



REGIONAL FOOD HUB PILOT PROJECT

Case Study

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Possibility grows here.

A project of the Greenbelt Fund

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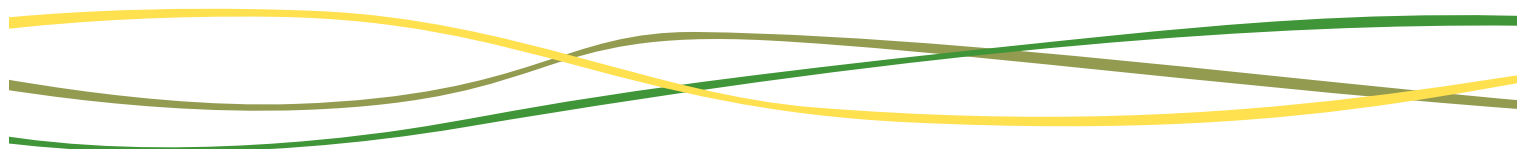


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EXECUTIVE SUMMARY

The main goal of the regional food hub pilot project was to provide an avenue to get more Ontario product into large institutional food service operations. One approach to achieving this was to establish a regional distribution system with a structure that would bring more Ontario food into the mainstream distribution system from small and medium sized farmers. Bridging the gap between these smaller farmers and large scale food service via mainstream distributors has the potential to fundamentally change the food service distribution channel. This report provides an overview of the project successes and challenges and an evaluation of the key learnings from undertaking the pilot.

A number of previous studies were reviewed to provide perspective and context for comparison. Several key themes were identified from the previous research including:

- The value of aggregating local food through hubs to facilitate coordination, offer a range of products and achieve a critical mass of sales volumes to exploit economies of scale;
- The importance of developing good relationships and trust within these food systems in achieving success;
- Having a good understanding of the specific demands of the marketplace to ensure a match between supply and demand; and
- The potential for local food in the food service/ restaurant industry.

The pilot project was intended to link producers in the Greenbelt and Greater Golden Horseshoe to large institutional food service buyers through an existing regional food hub and a broadline distributor. The institutional food service was targeted because of the significant volume potential. A single food service contractor managed a number of university, hospital, school and other large food service operations. This opportunity also highlighted a challenge. The food service contractor had a contractual obligation to buy through a single broadline distributor which made co-operating with that distributor extremely important.

It was also clear that many food service companies, big and small, buy through a single supplier (or at very least a limited number of suppliers) for both convenience and economics. "One stop shopping" simplifies the process of ordering, receiving and paying for supplies.

The pilot allowed food service outlets to order listed products through the broadline distributor. The orders were provided to the hub and co-ordinated with the producer. The hub then delivered the products to the broadline distributor's facility where they were loaded with a larger order and delivered. This process took several days.

While, overall, the pilot did not generate a lot of sales, there were some key learnings that can inform future hubs.

A Champion, Common Vision and Business Model

The value proposition for everyone involved should be agreed upon and consistent across the chain. An internal champion is vitally important to build momentum. Any innovative initiative has the potential to struggle and strong leadership is critical to moving beyond the challenges successfully.

A Clear Definition of Value Proposition

Local can mean many things. Some people use the Government of Ontario definition which is that it is produced in Ontario. Others are looking for a broader range of attributes including farm size, production practices and varieties. There needs to be agreement across the value chain so that a common value proposition is understood and followed.

Flexibility and Adaptability

There are clearly lessons to be learned from previous experiences. It is also critically important to understand the specific circumstances of a niche market to ensure that the structure implemented can deliver on the expectations of all stakeholders. This goes beyond simply the definition (and value) of local food to all the other attributes of a supply chain that are important to stakeholders. There might be producers and customers who are not well suited to a specific model.

Logistics

It is critical that the mechanism for ordering and delivering products meets the needs of the customer and can be executed effectively and efficiently. Even in the case of a perfect match in value proposition and definition, execution is important or the hub will not succeed.

There is considerable potential for food hubs to expand both the volume and value of sales of Ontario produce into the food service sector. There is no “one size fits all” approach. Hubs should be built on a common set of values and expectations and one model cannot necessarily be implemented in numerous contexts. The potential for growth means structuring hubs and their associated value chains to deliver what the end consumer wants.

Achieving a 25 per cent share of food service produce purchases in Ontario would represent an estimated \$150 million. Given the current production in Ontario is \$200 million and this goes largely into retail and direct channels, there is clearly a significant opportunity for growth.



1.0 INTRODUCTION

This pilot project was developed to build on the momentum and interest in local food. The primary objective was to provide an avenue to get more Ontario product into large institutional food service operations. One approach to achieving this was establishing a regional distribution system that would bring more Ontario food into the mainstream from small and medium sized farmers. Bridging the gap from these smaller farmers to large scale food service via mainstream distributors has the potential to fundamentally and systemically change the food service distribution channel. This report provides an overview of the project successes and challenges and an evaluation of the key learnings.

The purpose of this project was to assess the viability of an integrated regional food system across Ontario. It was also an opportunity to identify the specific barriers and opportunities for developing integrated local food value chains. While the case pilot had a specific structure and process which is assessed in the report below, we also were able to discover some of the broader issues and opportunities for getting local food value chains up and running.

Making connections

During this project, we wanted to connect a regional food hub with a mainstream distribution channel. Previous research suggests local foods have to “fit” the mainstream’s model in order to grow (King, Gomez and Digiacomio, 2010). This linkage is also highlighted in previous work here in Ontario (Gooch, Marenick, Felfel and Viera, 2009).

We investigated the feasibility of creating a symbiotic relationship between regional hubs and mainstream distribution.

We have not found any literature on similar models. The current mainstream model was built to create economies of scale which rely on large scale production. This creates difficulties for small producers to access the market. The model we tested was aimed at creating an environment for food hubs to act as suppliers for mainstream markets on a regional basis.

