



# An investigation into the workings of small scale food hubs



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## Background

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Sustain and the University of Glamorgan<sup>1</sup> have investigated a range of different small scale food hubs across the UK to determine whether there were common factors in their features, development and services. Our interest in these hubs is to see whether they form part of the answer to rebuilding consumer-producer relationships and if so, what principles of success, synergies and areas of uniqueness can be found in these food hubs.

This research contributes to the Making Local Food Work (MLFW) programme, a £10 million project (funded by the Big Lottery and co-ordinated by the Plunkett Foundation) looking at ways of reconnecting consumers and producers. In particular, the research contributes to the subsidiary Food Supply and Distribution strand of Making Local Food Work – a strand that is co-ordinated by Sustain: The alliance for better food and farming, involving several local delivery partners that run community-based food hubs located around the UK. We hope this research will inform the development of the programme and be useful for current and developing food hubs.

## Methodology

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Researchers carried out 11 interviews with a selection of different food hub projects around the UK. We started by researching the different sorts of hubs that exist around the country and in the interviews tried to capture the range of different types of projects that exist. Of the hubs, one was a meat producer/processor, one was a caterer, 7 were primarily focused on fruit and vegetable growing and/or supply and 2 were based on a diversified farm. All those interviewed were either very small or relatively small-scale in comparison with, say, food distribution hubs run by major multiple retailers. The food hubs will not be named in this report, to respect business confidentiality.

## Definition of a food hub

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For the purposes of this research, we used the following as our definition of a food hub:

A hub is an intermediary led by the vision of one or a small number of individuals which by pooling together producers or consumers adds value to the exchange of goods and promotes the development of a local supply chain. This added value may be gained through economies of scale, social value, educational work or services. In other words, the pure function of distribution is only one element of the hub and the distribution function may be contracted out to a third party. The hub may also provide a means for public sector services to reach disadvantaged communities, provide a space for innovation and act as a focal point for developing a political agenda around an alternative food system.

*1. Researchers from Science Shop Wales and the University of Glamorgan's Programme for Community Regeneration have been involved in a separate piece of research exploring the role which community food initiatives might play in developing more sustainable food chains.*

## Key Findings

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There appear to be a number of critical elements to the development of a food hub:

### Leadership and Ethos

The hubs seemed to rely on an individual or a small group of visionary, motivated and usually very hard-working people to initiate the enterprise.

### Structure

- Successful food hubs seemed to have released the senior management from all or some of the day-to-day operational activity to focus on development work.
- There were sometimes tensions between the social/environmental and commercial work of a hub.

### Diversification

- Diversification of activities seemed to be key to long-term financial sustainability in the majority of cases. Consultancy work, food processing, workspace rental and food growing were particularly important areas of development for many interviewees.
- Accurate costing of diversification activities prior to launch proved important to ensure that the activities have a positive rather than negative effect on the overall viability and resilience of the food hub.
- Creating relationships was at the heart of the initial development of the food hubs. This seemed more important than having a physical space. However, buildings could play an important role in subsequent stages of a hub's development, in increasing the profile of the food hub in the community and providing a possible location for high-value diversification.
- Distribution activities were a key element for many of the food hubs interviewed but for such services to be viable the hub may need to:
  - i) use a third party distributor who may be able to distribute much more efficiently than the hub
  - ii) focus distribution activities on high-value items;
  - iii) offer distribution as part of a wider range of activities or value-added products.

### Finance

- The work of many of the food hubs interviewed is ground-breaking and was usually reliant in the initial stages on grant funding, soft loans or up-front financial support from a community.
- Support 'in kind' was often critical to the start-up of a food hub, which might be in the form of – for example – reduced rent, voluntary labour or donated equipment.

## Results and Discussion

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Bearing in mind the fairly small research sample, we still felt able to identify some common features amongst the hubs. These can be grouped under four main headings: leadership and ethos; structure and systems; diversification and finance.

### Leadership and Ethos

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All of the hubs, regardless of their ownership structure (ie shareholder structure or social enterprise) had some sort of vision to nurture and support elements of their community and/or the environment in which they operate. They were all unified in being concerned with building direct, mutually beneficial relationships with growers.

