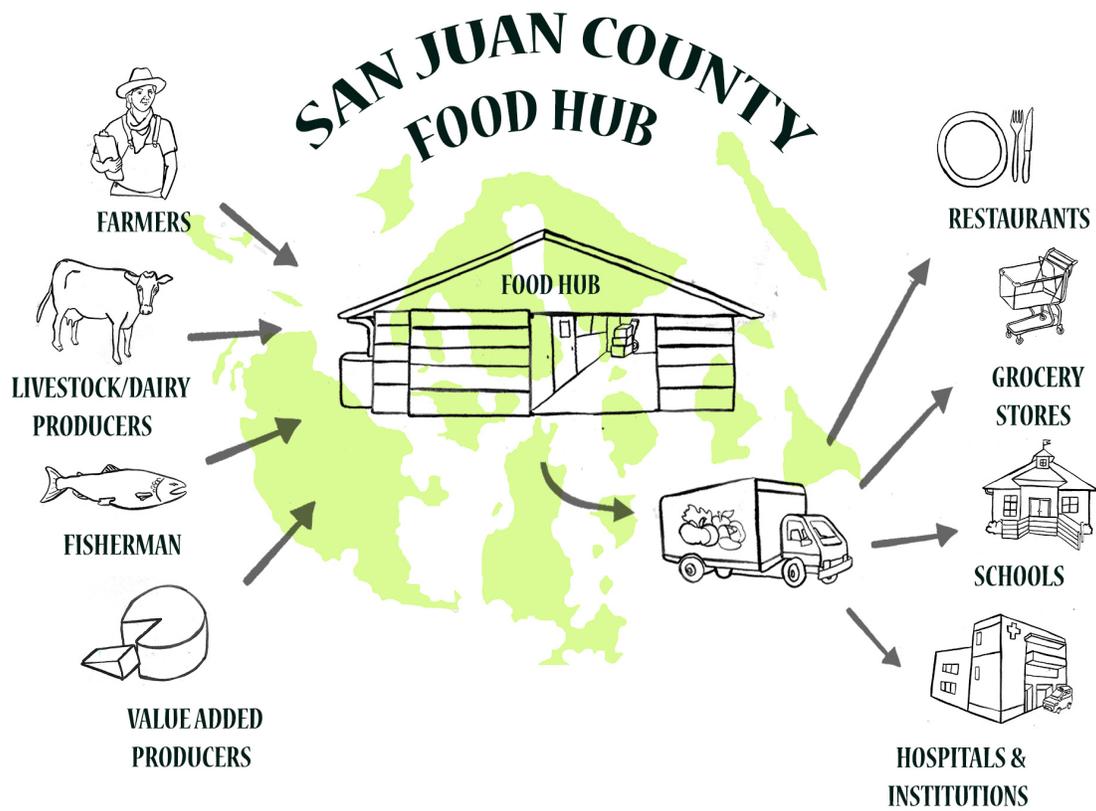


SAN JUAN COUNTY FOOD HUB BUSINESS PLAN

COORDINATING SALES AND DISTRIBUTION FOR FOOD GROWN
IN THE SAN JUAN ISLANDS



SAN JUAN COUNTY FOOD HUB BUSINESS PLAN

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EXECUTIVE SUMMARY

INTRODUCTION

Agriculture underlies the rural economy of San Juan County, Washington. A ferry-served archipelago in the far northwest corner of the state, the San Juan Islands hold a unique, island-based tradition of small-scale farming that originated in the homestead culture of the late 1800s. Once the breadbasket of western Washington, San Juan County is experiencing a revitalization of its agricultural heritage.ⁱ The number of farms and farmers, as well as farm revenue, has steadily increased over the last 35 years, in part due to a thriving tourist economy.

