

FOOD HUB GROWTH:

A CASE STUDY OF THE PUGET SOUND FOOD HUB COOPERATIVE



Abstract

Food hubs are businesses that market, aggregate, and distribute origin-identified agricultural product for groups of regional growers and food manufacturers, and typically provide buyer convenience through single point of purchase, invoicing, and payment. This Extension publication describes the history and current status of the Puget Sound Food Hub Cooperative, a food hub operating in western Washington State. Additionally, information is provided on the hub's formation and growth, including current and projected hub sales and expenses, the hub's historical background, business type, organizational structure, governance structure and procedures, hub products and services, market channels, characteristics of producers and suppliers, a description of key buyers and marketing strategies, and reflections on lessons learned and future plans. This publication is part of a series of three case studies on food hubs in Washington State, which also includes *Food Hub Adaptation: A Case Study of Local Inland Northwest Cooperative Foods* (Bramwell and Sitaker, forthcoming) and *Food Hub Establishment: A Case Study of the Southwest Washington Food Hub* (Bramwell and Sitaker 2022).

Introduction

The USDA defines a food hub as “a business or organization that actively manages the aggregation, distribution, and marketing of source-identified food products, primarily from local and regional producers, to strengthen their ability to satisfy wholesale, retail, and institutional demand” (Barham et al. 2012). A food hub may be legally designated either as a nonprofit organization, a cooperative, or a business either publicly or privately owned (Berti and Mulligan 2016). It may sell directly to consumers, offering a CSA subscription or online farmers market; operate an online grocery box delivery enterprise; act as a wholesale distributor, selling to restaurants and institutional buyers; or combine two or more of these approaches (Matson et al. 2015).

For small and midsize producers, a food hub actively connects them with retail and institutional markets, and provides business management, food safety training, liability insurance, and value-added product development (Matson et al. 2015). In addition to aggregation and distribution, a food hub may provide branding and market development, brokering, packaging, light processing,

and product storage. Buyers benefit from access to a wide variety of fresh, high-quality, regional products in the volumes they need, with one-stop purchasing, invoicing, and delivery.

While the food hub model offers a way to efficiently connect multiple regional producers to wholesale and institutional purchasers (Matson and Thayer 2013), many food hubs have additional environmental and social goals, seeking to increase community cohesion and access to healthy, local food to create a more vibrant and equitable food system (Cleveland et al. 2014; Franklin et al. 2011; Horst et al. 2011).

This Extension publication describes the development, financial history, and current operations of the Puget Sound Food Hub Cooperative (PSFHC), an established hub in northwestern Washington State. This publication is part of a series of case studies on three food hubs in Washington State (Figure 1); it is intended to help farmers, researchers, technical service providers, and others interested in starting a food hub, or those expanding or improving operations of an existing hub.



WASHINGTON STATE UNIVERSITY
EXTENSION



Figure 1. Locations of three Washington food hubs in the case study series (indicated by a black star): Puget Sound Food Hub Cooperative, LINC Foods, and the Southwest Washington Food Hub. Other regional food hubs, not yet in this series, include Kitsap Fresh, San Juan Islands Food Hub, and Whidbey Island Grown.

Methodology

Initial data for this case study consisted of notes from conversations with food hub staff conducted in 2019 and information provided by the hub (hub websites, financial data on sales and expenses, articles of incorporation, bylaws, and guides for farmer/rancher suppliers).

Data were abstracted from these source materials and entered into an Excel workbook, with separate tabs for quantitative and qualitative data. Data entry shells were developed iteratively, based on notes of conversations conducted with PSFHC management during previous site visits and organized by topics and subtopics discussed in *Running a Food Hub: A Business Operations Guide* (Matson et al. 2015). Quantitative data categories included current and projected data on hub sales and expenses. Qualitative topic categories included the hub's historical background, legal description of business type, organizational structure, governance structure and procedures, hub products and services, market channels, characteristics of producers or suppliers, a description of key buyers and marketing strategies, and reflections on lessons learned and future plans.

To fill information gaps identified during the abstraction process, a follow-up interview was conducted with PSFHC management in April 2021. Interviews were conducted via online video conference. The PSFHC manager had an opportunity to review the worksheets populated with PSFHC data prior to the interview. During the interview, information on each worksheet was reviewed to fill in missing information and ensure existing data were current and accurate. Some new information was added to the worksheets during the interview, and audio recording and notes taken during earlier interviews were later reviewed to verify their accuracy.

Results and Discussion

Market and Production Context of the Region

The PSFHC was developed within a production and market context specific to northwestern Washington, which is a richly diverse production region with marketing infrastructure that has been systematically developed over the past decade.

Production

In the contiguous counties of King, Skagit, Snohomish, and Whatcom, and nearby Island and San Juan Counties, local farmers produced about \$969 million worth of agricultural products on 340,085 acres of land (Table 1), as of the 2017 Census of Agriculture (USDA 2019). Whatcom and Skagit Counties, which have the most land in production, are among the state's top ten in agricultural sales. The cool, moist valleys of western Washington are ideal for raising milk cows, berries, nursery products, and flowers. Specialty potatoes and aquaculture are also among the main products in this maritime area.

Experimentation with new grain varieties has opened new market opportunities for businesses using locally grown wheat and barley. Since 2010, the Port of Skagit has become home to a specialty grains research center (the WSU Breadlab). Nearby, there is a malthouse (Skagit Valley Malting), several breweries, a craft brewing academy (operated by Skagit Valley College), and a flour mill (Cairnspring Mills), all within a mile of each other.

Mainland counties containing an urban core surrounded by areas with lower population density have a large number of farms, though many of these are smaller operations. For example, King County has the largest number of farms, yet more than half are between one and nine acres (Table 2). The more rural island counties contain fewer farms but have a higher proportion of larger farms of 50 acres or more. Yet in every county in this region, most farms reported sales under \$10,000 in 2017 (Tables 1 and 2). Again, the highest proportion of farms with sales of \$100,000 or more are in Skagit and Whatcom Counties.