In general, the hubs where profits were distributed to shareholders appeared to have been more successful in developing their commercial work. With these hubs, financial viability seemed to be a dominant driver of their operations with ethical/social considerations being a secondary motivation, perceived as achievable only through the overall profitability of their operations. However, success in commercial viability was acknowledged as having the potential to lead to a drift towards replicating the wider food system they had originally intended to provide an alternative to. These commercially-focused food hubs seemed more willing

to adapt their ethos in order to improve their financial sustainability. In some cases, the owner's or their family's money was tied up in the business and these hubs felt that this was an important success factor as it provided greater incentive for focusing on achieving financial sustainability. However, there was evidently a more complex relationship here as many of these food hubs were also in receipt of grant funding. It appears that the individuals or groups who created these types of food hub tended to be more financially aware and seemed to be more likely to have recruited staff with experience in the private sector to develop commercial work.

### **The tension between commercial and social imperatives**

Many of the hubs felt there was a tension between the commercial activities and the social aspects of their work. It emerged that maintaining this balance between ethical and economic considerations can be a difficult process which a number of the hubs found difficult to manage.

## **Structure and systems**

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### **Organisational structure**

Five of the hubs interviewed were for-profit businesses and they distributed their profits to their shareholders. This included two that were co-operatives of small-scale farmers. The remaining six participating organisations were established as social enterprises (where profits are reinvested in the enterprise). The distinction between private enterprise and social enterprise was often blurred by the fact that ethical concerns were important to all of the food hubs interviewed. As a result, they often struggled to define themselves in terms of either sector and all of them felt that they were located somewhere between the two.

### **Systems and IT (Information Technology)**

There was a spectrum of knowledge around systems and IT. This ranged from food hubs not having any clear idea about their financial position until their accounts were produced; through those that knew they needed better systems to manage their finances but did not have the money or expertise to develop them; to one that had spent a large amount of staff time developing an integrated ordering and invoicing system which enabled them to know the margin on every sale they made. In general, the shareholder-owned hubs appeared to have a better awareness of the importance of systems to control variable costs, probably because they had more staff with experience from the business sector and because financial viability was a primary motivation.

The two social enterprise hubs that had developed very effective systems had specifically recruited staff from the business/finance sector to manage this.

We found that due to the size and capacity of some of the hubs, their general organisation systems such as employment policies, accountancy systems, health and safety policies, and written contracts of employment were not always adequately developed or implemented.

### **Pricing**

Some of the hubs routinely undertook price checking with supermarkets or wholesalers to offer competitive prices. All the hubs had a very good understanding of what their customers wanted and had a clear understanding of why their customers bought their produce. Most did not view their produce as "premium" but rather as "quality" produce with greater freshness and improved "longevity" making it better value for money than the supermarkets. Commenting on the lack of choice in their veg box scheme, one hub stated that rather than looking at this as a lack of choice, it should be viewed in terms of being a product where "all the difficult ethical choices have been made". In other words, it is a value added product (or perhaps even a 'values added' product).

### **Hub-producer relationship**

All the food hubs interviewed wanted to offer a fair price to producers, although only one guaranteed to do this (though not in writing). Some of the food hubs reported that farmers seemed to adopt a short-termist approach, chasing often very small price differentials between customers and showing little customer loyalty. Other hubs had experienced problems around consistency and quality of produce, and around support from farmers for marketing or branding initiatives, even when produce marketed in this way could be shown to attract a better price.

## Distribution

All of the food hubs interviewed were involved to a greater or lesser degree in collecting from suppliers and/or distributing to consumers. Although this is an intrinsic part of what a food hub does, it often proved to be problematic and costly. Some suppliers expected the hubs to collect from them. This added significantly to the costs of running the food hub. Those hubs that were offering distribution as part of a bigger range of services to customers, or those who had developed larger volume customers, appeared to be making more of a success of this activity. Those that were more concentrated on small-scale distribution struggled to make this financially viable although there were notable exceptions, described as follows:

1. **Tapping into larger scale logistics:** In one case, a privately owned food hub was able to benefit from logistics support and market access through their large commercial parent company to make smaller-scale distribution of fruit and vegetables viable.
2. **Selling high margin produce:** Another hub, selling high-end organic meat, was also able to cover the costs of distribution even up to northern Scotland, because of the high margin that its produce can bear.
3. **Customer collection:** One hub tackled the problem of distribution by expecting its customers to collect from local drop-off points to make the collections more convenient. This works in their densely-populated urban setting where most of their customers are very local but may not be replicable in other areas. For instance, another of the hubs had tried to encourage customer collection through a series of intermediaries but found it difficult to get the intermediaries to engage in the scheme.