Despite this rise, local agricultural products account for only about two percent of the total food market.ⁱⁱ Recent interviews and research funded through a 2015 USDA Local Food Promotion Program (LFPP) grant indicate that despite unmet demand for local products, the market is hindered by gaps in farmer-customer communication, lack of infrastructure, and distribution challenges due to the county's island geography. The San Juan County Food Hub (SJC Food Hub) offers an opportunity to address these challenges and to help grow the local food system, with all the resulting social, environmental, and economic benefits.

The goals of the SJC Food Hub are to increase food security, diversify and strengthen the local economy, and promote access to healthy, locally produced foods. Studies indicate that dollars spent on local food significantly impact the local economy—more than doubling their value.ⁱⁱⁱ It follows that increasing local production and sales to 20 percent of the San Juan County food market would infuse an estimated \$62 million dollars into the San Juan County economy.^{iv}

SAN JUAN COUNTY FOOD HUB FEASIBILITY STUDY

In 2015 the San Juan Islands Agricultural Guild, in partnership with the Agricultural Resources Committee of San Juan County, the Northwest Agriculture Business Center, the Orcas Food Cooperative, and Washington State University Extension in San Juan County received the USDA LFPP grant to undertake a feasibility study and create a business plan for a food hub in San Juan County. As part of the feasibility study, the project team surveyed 80 San Juan County stakeholders, including 37 farms, 28 food purveyors, five value-added producers, four local distributors, four non-profit organizations, and two public institutions.

Interviews as part of the feasibility study identified three key marketing challenges that inhibit consumption and production of local food in the county:

Lack of inter-Island distribution channels: Eighty-four percent of farmers and 77 percent of food purveyors identified *distribution* as a challenge, specifically with accessing customers and producers on other islands.

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Limited market transparency: Sixty-five percent of farmers reported *difficulty finding new markets* as a challenge, and 80 percent of food buyers identified *lack of knowing what local food is available* as a challenge.

Limited market coordination: Sixty-two percent of farmers reported *difficulties finding stable markets*, and 64 percent of food purveyors stated they believe there is a *lack of local food production*.

These findings illustrate that San Juan County farmers and food buyers perceive the market for local food to be smaller than its actual size. Both buyers and producers agree that San Juan County's island geography presents distribution challenges that inhibit access to the food that is produced.

SJC FOOD HUB'S POTENTIAL IMPACT

The SJC Food Hub will address the three key challenges identified by the feasibility study by:

- Developing efficient inter-island and regional distribution channels
- Connecting customers with farmers and farm products throughout the county
- Identifying market gaps and facilitating producer/buyer relationships

The SJC Food Hub will utilize specialized software to allow local farmers to upload and update their current inventory on a web-based sales platform. Food purveyors will be able to view available products, along with producer profiles that communicate each farm's unique story, growing practices, and certifications. Food purveyors will be able to purchase food items from multiple farms, receive one invoice, and opt to receive one aggregated shipment, thus providing them the ease and convenience of traditional distribution. Once orders are made, farmers will receive an aggregated "pick list" with orders from each of their customers. Farmers will then pick, pack, and deliver all of their orders to their closest food hub aggregation site, where orders will be combined and delivered to or picked up by each customer.

Our feasibility study found that 80 percent of food purveyors in San Juan County would increase their purchasing of local food if an efficient distribution system and online platform were available through a food hub.

