Fostering Entrepreneurial Food and Agricultural Enterprises

2019 WEDA Fall Conference
The Agenda

• Food Mega Trends and What They Mean for WI Food Companies and Farms
• How Can We Help Our Companies and Communities Adapt?
• Kickstarting a Strategy for Your Community
Top 2019 Food Trends

- Functional Foods – Prebiotics, probiotics, protein supplements, collegen
- Hemp and CBD - 59% of natural and organic food companies said they currently sell products with CBD in them.
- Organics grew 6% in 2018 while food overall grew 1%.
- E-commerce is growing but 86% of food is still purchased in retail stores
- Plants are In Big Time; Red Meat is Out. Exception is Grass-fed red meat.
- Food as Medicine – Taking out sugar and salt. Fat is back in.
- Fluid Milk is Declining – Per capital milk consumption has gone from 247lb in 1975 to 149lb in 2017. Cheese increased from 14.3lb to 36.9 lbs.
## Trend Alignment with WI

<table>
<thead>
<tr>
<th>Trend</th>
<th>What we Have in WI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Functional Foods</td>
<td>We do fermented foods here – cheese, yogurt, soy sauce, sourkraut</td>
</tr>
<tr>
<td>Hemp and CBD</td>
<td>We were a hemp-growing state historically. Playing catchup with states that were early adopters</td>
</tr>
<tr>
<td>Organics</td>
<td>We are the second largest organic producer in the US behind California</td>
</tr>
<tr>
<td>E-Commerce</td>
<td>Figuring this out would be a great thing for rural places like WI where we have the potential to produce a wide range of artisanal foods</td>
</tr>
<tr>
<td>Plants and Grass-fed Meat are In; Red Meat is Out</td>
<td>We grow vegetables here, traditionally for the declining canned vegetable industry. What can we do to transition to fresh? To meat replacement products like Beyond Meat that derive their protein from pulses? We raise beef here. We could raise (and process) way more grassfed beef than we could possibly consume here. What can we do to create an “export” market?</td>
</tr>
<tr>
<td>Food as Medicine</td>
<td></td>
</tr>
</tbody>
</table>


## Trend Alignment with WI

<table>
<thead>
<tr>
<th>Trend</th>
<th>What we Have in Wisconsin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food as Medicine</td>
<td>“Clean eating” is not something our state tends to gravitate towards, but there are plenty of early stage food entrepreneurs working in this space. We grow supplement ingredients here like mushrooms, ginsing, aronia, elderberry, currants</td>
</tr>
<tr>
<td>Fluid Milk Consumption is Declining</td>
<td>Cheese consumption is still increasing. Our state’s dairy industry is cheese focused, but dropping demand worldwide has significantly depressed farm gate prices for milk and cheese prices. Organic milk products have been hit as well. How can we help our dairy farms transition to new things? We have a lot of people switching to grass fed beef but the markets haven’t been developed yet.</td>
</tr>
</tbody>
</table>
Food is an Increasingly Fragmented Industry

**Balkanize** - transitive verb

1: to break up (as a region or group) into smaller and often hostile units.
2: divide, compartmentalize. Now pop culture has been balkanized, it is full of niches, with different groups watching and playing their own things.
Dietary Balkanization

- Paleo
- Gluten-Free, and the rest of the free’s
- Vegetarian, vegan
- Plant-based (top trend in food in 2019)
- Raw
- Religious
- Allergens
Product Balkanization
Brand Balkanization
Channel Balkanization

2005 - 2015

• Dollar sales at supercenters/clubs grew 61%
• Specialty food/other grocery grew 72%
• Supermarket sales were down 3%

Generational Shifts

FIGURE 16: PRIMARY SHOPPING LOCATION FOR FOOD AND DRINK, BY GENERATION, MARCH 2015

“Which of the following is your primary shopping location for food and drink (ie, the location you purchase most of your weekly food and drink)?”

<table>
<thead>
<tr>
<th>Generation</th>
<th>Any nonsupermarket shopper*</th>
<th>Supermarket (eg Kroger, Safeway, Albertsons, Publix, etc)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swing Generation/World War II</td>
<td>34</td>
<td>65</td>
</tr>
<tr>
<td>Baby Boomers</td>
<td>41</td>
<td>58</td>
</tr>
<tr>
<td>Generation X</td>
<td>51</td>
<td>48</td>
</tr>
<tr>
<td>iGeneration/Millennials</td>
<td>65</td>
<td>32</td>
</tr>
</tbody>
</table>

Base: 1,346 internet users aged 18+ who are responsible for at least some of the grocery shopping for themselves/their household
* net of other locations (see Figure 16)
Source: Lightspeed GMI/Mintel
FIGURE 18: PRIMARY SHOPPING LOCATION FOR FOOD AND DRINK (NON-SUPERMARKET LOCATIONS), MARCH 2015

“Which of the following is your primary shopping location for food and drink (ie, the location you purchase most of your weekly food and drink)?”