The six-county region supported over \$12 million in direct-to-consumer sales in 2017 (Table 2) and has 30 farmers markets, with 21 in King County alone (Washington Farmers Market Association 2020). Yet direct market sales represent only 1.3% of total sales, with a majority of sales attributable to product exported either out of state or out of country. In fact, only a small proportion of foods consumed in all counties west of the Cascade Mountains are grown locally (Born et al. 2012).

Table 1. Farms, land in farms, market values, and value of production per acre in Island, King, San Juan, Skagit, Snohomish, and Whatcom Counties.

	Farms (#)	Land in Farms (acres)	Market Value of Product Sold (\$1000)	% Change in Value of Products Sold 2012 to 2017	Value of Production per Acre (\$/acre)
Island	390	15,850	12,002	4.5	319
King	1,796	41,975	135,461	10.9	1,110
San Juan	316	18,402	4,119	-3.1	2,676
Skagit	1,041	97,664	287,096	5.2	742
Snohomish	1,558	63,671	157,565	11.5	1,418
Whatcom	1,712	102,523	372,850	4.2	2,817

Source: USDA Census of Agriculture (2019).

Table 2. Farm size, value of consumer-direct sales, and proportion of farms by sales volume in Island, King, San Juan, Skagit, Snohomish, and Whatcom Counties.

	Farms with 1 to 9 Acres (%)	Farms with 50 acres or More (%)	Value of Consumer-Direct Sales (\$)	Farms with Sales of \$9,999 or Less (%)	Farms with Sales of \$100,000 or More (%)
Island	29.0	16.4	1,855,000	77.9	3.1
King	53.6	6.9	729,000	79.3	4.7
San Juan	22.8	29.4	1,996,000	74.7	2.2
Skagit	37.2	24.3	286,000	72.1	12.4
Snohomish	45.5	14.8	3,671,000	78.6	6.4
Whatcom	40.9	20.4	3,743,000	70.3	15.0

Source: USDA Census of Agriculture (2019).

Competition

In its 2020–2022 business plan, the PSFHC described existing competition for the distribution of organic and locally grown produce within its six-county service area, mainly from three well-established wholesale businesses: Organically Grown Company, Charlie’s Produce, and Duck Delivery Produce. Additionally, Sysco dominates the institutional market, with mechanisms in place that effectively discourage competition from other suppliers. There is moderate-to-strong market competition for the distribution of local and regional value-added food products as well, including by other food hubs.

Additionally, the region has well-established venues for direct sales of locally grown foods by farmers and value-added product vendors, who sell to area retail stores and through CSAs, farmers markets, and other food hubs. Despite existing competition, there is both production capacity and a need to connect more local and regional buyers to the variety and quantities of food grown in the region, through marketing infrastructure such as the PSFHC.

Beginnings

The PSFHC began in 2009–2010 as a small wholesale farmers market under an overpass in the parking lot of the Skagit Valley

Co-op (Price 2014). Lucy Norris, who was the director of the PSFHC and marketing director for the Northwest Agriculture Business Center (NABC) at that time, helped to create the marketplace. Working through NABC, she obtained a value-added producer grant from the USDA to start a formal food hub in partnership with 21 Acres, a Woodinville-based nonprofit learning center focusing on organic agriculture, sustainable living, and green building technologies. With help from Robin Crowder, marketing and development director at 21 Acres, PSFHC soon expanded the marketplace to support farmers in Whatcom, Skagit, Snohomish, King, and Island Counties.

The PSFHC was incorporated as a farmer-owned cooperative in 2016, at which time governance transferred from NABC to a board of directors. David Bauermeister initially served as PSFHC’s general manager and played a critical role in the hub’s early development.

PSFHC’s early experience as a small wholesale market helped establish relationships with anchor farms, so that the hub could set competitive price points and provide sufficient volumes for institutional buyers. Siting the market in Skagit Valley Co-op’s parking lot proved advantageous, as the co-op became an early wholesale buyer. In the early days, the hub focused on securing essentials like dry storage, cold storage, loading docks, and trucks. Bow Hill Blueberries and Cloud Mountain Farm Center were early aggregation sites (Figure 2), with the latter still

serving as an aggregation site for PSFHC members in Whatcom County.



Figure 2. Bow Hill Blueberries was an early aggregation site for the hub. (Photo: Marilyn Sitaker.)

According to general manager Andrew Yokom, “There were hundreds of supporters and contributors over the beginning years that made [PSFHC] possible,” including farms that built hub sales into their business and succession plans (Figure 3). Along with Skagit Valley Co-op, San Juan Co-op was a consistent customer. The University of Washington was the first big buyer; Amazon was PSFHC’s largest account for a time. These buyers supported the fledgling hub by providing feedback, attending farmer meetup events, and touring farms. Bon Appetit chef Anthony Clark was an influential supporter, attending producer meetings and promoting the hub to all who would listen. With his help, PSFHC soon sold to more than a dozen Bon Appetit locations.

Whole Foods Market provided access to Seattle parking lots for wholesale farmers markets, and United General Hospital made larger purchases and promoted the PSFHC’s mission, while stressing the importance of healthy eating in a hospital setting. Sasha of SJI Transport Services played a vital role in developing volume in the San Juan Islands. Canlis, Portage Bay Café, and other key restaurants helped by supporting and committing to a transparent relationship with local farmers. The Markets LLC and Community Food Co-op were also consistent buyers.

After the initial stages of the hub’s development, setting up software to manage sales transactions became critical for

functionality. Local Food Marketplace (LFM) was selected, in part because it offered good technical support. However, like other software platforms, there are compatibility issues for financial record keeping (e.g., LFM does not interface with QuickBooks accounting software).