Demand for local food has increased exponentially. A recent Chef’s Survey for the Canadian Restaurant and Foodservice Association reported that this demand has consistently ranked as the top trend among restaurant patrons for a number of years running. There appears to be a real opportunity to develop linkages with local growers to improve access.

In Ontario, the “erosion of local infrastructure, or lack of motivation to adapt to business models more suited to the current trading environment, is [...] a major concern [...] Other challenges stem from ways in which the current infrastructure is managed, thereby restricting the access, particularly for smaller suppliers, to mainstream markets.”

Gooch et al., 2009

Problems with the current system

Our current food distribution system (particularly for supplying food service) is geared toward suppliers who have large scale operations. Since most Ontario producers have small to mid-sized operations, this model does not serve them well.

The infrastructure linking small and mid-sized producers with buyers looking to increase the amount of local food they provide to their customers is lacking. While there have been efforts by some food hubs to aggregate local food and create scale on a regional basis, it has been hard to access larger institutional organizations that rely on the volume and predictability of the mainstream distribution channel.

This pilot project was unique in that it used the existing infrastructure by connecting a regional food hub with a mainstream food service distributor and their customers.

The hub we worked with already had well-established business relationships with producers in the Greenbelt and Greater Golden Horseshoe. Through the pilot we sought to help the mainstream distributor gain greater access to more Ontario food by linking to this hub. The distributor would be able to provide food that was sourced in the same location as the participating food service operator's institutional customers. Single point sourcing is often important to food service operations and the desire was to provide the hub with access to those food service customers through the "one stop shop" distributor.

While there were challenges in developing and sustaining the linkages, some important lessons were learned for establishing new local food value chains in support of food service in Ontario.

This report includes an overview of previous research in local food initiatives. It then highlights some key barriers, benefits and opportunities as lessons learned from previous attempts to build local food value chains. We then detail the form and process for the pilot, and highlight the key results and lessons learned from it. The report concludes with a summary and a discussion about a path forward for local food value chains in support of food service.



2.0

LESSONS FROM PREVIOUS INITIATIVES

2.1 Overview

Ten case studies centering on local food initiatives are discussed below. These papers cover topics ranging from incorporating local food buying into the conventional food chain, to local food hubs, to community food purchasing and distribution initiatives, to farmer-to-chef projects, to institutional and governmental local food purchasing initiatives.

The discussion has been organized into three key categories: benefits of the initiative or opportunities for success, barriers to the success of the initiative, and recommendations for successful initiatives of a similar nature. Central themes from these key categories are highlighted in the table below, and discussed in greater detail in the following sections.

Any theme that was mentioned in more than one paper was included in the discussion. Themes are ordered in the table below and the following discussion from most frequently to least frequently mentioned. The individual papers and findings are summarized in Appendix 1.

Table 1: Overview of Key Themes in Local Food System Case Studies Analyzed

Barriers	Benefits or Opportunities	Recommendations
Transaction Costs (7)* Pricing (7) Lack of Producer/Consumer Interest (6) Perceived Risks (5) Seasonality (5) Definition of 'Local' (4) Competition with 'Alternative' Food Sources (4) Challenges of Balancing Producer/Consumer Expectations (2)	Demand for Local/Active Local Food Movement (7) Existing Social Capital (7) Positive PR and Community Building (6) Infrastructure (6) Producer Benefits (5) Seasonality (3)	Aggregation (5) Relationship-Building (5) Market Characteristics (WTP) (3) Gradual Scaling-up (3) Infrastructure (3) Producer Initiative (2) Standards/Labeling (2)

***Note:** Number in brackets is the number of case studies in which the listed theme appears. Themes listed from most prevalent to least prevalent.

2.2 Benefits/Opportunities

Demand for local food

Seven of the studies cite existing demand for local food, or an active local food 'movement', as key to a successful local food initiative. Both Abetekassa and Peterson (2011) and Ilbery and Maye (2006) find that retailer interest in local value-added or specialty products is an important driver of local food systems, and Knezevic et al. (2015) emphasizes the importance of sympathetic buyers to the success of local food initiatives.

Friedmann (2007) argues that large institutional buyers (like universities) can use their buying power to help shift demand toward local. Her study also emphasizes the importance of the active and longstanding local food movement in Toronto, and student willingness to pay for local food, in contributing to the success of the University of Toronto's (UofT) local food purchasing project.

Bloom and Hinrichs (2010) describe a successful urban local food network involving distributor promotion of farms, and farmer-to-chefs' relationships. Duram and Cawley (2012) explain how a combination of regional and local food labeling, chef enthusiasm about local food, and consumer interest in local food drives a successful local food movement. In their study of a community local food initiative, Franklin et al. (2011) describe an active pre-existing community local food movement as key to the success of the project.

... a combination of regional and local food labeling, chef enthusiasm about local food, and consumer interest in local food drives a successful local food movement.

Producers benefit

Benefits to producers are cited by five cases as instrumental to successful local food systems. Abetekassa and Peterson (2011) argue that the small size of fresh local produce departments in many retail stores provides an opportunity for smaller producers to market directly.

Cleveland et al. (2014) discuss how large institutional buyers can reduce uncertainty for producers through detailed order estimates that can allow for concise planning to meet demand. They also discuss the other benefits that hubs provide to farmers, including: marketing support, flexible price lists, and coordinated pickup and delivery.

Knezevic et al (2015) find that hubs, in scaling-up with groups of producers, are able to balance a fair price for producers with affordability for buyers. Additionally, all three hubs in their study provide producer food safety and business management training.

Friedmann (2007) finds that UofT's standards for 'local' are structured in such a way that farmers who fail to meet guidelines receive support so they can meet them, and farmers are also provided with marketing and other resources through the non-profit partner.

Perry (2011) was able to change the bid requirements for the Kentucky State Park system. Farmers were able to directly market cuts of beef they had trouble selling elsewhere and could use demand data from the parks to plan their supplies.

