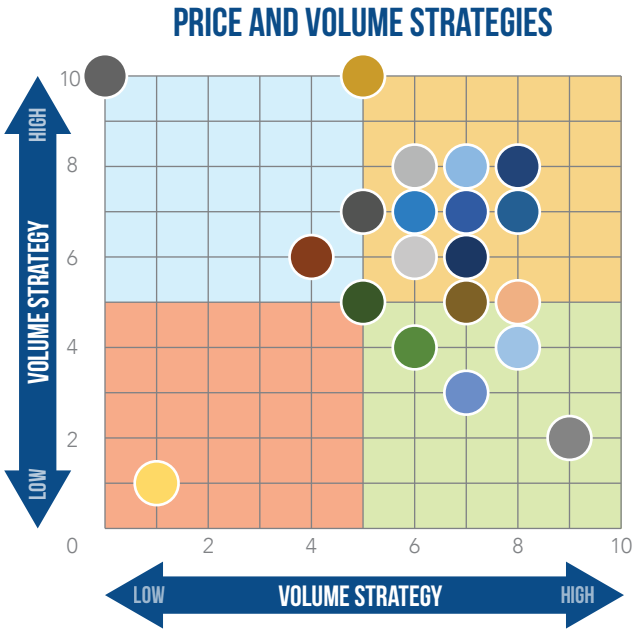
We asked each hub the following question:

**Each food hub has a unique strategy that combines goals for pricing and volume.**

**With 10 being the highest and 1 being the lowest,**

- On the continuum of pricing, where do you aim for your business to be? (1-10)
- What is your volume strategy? (1-10)

The answers are charted to the right.



*Let's look at the answers in terms of quadrants.*

In the upper left (blue) quadrant, we see answers that indicate a high-volume, low-price strategy. We often find this in commodity sectors, where there is little or no differentiation to the product and the only way to make more money is to increase volume. Pricing pressure and competition mean there's a race to the bottom, price-wise.

The opposite strategy, seen in the lower right quadrant (green), is a low-volume, high-price strategy. These are usually boutique businesses, selling a unique product. Often, it's 'small-batch' and 'hand-crafted' emphasizing quality over quantity and the artistry it takes to create the product, which is not easily replicable.

These two quadrants tend to represent most business models. At least, they represent the plan laid out for the business model! Let's now turn our attention to the other two quadrants.



Who would run a low-price, low-volume operation, as shown in the lower left quadrant (orange)? This sounds like a hobby more than a business – where the proprietor offers a good or a service ‘just because.’ Often, they like what they do and are happy that someone appreciates their output, and don’t feel the need to charge for their time as they would ‘do it anyway.’ An example might be a craft fair where the jewelry-maker just enjoys the creative time and materials are received as gifts for holidays or birthdays so there’s no real need to create a business. This scenario could also be described by an expectation that someone other than the end-user pays for the good or service (one example of this might be a philanthropically or government supported mobile market intended to sell lower-priced foods to underserved populations).

Finally, the upper right quadrant (yellow) represents the high-volume, high-price business model. The product or service here is so good, customers can’t live without it. The product or service is well-differentiated from the competition, which is why the company is still able to charge a premium price, yet they’ve achieved mass appeal. That’s pretty hard to do – and continue – without significant innovation to stay ahead of the competition. Good examples of businesses in this category might be Apple, Inc. and wines from the Bordeaux region of France.

In this next chart, we’re looking at a comparison of pricing strategy as set by the hub leadership (the previous chart), compared with how that is executed in the marketplace. In other words, we are comparing theory with practice. To chart this analysis, we’re comparing the hub’s pricing strategy (the “theory,” on the x axis) with the overall markup from the hub (the “practice” = Food Sales ÷ Cost of that Food, on the y axis) to understand what the hubs achieve on a whole business level.

It’s interesting to note the variety of answers compared to the actual financial results. If practice was following theory perfectly, the data points would fall on a diagonal line drawn from the bottom left of the chart to the top right. More hubs landed in ‘middle of the road’ territory on markup (the comparison of cost and pricing) despite stated pricing strategies on the higher end of the continuum. Is this the result of bringing higher-priced products to the marketplace, yet paying a premium for them in the first place? Is this a signal to look more closely at how our strategies are carried out in everyday operations? Or is it simply a pricing strategy that others have caught on to and adjusted their own strategy to match?

Here’s an example to illustrate. If we look at all of the hubs who described their pricing strategy as a ‘7’ out of 10, this indicates an above-average price in the marketplace (assuming a 5 to be an average price). The chart below is this “vertical slice” of the above chart where Pricing Strategy = 7.

### What do the markups mean?

A markup of 1 means that a hub’s food sales and its food costs (sales and the cost of that product that’s sold) are equal. At this level, there is no contribution to overhead, since all of the sales dollars go to pay for acquisition of the product, whether it is purchased for resale or produced in-house. That line is bold in Figures 1 and 2.

A markup of less than 1 means that a hub isn’t creating enough in sales dollars to cover the cost of the food. This difference may be funded by grants or other contributions.

A markup of more than 1 means there is going to be a contribution to overhead. Whether there is enough to make a contribution to profit depends on the magnitude of the markup as well as the overhead structure of the business.