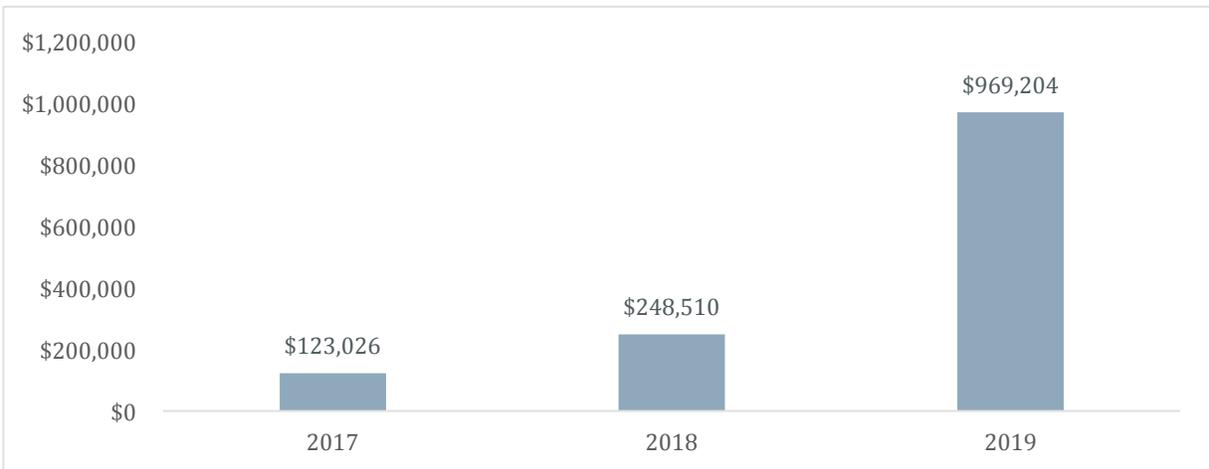
Agriculture defines the pastoral heritage and identity of San Juan County. A food hub will increase access for customers seeking to find and purchase local food in the islands, increase payment and record-keeping efficiency for farmers and buyers, and provide distribution channels that open markets currently closed. The result will be a thriving San Juan County food economy rooted in the tradition and craft of small-scale agriculture.

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FINANCIAL PROJECTIONS

The following graph represents the financial projections for the first three years of the SJC Food Hub. Analysis for these projections can be found on page 10.

SJC FOOD HUB SALES PROJECTIONS



INTRODUCTION

MISSION

To increase the production and sales of local food in San Juan County to support a viable agricultural economy, strengthen food security, and promote access to healthy, sustainably grown food.

SAN JUAN COUNTY FOOD HUB OVERVIEW

The SJC Food Hub will combine market coordination, aggregation, and distribution in order to address the most significant challenges faced by producers and buyers in getting local food to market, as identified in the food hub feasibility study. The food hub will increase the production and sales of local food in the county through efficient coordination, aggregation, and distribution. The food hub will enhance the economic viability of agriculture in San Juan County, while also diversifying and strengthening the local economy. The food hub will help meet the growing demand for local food in the San Juan Islands by efficiently connecting local farms and value-added producers with grocers, restaurants, institutions, and other buyers.

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BUSINESS GOALS OF THE SAN JUAN COUNTY FOOD HUB

The business goal of the San Juan County Food Hub is to increase local food production and sales. To do this, the San Juan County Food Hub will:

- Create an intuitive online platform for easy inventory management and sales, aggregated invoicing, and coordinated delivery
- Foster an efficient local distribution system, including aggregation sites on each of the three main islands, to increase inter-island food sales and access to regional markets
- Coordinate with existing transporters to convey local products to local and regional markets
- Link local producers to regional markets through access to the Puget Sound Food Hub

THE FOOD HUB PROCESS

- Farmers and value-added producers (sellers) apply to join the SJC Food Hub, request an online account, and provide the necessary documentation to the food hub coordinator
- The food hub coordinator activates each seller's account
- Sellers input and update their own inventory and set unit size and pricing for each item
- Buyers browse online from multiple farms; compare products; and read farmer profiles to learn about products, growing methods, certifications, and so on
- Buyers create and place orders online 24/7 through the food hub website
- Buyers choose a delivery date and pay one invoice online by credit card or purchase order
- Sellers receive orders by email and then harvest, pack, and deliver orders to their nearest food hub aggregation site, where orders for each buyer are combined and then picked-up by buyers or delivered to buyers through a third-party transport service
- Payments are made through the automated online system as direct deposits to each seller's bank account
- The food hub coordinates annual meetings and meet-and-greet events to help buyers and sellers form and strengthen relationships, identify market gaps and opportunities, and discuss ways to improve coordination and functions of the San Juan County Food Hub

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MANAGEMENT

Initially, the San Juan Islands Agricultural Guild, a private non-profit organization, will oversee the food hub enterprise, providing guidance, project management, accounting services, invoicing and management of the online software system. Over three years, the food hub will transition into its own organization, operating either as a 501(c)(3) non-profit organization or as a cooperative enterprise.