Description of PSFHC

Organizational Structure

For taxation purposes, PSFHC is recognized as a cooperative marketing association (WAC 458-20-214 2003). Legally, the cooperative is organized pursuant to RCW 23.86 as an “Agricultural Association” and incorporated as recognized by the Washington Secretary of State.

PSFHC’s bylaws (Puget Sound Food Hub Cooperative 2020a) and articles of incorporation (Puget Sound Food Hub Cooperative 2020b) guide the election of its board members at a yearly membership meeting (Figure 4). The annual meeting is also a time for members to hear annual reports from officers and committees and provide input to the board on topics related to the hub’s strategic direction. The board may call additional member meetings, including meetings at the request of at least 25% of the members.



Figure 3. Bellewood Farms retained co-op membership as it passed the business to the next generation. (Photo: Bellewood Farms.)



Figure 4. PSFHC elected its first board of directors in 2016. From left to right it included: Tim Terpstra, Ralph’s Greenhouse; Mike Finger, Cedarville Farm; Terri Hanson, general manager; Erik Olson, Well Fed Farms; Jimmy Kintzele, Southern Exposure Family Farm; Amy Frye, Boldly Grown Farm; Vince Caruso, Caruso Farm; and Griffin Berger, Sauk Farm (not pictured). (Photo: NABC Archives.)

The board of directors consists of five to nine farmer-members, with the aim of encouraging a diversity of perspectives to shape the direction of the food hub. Officers include a president, vice president, treasurer, and secretary. The PSFHC general manager meets with the board president and vice president to set the agenda for the monthly board meeting, which is open for attendance by all PSFHC members. The annual cycle for budget-setting occurs in the fourth quarter of each year, when the general manager submits a budget to the board for approval. Currently, there are three committees (board development, finance, and member engagement) with representation from PSFHC staff, farmer-members, and board members.

Decision-Making Process

The board is empowered to make decisions about business matters and guide the hub's strategic direction, but changes to bylaws or structure of the organization require a majority vote from the membership. The board is currently finalizing a five-year strategic plan. The board works closely with the general manager who plays a vital role in making day-to-day decisions regarding hub operations that help achieve the strategic direction laid out by the board.

"It's strategy vs. tactics; the board is responsible for [determining] where we're going, and I'm responsible for how we get there." -Andrew Yokom, General Manager

Insurance and Policies

The *Puget Sound Food Hub Farmers Cooperative: Guide for Producers* (Puget Sound Food Hub Cooperative 2020c) describes policies for producers and suppliers on growing practices and food safety, farmer and rancher agreements, communication with members, and protocols for corrective action. The guide also specifies eligibility and participation guidelines. New members must be approved by the board, purchase one share of common stock for \$1,000, and pay an annual due of \$100 each January. Non-member suppliers are also allowed to sell through the hub and pay annual dues of \$150.

All farmer-members are required to have a business license (WA UBI) and any necessary specialty licenses on file with the hub (Puget Sound Food Hub Cooperative 2020c). Each farm must provide a copy of the certificate of insurance coverage in the amount of \$1–2 million and name the PSFHC as an additional insured. Producers must comply with current county, state, and federal food safety requirements for product categories per the *Handbook for Small and Direct Marketing Farms* (WSDA 2019). Meats must be processed at a USDA licensed facility, and poultry must be processed at a USDA or WSDA licensed facility. Producers are required to have written food safety and recall plans, a Produce Safety Alliance certification, and are encouraged to take WSDA workshops on the Food Safety Modernization Act (FSMA) and Good Agricultural Practices (GAP) standards for certification. Members must produce at

least 51% of the product they sell and are expected to follow PSFHC's production practice standards, as organic certification and GAP certification are important factors in securing sales.

PSFHC carries insurance on the board of directors and its officers for decisions made on behalf of the hub. Additional liability insurance covers product during transport to customers, as well as member-owned product stored in the warehouse. As members own their product throughout the value chain, being covered by the hub's insurance during storage and delivery provides extra protection to members in addition to the \$2 million in liability coverage members are required to carry. PSFHC has Sanitation Standard Operating Procedures (SSOPs) in place and follows Current Good Manufacturing Practice (CGMP), as well as maintaining Good Handling Practices certification with annual review. The warehouse is licensed through the state, and warehouse employees are required to have forklift training as well as food handler permits, and must keep cleaning and maintenance logs. While in PSFHC facilities, aggregation and delivery contractors must comply with current food safety and handling requirements (e.g., a preventive control plan, Hazardous Access Critical Control Point [HACCP] plan, or both).

Food Hub Operations

Facilities and Equipment

PSFHC currently operates out of a rented office and 14,000 sq ft warehouse in Mount Vernon, Washington. In addition to dry storage, the facility boasts a 4,000 sq ft cooler and 360 sq ft freezer, and has three trucks, a forklift, and electric pallet jacks (Figures 5, 6, and 7). The PSFHC has an additional aggregation facility located at the Cloud Mountain Farm Center serving PSFHC farmers in Whatcom County.

Purchase and Sale Logistics

Purchase and sale transactions occur through a combination of online commerce (using the LFM online purchasing platform), direct relationships with buyers, and purchase requests by email or phone that staff later enter into LFM on behalf of buyers.

Farmers and non-farm vendors must establish an online LFM account, which is reviewed by PSFHC staff to confirm they are a wholesale business in the PSFHC delivery area. Sellers then add and update their own inventory and farmer profile, as well as descriptions, pricing, and availability. Sellers set their own prices, but staff sometimes work with sellers and buyers on pricing when brokering sales (particularly with large accounts). PSFHC is responsible for customer invoicing and collecting payments for online sales on behalf of the farmer. They also follow up with customers carrying an outstanding balance. The hub issues weekly payments to producers by check or automatic deposit.