Relationships count

Social capital between members of a local food system comes up in seven of the studies. This point is best summarized by Ilbery and Maye (2006), who argue that shorter food supply chains have higher social capital and stronger mutual trust.

Bloom and Hinrichs (2010) find that intergenerational social ties between buyers and consumers play an important role in a rural local food supply chain.

Cleveland et al. (2014) emphasize the importance of existing relationships between food hub founders and farmers through farmers' markets, while Duram and Cawley (2012) find that many producers have strong working relationships with chefs.

In her study of the local food initiative at the UofT, Friedmann (2007) argues that part of the reason for the success of the project is the strong relationship between UofT and the non-profit Local Food Plus (LFP). Perry (2011) recounts that, throughout the planning of the local food purchasing initiative for the Kentucky State Park system, meetings with producers were held at park facilities to help develop farmer-to-chef relationships.

Ilbery and Maye (2006) find that local specialist retailers feel obligated to support local producers when those producers are known to them. And Knezevic et al. (2015) describe three Ontario local food hubs that could be competitors, but instead acknowledge their overlapping mandates and have developed a successful collaboration.

Public relations a must

Six studies discuss positive public relations and community capital as factors motivating people to participate in local food supply chains. Abetekassa and Peterson (2011) find that retailers view buying local as positive for public relations, and are willing to source locally even for little or no economic benefit.

Duram and Cawley (2012) find that the restaurants in their study get positive press and promotion in travel guides for advertising local fare, and that chefs actively used menus to link food to both place and producers. Similarly, Strohbehn and Gregoire (2003) find that Iowa restaurants sourcing locally do so in part for good publicity.

Perry (2011) recounts extensive press coverage of his effort to source local food for the Kentucky State Parks system, and notes that farmers receive free marketing impressions on park menus. Cleveland et al. (2014) find that there is a general feeling that the food hub they studied supports the cultural heritage and community of the region. Franklin et al. (2011) say that social and economic justice are key factors motivating their community local food initiative.

Solid infrastructure needed

Supply chain infrastructure support is mentioned in six cases as a key factor to the success of a local food system. Duram and Cawley (2012) discuss how important it is for restaurants to access the local food supply chain directly and by buying from wholesalers they trust.

Franklin et al. (2011) emphasize funding support as key to covering the initial development and operational costs of the community local food initiative they studied. This funding helped hire a part time manager, facilitated number of volunteers, and develop an online ordering system.

Similarly, one of the hubs studied by Knezevic et al. (2015) was able to use the supply chain of one of its founding partners Natural Gourmet (Ottawa) to distribute products. It also developed a processing kitchen for its members.

Clearly communicate

Information sharing is emphasized by Strohbehn et al. (2003), who finds that food service operators are more likely to buy local if they have information on package size, product costs, availability and so on. Having and sharing pricing information was especially important to the local food purchasing initiative in Kentucky State Parks (Perry 2011). Clear purchasing standards are important as well in Friedmann's (2007) case in Toronto. Local Food Plus worked with UofT to develop sustainability requirements which were built into bidding guidelines. These were then clearly communicated to the two food service operators that won UofT's competitive bid.

Pay attention to seasonal availability

Three cases mention seasonal availability of local food as a factor influencing the success of a local food system. This is the only factor that is discussed as both a barrier and an opportunity. The food hub study by Cleveland et al. (2014) takes place in Santa Barbara, California, which is in the top one per cent of agricultural producing counties in the U.S. As a result, the hub could capitalize on year-round availability.

Duram and Cawley (2012) faces a more limiting climate in Ireland, although the restaurants that they studied had access to local food from both land and sea. They find that chefs enjoyed the challenge of changing menus according to seasonal availability, and that this is something that patrons value. Strohbehn and Gregoire (2003) find that commercial buyers are more flexible to seasonality than institutional buyers, as they serve fewer patrons and can more easily adjust menus.

2.3 Barriers

Watch transaction costs

Transaction costs are discussed in seven of the studies. Factors affecting transaction costs for distributors and retailers includes: consistency and quality of supply, logistics and frequency of deliveries, pricing and payment procedures, and purchasing coordination with many producers.

Duram and Cawley (2012) find that restaurants have problems with needing to pay farmers immediately when buying direct, and infrequent deliveries. Cleveland et al. (2014) find that their institutional buyer has a hard time navigating bid guidelines when pursuing a relationship with a local food hub. Knezevic et al. (2015) find that the three Ontario food hubs they studied face challenges getting funding for resource infrastructure, and navigating the world of government, corporate, and institutional policy.

In their study of a community local food initiative, Franklin et al. (2011) find that the costs of membership, complying with sustainability requirements, and frequent small deliveries all impeded producer participation. Perry (2011), in his account of local food purchasing by the Kentucky State Park system, discusses farmer concerns about delayed payments. The problem is resolved with a direct payment system that places a burden on existing purchasing procedures.

Pricing problems

The pricing of local food is discussed in seven studies. The three main issues around price are: problems in setting the price, a perceived lack of a price premium for local food by the growers, and the perceived high cost of buying local by the buyers.

Franklin et al. (2011) cite a gap in price expectations for local food between producers and consumers, and Friedmann (2007) and Perry (2011) discuss the challenges of competing with the lower prices set by corporate retailers.

Perry (2011) also discusses the challenges involved for government buyers in figuring out what prices to offer local producers and navigating bid requirements.

Abetekassa and Peterson (2011) find none of the supply chain actors they interviewed perceive local produce as having a premium price over non-local. Bloom and Hinrichs (2010) find that consumer willingness to pay for local food was only present among high-end buyers.

The three main issues around price are: problems in setting the price, a perceived lack of a price premium for local food by the growers, and the perceived high cost of buying local by the buyers.

Franklin et al. (2011) find that lower income residents view a community local food initiative as classist.