PARTNER ORGANIZATIONS

- Washington State University Extension – San Juan County (WSU) <http://ext100.wsu.edu/sanjuan/>
- Agricultural Resources Committee of San Juan County (ARC) <http://sjcarc.org/>
- Northwest Agriculture Business Center (NABC) <http://www.agbizcenter.org/>
- Puget Sound Food Hub (PSFH) <http://www.pugetsoundfoodhub.com/>
- Orcas Food Coop <http://www.orcasfood.coop/>

CUSTOMERS

The SJC Food Hub serves San Juan County and regional food producers, value-added producers, and food purveyors.

DEVELOPMENT STRATEGY

STAGE 1: STARTUP

- **Personnel:** The SJC Food Hub will hire a manager to oversee development, operations, and maintenance of the cold storage facilities, accounting, marketing, and coordination with transport services and the Puget Sound Food Hub.
- **Purchase and Installation of Cold Storage:** Cold storage units will be purchased and installed at locations on each of the three major islands in the San Juans: San Juan, Orcas, Lopez.
- **Hazard and Critical Control Point (HACCP) planning for aggregation sites:** Based on national standards and HACCP Plans from the Puget Sound Food Hub, the SJC Food Hub manager will finalize HACCP plans for each aggregation site.

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- **Food safety operational procedures:** All documents and trainings related to food safety will be completed by farmers with the help of the SJC Food Hub manager.
- **Develop website:** With the assistance of the Puget Sound Food Hub team, the SJC Food Hub will develop a San Juan County site on the Puget Sound Food Hub online platform.
- **Create guide for farmers and buyers and provide training:** The food hub manager will develop written operational guidelines, as well as provide training to buyers and sellers on use of the online platform and cold storage units.
- **Stakeholder feedback system:** In partnership with SJC Food Hub members, the manager will create a survey system to receive ongoing feedback on services that can be improved and modified.
- **Purchase reusable plastic totes:** Plastic totes will be purchased to a) aggregate smaller quantities of product, b) maximize utilization of space during distribution, c) decrease costs for packaging, and d) minimize waste generated through distribution. A sanitation system and procedural guidelines will be developed to maintain sanitation standards and insure that totes are returned to the food hub.

STAGE 2: MARKETING AND SALES

The SJC Food Hub marketing and sales strategy will advertise the program to recruit members, develop buyer-seller relationships, and coordinate efficient purchases and sales between buyers and sellers in San Juan County. The SJC Food Hub will host farmer-buyer meet-up events throughout the county, bringing farmers, fishers, ranchers, and foragers together with chefs, grocers, and institutional food service buyers. These networking events will allow farmers to share and speak about the products they specialize in and allow food buyers to request specific food items, and will assist in seasonal planning of both the farmers and the buyers.

These events will help to brand the SJC Food Hub as a connection and coordination organization between food sellers and buyers.

Farmer-Buyer Meet-ups: These events will connect farmers, value-added producers, and food buyers in San Juan County, occurring on Lopez, San Juan, and Orcas islands.

Media Outreach: Media coverage and outreach to advertise and promote the food hub will include the local papers, online media, list-serves, and other sources.

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Sponsorship Recruitment: Business sponsors, businesses that donate cash or in-kind goods in support of the SJC Food Hub will be solicited in year 1 and 2 of operations.

Additional Events: The SJC Food Hub will be promoted at the San Juan Islands Agricultural Summit, Taste of the San Juans, and other local food and local business events.