Buyers are also required to set up an online LFM account, which is reviewed by staff to confirm their business type (restaurant, grocer, institutional, etc.) and location within PSFHC's delivery area. Buyers shop online through the PSFHC website linked to LFM. This allows buyers to order from multiple farms, compare products, read farmer profiles (e.g., who, how, and where food is produced), and learn about products, growing methods, certifications, and other details.

Each week, PSFHC asks farmer-members to enter their current inventory into a fresh sheet, a master spreadsheet that lists the products the hub has to sell that includes product varieties, prices, and available volumes. PSFHC sends the fresh sheet to buyers via email, along with special deals. During peak season, the fresh sheet may be sent out twice weekly. Buyers can place their order, choose a delivery date, and pay a single invoice online by credit card. Some larger accounts routinely email or telephone their orders in to the PSFHC office.

For buyers, Sunday is the cutoff to submit orders for Tuesday delivery, and Wednesday is the cutoff for Friday deliveries.

Product must be delivered to the aggregation facility by 2:00 p.m. Monday (Tuesday delivery) or Thursday (Friday delivery). On delivery days, employees work in two shifts: the morning shift does paperwork and planning, and the afternoon shift aggregates orders on pallets (Figure 8).

Staffing

Current staff includes general manager Andrew Yokom, operations manager Evan Lewarch, logistics coordinator Miles Tarr-Raines, sales manager Ed Morris, customer service lead Jessi Benoit, bilingual customer service support Rocio Pardo, and bookkeeper Beth Parker. Part-time staff include five to six truck drivers (two or three days per week) and four aggregation staff (two days per week). Dedicated sales managers have been a critical factor in facilitating rapid increases in revenue (Figure 9).

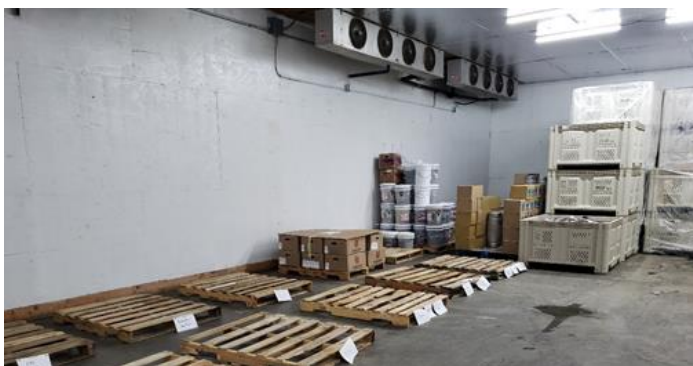


Figure 5. Walk-in cooler at the Mount Vernon PSFHC warehouse. (Photo: Stephen Bramwell.)



Figure 7. PSFHC trucks deliver orders to customers within a six-county region. (Photo: Stephen Bramwell.)



Figure 6. Conditioned and bulk storage available at the warehouse, including for totes of grain. (Photo: Stephen Bramwell.)



Figure 8. PSFHC staff pack food boxes. (Photo: Skagit Valley Herald.)



Figure 9. General manager Andrew Yokom in the PSFHC warehouse. (Photo: Organic Producers Network.)

Producers/Suppliers

As of early 2020 PSFHC was composed of 64 members (52 farmers, 12 non-farm vendors), including 4 dairies, 46 fruit or vegetable operations, 2 mills, 2 tree nut producers, 6 dedicated value-added businesses, a seafood partner organization, 1 mushroom producer, 1 partner food distributor, and 1 prepared foods business (a pizzeria). Members generally operate within the PSFHC's primary six-county region (Whatcom, Skagit, Island, San Juan, Snohomish, and King Counties). In 2019 the top three producers were responsible for approximately 30.9% of sales, and the top ten were responsible for 63.6% of sales overall. The bottom half contributed 8%.

"It took time to trust the relationship with the hub. For a while I tried to figure out how to make sales around the hub but then we gradually listed more and more product. I've more than made up [for potential lost sales] in access to Seattle and Whatcom County markets." -Kai Otteson, Hedlin's Family Farm.

Products and Services

Products

Vegetables, including produce for aggregated food security boxes, constitute 30% of sales overall; another 40% of sales is distributed fairly equally between baked goods, dairy products, and meats (Figure 10). Meats (including seafood from tribal partners) and grocery (frozen and value-added products) have recently grown in popularity. While land-based farm goods made up two-thirds of hub sales in 2020, the remaining one-third came from value-added products like baked goods and beverages, as well as seafood. Sales of fruit and milled grains also made significant contributions, with each representing 6% of total sales (Figure 11).

Some of the more unique items sold through the hub include quail, kefir, okra, tuna, game bird, gluten-free pies, bitters and

shrubs, and sipping brines. Pies make up the largest portion of baked good revenue, which amounts to 14% of hub sales.

"The key is product diversity. The big farms pull the little farms along. It also really helps to open it up to vendors who bring [attractive] products like pies, etc." -Kai Otteson, Hedlin's Family Farm

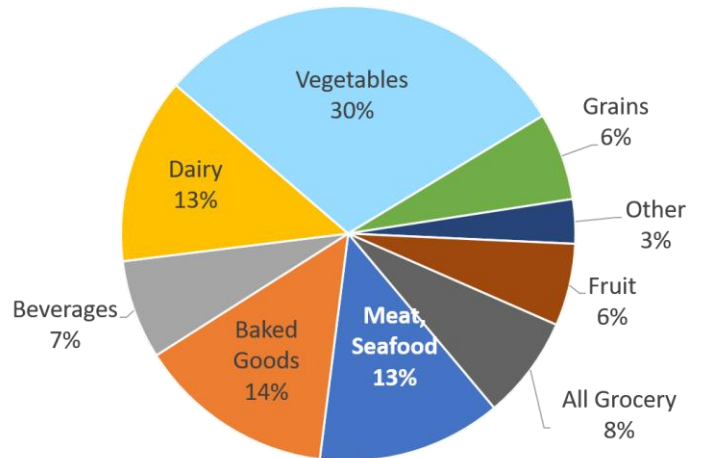


Figure 10. PSFHC sales by product category, 2020.