FIGURE 1.  
STRATEGY VS. EXECUTION

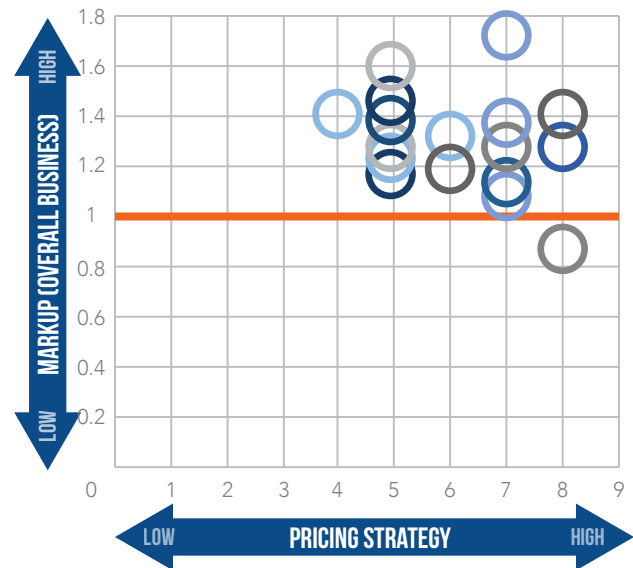
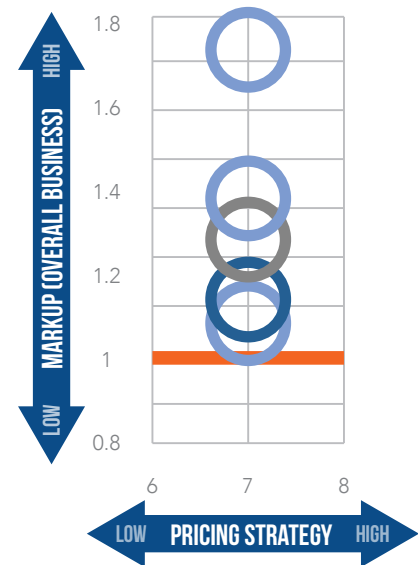


FIGURE 2.  
STRATEGY VS. EXECUTION





As you can see, there's quite an array in the results! This could be for a number of reasons, including but not limited to:

- The 'pricing strategy' was a subjective answer, based on the hub's interpretation of where they view themselves to be in the marketplace.
- The food hub could actually be pricing in the upper range yet have high acquisition costs.
- The cost of shrink could be higher than it is in the peer group

One other consideration: The reporting of data could include food costs which are borne by grants or contributions under a specific project.

Whatever the reason, it's worth examining what's causing the results to figure out if they are business-driven or mission-driven. Once a hub has that understanding, the managers can use the information to decide if that's something they can and/or need to change for business sustainability.

## GETTING DOWN TO BUSINESS – THE FINANCIAL REPORTS: THE BALANCE SHEET

**The balance sheet** is the statement of everything you own (assets) and everything you owe (liabilities). The difference between those two is called "net worth"<sup>1</sup> (Net Worth = Assets – Liabilities). Generally, more net worth is better. By calculating "Net Worth Percentage"<sup>2</sup>, your balance sheet will give you a signal as to what you should do next in your business. Total Assets is the sum of Net Worth and your Total Liabilities.

Dr. David Kohl, agribusiness professor at Virginia Tech, describes these signals like a traffic light. If your net worth percentage is above 70%, that's a green light to consider making the next investment. As always before taking on a new project or investment you should do your careful planning, including a budget and a projected balance sheet, before proceeding.

If your net worth percentage is between 40% and 70%, that is a yellow light. It means proceed with caution – notice it does NOT mean speed up and get through this intersection! If your net worth percentage is in the yellow light range, it simply means that making a sizeable investment and/or adding additional leverage at this time will cause greater risk to the business.

Net worth of 40% or less is... you guessed it... a red light. Stop here. Focus on building net worth through strong earnings and the reduction of debt to get yourself back to a solid net worth position before making a big investment.

"But if I don't take out more debt I'll miss out on opportunities," you say. Yes, you will. But will you miss out on the right opportunity or only the next opportunity? It's probably not the right opportunity if it will put your business in a precarious position where everything needs to go right for the plan to work. (Trust us, that's when it won't!)

$$\text{Net Worth} = \text{Assets} - \text{Liabilities}$$

$$\text{Assets} = \text{Net Worth} + \text{Liabilities}$$

$$\text{Net Worth Percentage} = \text{Net Worth} / \text{Assets} \times 100$$

$$= (\text{Assets} - \text{Liabilities}) / (\text{Net Worth} + \text{Liabilities}) \times 100$$

$$= (\text{Assets} - \text{Liabilities}) / ((\text{Assets} - \text{Liabilities}) + \text{Liabilities}) \times 100$$

$$= (\text{Assets} - \text{Liabilities}) / \text{Assets} \times 100$$

### SCORING FOR NEXT MOVE



**RED = STOP**

Net Worth Percentage < 40%

**YELLOW = CAUTION**

40% < Net Worth Percentage < 70%

**GREEN = GO**

Net Worth Percentage > 70%

1 Sometimes you will also see this called "equity." We will use "net worth" here because we find it more relatable, and there is no confusion with "equity financing," where a business sells a portion of itself in exchange for assets, most often used to continue to develop the business.

2 This is also sometimes referred to as "equity position."



Among our respondents, net worth percentage ranged from negative (essentially insolvent at this point in time) to the high seventies. The benchmark (the weighted average of all of the surveyed hubs) was around 37%, confirming that the typical food hub carries a significant amount of leverage. In other words, the typical food hub has a significant amount of “stuff they owe” as compared to the “stuff they own.” This is not surprising for start-up companies, those that have recently taken on expansions, or those that run with very little profit.

## LIQUIDITY

Liquidity is a measure of the business’s ability to handle its short-term obligations (those coming due in the next year) with its current assets (those that are expected to be turned into cash in the coming year). Liquidity is measured in multiple ways, but the two most common are:

- 1) **Current Ratio** which defines the relative amount of current assets to current liabilities.

The old business standard was that if a business had a 1:1 current ratio, that business would be able to meet its coming obligations. But lately, we’ve seen prices rising, sometimes at breakneck speed. So, when you’re sitting there on January 1<sup>st</sup> and your balance sheet tells you that you have just enough current assets to cover the current liabilities you have right now, what happens when the price of your inputs goes up?