FOOD SAFETY

FOOD SAFETY OVERVIEW

The SJC Food Hub is committed to maintaining the highest standards to ensure product quality and food safety. The food hub will abide by all applicable federal, state, and local regulations. All sellers must abide by Washington State Department of Agriculture (WSDA) regulations and maintain quality production standards that comply with current county, state, and federal food safety requirements for each product category. Sellers must also maintain liability insurance. The food hub will develop and abide by HACCP plans for logistics and food safety. All food hub aggregation sites and cold storage will be maintained in accord with the HACCP plans. The SJC Food Hub will work closely with the WSDA to ensure that information about Good Agricultural Practices (GAP) and the Food Safety Modernization Act and other food safety-related programs, regulations, and educational opportunities are available to participating farmers and value-added producers.

FINANCIALS

FINANCIAL NARRATIVE

The SJC Food Hub will access a diversity of funding sources to establish the startup infrastructure and develop initial customer relations. The SJC Food Hub projects higher expenses in its initial year due to these startup costs. Key initial infrastructure costs include the purchase and installation of cold storage units for three sites, one on Orcas, Lopez, and San Juan, projected at \$53,000. Safety systems and delivery equipment for these sites is projected at \$1,500. Lastly, the SJC Food Hub anticipates contracting with a sales and marketing specialist to develop an initial customer base with farmers and food buyers for \$10,000.

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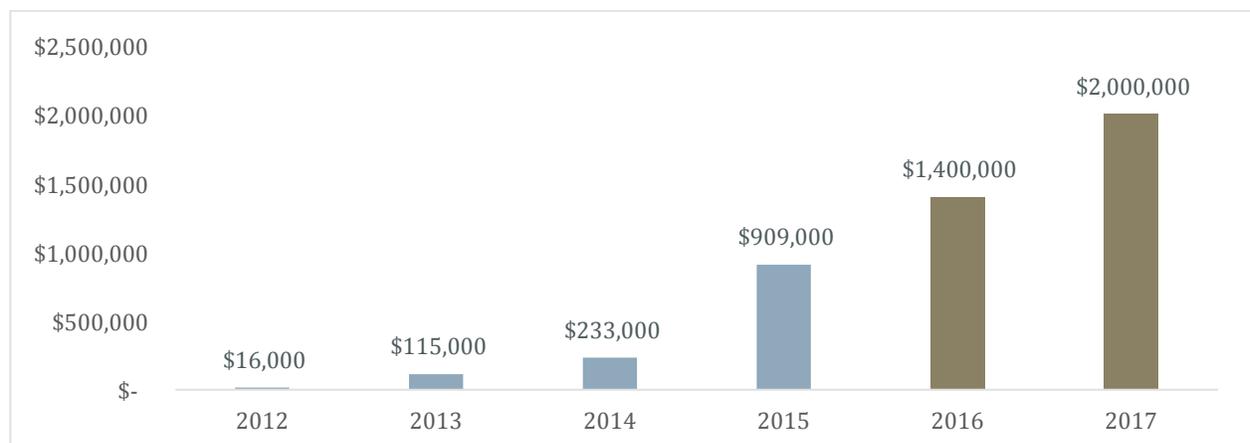
Base expenses that are set to be replicated annually from year one through year three are facility rental (\$9,000), the SJC Food Hub manager’s salary and benefits (\$55,020), and the online sales platform software (\$2,500). Year three anticipates a growth in salary and benefits expenses to \$98,250 with an additional part-time employee to oversee cold storage sanitation and assist the manager in daily activities. Please see the Food Hub budget for more details.

By year three, the food hub projects sales income generating a net-profit break-even point for operation expenses based on a 10% commission rate for market coordination, with transport costs added separately. Transportation costs are established by local transport services. Current rates are \$2 per cubic foot for inter-island transport through San Juan Islands Transporter, and \$7 flat rate per box for inter-island transport through Jones Family farm.