Figure 11. PSFHC members from Blanchard Mountain Farm in Bow, WA. (Photo: [Blanchard Mountain Farm.](#))

Production Planning

PSFHC is working on building year-round supply capacity to meet the demand of grocery store and co-op buyers. For example, farmers are advised to grow products for the shoulder seasons and contact buyers in advance of the season to discuss their product needs, estimated volumes, and prices. Growers are encouraged to consider planting high demand items, like hardy greens, root crops (carrots, leeks, onions, parsnips, potatoes, beets, turnips, celeriac, garlic, shallots), winter squash, and anything that can be stored for winter sales. They are also encouraged to consider season-extending strategies, such as hoop houses or covered row tunnel crops. PSFHC is also working to develop a formal system for production planning to meet the demand of various buyers.

“[Production planning] is a challenge, which is why it doesn’t exist yet. We’re basically starting with a big spreadsheet and linking to specific producers based on volume needs.”

-Andrew Yokom, General Manager

Services

PSFHC provides direct delivery to wholesale customers in Seattle as well as San Juan, Skagit, and Whatcom Counties. PSFHC staff provide administrative services and bookkeeping for the hub. They ensure bills are paid and farmers are compensated in a timely manner (typically within a week of transaction). Additional services include marketing, product aggregation and distribution, cold and dry storage (for a fee), food safety adherence, invoicing, managing credit card/banking fees, communications, and more. The operational costs of these services are partly offset by a markup associated with the gross value of the product sold by the farmer.

Food Hub Economics

Budget: Income, Costs, Expenses, and Profit

Following standard business accounting practices, the PSFHC annual budget calculates the gross profit for the year by taking income (from hub sales, storage rental fees, member dues, and other sources) and then subtracting costs that vary with the amount of goods sold, such as producer payments, purchased product, packaging material, and delivery fees, to calculate the variable margin (Table 3). From the variable margin, the fixed expenses are subtracted to produce the net income. The net income is adjusted, adding additional income and subtracting additional expenses, to calculate baseline earnings before interest, depreciation, and amortization.

Table 3. PSFHC expense budget, 2020.

INCOME	Amount (\$)
Food hub	4,050,000
Storage rental	37,850
Other income	10,250
Total Sales	4,098,100
VARIABLE COSTS	
Merchant account fees	23,000
Revenue to farms	3,167,648
Products purchased	174,960
Packaging material expenses	-
Refund to customer	-
Variable labor	392,693
Freight & delivery costs	135,000
Other operating	11,700
Total Variable Costs	3,905,000
Variable Margin	193,100
FIXED COSTS	
Total equipment costs	13,000
Total facility costs	50,000
Total selling & marketing costs	14,400
Total general/administrative costs	198,526
Unforeseen expenses & bad debt	-
Total Fixed Costs	275,926
NET INCOME	(82,826)
Other income	-
Other expenses	-
Baseline EBIDA*	(82,826)

*Earnings before interest, depreciation, and amortization.

Cost Coverage

The ability to cover PSFHC variable expenses depends on the markup, which is about 30% for produce and between 22% and 30% for value-added items. This depends on what the market will bear and the price of goods set by the farmer. Increasing the markup would require a shift in the relative price differential between producer and customer. This seems to be more feasible in the Seattle market, where buyers are more willing to accept an increase in prices, yet delivery costs, such as for fuel, may also compel increases to the markups applied.

Accounting and Books

The primary software used by the PSFHC for accounting and budgeting purposes are QuickBooks, Excel spreadsheets, varied functions of LFM, and Transaction Pro. The food hub employs common budgets and tools including enterprise budgets, cash flow projections, break-even analysis, and profit and loss statements in QuickBooks and Excel. Transaction Pro is used to transfer data tracked in LFM (predominantly on invoicing and sales) into QuickBooks as the two platforms do not articulate directly. Data are uploaded from LFM to Transaction Pro and downloaded to QuickBooks, and in 2020 the hub put a lot of work into developing procedures to transfer data between the two software systems.

Sales Revenue

Figure 12 shows trends in PSFHC sales over time. From its modest beginnings in 2012, sales increased each year, with four distinct periods of growth. In 2013 and 2014 the average increase in sales was \$109,000 per year compared to the 2012 baseline. From 2014 to 2017, the average increase was \$362,000 per year, followed by an annual increase of \$853,000 between 2017 and 2019. From 2019 to 2022 annual sales increased dramatically by \$1,300,000 on average each year.

Sales Focus (Market Channels)

Sales to retail grocery stores, co-ops, and restaurants are a mainstay for PSFHC. In 2018, these constituted 84% of all sales (Figure 13). Institutional sales were modest, and wholesale for CSA and food assistance box programs each contributed a small proportion to overall sales. This distribution shifted during the 2020 pandemic year. The increase in retail sales compensated for a decline in restaurant sales, so that overall, sales in these two categories combined remained stable. Wholesale to CSA sales decreased but food assistance box sales increased such that sales for these two categories combined increased from 7% to 9% of sales overall, while institutional accounts decreased from

9% to 6%. By 2022, combined retail and restaurant sales constituted just 53% of sales, while food assistance boxes represented 26%. Wholesale for CSA operations continued to claim a small but growing share of sales, while institutional sales rose back to the 2018 level of 9% of overall sales.