The current ratio of the benchmark hubs was 1.8:1 and the current ratio of the model hubs was 1.91:1. That’s a great start!

- 2) **Working capital** which measures the same two things as current ratio, but subtracts (rather than divides) current liabilities from current assets to see the magnitude of the coverage.

If you have a 2:1 current ratio, that’s great – unless you have \$10 in current assets and \$5 in current liabilities. The *magnitude* of your working capital is important, since \$5 wouldn’t be enough to buy lunch in most places. A good guideline: aim to have working capital of 25% of your annual expenses. Intensely seasonal businesses (like many food hubs!) may need even more working capital to manage through their busiest seasons, especially if they want to keep stress low during the parts of the year where there isn’t much income. Instead of scrambling to find some money to send to the vendors who keep calling and threatening not to ship anymore, imagine what it would be like to take a relaxed breath and say ‘you’ll get paid on Friday just like you always do!’ Given that many food hubs prioritize paying their suppliers a fair wage, and part of paying fairly includes paying quickly, a hub’s working capital position is a critical mission-related KPI.

While the individual hubs showed working capital positions that ranged from -10% of annual expenses to 40% of annual expenses, both the benchmark hubs and the model hubs had working capital that equated to 5% of annual expenses. This is considerably less than the 25% guideline. The more seasonal the business and the more heavily leveraged, the more need for additional working capital to be able to withstand unexpected events in hub operations.



## THE INCOME STATEMENT

With this study, we're concentrating on the business of hubs.

That means we're taking a look at the earnings of the company through sales of product and comparing that to all of the costs that are incurred to make those sales happen. We understand that many food hubs receive grants or other contributions of financial support, but we look at that as a bonus to the business.

The benchmark breaks the income statement itself down into a gross margin format. Presented this way, the expenses are separated into those that will increase with one more unit of product sold (variable costs), separate from those that are incurred no matter what, or incurred independently of the volume of product sold (fixed costs or overhead).

### Why do we do this?

Focusing on the concept of gross margin helps understand how a business runs. Very simply, there's a chunk of expenses that need to be paid no matter what (these are overhead). The business also needs to earn a profit, so those two things (overhead and profit) must be covered by what's left over AFTER the cost of buying and distributing the product.

Often, a food hub – a mission-driven organization - is focused on providing good food for people who wouldn't otherwise have access or means, and at the same time, provide a better return to the farmer growing the product.

This sounds a lot like buying high and selling low, which by definition drives margins lower. And more of our responding food hubs for this study are working in the wholesale arena rather than retail, which also puts pressure on margins.

Variable costs include those that increase or decrease with the amount of food sold by a food hub. The cost of food itself, packaging, and shrink are all examples. Selling and distribution costs including labor and payroll taxes also rise as more volume is added, hence their inclusion in variable costs.

Each business may have a slightly different structure. For instance, if hub sales are handled by a commission-based sales person, then it's easy to see that more sales equate to more costs. If that person is on salary, it's harder to distinguish. Delivery costs in general increase with more sales, though the argument can be made that it doesn't cost that much to sell more to an existing customer. It may be negligible (10 more minutes on a larger delivery) but it also may be a delivery twice a week instead of once a week. To compare across hubs, we need to make the delineation of the type of activities.

When you're analyzing your own hub, think about HOW you organize your functions and WHY each function is important to the business. The salesperson function is important because it moves product. For the purposes of this analysis, WHAT structure that person's compensation takes isn't as important as the WHY or purpose of the function.

A web site is a marketing tool, but it also may function as a sales platform for a hub. If that's the case, the question is HOW you use the site. That informs the WHY you do it that way. Digging deeper to clearly define the purposes can help you determine whether to consider that cost with overhead or as a variable cost of goods or sales.

Fuel is another interesting case. If you have a route with only 5 stops, and will never have more than 5 stops, the argument could be made that fuel, for your model, is an overhead cost. But usually a new customer means more miles. At the end of the day, we need to reconcile how those are handled in a benchmark situation. For the purpose of this benchmark, we

Since we're studying the business of food hubs, we need to acknowledge that grant funding can be a big part of a hub's operation. There is no doubt that grants and contributions make a lot of programs possible, and that there are some food hubs that are amazing grant generators. Grants often allow food hubs to take on other work besides moving food.

Keep in mind, however, that the receipt of grant income can make it look like a business channel is supporting itself when it's not yet doing so.

	All Hubs	Model Hubs
Sales	100%	100%
Variable Costs	92.9%	89.19%
Cost of Product	76.26%	73.5%
Selling/Distribution	16.64%	15.68%
Gross Margin	7.11%	10.82%
Overhead	17.74%	11.01%
Profit	(10.63%)	(0.20%)
Grants/Contributions	12.48%	5.68%
Program Expenses	3.24%	4.54%
The Bottom Line	(1.39%)	.94%



asked hubs to include fuel as a variable because most of the time it will be. If you choose to track things differently for your internal analysis with good reason, go for it! Knowing the difference will help you understand what you need to sell to cover both kinds of costs, and how that will change as you grow.

Recall that there isn't a 'one size fits all' definition. We're not interested in changing food hubs to meet the mold of a **model** hub. What we are looking to do is make sure each food hub manager has a **model** understanding of the food hub they operate so they can make solid financial decisions based on data. It is important to make sure we're comparing the same things!

## A DEEP DIVE INTO THE PROFIT AND LOSS STATEMENT (P/L)

For those who are interested in looking at specifics, the complete profit and loss statement (P/L) for benchmark and model hubs is below. It's a common-sized statement, which means that both profit and loss are presented as a percentage of sales to show the proportion of sales that is allocated to each line item. This becomes an important consideration when looking at hubs of different sizes. (A hub with \$1,000,000 of sales that spends \$300,000 on labor compared to a hub with \$500,000 of sales that spends \$150,000 on labor are actually quite similar in terms of input for output. Concentrating on the dollar figure, though, might lead some to believe that one hub spends more than 'it should'.)