Finally, Bloom and Hinrichs (2010) find that distributors are only willing to buy local if the prices are comparable to non-local, and that a false perception of local food being less expensive may make it less attractive to buy. Ilbery and Maye (2006) find that price is the ultimate driving force behind the decisions of small retailers to buy. In his account of local food purchasing by the Kentucky State Park service, Perry (2011) explains that pork, poultry, dairy, eggs and value-added products are all excluded due to high prices.

Local interest crucial

Six of the cases discuss a lack of producer or consumer interest in establishing a local food system. Duram and Cawley (2012) find that Irish restaurant patrons often perceive foreign produce or cuisine to be superior. Strohschein et al. (2003) find that most of the Iowa restaurants they surveyed are satisfied with their current suppliers, and uninterested in pursuing local options. On the retail side, Friedmann (2007) finds that supermarkets are not receptive to attempts to place local and sustainable crops in their stores.

On the producer side, Bloom and Hinrichs (2010) find that farmers could make more money selling directly to buyers, and many were only interested in selling surplus supply through distributors. Similarly, Cleveland et al. (2014) find that their local food hub offers lower prices to producers compared to direct marketing, generating lower profit margins. This, combined with the fact that the main institutional buyer from the hub is only interested in certain types of produce, limits the benefit of producer participation. Franklin et al. (2011) find that the low trading volumes of the local food hub make it hard to attract and retain producers.

Food safety a priority

Five cases cover the perceived risks of buying or selling local – three of which cite retailer and restaurant food



safety concerns due to numerous and changing suppliers. There are some concerns about variability in quality across farmers (Cleveland et al. 2014 and Ilbery and Maye 2006).

Abetekassa and Peterson (2011) cite distributor concerns about the quality, volume and consistency of local supply, and Ilbery and Maye (2006) cite an insufficient supply of specialist food products as a reason why retailers need to branch outside of local markets. Bloom and Hinrichs (2010) find that producers used to direct marketing can be concerned about losing control of their product to a distributor because they have no control over the condition in which it arrives.

Products not available year-round

Seasonal availability is cited in five cases as a challenge to establishing a successful local food system. Duram and Cawley (2012) discuss challenges that chefs face in adapting menus to seasonal availability, and both Ilbery and Maye (2006) and Knezevic et al. (2015) emphasize the issue of uniform consumer demand conflicting with seasonal availability.

Related to local food availability, competing definitions of 'local' – among various actors along the supply chain – is discussed as a barrier to local food initiatives in four papers. Knezevic et al. (2015) argue that Ontario's Local Food Act definition of local as provincial is problematic, because customers usually define local regionally. This, in turn allows, buyers to overlook local producers in favour of producers on the other side of the province. Ilbery and Maye (2006) argue the importance viewing local food as part of the broader conventional food system, rather than as an alternative.

Competing 'locals'

Competition from other local food sources is identified as a potential barrier to food entering the conventional supply chain in four studies. Ilbery and Maye (2006) find that retailers competing with alternative sources of local food (farmers' markets, auctions) feel it necessary to bring in non-local specialized products to diversify demand. Franklin et al. (2011) discuss saturation in the local food market as a barrier to establishing new local initiatives.

Bloom and Hinrichs (2010) find that consumers and producers may not identify conventional distributors as a source or destination for local products, and that rural buyers prefer sources other than distributors when purchasing local. They and Ilbery and Maye (2006) find that distributors and retailers are antagonistic towards the recent growth in alternative competitors, which could create tensions with local producers.

Finally, two studies discuss the challenge of balancing producer and consumer expectations and creating equity outcomes for both parties, given the divergence of needs (Bloom and Hinrichs 2010; Friedmann 2007). Both studies say a lack of distributor connections to producers and stronger relationships between distributors and buyers – along with a greater focus by distributors on consumer preferences – are barriers to producers entering conventional food supply chains.

2.4 Recommendations

In the end, there were several recommendations put forward by all the researchers.

In terms of structuring the local food system, **aggregation** was on the top of the list in five studies and three recommended **cooperatives or hubs**.

Advanced purchasing arrangements and other forms of collaboration between producers and buyers was mentioned as was **targeting wholesalers**, since retailers prefer them and many do not source locally. Another study recommended **regionalizing** local food initiatives, specifically local food hubs, in order to allow for specialization and economies of scale.

Building social capital is recommended in five studies. The authors emphasize the importance of trust and collaboration between producers and buyers.



Abetekassa and Peterson (2011) find that wholesalers and retailers identify **relationship building** between producers and stakeholders as the most challenging part of buying local. However, all existing local food purchasing in their study was initiated by producers, so this activity was extremely important.

Cleveland et al. (2014) find that farmers choose to participate in a local food hub, even when doing so does not maximize profits initially, in order to achieve social goals and social capital gains.

Developing a **strong knowledge of the market's characteristics**, including its socio-economic and cultural aspects, was recommended in three studies.

Doing good research is a hallmark of several studies. Feasibility studies were done in the case study of three Ontario food hubs by Knezevic et al. (2015). Duram and Cawley (2012) emphasize the importance of figuring out if customers are willing to pay for seasonal restaurant menus before embarking on a local food buying plans.

Three studies recommend **scaling up** when implementing a local food system. Cleveland et al. (2014) argue that local food systems need to evolve from existing systems, and that scaling up from direct marketing is more likely to be successful than scaling down from conventional distribution.

Members and funders of local food initiatives should be open to **evolving and changing** to develop a successful project over time, according to Franklin et al 2011. Additionally, three studies recommend a focus on **developing supply chain infrastructure**. Knezevic et al. (2015) discuss the importance of providing physical infrastructure to develop local production, and Blooms and Hinrichs (2010) argue in favour of locally-owned processors (particularly for institutional buyers).

Information sharing is at the top of the list when implementing a local food hub, according to Cleveland et al (2014) and they recommend specific initiatives including frequently updated price lists and daily contact with farmers. They also recommend flexible deadlines, delivery services, and warehouse facilities close to farmers.

Two studies focused on the restaurant industry recommend **producer-centered initiatives** to help farmers with their operations and their role within a local food value chain.