REVENUE PROJECTIONS

Food hubs nationally have seen significant growth over the past two years, with the average number of customers per food hub increasing from 72 to 115, a rise of 62% over that time period, or 31% annually. 98% of food hubs expect increased demand for local food products in the next two years.^v To put these trends in a regional context, the Puget Sound Food Hub—the closest food hub in proximity to San Juan County and a key partner for the SJC Food Hub—has seen annual sale growth rates of 718%, 202%, and 390% over the past three years respectively, representing growing markets for farm-sourced products in urban areas, including Seattle. The SJC Food Hub will connect producers to regional markets through the Puget Sound Food Hub.

PUGET SOUND FOOD HUB SALES



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According to the SJC Food Hub Feasibility Study, the average San Juan County food purveyor interviewed currently purchases \$39,181 from local producers, for an aggregated total of \$1,097,068. When asked to rank their interest in purchasing from a food hub in San Juan County, food buyers responded with an average score of 4.41 out of 5, or an 88 percent approval rating. If food purveyors were to purchase 88 percent of their current purchases through the SJC Food Hub, it would result in annual sales of \$965,419.

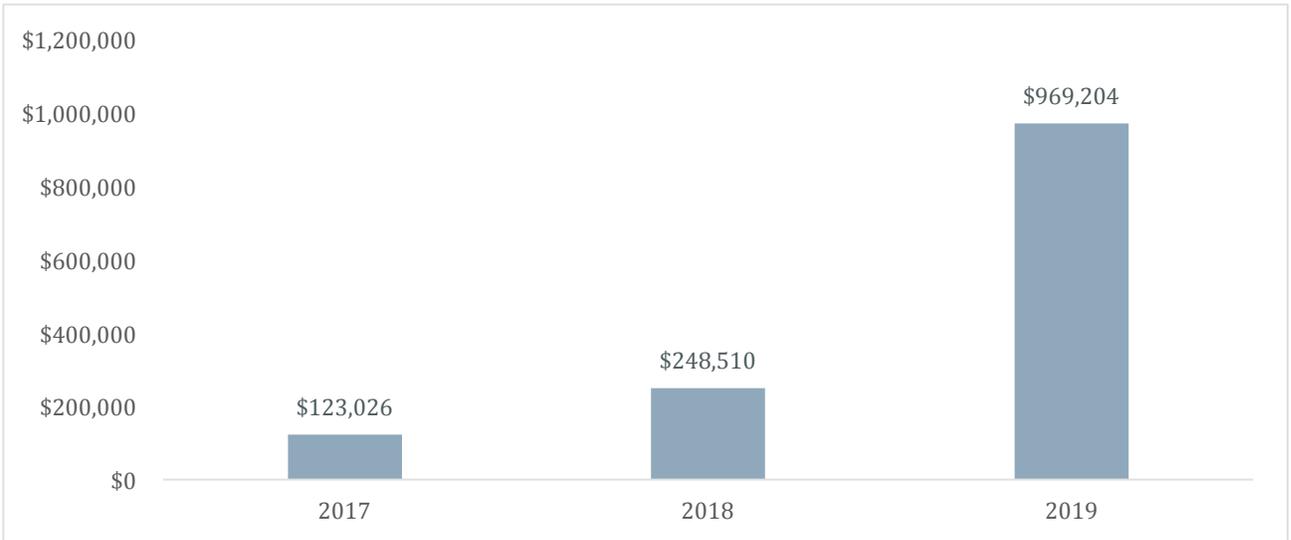
Eighty percent of food purveyors expressed interest in increasing their purchases from local food producers through a food hub, with an average increase of 23 percent in the first year. A 23 percent increase in purchases of \$39,181 would result in an average local purchase of \$48,192 annually, or an increase of \$9,011 per buyer. Aggregated among the 24 food buyers who expressed interest in increasing sales, these increased sales would result in an additional \$216,264 of local food sales. With 88 percent of current sales and 23 percent of increased sales from 24 food buyers, this would result in a sales total of \$1,181,683.

