



Selling to **FOOD HUBS** in South Carolina





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The background of the page is a photograph of several stacked cardboard boxes filled with ripe red and yellow apples. The boxes are arranged in a way that shows multiple layers of fruit, creating a sense of abundance. The lighting is warm, highlighting the natural colors of the apples. The word 'Contents' is overlaid in a large, elegant, gold-colored script font, positioned in the lower-left quadrant of the image.

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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.” (Barham et al., 2012) The USDA reported more than 180 food hubs in operation nationally as of June 2017, including GrowFood Carolina in Charleston.^{1,2}

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.” (Matson, Sullins and Cook, 2013) 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 localdirt.com, headquartered in Madison, Wisconsin.

Four main roles for food hubs are often identified: product aggregation, distribution, provision of facilities for storage, packaging and sales, and processing (Lindsey and

Slama, 2012; Horst et al., 2011). Food hubs that aggregate product may do so in a physical space, completing tasks like washing and packing products into containers for commercial wholesale. Other food hubs function online as a sort of clearinghouse for producer products, providing a web portal for customers to purchase farm products without the food hub ever taking ownership of the product. Other food hubs, including shared commercial kitchens, provide an outlet for farm products to be utilized for processing and value-added products. Although the majority of food hubs are organized as Limited Liability Corporations (LLC), other legal structures are also common based on risk aversion levels (Pressman and Lent, 2013).

This fact sheet will highlight key considerations for selling to food hubs, including:

- 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 and in the footnotes.

¹ A current directory is available at ams.usda.gov/local-food-directories/foodhubs.

² In addition to GrowFood Carolina, there are other food hub projects in various stages of development across the state of South Carolina.



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.” (Giddens, 2010) Some farms develop their own local product brand, selling into multiple market channels such as restaurants, farmers markets, CSAs and local groceries. Branding is a marketing strategy commonly used to differentiate goods and services from the ones provided by the competition (Severson and Schmit, 2015).

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 different name than any of the producing farms.

Some food hubs may also base efforts in state-based promotional programs, such as “Certified South Carolina Grown” (certifiedscgrown.com) and “Got to be NC agriculture” (gottobenc.com). Others

may offer more local designations, such as “Piedmont Grown” (piedmontgrown.org). There may be potential value to the producer when a food hub performs the function of developing a marketable brand, aggregates product under that brand and monitors 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?
- Will the food hub facilitate co-branding, including “Estate” or farm-based brands, regional brands, or state level brands?
- How will brand quality be monitored and enforced?
- What price advantages will be realized from that brand?
- Will the grower’s identity be preserved, or will the food hub aggregate products under a single identity?

Packaging

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. Lastly, packaging varies based on the services that the food hub is providing (Matson, Thayer, and Shaw, 2015)

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” (Matson, Thayer, and Shaw, 2015; Barham et al., 2012). 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 (King et al., 2010). 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?
- Is the food hub able to negotiate prices for products that do not meet grading standards
- Does the food hub establish contracts with the producers?

Labeling

Product labels provide information to the final consumer on product features such as where the product was produced, what ingredients were used, and the nutritional content of the final product. 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 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.

Federal food labeling guidelines can be accessed through the Food and Drug Administration website, [fda.gov](https://www.fda.gov).

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 with labeling 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 (available at ams.usda.gov/grades-standards) as well as the produce industry publication The Packer. 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 inquire 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.

The warehouse manager is typically the person responsible for scheduling delivery both with farmers and customers for all the products sold at a food hub. Depending of the form of the food hub (for profit, not-for-profit, online etc.) the delivery method options vary. Small scale producers may want to consider aggregating deliveries to reduce costs.





Insurance & Risk Management

Food hubs may provide some level of liability insurance for the products they are handling and selling (Barham et al., 2012). 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 (Matson et al., 2015).

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 – is usually covered by a business umbrella policy. Product liability includes the risk that comes from food products that may be unsafe when entering the food chain. Even if a food hub is covered for liability from its food

distributing operations – injuries sustained at a warehouse, automobile accidents, etc. – it may not be covered for product liability.

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.

In addition to product liability insurance, restaurants 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.

In South Carolina, meat and poultry products (including value-added products containing more than 3% raw or 2% cooked beef, pork, chicken or lamb) are regulated by the South Carolina Meat and Poultry Inspection Department. More information about these regulations may be found at clemson.edu/public/lph/scmpid/.

Non-cheese dairy items, soft drinks and water products (bottled water, ice, etc.) are regulated by SC DHEC Food Protection Dairy Division. Additional information about these regulations may be found at scdhec.gov/food-safety/food-safety-dairy-safety-south-carolina.

Shellfish products are regulated by the SC DHEC Shellfish Division. Go to scdhec.gov/food-safety/shellfish-monitoring-program-overview for more information.

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 ttb.gov.

All other food items sold wholesale, including value-added food products, are regulated under the South Carolina Department of Agriculture. For more information about these regulations, go to agriculture.sc.gov/divisions/consumer-protection/food-safety-compliance/.

Examples of value-added foods being produced under the jurisdiction of the SC Department of Agriculture include BBQ sauce, hot sauce, marinara sauce, pickles/pickled products, jams, jellies, and fruit preserves. These products also require testing by a process authority before they can be produced and sold. In South Carolina, process authorities are at Clemson University, where product testing is coordinated by Clemson University Extension Service's Food2Market program (clemson.edu/extension/food2market).

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 SCDA.

Relationships & 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” (Matson et al., 2013). This aspect of food hub development could actually require even more communication from producers as they must communicate their farm marketing needs to potentially diverse organizations, perhaps groups without much farming background.

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 (Larabee et al., 2008):

- 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.





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 (Diamond and

Barham, 2012). Many of the first food hubs, under the USDA definition, formed in response to 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.

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