Duram and Cawley (2012) recommend providing **marketing assistance** to local farmers to help establish farmer-to-chef linkages, as well as delivering programs to involve everyone in the restaurant industry (producers, consumers and chefs) into local food networks.

Strohbehn and Gregoire (2003) recommend that producers develop and distribute information about their supply weekly throughout their growing season to potential local buyers, and that they develop an understanding of different food service operations in order to better meet their needs.

Finally, two studies recommend **standards and labeling** as a way to establish a successful local food value chain. Duram and Cawley (2012) argue that the certification and labeling will verify authenticity, and suggest creating professional designations for restaurants that source local food. Friedmann (2007) emphasizes the importance of flexible verification systems, and standards to which diverse production sites and small growers can adapt.



3.0

OVERVIEW OF ONTARIO PILOT

The pilot project linked producers in the Greenbelt and Greater Golden Horseshoe to large institutional food service buyers through an existing local food hub and a broadline distributor. The institutional food service was chosen as it represented significant volume potential.

While the food service company didn't really know how much of its volume was produced in Ontario, it did want to increase these offerings, and so partnered with us on the pilot. This single contractor managed a number of university, hospital, school and other large food service operations and had a contractual obligation to buy through a single broadline distributor which made cooperating with that distributor extremely important.

Many food service companies, big and small, purchase through a single supplier (or at very least a limited number of suppliers) for both convenience and economics. "One stop shopping" simplifies the process of ordering, receiving and paying for supplies.

Broadline distributors offer everything a chef might need including hard goods like plates. This single point of contact is usually supported by both volume discounts and a rebate structure. In low-margin food service businesses, food cost is a critical concern and rebates often provide a margin for the kitchen.

There is an opportunity for suppliers to add value to products, but it must be in the context of this relationship. One of the reasons that the broadline supplier was interested in participating was the ability to maintain the single source relationship.

The pilot began with the outlets of the food service contractor, but there was an opportunity to expand it to a broader range of food service customers once the concept was fine-tuned and a critical mass of volumes was flowing. The contractor, including head office and chefs, were interested in increasing local food offerings and were enthusiastic to try the new model and participate in the pilot. While a critical mass was never attained, broader access was provided late in the pilot.

The hub already had food service business but was not serving large institutional clients. The business models of the hub/distributor and the broadline distributor are slightly different. The broadline distributor focused on a wide range of products with next-day delivery. The hub held little inventory and focused on providing higher value (and usually farm specific) products to buyers. This meant that the time from order to delivery was usually longer than next day. The process for this pilot was structured as follows:

- Institutional buyer placed an order through broadline distribution by Friday;
- Order was sent to hub/distributor on Friday;
- Order was communicated to the producer on Saturday;
- Order was picked up from producer by hub/distributor on Monday;
- Order was delivered to broadline distributor on Tuesday; and,
- Order was delivered to buyer on Wednesday or Thursday.

The list of available products varied seasonally and was provided to the broadline distributor by the hub/distributor regularly. Facilitators from the Greenbelt Fund were active throughout the project. The facilitators met regularly with the participants in an effort to drive more volume and work through issues as they arose. Most importantly, the facilitator created demand and drove higher volumes of sales at individual locations by communicating with the chefs.

3.1 Results of Ontario Pilot

The distribution pilot ran for two years. The total volume of sales through the hub/distributor over that two-year period was less than \$20,000. While the dollar amount was small, there were a number of outcomes which merit discussion because they increased both awareness and sales of local Ontario produce into food service channels. There were also a number of key learnings that can inform future initiatives to grow local food sales.

There were barriers to growth within the parameters established (discussed in key lessons below) but there was some progress arising from the pilot.

Business models need to match up

The hub/distributor was provided access to the large institutional food service client. The food hub was a well-established business with clients of its own. While the hub manager got insight into the needs of institutional buyers, many of them were not well suited to their business model.

The hub could provide farm specific products to food service customers as well as specialized products and varieties that are often of interest (and added value) to certain chefs. This broader selection requires a strong and focused sales relationship which was diluted through the additional step in the channel. The specific product and value narrative was lost as products were channeled through the broadline distributor.

The broadline distributor offers at least 10,000 stock keeping units (SKUs) to Greater Toronto Area food service customers. Sales people respond to specific requests and talk about a range of products. The highly specialized hub products didn't get (and given the business model shouldn't have gotten) specific attention in sales calls unless there was a question or an explicit request. This was exacerbated by the fact that a more limited portfolio of products was offered through the pilot than was available through the hub/distributor.

The specific product and value narrative was lost as products were channeled through the broadline distributor.

Customer demand a must-have

There were customers who were not interested in specialty products. There were others who were very interested but found the list too short, the narrative incomplete and the process cumbersome. In the end, several individual locations began to deal directly with the hub/distributor. While local was identified as a priority at the head office level and a commitment was made to participate in the program, individual locations manage profitability and purchase decisions.

The initiative was driven by the marketing department (whose focus is growing the business beyond existing contracts) and not by operations, whose focus is on day to day purchasing and profitability.

Many individual managers and chefs were very interested in offering more local and liked the idea of offering local products and variety. Some found, however, participating in the pilot difficult because of budget constraints or directives from superiors who were also thinking margin and rebate (on purchases) volume which are an important part of profitability for many locations.

While local was identified as a priority at the head office level and a commitment was made to participate in the program, individual locations manage profitability and purchase decisions.

Through the pilot, the ordering process was cumbersome. If buyers were motivated, they could and did go direct. The challenge became introducing them to the hub/distributor to establish the relationship.

Upsides for broadline distributor

- Ontario products that were already listed were identified as local to allow customers to choose them or account for them in their purchases; and
- More Ontario grown products were added to the listings.

The pilot raised the awareness of local in the system and highlighted the variability of needs within what was thought to be a relatively homogenous group of customers.

There were a number of key lessons learned through the pilot. These were identified through observation and by individual discussions with stakeholders from all stages of the value chain.