The benchmark measures the results as a percent of sales – both of product and related service income such as delivery fees or membership fees. Recall that "sales" are different from "revenue," which would include grant income or other support. By focusing on sales, we're looking at the business activity the hub generated.

Let's start with net operating margin (the bottom line on the chart P/L statement to the right) and work our way up to the top line.

Benchmark hubs (all of the hubs in the study) in 2017 posted net earnings of -10%, and model hubs (the top 25% of hubs) were almost breakeven. While these losses were funded (almost!) by grants or donations (more on that later), the net income figure speaks to a hub's ability to:

- Cover all of its business expenses with business revenue it generated
- Earn profit
- Operate without continued equity infusions or building debt
- Support the programs it chooses with no strings attached

So where does an extra 10 cents of every sales dollar go in the average hub? Let's examine the differences in each major category to learn WHY the model hubs have such a different result – and get a window on HOW they do it.

	Benchmark	Model Hubs	Difference
Sales	95.52%	98.87%	-3.34%
Other Income	4.48%	1.13%	3.34%
<b>Total Income</b>	<b>100%</b>	<b>100%</b>	<b>0.00%</b>
<b>Cost of Product</b>			
Product, inputs, production labor, packaging	76.26%	73.50%	2.76%
Selling and delivery costs	16.64%	15.68%	0.95%
<b>Total Cost of Product</b>	<b>92.89%</b>	<b>89.18%</b>	<b>3.71%</b>
<b>Gross Margin</b>	<b>7.11%</b>	<b>10.82%</b>	<b>-3.71%</b>
<b>Overhead</b>			
Custom Work	0.00%	0.00%	0.00%
Total Depreciation	0.81%	1.21%	-0.40%
Total Insurance	0.45%	0.24%	0.21%
Fuel (General/Overhead)	0.07%	0.00%	0.07%
Interest Expense	0.15%	0.12%	0.03%
Overhead Labor: Accounting/Office, Management	6.09%	1.56%	4.53%
Marketing/Advertising/Promotion	0.59%	0.31%	0.28%
Office Expense	0.94%	0.21%	0.73%
Professional Fees	1.59%	0.41%	1.17%
Property Taxes	0.27%	0.06%	0.20%
Total Repairs	1.31%	1.07%	0.24%
Total Rent	3.21%	4.68%	-1.47%
Trash & Maintenance	0.20%	0.01%	0.19%
Total Utilities	1.00%	0.82%	0.18%
Total Miscellaneous Expenses	1.07%	0.31%	0.76%
<b>Total Overhead Costs</b>	<b>17.74%</b>	<b>11.01%</b>	<b>6.72%</b>
<b>Net Operating Margin</b>	<b>-10.63%</b>	<b>-0.20%</b>	<b>-10.43%</b>



PHOTO: THE GOOD ACRE

## OVERHEAD

The benchmark hubs spend 18% of every sales dollar on overhead costs, compared to the model at 11%.

The biggest differences: overhead labor (accounting/admin/IT/marketing) and professional fees.

Why would that be? It's important to understand this cost when looking at any individual hub. That leads us to ask questions such as:

- Is the hub smaller than its peers? If their accountant charges \$2,500 no matter what, that cost is spread over fewer sales dollars, resulting in a higher percentage of sales.
- Was the hub in a hiring mode such that it just brought on additional admin labor? Any study is a snapshot in time, and we might have caught some hubs when they brought on additional labor but not yet generated the additional sales to support the position.
- Similarly, was there infrastructure investment ahead of a max capacity utilization, creating overhead costs on equipment or facilities that aren't used as much as they could be (and are planned to be in the future)?

Notice that the model hubs spend more in rent. WHY might that be?

- Was it a better location or better facilities?
- Do they rent more space?
- Do they choose to rent instead of own?

## OCCUPANCY

Occupancy cost refers to the expense of your business facilities – your offices, warehouse, and other assets – as well as the costs associated with running those facilities. These costs include rent/lease, utilities, property taxes, facilities repairs, and facility depreciation. Occupancy is always a fixed cost, so maximizing the use of facilities is key to maximizing business efficiency.

A benchmark is not a formula for how to build a profitable food hub, but rather a tool for individual hub operators to better understand their business – and take advantage of what we're seeing in the sector.



The location and the size of your facilities can have significant implications on their cost, and both aspects must be considered carefully.

Think about it: if you have the opportunity to be in a bustling location with lots of trucks passing by and easy access to two major interstate highways, is it worth paying more than you would have to for a large space in a remote area? Would it be worth twice as much?

Location choice should complement your business model. If the business is a mean, lean, delivery machine, it needs an efficient space to complete the internal logistics. It needs easy access to highways to get to its customers. It may not need the prettiest facility, but that facility must be highly functional. If the hub is more retail focused, it needs a location where customers will be regularly (unless the work and time have been put in to make the hub a destination).

One complicating factor of facility expenses is that investment decisions are incremental: you often have to buy or rent the complete space that's available, instead of just the space you need at the time. And yes, moving is a pain, but is it better to rent a smaller space and grow out of it in 3 years or pay for 3 times as much space as you need 'just in case'?

Each of these aspects of your facilities becomes a business decision – and an analysis of what's right for your individual business model at a point in time. Anything you can do to lighten the load created by overhead, especially in the early years, will help you get that much further ahead.

Having said all of that, let's take a look at some of the metrics that result from considering overhead in proportion to the business.