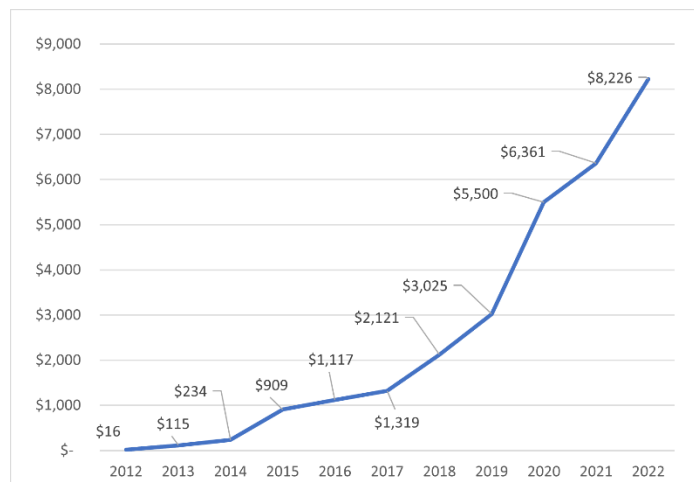


Figure 12. PSFHC sales, 2012–2020 (\$1,000s).

“Smaller growers can compete by growing specialty varieties and providing smaller counts.”

–Harley Soltes, Bow Hill Blueberries

Because total sales increased more than four-fold between 2018 and 2022, the dollar value of sales for a particular market channel could have increased over time, even if the percentage contributed by that market channel decreased. For example, as shown in Table 4, between 2018 and 2022 restaurant sales increased from \$425,714 to \$1,072,803, though its contribution toward overall sales decreased from 22% to 13%. And while wholesale to CSA operations showed a modest increase as a percent of overall sales during this time (from 3% to 9%), the dollar value increased more than ten-fold. For context, total agricultural sales across the six-county region in 2017 were \$969 million, of which \$3.7 million were direct-to-consumer sales.

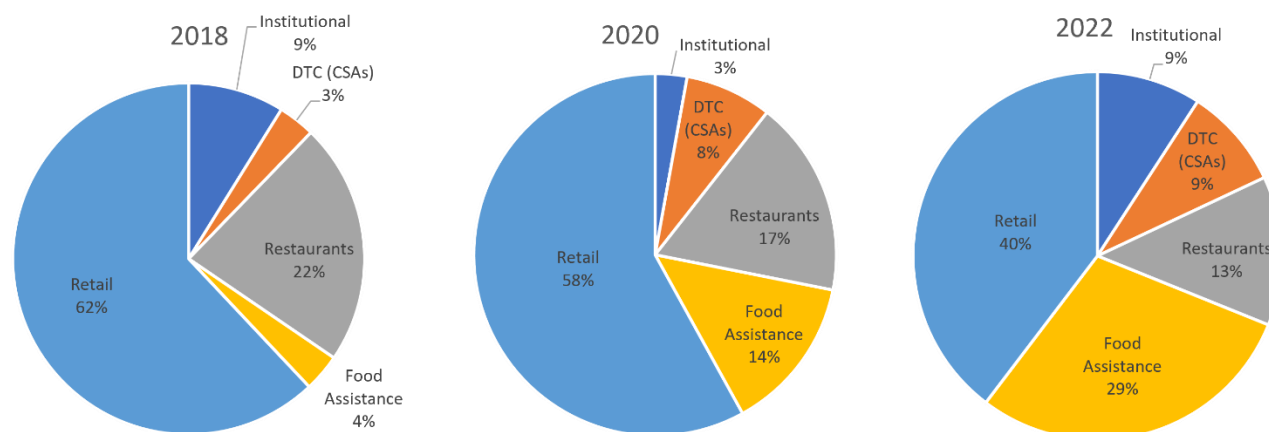


Figure 13. PSFHC sales by market channel for 2018 (left), 2020 (middle), and 2022 (right).

Table 4. Change in PSFHC sales volume by market channel, 2018, 2020, and 2022.

	2018	2020	2022
Institutional sales	\$168,952	\$301,267	\$750,591
Wholesale to CSA operations	\$64,942	\$34,592	\$725,211
Restaurants	\$425,714	\$846,675	\$1,072,803
Food assistance box programs	\$65,948	\$436,346	\$2,396,107
Retail	\$1,184,730	\$3,545,934	\$3,248,797
Total Revenue	\$1,910,286	\$5,164,815	\$8,225,800

PSFHC farmers and staff emphasized the importance of a thoughtful approach to market pricing. Larger, more efficient farmer-members might be able to offer a lower price and outcompete smaller farms within the hub. Thus, standardizing prices across member farms effectively prices institutions out of the food hub, skews the internal market and decision-making, and encourages farmers to grow what is not competitive. On the other hand, some smaller farmer-members view the advantage that efficient, larger farmer-members as a challenge, spurring them to respond by being “...better in price, or quality, or identity” (Kai Otteson, personal communication).

Maximizing travel efficiency is another consideration for the hub as it acquires new wholesale customers. Currently, PSFHC is strategically adding new accounts with grocery stores and co-ops located along the I-5 corridor to take advantage of existing retail delivery routes.

Marketing

Branding/Value Proposition

PSFHC emphasizes the freshness and nutritional value of its products. Additionally, PSFHC aims to educate buyers about the true cost of food production so that they understand its value and are more willing to pay appropriate prices for local food that is grown sustainably. In its marketing materials, PSFHC also emphasizes that buying through the food hub offers wholesale buyers the convenience of buying from multiple farms through a one-stop purchase, invoice, and delivery system. Additional advantages include a greater connection with growers, unique products, source identification, and qualities associated with buying through a cooperative, such as fair treatment of farmers, transparency, and integrity.

Buyer Outreach

PSFHC utilizes a variety of outreach strategies including farm tours, in-person sales visits, weekly fresh sheets, and typical marketing platforms, such as social media or websites. Door-to-door sales calls are viewed as a cornerstone method for buyer onboarding, particularly for wholesale (restaurant and grocery) and institutional accounts. Staff would like to take greater

advantage of social media but have not been able to allocate more time. Farm tours are viewed as a popular way to increase farm visibility, but their impact is small.