One challenge within this pilot that was understood going into it, but the implications not fully appreciated, was that the two distribution partners had different business models.

The hub/distributor is more focused on a selected portfolio of products for which they have a strong supporting narrative. Many of these products are specialty or higher value products. Having their products listed on the broadline distributor's order form or webpage meant the loss of their value description, resulting in the customer's inability to learn that value.



The project team initially developed a specific naming convention for products and included things such as farm name, location, production practices, and variety among other things. These factors are at the core of what creates value for the local food hub, but the naming convention was not properly implemented. This limited the ability of buyers to get the detailed narrative on the product in the absence of regular sales support.

The bottom line is that the broadline distribution model is built on offering full choice. It can provide anything you want but you have to know what you want. The local food hub model is built on telling the story of these specific products and articulating the value in these products rather than any other products. This disconnect limited the growth of sales through the pilot.

The hub/distributor also does not offer rebates, focusing rather on the specific needs of the customer and the value offered by specific products. The reality is that rebates are often critical to profitability and are linked to sales volume. It appears that in some cases this limited the potential for sales growth through the pilot.

Both of these business models are valid and offer value to specific types of customers. The misalignment of models in this case meant that the products offered through the pilot were not always understood by the customer.

Later in the project, a facilitator was hired to liaise with chefs, to tell the story of the products, and generate sales growth. This was sometimes effective in generating interest and demand. As an example, the facilitator was critical in making a connection with one of the District Managers responsible for private schools. This evolved into a relationship where the business units got direction from their manager which resulted in instant uptake of the program. Unfortunately, the timing was off - this happened at the end of the school year, and did not continue in the Fall as the facilitator was no longer around to continue to champion the program.

The differences in business model were exacerbated by a number of factors:

1. While not direct competitors in practice, both the broadline distributor and the hub/distributor want to maximize sales to each of their customers. There was some skepticism about the pilot before it even began. The skepticism may have made it difficult to work through problems as they arose.
2. There were some logistical issues (highlighted below) that led to bad customer experiences and, as a result, product was not re-ordered. The low purchase volumes made the process inefficient causing people to lose interest in finding solutions. In hindsight, it may have been better to include a broader base of customers to build volume more quickly. This could have driven greater participant engagement and allowed for process improvement as obstacles were encountered.
3. Some of the pilot participants felt that communication could have been better. Problems sometime festered and it was not always clear where they originated. For example, the logistical issues were not identified to management beyond the loading dock which slowed action to deal with them.

3.2.2 A Clear Definition of Value Proposition

We saw in the review of previous hubs that the definition of local is always important. The specific definition of local speaks to the value created. The Ontario Ministry of Agriculture, Food and Rural Affairs defines "local" as grown in Ontario. For some consumers local is more nuanced. It can refer to:

- A specific distance (i.e. 100 km) from the producer.
- A clear definition and visibility of the producer.
- Size and scale of production.
- Production practices such as organic.
- Specialized products or varieties (i.e. heritage).



Any of these definitions can create value and be consistent with the government priority to support their producers as long as it is within Ontario.

Some customers wanted to buy more Ontario food while focusing on convenient ordering and minimum costing. But they were less interested in specialty products. Others were more interested in specialty products and the associated narrative (the story that we tell with those products) to create value within the food service context. Trying to sell product to both kinds of customers would be difficult.

The lesson here is that a “local food hub” needs to be clear on what they are selling and deliver on that. Whether it’s simply “Ontario grown” or identifying a product with farm, production practice and other details, the hub has to find out what the customers want and what kind of price they’re willing to pay to get it.

There was also an issue related to selling higher value local products. In some cases, chefs highlighted local content and created value for end consumers which then

created an impetus for buying more local. In other cases, chefs were buying local as an accounting and reporting exercise that was not consumer focused. This made it more difficult to motivate the purchases through the pilot and hub/distributor.

Higher value products that need a more comprehensive narrative of their attributes also need to be supported by someone who can do the explaining. Sales increased when a dedicated and experienced individual was contracted by the Greenbelt Fund to call on chefs and “tell the story” of the products from the local food hub.

... a “local food hub” needs to be clear on what they are selling and deliver on that. Whether it’s simply “Ontario grown” or identifying a product with farm, production practice and other details ...

3.2.3 Logistics

The mechanism for ordering and delivering product through the pilot limited its potential. Delays of five or more days from ordering to delivery caused some challenges for the pilot as did the limited list of products offered.

Customers are used to a relatively quick turnaround and this was an issue for some of the foodservice customers:

1. They had to order more product at a time because delivery was less frequent. This led to the potential for increased waste and higher costs as they had to carry larger inventories. In some cases, the size of facilities precluded larger inventories of some products.
2. Product evaluation was sometimes difficult. Chefs reported ordering product and then forgetting they ordered it. The product was received and used without the chef evaluating whether the product was better or created value. If they couldn't determine the value of the product, they often defaulted back to what they were buying before.
3. Orders were sometimes changed as a chef ran out of product before the order came in.

A streamlined process from ordering to delivery would increase the value and potential for success in any subsequent local food hub initiatives.

Among the other logistical issues were the fact that the truck belonging to the hub/distributor was not high enough to fit the standard receiving loading docks at the broadline distributor. This meant that sometimes orders were misplaced as they were unloaded and left in the wrong location. A misplaced order was then sometimes replaced with a product from the regular list.

There were some issues around the codes used for listings on the broadline distributor's system. As there were changes to products there were some cases where a

A streamlined process from ordering to delivery would increase the value and potential for success in any subsequent local food hub initiatives.

code label was changed but not correctly adjusted in the system. That led to orders for pilot products being filled by similar products from regular stock. In some cases, this was never caught. This could lead to a customer getting product that they thought was from the pilot but wasn't. The products were not actively marketed or identified on their unique characteristics.