KPI	Benchmark Hub	Model Hub
<b>Square footage</b>	<b>9,335</b>	<b>11,773</b>
<b>Sales per SF</b>	<b>\$1,195</b>	<b>\$1,934</b>
<p>For a given square footage, the model hubs generate 62% more sales in the same area.</p> <p>Key strategies for profitable growth: concentrate on growing sales profitably before growing space, and concentrate on growing sales efficiently with what space you have.</p>		
<b>Overhead Costs per SF</b>	<b>\$212</b>	<b>\$239</b>
<b>Overhead costs as a % of sales</b>	<b>17.74%</b>	<b>11.01%</b>
<p>Even though the overhead costs of a model hub are much lower as a percent of sales, they are higher on a per SF basis. Since model hubs have a larger average facility (11,773 sf versus the benchmark hubs using 9,335 sf), this suggests that the model hubs are using their space more efficiently, despite the costs becoming more concentrated in the facility. Said another way, the square footage and the cost per square foot are higher in the model hubs, but they get more out for what they put in.</p>		
<b>Occupancy costs:</b> rent/lease, utilities, property taxes, facility repairs, facility depreciation	<b>\$5.63/sf</b> <b>3.4% of sales</b>	<b>\$4.90/sf</b> <b>2.7% of sales</b>
<p>Interestingly, the numbers are pretty similar between the benchmark hubs and the model hubs. The model hubs have 26% more space, which may suggest that there is an economy of scale at work. They also do a better job of spreading overhead costs across sales dollars.</p>		

## GROSS MARGIN AND VARIABLE COSTS

Referring back to the benchmark profit and loss statement above, when we look at gross margin (what's available to cover overhead and profit), there are 7 cents of every sales dollar in a benchmark hub vs 11 cents in a model hub. Where does that difference come from? There are two places to look (cost of product as well as selling and distribution costs), and several management strategies to consider.

### Cost of product

**Selling and distribution costs** – most of the hubs in the benchmark reported that they had somewhat similar selling and distribution costs (approximately 16% of every sales dollar on average).

The bigger difference between the average hubs and the model hubs comes in the **cost of product** – where model hubs spend 3% less on average.

But wait, wouldn't higher cost of product drive more and better business to the farmer? Yes! But we don't want to let the noble mission get in the way of building an economically sustainable business. Business is a relationship that's good for two parties over time, which means it needs to be good for the hub too! There are several ways for a hub to have a lower gross margin than the model hubs; paying more for the product is only one possibility.

Every time a hub completes a sale, there are two numbers to consider: the cost of the product and the sales price. If the difference on each individual unit isn't much (by design, from competitive pressures ... or even by mistake because, say, someone forgot to update the point-of-sale system when there was an increase in cost!), then it will take a LOT more units to cover the overhead expenses and generate a profit.

Before a hub goes all in on growing sales as a chief strategy, consider the impact of increasing margins before growing sales.

To grow gross margin \$10,000:

At	It will take
7% gross margin	\$143,000 more in sales
11% gross margin	\$90,000 more in sales
15% gross margin	\$67,000 more in sales

All of that gain comes from being able to keep more of every sales dollar. How much additional work (sales) does the hub leadership want to do?

Wholesale markets are extremely competitive, and the margin pressure is extremely high. This is a perennial problem, no pun intended, of commodity markets. And the more players in the local food space, the faster it's being driven toward commoditization. As more players enter the space – whether it's big, traditional food companies seeing the value in local food, or more food hubs with overlapping business regions – it becomes more important to have clarity of purpose and the real value delivered by the food hubs.

What differentiation can a food hub make in its product lines that even wholesale customers are willing to pay just a little bit extra for?

Knowing and clearly communicating this value that you as a hub provide, helps customers understand that it's worth paying for and why. It's going to be different for every hub – and it should be, so your customers have a reason to work with YOU.

## BUSINESS OPERATIONS CONSIDERATIONS

- Growth: Is swift growth the best strategy for your hub?
- Location: cheaper and rural or more expensive and higher traffic? (under occupancy?)
- Pricing model: quick nickel or slow dime? Volume vs. price
- Staffing: Hiring experienced staff who require a higher salary vs. new and less expensive but require training?
- Market: Wholesale vs retail?
- Equipment: Rent vs. own – buy vs. lease

**The Answers:**  
Well - there are no right answers! You make a choice and then you operate based on that



Consider the inclusion of roadside farm markets in the grocery space. Many farmers saw an opportunity to connect directly with the consumer, offering much fresher, local produce that just tastes better because it's right from the field and hasn't traveled clear across the country. What happened next? Grocery stores started making those connections with local farms and started selling local produce. We saw the same thing happen with organic production. How will your hub evolve to stay ahead of the competition?

Interesting fact: Look at how the definition of local – or more importantly, the sourcing distance for food hubs – has contracted since we started benchmarking the sector in 2013.

Food Hubs Define 'Local' in Miles		
	2013	2017
Benchmark Hubs	206	197
Model Hubs	236	190

Food Hub Product Sourcing Distance in Miles		
	2013	2017
Benchmark Hubs	385	193
Model Hubs	665	256

Given that the margin pressure of completion will only increase, this is an area to examine from both directions. First, what is different about your product and why is it worth paying for? And secondly, how do you execute that business strategy? We see benchmark hubs spent 77% of every sales dollar on a net operating margin of -10% (before calculating in grant funds). Can we make business decisions to make net operating margin a positive number? Yes, we can, and we need to! By looking closer at margins, broken down department by department, hubs can more clearly see how to get there. Every business, not just the benchmark food hub, can benefit from an analysis of margins and a determination of pricing opportunities – and the execution thereof.

### EFFICIENCY

Another key factor to increase net operating margin is figuring out what the hub does that it doesn't get paid for. Knowing that, managers can decide on the direction: how do we get paid for those things, or how do we stop doing them?

Examples of these types of shrink vary from unsalable produce to unproductive labor hours to free delivery. Grower training and insurance a hub purchases to protect growers might also be considered here (see sidebar). Certainly, the opportunities available vary from market to market, but a critical examination of these types of activities could shine the light on areas where there are margin points to gain.