All of these examples illustrate the tensions for a small-scale food hub between creating an economically and environmentally viable food system whilst also meeting the needs of their customers in a convenient way.

## Diversification

Four of the hubs interviewed had diversified to offer a range of products and services in an attempt to improve their financial viability. We encountered a spectrum of diversification from a couple of farm-based enterprises that had a whole portfolio of different projects, through to a box scheme running just one other activity.

We came across the following common areas of diversification:

1. **Consultancy work:** A number of the larger hubs (in terms of turnover) had developed consultancy and education services. Several other hubs who had not developed this saw it as an area for development that could improve their sustainability
2. **Property management:** Renting out space to other organisations can be important in providing funding for the hub.

## The importance of food growing

Seven of the 11 hubs interviewed were involved in primary food production at some level, implying that food growing may be a key element in the development of a food hub. Food growing seemed to have a number of roles:

- i) in the development of a Unique Selling Point (USP) around traceability and provenance;
- ii) as a means of fostering relationships with other growers - farmers like dealing with farmers, and having a food-growing site changes the way that other farmers relate to you;
- iii) as a means of engaging the local community through providing volunteering opportunities and fostering a "community spirit", which is important for hubs trying to re-localise the food system.

## Finance

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### Start-up costs

The research identified a range of different formal and informal funding sources, perceived as important for establishing the food hub, particularly in the initial stages. These were as follows:

- 7 of the hubs had received grant funding from government
- 5 had received funding through Defra-run schemes
- 1 had received funding from a health authority
- 1 had received funding via an EU Leader (rural development) programme
- 1 took advantage of the Knowledge Transfer Scheme which enabled the hub to get part funding by the government of a brand manager's role and access to free academic advice
- 5 had also received money through private "soft" loans from family and friends, or from some form of share issue or up-front payment from the community they served

In addition to direct funding a number of the hubs identified support 'in kind' as being a critical factor in their initial start up, for example:

- 5 of the hubs had taken advantage of existing business infrastructure to initiate the hub
- 2 had received support from accommodating landlords through loans of equipment or a subsidised rent (or in one case, someone's front room!)

### The importance of building relationships at the beginning

One of the key findings to have emerged from the research was that whilst physical infrastructure was important in the latter stages of food hub development, this often seemed less critical at the outset. This is interesting given that many feasibility studies around the development of food hubs have focussed on bricks and mortar as the starting point. However the hubs that we analysed did not initially focus on building a physical hub, but rather on creating relationships with different individuals and groups and developing a relatively simple start-up operation. For example, a few of the food hubs we interviewed started life as small-scale community-based allotment food growing projects, or livestock farms; others as an informal co-operative arrangement between a couple of producers or food co-ops or through publicly funded community development work. A number of hubs did subsequently invest in infrastructure. However, in several cases their reason for investing in infrastructure had been as much about developing an identity for the organisation in the community as it was about providing a permanent space for their work.

### Continued finance

#### Grant funding

Some hubs, particularly those initiated by farmers' co-ops, received continued finance through membership subscriptions. Eight of the hubs received grants to continue their work, or to start new elements. The development of the hub and the need to adapt to on-the-ground realities sometimes meant that the actual operation was significantly different to the project proposal that had been funded. This could prove problematic for funders. In many ways, the origins of such problems were understood by the grant recipients to reside in the narrow priorities and rigid systems of the funding structures rather than in the projects themselves.