It is interesting that the report of sales by code in the broadline distributor's system was \$60,000 for the two-year period, but only \$17,000 based on the records of the local food hub. The two issues above may be a large part of the problem but this discrepancy was not well understood.

3.2.4 Limited Product Listing

The limited list of products may also have hampered the pilot. There was some hesitation to put storable staples on the list as there was more competition for these products. A consistent list of staples could have allowed customers to become accustomed to ordering through the pilot. Once a regular order pattern was established it would have become easier to try additional and more novel value added specialty products. In the absence of a regular order, there was less impetus to try something else as an add-on.

The limited list also discouraged both distribution partners. It became a bother rather than an opportunity. There was less impetus for sales people to highlight the products. There was success when the Greenbelt Fund facilitator was delivering the narrative for the products but this work was discontinued.

There was also less impetus to work on problems or issues as there were “bigger fish to fry” in other segments of each of their businesses. Low volumes decreased interest and commitment to the pilot which made it even harder to find ways to improve the processes.

It may have been wise to open the listings up to a broader range of food service clients to help drive volume. Independent restaurants can make decisions more easily at individual locations and, in some cases may have more incentive to provide the local narrative to create customer value. Creating some volume through this channel may have helped create critical mass and demonstrated success while the pilot partners worked on building awareness and relationships with the corporate clients.

In the end, a project champion who is passionate about its success is important to have, as is having a well-defined logistics process at the outset to allow customers to get the products they want and value. Re-evaluating and adapting to meet challenges as they arise would have created more success.

It may have been wise to open the listings up to a broader range of food service clients to help drive volume.



4.0

THE POTENTIAL FOR LOCAL FOOD HUBS FOR FOOD SERVICE IN ONTARIO

4.1 Market Potential and Benefits

Food service represents a significant opportunity to expand value added local food marketing for Ontario producers. Restaurants Canada estimates total sales for food service in Canada at \$75 billion¹. A general rule of thumb is that food cost represents approximately 35 per cent of total sales which suggests that restaurants in Canada purchase more than \$26 billion in food annually and those in Ontario about \$10 billion².

Based on that \$10 billion estimate, food service purchases in Ontario represents³:

- \$600 million dollars in produce;
- \$450 million in potatoes;
- \$1.5 billion in meat;
- \$1.09 billion in dairy and cheese; and
- \$1.2 billion in poultry.

While it is clear that Ontario production cannot capture all of that potential market for produce (our primary focus), there is also a significant opportunity for both production and value added growth. These dollar numbers represent costs to restaurants but for produce there is little value added and margins are modest in distribution.

Most of the fruit and vegetable production in Ontario – estimated to be approximately \$200 million⁴ – goes to straight to end consumers through retail or direct marketing channels.

The focus of our pilot was produce. We have included the meat, poultry and dairy categories to highlight that there may also be the potential to achieve the critical mass for aggregation. Logistics costs and product selection are keys to success and aggregation that includes specialty

products in these other categories may represent real opportunities for additional value and to facilitate growth in the produce category.

There is real potential for growth in sales of Ontario produce. While it is difficult to quantify the current share of Ontario produce that was bought in the total \$600 million number (some are not tracked separately and shares differ by product), achieving a 25 per cent share of the total purchases would represent \$150 million.

Given that an estimated \$200 million of produce is sold in Ontario (with most going directly to consumers), there is a significant opportunity for production and sales growth. A portion of this growth would need to be in higher value product sold into specific niches. In this way, hubs selling into food service can also create higher returns for producers.

There are some limits to the total potential for Ontario produce into food service. Seasonality is a factor and some products are not easily stored. There are also some products that we do not produce in Ontario that are clearly of interest to food service. It is estimated, however, that local produce currently only represents approximately 15 per cent of total food service produce purchases.⁵

¹ <https://www.restaurantscanada.org/economistsnotebook/>

² Estimates based on private conversations with broadline distribution. Estimates developed using internal shares and market share adjustments.

³ Estimates based on private conversations with broadline distribution. Estimates developed using internal shares and market share adjustments.

⁴ Statistics Canada, Fruit and Vegetable Production, Catalogue 22-003-x

⁵ Based on a single distributor representing more than 30% of the market share.

Besides increasing the production of high value crops, there is also the potential for adding more value to existing production. For example, during the pilot, a greenhouse spinach producer was selling part of his production through the hub/distributor and the remainder through a traditional channel. The producer was willing to sell more through the hub/distributor as it generated better pricing. Providing greater access to niche markets (like specific food service operations) allowed local farmers to be able to produce higher value fresh market crops. (Conner et al., 2008; Diamond & Barham, 2011; Hoshide, 2007; Jablonski et al., 2011; King et al., 2010; Painter, 2007). The literature also shows that short supply chain food systems also lend themselves to product aggregating, which can decrease producer costs in marketing, storage, distribution, capital and packing materials. (Schmidt, Kolodinsky, DeSisto, & Conte, 2011).

The gap between Ontario production and demand in food service is large and represents a clear opportunity for adding value to Ontario agriculture. Notwithstanding the limited success of this pilot, there is potential for developing customer-specific, integrated local food value chains to create value for food service, distributors and producers.

The key to leveraging this opportunity is to be flexible. There is no “one size fits all” market opportunity here. Developing a network of like-minded and committed stakeholders with a common vision is critical to making a regional hub (or value chain) work. The real potential is based on recognizing a specific opportunity for value-added activity and exploiting that opportunity. There is considerable risk associated with simply trying to replicate an existing model or hub without ensuring that the conditions, expectations and customer value perceptions are the same.

Value creation can take a number of forms. We identified a number through the review of previous local food hubs and through this pilot. Individual hubs will develop business structures and financial models that support the specific value created at various stages of the value chain. Once again, the financial model (and shares of margins) will depend on volume and the specific activities created in the value chain.