Relational Marketing

According to food hub founders and staff, direct relational marketing has far and away been the most important buyer outreach strategy. The rapid sales increase from 2017 to 2020 was perceived as the result of hiring Mark Whims, a sales manager formerly with Wilcox Farms. His impact was described as adding “rocket fuel” to sales.

“You need institutional buyers to get all their produce from the hub, to get them off [the mainline distributor].”
-Kai Otteson, Hedlin’s Family Farm

Additionally, working with co-ops has been advantageous, as their principles facilitated working closely with other co-ops. As others working in values-based supply chains have noted, it is important to find customers who not only value the food but are committed to business relationships marked by transparency, trust, and good communication.

Key Buyer Outreach

Key Supporters

Several buyers played instrumental roles in supporting the launch of PSFHC, including United General Hospital, the Skagit Valley Co-op, Bellingham Food Co-op, Bon Appetit, Whole Foods Market, 21 Acres Center for Sustainable Living, Canlis Restaurant, The Markets, and Community Food Co-op, among many other critical partners. They supported the food hub with regular purchasing while also providing other help like making parking lot space available for transactions (Skagit Valley Co-op, Whole Foods), messaging the importance of healthy eating (United General), and committing to a transparent relationship with local farmers (all, but notably Canlis), among other examples. At one point, a philanthropic contribution from 21 Acres Center for Sustainable Living allowed the hub to provide local food to daycare centers.

The abrupt loss of a key relationship, however, caused problems for the hub. Previously, the PSFHC supplied a large Seattle distribution company with over 20 food service sites; this was the hub's largest corporate account at the time. When the business changed food service providers, PSFHC was dropped mid-season and left with a large inventory of frozen chicken set aside for what the hub understood to be a committed sale. This breach of trust resulted in a dramatic revenue loss that left the hub feeling they had been badly treated.

Buyer Marketing, Branding, and Storytelling

Each farm maintains its own page on the PSFHC website, sharing the farm story, available products, certifications, and stewardship practices. The hub offers some marketing support, but producers are encouraged to actively convey their farm's brand identity. Furthermore, the organizational culture of PSFHC explicitly discourages members from denigrating another farm to promote the virtues of their own products.

Over the first six years, grants provided the financial resources for marketing. Though current staff would like to spend more money on marketing, they are restricted by limited resources. Thus, sales growth is due to direct relationships.

As an intermediary between farm and customer, the hub is responsible for conveying each farm's identity to buyers by retaining the origin identification of all products, and by posting each grower-member's story on its website. Growers are identified within the hub's fresh sheet, and this identification includes geographic location to support place-based marketing stories as well.

Reflections

Winning Strategies: According to PSFHC, hiring an experienced sales manager who could devote time to seeking out and developing relationships with new buyers were essential elements for success. Another key strategy was increasing the number of value-added vendors selling through the hub, which allowed them to conduct year-round business consistently. An example was Whidbey Pies, whose products quickly became bestsellers. Finally, being open to ideas from hub members is important. As one core hub farmer advised, "...if a producer or vendor wants to help, say yes!"

Needs and Wants: PSFHC believes it would be advantageous to hire more sales staff, if financial resources were available. This person could invest more time in one-on-one relationship building, which is critical for developing long-term sales commitments. For example, this salesperson could call chefs at area restaurants regularly and talk about the specialty produce advertised on the website.

Aha's and Uh-ohs: To facilitate better sales for higher-price growers, PSFHC recommends placing a higher price point on

specialty items (such as specialty peppers), and offering bulk basics at prices more in line with other wholesale operations.

Relationships Are Key: For example, initially corporate cafeterias were among the hub's major customers. When the corporation changed its food service company (and consequently the produce buyer), the hub lost major corporate cafeteria accounts.

Conclusions

Justification for the Effort

- Between 2012 and 2014 PSFHC worked to establish itself as an entity independent of the NABC, building its own governance structure, a board of directors, and hiring a general manager. This led to a period (2014–2017) with average annual sales increasing by more than three times the amount of increase in the initial period. Sales growth accelerated when a dedicated sales manager was hired in 2017 and reached \$8.2 million in 2022.
- Despite impressive growth, PSFHC has taken over a decade to approach the break-even point. Yet, this underscores the amount of time needed to secure enough customers to generate sales that cover operational expenses, which are higher for a hub with wholesale compared to direct-to-consumer sales (Matson et al. 2018). Sales were projected to grow from 2021 on, through a combination of larger orders from existing buyers and sales to new customers (Puget Sound Food Hub 2020d). Overall expenses will increase, but at a lower rate than sales, and margins will remain stable. This will allow the hub to approach break-even in 2022 and trend into profitability in that year and beyond.

Market Position

- PSFHC intends to continue to cultivate its institutional, restaurant, and retail accounts, and will also sell wholesale to area CSAs. They also intend to continue contracts with entities that provide food assistance box programs.
- Offering value-added products, such as juices, ferments, cheese, pies, flour, and fish, is a key strategy for increasing sales to retail buyers. The hub is currently working on building year-round supply capacity to meet the demand of grocery store and co-op buyers. This would improve the hub's bottom line but also provide steady income for producers throughout the year.

Notable Findings

- PSFHC started modestly as a wholesale farmers market organized by the NABC as a means of opening new market opportunities for area producers. These humble beginnings helped develop relationships with anchor farms so that the

hub could establish competitive price points and determine how to provide sufficient volumes for institutional buyers.