### LABOR

You'll notice that labor is broken down into three categories: production labor that's part of the direct creation of the product; selling/distribution labor that's responsible for getting the product sold and out the door to a customer, and finally overhead labor, which includes office/administrative functions, general management, marketing, and IT.

These were separated based on the food hub's estimate or report. If your hub isn't tracking labor by function, that might be a great step to enhance the insights available from your numbers.

The typical hub spent \$314,803 on labor, including wages, payroll taxes, workman's compensation insurance, and benefits. Overall, that paid labor equates to 20% of sales, and there really isn't a good way to put a value on volunteer hours unless they are tracked (which more hubs are doing than in the previous study years). Model hubs spend about 15% of sales on labor and related costs. Be careful assuming that cutting labor will increase profits, because you need people to get the work done! Think instead about the work you're having them do and the level of productivity. How can the output be increased? Often, we think labor is a cheap substitute for investment, but when was the last time you really pushed a pencil on it?

## RETHINKING GROWER SERVICES

Are there community or grower services that have bottom-line effects? Is it one that adds value (customers will pay for it) or preventing loss (not having this thing will cost you business)?

Or... better question... how do get these services to generate financial benefit to the hub?



PHOTO: THE GOOD ACRE

The typical food hub employed 4.28 FTEs (calculated at 2,040 hours), and it took 11.3 part-time employees to fill these positions.

The average worker equivalent cost the food hub \$38,761 and produced sales of \$365,554. (To compare productivity of the hubs, one way is to examine sales per worker equivalent.)

These are some fantastic places to measure labor efficiency and productivity within a food hub! Don't forget to include unpaid labor and assign a value to help guide you to where you eventually need to be.

### DEPARTMENT MARKUPS

A very exciting piece of data was that 10 of the hubs reported management information on department performance! This means they've separated their sales and cost of product into distinct categories that allow them to see how each is performing.

When margins are razor-thin, every little bit counts. Knowing which departments carry their own weight and which ones don't can help you know where to concentrate your energy. It helps you make decisions about expanding profitably or cutting out something that's dragging down overall performance. It can also give you the focus to fix what's not working so you can continue to carry that department if it's important to you.

Markup is a measurement of cost of an item against its sales price. Said another way, it's an indicator of how much you got out of that product for every dollar you put in. These can be a fantastic tool for managers to look at, department by department, to see where opportunities exist in the business. Here's how the surveyed hubs marked up their products by category:

Department	Benchmark Markup
Value Added/Grocery	1.96
Bakery	1.59
Produce	1.52
Prepared Foods	1.51
Proteins	1.25
Dairy	1.22

As a food hub manager, you can use the benchmark tool as a first step by selecting some of the suggested key performance indicators to measure and monitor the performance of your business.



## ONE MORE P/L COMPARISON

The business world loves to talk about “EBITDA”, or earnings before interest, income taxes, depreciation, and amortization. This is a raw measure of the company’s earnings potential, as it leaves out the current management strategy for asset ownership and financing (hence the elimination of interest and depreciation/amortization). It also leaves out taxes, because a different tax strategy can result in different tax liabilities. (Different strategies will converge over time but can be very different from year to year.)

EBITDA is also a way to compare the earnings of a company against others in the sector, or against other sectors, for evaluating its investment potential. At the end of the day, the hub’s EBITDA needs to at least cover its interest expense in order to survive. It needs to cover more than that to thrive. Benchmark hubs reported EBITDA of -2% of sales, while model hubs reported 1% of sales. In both groups, interest expense was less than .2% of sales.

## CONCENTRATION

Concentration refers to how dependent your business is on a small number of accounts. Benchmark hubs sell 20% of their product to their largest customer, and just shy of half (47%) of their product is sold to their 10 largest customers. In contrast, the model hubs sell only 8% of their product to their largest customer and just shy of 1/3 of their product (32%) to their 10 largest customers. Model hubs therefore have far less customer *concentration*.

Does the concentration make a difference in pricing? Arguably it does, because most owners and managers would be more worried to lose a customer that accounts for 20% of the sales than one that accounts for 8% of sales. While both are significant, the pressure to ‘keep a large customer happy’ may lead to pricing concessions or the very real fear of missing out or the threat of shopping elsewhere. Recall the massive effect that small decreases in margin make to how much product you have to sell to cover overhead!

Model hub’s lack of concentration is also shown in the sales per customer, which is \$29,281 on average for a benchmark hub and \$11,422 for a model hub. This may be surprising in that we expect success to be a function of volume – but how are you measuring success? A high level of sales per customer could mean there’s a very attractive pricing structure (for the customer)! Are you giving away more in discounts than you’re saving with the efficiency of working with fewer customers? Always a good question to consider.



## BACK TO THE GRANTS

So how is it that a food hub business that's operating at a deficit manages to fund those losses? Many of the benchmark hubs do a great job in securing grants or donations that help fund their mission. Often, these grants are sizeable and are almost always designated for a very specific purpose which is not funding business losses. It is likely that the cost of operating the programs funded by grants are buried in the general expenses of the hub, though some hubs have done a great job of separating those out in their financial records so that they can better understand what these programs cost, and what funding they need to cover it.

Grants are a very good way to support programming that does not yet have economic viability or has yet to develop a market for itself. They may fund the things that are nice to have and further the mission but don't necessarily further the business immediately. They can mitigate the risk of trying out a new market, or even offering optional programs like food safety classes for growers.

Think of the early solar panels or other energy efficiency technology: without a grant or a tax incentive, the payback period is often too long to make the project make sense. Certain educational programs may also fall into this category.

### *What happens, then, if the grant funding ends?*

This is a provocative question to get a hub to consider the "concentration risk" of funding a business with grants. Assuming availability of funds for the purpose, it seems easier to write one grant than it would be to obtain multiple new customers. But what about the flip side? What happens if the hub loses one grant versus one customer? Is it likely all of the customers would leave at once? That would be highly unlikely – but it is a stark reality that grant funding ends or gets cut. Earning the profit through the business of the food hub not only means that money can be used for any purpose the hub owner or management deems necessary, it also functions as a risk management tool.