4.1.1 Local Food

In some cases, the value chain (or hub) itself will create value as it is a shorter and more visible connection to production. We identified earlier that the perception or definition of local is critical to the value created. In some cases, produce from an individual farm may be available to a buyer through two channels. The more visible the connection and/or the shorter chain may actually create more value than an opaque channel where the connection to the producer is less clear. A variety of characteristics may contribute value:

- Taste and freshness are two of the highest rated attributes consumers look for in purchasing foods. They are also those often associated with local foods.
- Identifying or connecting to a specific farm, group of farms, or region.
- Scale of production – there can be value in buying from a “small” farm.
- Identifiable production practices – e.g. organic, heritage.
- Buyers who are able to interact with producers influence growing decisions and production can be targeted to specific times of need resulting in a higher degree of coordination.

... the perception or definition of local is critical to the value created.

4.1.2 Food Safety and Traceability

Food safety and traceability are increasingly important, particularly for large institutional buyers – both in food service and distribution. Food safety certification requirements often preclude small producers from participating in selected value chains. Smaller producers often do not have access to the resources needed to provide the assurances or certification required. It's not that the food is not safe, it's just that it costs money to have it certified.

Value chains that can build this capability into their structure can better attract farmers to participate while expanding the number of food service outlets who will buy from them. This is a real opportunity to create value in a local food hub.

Food safety and traceability are increasingly important but often preclude small producers.



Many producers feel that getting certified with something like CanadaGAP is onerous and doesn't generate enough value for the effort. At the same time, some buyers want the certification (or at the very least improved food safety monitoring) and producers need it to sell into that market. Finding individualized food safety solutions that work for producers and the specific value chain they are accessing could create real value for hubs. In fact, the Greenbelt Fund undertook an initiative to provide some producers with food safety and traceability training that was very well received.

4.1.3 Training and Coordination

Farmers said that participating in these specialized value chains requires a different mindset and set of skills than their traditional channels. Gooch et al (2009) identified a tension in the establishment of food value chains in that consumers saw participation as a way of helping them adapt to a changing market dynamic while farmers saw participation as a way of avoiding having to adapt. Food service operators have evolved to using a single supplier (or at the very least a minimum number of suppliers) model. With this new model, they are being asked to deal with a number of different parameters:

- Multiple suppliers with changing supplies based on the time of year;
- Less frequent delivery options; and,
- Alternate order processing (not necessarily on line).

Farmers said that participating in these specialized value chains requires a different mindset and set of skills than their traditional channels.



Training and coordination could overcome some of these challenges. Managing expectations and clearly articulating value is important to making a local food hub work for a food service provider. It may also include bringing buyers and producers together. This can create growth opportunities such as:

- Coordinating production volume and timing for added value; and,
- Bringing opportunities for new products (from both producers and buyers).

All of this requires adaptation on the part of farmers too. Helping producers understand and meet the requirements of this sort of initiative can improve the chances for success. They can create value for the hub but they need to understand what the value is and what they need to do to create (and then be paid for) it. It is rarely a case of simply selling the exact same product in the exact same way for a premium. Producer training can include things like:

- Production (new products or production techniques)
- Marketing
- Certification opportunities
- Food safety practices
- Storage
- Interacting with buyers

Hubs can also create value for producers by providing shared resources that individuals might not be able to source by themselves. This can include shared equipment.

4.1.4 Packing and Aggregation

The fundamental objective of many local food hubs is aggregation. It provides the opportunity for small and medium sized producers to participate in markets from which they are often excluded. Bringing these producers together provides a critical mass of product to meet the needs of a specific customer or group of customers. In addition to simple physical aggregation, there are a number of other services that hubs can provide to create value for the customer and/or the producers:

- Common brand and packaging
- Packaging equipment for individual products
- Cleaning
- Some basic processing

Hubs don't have to offer these services, and farmers can take on the responsibilities themselves. The specific structure of a hub depends on the specific needs of the network of customers and producers. Thinking flexibly and creatively is one of the keys to succeeding.

In addition to simple physical aggregation, there are a number of other services that hubs can provide to create value for the customer and/or the producers.

4.2 Keys to Success

4.2.1 A Champion and Common Vision

Value is subjective. We saw clearly even within different units of a large institutional food service provider that value (and associated demand) was variable. This is partly due to the issue of defining local. Some units were focused on meeting the minimum mandate (produced in Ontario) with an ongoing singular focus on reducing food costs and increasing margins. Convenience is also critical for this customer.

Other units saw a real opportunity to create value and differentiate based on not just local but on the quality and other characteristics of the local food. Meeting the needs of all these divergent customers with a single product offering is difficult. Meeting the needs of the cost and convenience driven customer with a model that required once a week ordering is also difficult.

The pilot's purpose was to serve this large food service company but variable demands within that company caused problems. Several units for whom the value added made sense began dealing directly with the hub/distributor to get the products they wanted. The opportunity was there but the shared value and vision were not. A shared set of values and common vision are critical to success. Neither approach is wrong but they have different needs and the business structure needs to be built to meet those needs.

A shared set of values and common vision are critical to success.

Starting something new is hard work. Innovation often fails. A key to success is to have a committed champion to drive the process forward. In the case of this pilot, the champion was external to the value chain – the facilitator.

When issues arose, there was not always someone internal to the process to work through them. An internal champion committed to the idea would have improved the chances for success. This is critical to drive the development forward and to ensure that there is the best chance to persevere through inevitable difficulties.

An internal champion committed to the idea would have improved the chances for success.

4.2.2 Flexibility and Adaptability

There are clearly lessons to be learned from previous experiences. It is, however, also critically important to understand the specific circumstances of a niche market to ensure that the structure implemented can deliver on the expectations of all stakeholders. This goes beyond simply the definition (and value) of local food but to the other attributes of a supply chain that are important to stakeholders. There might be producers and customers who are not well suited to a specific local food value chain. Clarity on this point at the outset is critical to maximizing the chances for success.

Even if there is a clear plan to start, there will often be bumps in the road. It is also critical to re-evaluate regularly and adapt to meet the challenges that arise.

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