- The hub's formation was facilitated by ongoing technical assistance from NABC, who partnered with a local nonprofit to secure USDA grants. Infrastructure was built slowly, with help from aggregation partners Cloud Mountain Farm Center and Bow Hill Blueberries.
- Early buyers provided more than just revenue to the fledgling hub. For example, the Skagit Valley Co-op provided space to hold a wholesale Farmers Market and later became one of the first wholesale customers. They were soon joined by other co-ops and buyers in restaurants, universities, and other institutions. In addition to financial means, these buyers provided valuable feedback at farmer meetups and championed the hub's mission. For example, one hospital promoted the health value of the good local food it purchased from the hub to serve in its cafeteria.
- Context was an additional factor that helped PSFHC take root. Skagit County is one of the largest and most diverse agricultural communities in western Washington (WSU Skagit County Extension 2020). The hub is proximal to a large urban center with a vibrant appreciation (and demand) for locally grown foods. The hub draws on suppliers from an area that include two counties that are among the state's top ten in agricultural sales. Sales have grown dramatically since PSFHC was founded, with \$5 million in revenue projected for 2020. Still, this represents a small proportion of total agricultural sales in the region, much of which are attributable to sales of exported product.

References

Barham, J., D. Tropp, K. Enterline, J. Farbman, J. Fisk, and S. Kiraly. 2012. [Regional Food Hub Resource Guide](#). U.S. Department of Agriculture, Agricultural Marketing Service.

Berti, G., and C. Mulligan. 2016. Competitiveness of Small Farms and Innovative Food Supply Chains: The Role of Food Hubs in Creating Sustainable Regional and Local Food Systems. *Sustainability* 8(7): 616.

Born, B., A. DeMelle, K. Martin, D. Canty, A. Hoogenboom, L. Fromme, and S. Salazar-Rubio. 2012. Western Washington Foodshed Study: Evaluating the Potential for Western Washington to Meet Its Food Needs Based on Locally Produced Foods. *American Farmland Trust*.

Bramwell, S., and M. Sitaker, n.d. Food Hub Adaptation: A Case Study of Local Inland Northwest Cooperative Foods.

Bramwell, S., and M. Sitaker. 2022. [Food Hub Establishment: A Case Study of the Southwest Washington Food Hub](#). *Washington State University Extension Publication TB89E*. Washington State University.

Cleveland, D.A., N.M. Müller, A.C. Tranovich, D.N. Mazaroli, and K. Hinson. 2014. Local Food Hubs for Alternative Food

Systems: A Case Study from Santa Barbara County, California. *Journal of Rural Studies* 35: 26–36.

Franklin, A., J. Newton, and J.C. McEntee. 2011. Moving beyond the Alternative: Sustainable Communities, Rural Resilience and the Mainstreaming of Local Food. *Local Environment* 16: 771–788.

Horst, M., E. Ringstrom, S. Tyman, M.K. Ward, V. Werner, and B. Born. 2011. Toward a More Expansive Understanding of Food Hubs. *Journal of Agriculture, Food Systems, and Community Development* 2: 209–225.

Kai Otteson. personal communication. Hedlin's Family Farm.

Matson, J., and J. Thayer. 2013. [The Role of Food Hubs in Food Supply Chains](#). *Journal of Agriculture, Food Systems, and Community Development* 3(4): 43–47.

Matson, J., J. Thayer, and J. Shaw. 2015. Running a Food Hub: A Business Operations Guide, vol. 2. Rural Development, Cooperatives Program. U.S. Department of Agriculture.

Matson, J., J. Thayer, and J. Shaw. 2018. Running a Food Hub: Assessing Financial Viability, vol. 3. Rural Development, Cooperatives Program. U.S. Department of Agriculture.

Price, J. 2014. [The Evolution of the Puget Sound Food Hub](#). The Hungry Dog Blog.

Puget Sound Food Hub Cooperative. 2020a, unpublished. The Puget Sound Food Hub Cooperative By-Laws.

Puget Sound Food Hub Cooperative. 2020b, unpublished. Articles of Incorporation of the Puget Sound Food Hub Cooperative.

Puget Sound Food Hub Cooperative. 2020c. [Puget Sound Food Hub Farmers Cooperative: Guide for Producers](#).

Puget Sound Food Hub Cooperative. 2020d, unpublished. Puget Sound Food Hub Cooperative: Marketing and Business Plan, 2020–2022.

USDA (United States Department of Agriculture). 2019. 2017 Census of Agriculture.

WAC (Washington Administrative Code) 458-20-214. 2003. [Cooperative Marketing Associations and Independent Dealers Acting as Agents of Others with Respect to the Sale of Fruit and Produce](#). Washington State Legislature.

Washington Farmers Market Association. 2020. [Washington Farmers Markets Data Snapshot—2020](#).

WSDA (Washington State Department of Agriculture). 2019. [Handbook for Small and Direct Marketing Farms](#). Publication No. 94-345698A.

WSU Skagit County Extension. 2020. [Skagit County Agriculture Statistics 2020](#).

By
Marilyn Sitaker, Food Systems Researcher and Program Coordinator, Thurston County Extension,
Washington State University
Stephen Bramwell, Assistant Professor and County Director, Thurston County Extension,
Washington State University



TB90E



WASHINGTON STATE UNIVERSITY
EXTENSION

Copyright © Washington State University

WSU Extension publications contain material written and produced for public distribution. Alternate formats of our educational materials are available upon request for persons with disabilities. Please contact Washington State University Extension for more information.

Issued by Washington State University Extension and the US Department of Agriculture in furtherance of the Acts of May 8 and June 30, 1914. Extension programs and policies are consistent with federal and state laws and regulations on nondiscrimination regarding race, sex, religion, age, color, creed, and national or ethnic origin; physical, mental, or sensory disability; marital status or sexual orientation; and status as a Vietnam-era or disabled veteran. Evidence of noncompliance may be reported through your local WSU Extension office. Trade names have been used to simplify information; no endorsement is intended. Published May 2023.