See Appendix B for the complete Profit and Loss Statement, which outlines how benchmark hubs secured grants equaling 12% of their sales in 2017, which was used to fund specific programs as well as the majority of the business loss. Model hubs also received grants, but by half the magnitude, and spent almost all of it on their programs.

## CLOSING MESSAGE FOR FOOD HUB OPERATORS

Financial information can be hard to digest. It can feel like a different language, and the privacy concerns surrounding the information can make it hard to share meaningful data that can help a business move forward on the path toward profitability.

As a food hub manager, you can use the benchmark tool as a first step by selecting some of the suggested key performance indicators to measure and monitor the performance of your business. The idea isn't to showcase every piece of information, but to decide what indicators should be measured as a tool to monitor performance and make a positive difference in the financial bottom line.

It's also important that a business have the numbers that go into creating these measures, and that they are willing to share them. Several hub managers reached out to say that they would like to have participated, but expressed frustration that they didn't have access to the information. Sometimes it was because 'we don't think we do that until tax time' but for others, it was because what the manager considered to be the "food hub activities" were mixed in with all of the other activities of a larger organization.

Each food hub is unique, and each owner and manager has the opportunity to design their own financial reporting systems to meet their own needs. When we make the conscious decision to become information sharers, we tend to prioritize the systems to deliver that information to the people who need it most. With only so many hours in the day and more things on the to-do list, a good information management and reporting system can be an invaluable tool for your numbers. If we can figure out what to measure, and how we can get the information, we can manage it. And when we can manage the business end better, we're well on our way toward achieving our goals.



# GLOSSARY

**Assets:** property, tangible or intangible, owned by a company or individual; = Net Worth + Liabilities

**Benchmark Hubs:** all of the participating hubs in the study (see Model Hubs)

**Concentration risk:** is a way of describing how much business is done with a small number of customers. The more reliant a business is on a few large customers, the more risk associated with doing business since the loss of one customer would have a much more significant impact.

**Current Ratio:** (Current assets divided by current liabilities):1. This ratio is a measure of how many times over a company could meet the expected obligations due in the next year using liquid or near-liquid assets on hand.

**EBITDA:** Stands for Earnings Before Interest Taxes Depreciation and Amortization. This is a measure of a company's operating performance. Interest, Depreciation and Amortization are all related to financing decisions, and Taxes are an external / environmental factor. Whereas a Chief Executive Officer's (and thus the whole company's) performance is based on the full earnings, the Chief Operating Officer's performance evaluation is based on the efficiency of RUNNING the business, and thus the EBITDA.

**Equity:** In financial terms, equity is a synonym for net worth, or ownership that's not leveraged. In other words, when comparing how much you own to how much you owe, equity (aka net worth) is the difference between the two. (See Assets – Liabilities = Equity (aka Net Worth)).

**Gross Margin:** This is the measure of how efficient a business is at turning inputs into sales dollars. In this study, we've taken sales and subtracted any production inputs, cost of resale items, and selling costs like labor. The resulting figure is gross margin, which tells us how much of every sales dollar a food hub has to cover overhead and profit.

**Gross Margin Format:** a presentation of the Profit and Loss Statement that separates the variable costs of production and sales from the overhead costs in a business.

**KPI:** Key performance indicator - a quantifiable measure used to evaluate the success of an organization, employee, etc. in meeting objectives for performance. Intelligent selection of KPIs can create a useful dashboard of your business to focus business decision making.

**Liabilities:** financial obligations or money owed

**Liquidity:** a measure of the business's ability to handle its short-term obligations (those coming due in the next year) with its current assets (those that are expected to be turned into cash in the coming year). Liquidity is measured in multiple ways, see Current Ratio and Working Capital.

**Model Hubs:** The top 25% of food hubs in the study, ranked by profit as a % of sales. (see Benchmark Hubs)

**Net worth:** Assets minus liabilities, or everything you own less everything you owe. = Assets - Liabilities

**Net Worth Percentage** = Net Worth / Assets x 100

$$= (\text{Assets} - \text{Liabilities}) / (\text{Net Worth} + \text{Liabilities}) \times 100$$

$$= (\text{Assets} - \text{Liabilities}) / ((\text{Assets} - \text{Liabilities}) + \text{Liabilities}) \times 100$$

$$= (\text{Assets} - \text{Liabilities}) / \text{Assets} \times 100$$

**Profit:** the net gain from business operations after all expenses are paid.

**Shrink:** Anything a company does that it doesn't get paid for. Sometimes it's by design (such as offering free delivery) but more often than not it's the result of damaged or gifted product, wasted time, or theft.

**Sales:** Business income from the sale of products or services. (This differs from revenue, which includes grants or other non-business income.)

**Revenue:** the total of funds brought in by a food hub, including grants or other non-business income

**Working capital:** Current assets minus current liabilities. Working capital measures the magnitude of liquidity and how much of a cushion a company or individual expects to have after using cash (or assets that turn into cash in the normal operating cycle such as accounts receivable in inventory) to meet the obligations expected within the next year (also known as current liabilities).