Because of the time taken for funding bids to be submitted and assessed, it is perhaps not surprising that in some cases once the funds had been allocated it transpired that the real world needs of the hub had changed. As a result the aims of the bid and/or its chances of success might also have changed. Some food hubs felt that they did not have the experience or staff to manage the sorts of programmes often favoured by funders. They got into difficulties because of a lack of knowledge, particularly in areas such as competition law, finance, governance, business and strategic planning and State Aid regulations. Whilst there are a number of organisations that provide support to the community sector, our research showed that quite often organisations "do not know what they don't know" and therefore there is a question mark over how effectively they are able to benefit from the support that is available.

## Conclusions and Recommendations

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Our research and analysis leads us to draw the following conclusions and make the following recommendations about the four key features of a food hub:

### Leadership and ethos

The reliance of the hubs on one or a small group of visionary people to initiate the enterprise can make the food hub vulnerable if these people are not released from some or all of the day-to-day operations to focus on the development of the hub. This requires attention to the issue of 'succession' – i.e. helping other staff members to take on the roles and responsibilities initially provided by the instigators of the enterprise.

The management team of the food hub (the board of directors, trustees or other group overseeing the activities) needs to have a wide range of skills to help support the management in developing the organisational structures needed to develop the hub. The board's skills need to reflect the range of work undertaken by the hub, and a key role will be to manage the tensions that can exist between social/ environmental and commercial work.

### Structure and systems

Although very diverse, the food hubs interviewed for this research were united in their concern to 'go against the grain' of the conventional food system and develop alternative models founded on more ethical and sustainable principles. All of them were trying to build direct, mutually beneficial relationships with growers.

The development of alternative models for food supply and distribution are of critical importance in developing a more healthy, sustainable, ethical and secure food system. However, it is also the case that the power of the prevailing food system means that community-based food hubs routinely struggle to be economically viable. This appears to be particularly true of those hubs who supply unprocessed (i.e. non value-added) food, particularly fruit and vegetables. These businesses are competing directly with the fine-tuned economic models of supermarkets and large wholesalers. The fact that two of the hubs we interviewed were making this sort of business work at the premium end of the market underlines the effect that the lowering of basic food prices has had on the structure of our food system, driving it towards the larger suppliers and their economies of scale.

Lack of skills, commercial experience and money means that many of the hubs did not prioritise the efficient management of their administrative costs and organisational systems. This can have a detrimental effect on the development of the hub and if not addressed will affect its long term viability and stability.

### Diversification

Distribution activities may be the initial focus for a food hub, but are rarely financially viable on a small scale. Diversification is therefore key to the development of the hub and needs to include profitable value-added strands that can help support the more socially or environmentally focused work.

Accurate costing of diversification activities prior to launch seem important to ensure that the activities have a positive rather than negative effect on the viability of the hub. Piecemeal evolution without proper planning can jeopardise the viability of the food hub by generating capital and personnel costs without clear benefits. This again reinforces the need for a strong and experienced board to support the management in this process.

A physical space is of secondary importance in the initial development of a food hub, but may become more useful in later stages. The key to a food hub's initial development is building relationships and trust in the community.

### Finance

The work of the hubs is often ground-breaking and as a result is likely to require some level of grant funding in the initial stages of development. More flexible funding regimes which allow projects the freedom to adapt to changing circumstances and/or unanticipated events could lead to better long-term results. An overly rigid project plan, meeting the needs of the funder but not necessarily the food hub, can present a significant barrier to the hub's ability to innovate and adapt to the challenges it may encounter.

## Support

Hubs can get into difficulties because of a lack of skills and experience, particularly in organisational, financial, and legal issues. Quite often however, it appears that they “don’t know what they don’t know”. Thus, there appears to be a need to provide support to the sector which is less dependent on the organisations themselves being able to identify the support they need. Support along the lines of the “critical friend” approach trialled by the Joseph Rowntree Foundation in their Light Touch Support programme (<http://www.jrf.org.uk/publications/changing-neighbourhoods-impact-light-touch-support-20-communities>) is an area that could be explored. One of the hubs interviewed as well-advanced plans for a replication programme to help other community-based food enterprises through the initial stages of establishing a food distribution scheme. Such approaches could be a way of providing expert and peer support to future community-based food hubs.

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