When San Juan County farmers were asked to rank their interest in selling through the food hub, they responded with an average score of 3.8 out of 5, or a 76 percent approval rating. Seventy-six percent of \$1,181,683 would result in \$898,079 worth of sales through the SJC Food Hub.

Potential totals of \$898,079 and \$71,125 would result in \$969,204 worth of commerce from the San Juan County Food Hub, which is the food hub's goal by year three of operation. Following the financial growth trends of the Puget Sound Food Hub starting in 2013, and assuming the SJC Food Hub's third year goal of \$969,204 in sales, this plan sets the first year's projections at \$123,026. These first year sales numbers may be conservative as the SJC Food Hub has a committed buyer in the Orcas Food Cooperative, which currently spends \$231,000 annually on purchases from local producers, nearly half of which come from produce and meat & seafood, and half of which are value added products. If it mirrors the growth trends of the Puget Sound Food Hub in year two of its operation, the San Juan County Food Hub would gross \$248,510 in year two and \$969,204 in year three.

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SJC FOOD HUB SALES PROJECTIONS



Please see Appendix E for 2016-19 budget details.

CONCLUSION



The SJC Food Hub is an important opportunity to address market gaps in the local food system of the San Juan Islands. It will create more efficient distribution and marketing for food producers. The food hub will enable food purveyors to see the range of possibilities in local food and to access it efficiently. The result will be a thriving, coordinated, and sustainable food system, rooted in the tradition and craft of small-scale island agriculture.

The food hub feasibility study illustrates the need for ongoing analysis of the San Juan County food system and a continuing search for solutions to challenges identified by food system stakeholders. Additional opportunities that could be explored at later stages of the SJC Food Hub's development are cold and cool storage rental lockers for producers and purveyors, expanded commercial kitchens for value-added production, additional freezer space for meat products, and dry storage for farmers and value-added producers. In addition, developing food safety labs on Orcas Island and San Juan Island, utilizing the model currently operating on Lopez Island, can assist food producers in meeting health and food safety regulation requirements. Based on requests from food producers, an additional role for the food hub could include cooperative purchasing of equipment and amendments, cooperative value-added production, and co-packing.

Agriculture is a defining element of the pastoral heritage and identity of San Juan County. The SJC Food Hub is a significant step towards a coordinated and collaborative San Juan County

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food system. A food hub that assists farmers and food purveyors to implement successful business models through collaborative infrastructure, market coordination, and distribution contributes to a strong and diversified San Juan Islands economy.

ⁱ SJC ARC Strategic Action Plan pg. 14

ⁱⁱ Data based on:

http://www.agcensus.usda.gov/Publications/2012/Online_Resources/County_Profiles/Washington/cp53055.pdf

<http://www.deanrunyan.com/index.php?fuseaction=Main.TravelstatsDetail&page=Washington>

http://www.agcensus.usda.gov/Publications/2012/Online_Resources/County_Profiles/Washington/cp53055.pdf

<http://www.deanrunyan.com/WATravellImpacts/WATravellImpacts.html#>

ⁱⁱⁱ Sustainable Seattle Ecology “Why Local Linkages Matter Findings from the Local Food Economy Study” 2008, Dr. Viki Sonntag

^{iv} SJC Economic Data <http://www.ofm.wa.gov/databook/pdf/53055.pdf> USDA Economic Research Service

(ERS) <http://www.ers.usda.gov/data-products/food-expenditures.aspx#26636>; the figure for local spending in San Juan County is based on the monthly spending on food (\$380) comes from *Table 13 - Per Capita Food Expenditures* the ERS food expenditures webpage (link above) multiplied by the population, for a total of \$75 million. Dean Runyan estimates that tourists spend \$82 million annually in San Juan County: The San Juan County Dean Runyan report:

<http://www.deanrunyan.com/index.php?fuseaction=Main.TravelstatsDetail&page=Washington>

^v <http://www.ngfn.org/resources/ngfn-cluster-calls/food-hub-survey-2015/2015%20Food%20Hub%20Survey%20slides.pdf>