# APPENDIX A: FOOD HUB BENCHMARK QUESTIONS

**Name of Food Hub:**

**Street Address:**

**City:**

**State/Province:**

**Zip/Postal Code:**

**Website URL:**

**Full Name:**

**Email Address:**

**Phone Number:**

**Size/Distance:**

**Monetary Unit:**

- 
1. What year was the food hub established?
  2. How many days per year is your food hub open for business?
  3. How big is your facility (square meters for metric, square feet for standard)?
  4. How many loading docks do you have?
  5. How many kilometers or miles were driven by the delivery fleet?
  6. How many days did you have a delivery truck on the road in 2017? (two trucks out on one day equals 2 days)
  7. What do you consider 'local'? (Answer with a km or mileage radius)
  8. From how far away do you source your products? (km or miles)
  9. Can your customers order online?
  10. Is your Food Hub a 'Not-For-Profit' organization?
  11. Under what type of entity do you operate this business?
    - Individual/general partnership
    - LLC (whether taxed as a single-member, partnership, S-corp, or C-corp)
    - Corporation (S, C, Benefit)
    - Cooperative

12. What type of governance does your organization have? (check all that apply)

- Informal Advisory Group
- Formal Board of Directors
- Senior Leadership
- Other (describe)

13. What food safety requirements do you have of your suppliers? Please check all that apply.

- Completion of hub-provided food safety training
- Completion of external food safety training
- Completion of FSMA-specific food safety training (PSA Grower Training)
- USDA GAP/GHP certification
- Harmonized GAP certification
- GlobalGAP or other GFSI certification
- GroupGAP Audit Program membership
- Other (Please describe)

14. What food safety certifications do your customers require your HUB to have? Please check all that apply.

- Good Handling Practices certification
- Good Manufacturing Practices certification
- HACCP inspection
- Other (Please describe)
- None of the above

15. Does your hub grow any of your own produce or raise your own livestock?

16. Do you buy from your own incubator farmers?

17. Do you take ownership of the products you sell? (as opposed to selling on commission)

18. How many vendors do you buy from? (A vendor is an outfit that you, the Food Hub, buy something from.)

19. How many of these vendors are farmers, livestock producers, or ranchers?

20. How much do you spend (\$) with your largest vendor?

21. How much do you spend (\$) with your largest 10 vendors?

22. Do you charge a membership fee to your vendors?

23. How many customers do you sell to? (A customer is an outfit that buys something from you, the Food Hub.)

24. What are the \$ sales to your largest customer?

25. What are the \$ sales to your 10 largest customers?

26. Do you charge a membership fee to your customers?



27. What were your dollars of sales directly to:

- Your own retail (including markets you participate in or your own CSA)
- Food retailer (grocery/food stores/mobile markets/clubs/co-ops/CSAs/online)
- Institutions (school, hospital, gov't, municipalities, long-term care homes or assisted living)
- Restaurants and caterers
- Processors
- Other distributors (including food service companies who then sell to institutions)

28. What are the \$ of sales of value-added items you process in-house?

29. What are the \$ of sales of value added product you buy to resell?

30. What is the value (\$) of purchased product that was thrown away (spoiled, damaged, non-salable, stolen, etc.)?

31. How many W-2s (US) or T-4s (CAN) were issued in the calendar year?

32. How much did you pay for workman's compensation (US) or WSIB (CAN) insurance?

33. In which account is that expense recorded?

34. How many labor hours were used in each of these departments in 2017?

	Paid	Unpaid
Sales		
Delivery/Distribution		
Office/Accounting/IT		
Management		
Production/Growing		
Marketing		

35. Who does the daily accounting?

36. Each food hub has a unique strategy that combines goals for pricing and volume. With 10 being the highest and 1 being the lowest:

On the continuum of pricing, where do you aim for your business to be? \_\_\_\_\_

What is your volume strategy? \_\_\_\_\_

37. Please attach your financial reports (in Excel format) here:

- 12/31/17 Accrual Balance Sheet, Previous Year Comparison
- 2017 Accrual Profit and Loss Statement, Previous Year Comparison
- 2017 Statement of Cash Flows

# APPENDIX B - FOOD HUB BENCHMARK COMPLETE P/L

	Benchmark	Model Hubs	Difference
Sales	95.52%	98.87%	-3.34%
Other Income	4.48%	1.13%	3.34%
<b>Total Income</b>	<b>100%</b>	<b>100%</b>	<b>0.00%</b>
<b>Cost of Product</b>			
Product, inputs, production labor, packaging	76.26%	73.50%	2.76%
Selling and delivery costs	16.64%	15.68%	0.95%
<b>Total Cost of Product</b>	<b>92.89%</b>	<b>89.18%</b>	<b>3.71%</b>
<b>Gross Margin</b>	<b>7.11%</b>	<b>10.82%</b>	<b>-3.71%</b>
<b>Overhead</b>			
Custom Work	0.00%	0.00%	0.00%
Total Depreciation	0.81%	1.21%	-0.40%
Total Insurance	0.45%	0.24%	0.21%
Fuel (General/Overhead)	0.07%	0.00%	0.07%
Interest Expense	0.15%	0.12%	0.03%
Overhead Labor: Accounting/Office, Management	6.09%	1.56%	4.53%
Marketing/Advertising/Promotion	0.59%	0.31%	0.28%
Office Expense	0.94%	0.21%	0.73%
Professional Fees	1.59%	0.41%	1.17%
Property Taxes	0.27%	0.06%	0.20%
Total Repairs	1.31%	1.07%	0.24%
Total Rent	3.21%	4.68%	-1.47%
Trash & Maintenance	0.20%	0.01%	0.19%
Total Utilities	1.00%	0.82%	0.18%
Total Miscellaneous Expenses	1.07%	0.31%	0.76%
<b>Total Overhead Costs</b>	<b>17.74%</b>	<b>11.01%</b>	<b>6.72%</b>
<b>Net Operating Margin</b>	<b>-10.63%</b>	<b>-0.20%</b>	<b>-10.43%</b>
<b>Net Operating Margin</b>			
Business Income Taxes	0.01%	0.01%	0.01%
Grants/Government Payments/Contributions	12.48%	5.68%	6.80%
Program Support Expense	3.23%	4.53%	-1.31%
<b>Net Other Activity</b>	<b>9.24%</b>	<b>1.15%</b>	<b>8.09%</b>
Net Margin	-1.39%	0.95%	-2.34%









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