Base: 1,946 internet users aged 18+ who are responsible for at least some of the grocery shopping for themselves/their household
Source: Lightspeed GMI/Mintel
The Consumer is Overwhelmed by Choice
Channel Partners are Overwhelmed by Scale
The Cost of Sales is Increasing Dramatically

- Slotting Fees
- Free-fills
- Charge-backs
- Penalties for Out of Stocks
- Mandatory Promotions
- Chef Samples
- Product Formulation
- Brand Positioning
- Labels
The Private Label Opportunity

PRIVATE LABEL SHOPPING ATTITUDES, NOVEMBER 2016 “How much do you agree or disagree with the following statements about store brand foods/drinks? Please select one response per statement.” Base: 1,994 internet users aged 18+ who shop for food and beverages

<table>
<thead>
<tr>
<th>Statement</th>
<th>Agree</th>
<th>Neither Agree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buying store brands is an effective way to save money on groceries</td>
<td>82</td>
<td>15</td>
<td>3</td>
</tr>
<tr>
<td>The quality of store brand foods/drinks has improved in recent years</td>
<td>73</td>
<td>24</td>
<td>3</td>
</tr>
<tr>
<td>Store brands provide better value for the money than national brands</td>
<td>71</td>
<td>23</td>
<td>5</td>
</tr>
<tr>
<td>The quality of a retailer’s store brand is a reflection of the retailer’s overall quality</td>
<td>70</td>
<td>25</td>
<td>5</td>
</tr>
<tr>
<td>I would buy more store brand food/drink products if I could sample them first</td>
<td>68</td>
<td>24</td>
<td>8</td>
</tr>
<tr>
<td>Store brand food/drink products are just as healthful as national brands</td>
<td>62</td>
<td>31</td>
<td>7</td>
</tr>
<tr>
<td>For most foods/drinks, store brands are just as good as national brands</td>
<td>58</td>
<td>27</td>
<td>15</td>
</tr>
<tr>
<td>Store brands should provide more information on where products are made</td>
<td>57</td>
<td>35</td>
<td>8</td>
</tr>
<tr>
<td>Some store brand foods/drinks taste even better than the national brand</td>
<td>48</td>
<td>36</td>
<td>16</td>
</tr>
<tr>
<td>I would be interested in buying more premium store brand food/drink products (e.g., Target’s Archer Farms vs Market Pantry)</td>
<td>48</td>
<td>37</td>
<td>15</td>
</tr>
<tr>
<td>National brands use higher quality ingredients than store brands</td>
<td>46</td>
<td>39</td>
<td>15</td>
</tr>
<tr>
<td>I would be willing to buy store brand food/drink products that cost more than national brands</td>
<td>27</td>
<td>25</td>
<td>48</td>
</tr>
</tbody>
</table>

%

Source: Lightspeed/Mintel
New Distribution Outlets are Coming

PURCHASE INCIDENCE BY CHANNEL – SHOPPING THE SAME OR MORE, AUGUST 2017

- Traditional supermarkets: 21% more often, 64% about the same, 85% total
- Amazon: 29% more often, 43% about the same, 72% total
- Walmart: 27% more often, 45% about the same, 72% total
- Drug stores: 10% more often, 55% about the same, 66% total
- Other mass merchandisers: 14% more often, 51% about the same, 65% total
- Dollar stores: 18% more often, 43% about the same, 61% total
- Warehouse clubs: 16% more often, 40% about the same, 56% total
- Discount grocers: 17% more often, 36% about the same, 53% total

Base: 1,945 internet users aged 18+ who are responsible for grocery shopping in household
Source: Lightspeed/Mintel
A Shakeout is Starting

<table>
<thead>
<tr>
<th>Dynamics of Industry Lifecycle</th>
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</thead>
<tbody>
<tr>
<td><strong>Development</strong></td>
</tr>
<tr>
<td>Users/buyers</td>
</tr>
<tr>
<td>Competitive conditions</td>
</tr>
</tbody>
</table>
Entrepreneurial Food is Transforming the Food Industry

21 of the top 30 food companies had declining sales in 2017. Together they lost $1.7 billion in sales.
Food Processing Association, April 2018.
What This Means

- We have a lot of mature food companies and farms in our state that are under pressure to continuously and rapidly adapt in this new more dynamic environment.
- We have a lot of strengths in food and agriculture that can help with this transition.
- Our food processors and farms are often pressing up against infrastructure and institutions that were created for a time of more homogenous products where change came very slowly.
- Providing existing companies with the tools they need to adapt is one way to bring more innovation to the industry.
- Another is to fostering more food and ag entrepreneurship.
Helping Companies and Farms Adapt

“What if we don’t change at all ... and something magical just happens?”
Existing Food Company Obstacles to Adaptation

• Labor shortage
• Trucking shortage
• High speed data access
• New product development
• Marketing out of state
A Low-Tech Workforce Solution

- 300+ employees; in a rural area in south central WI.
- Discovered that most families owned one car, which meant only one person could work.
- Worked with Uber to use its workforce as a base of business for drivers, which in turn brought Uber to a rural area.
Robotics and Food

- Technology often coming from Europe – companies need regulatory help
- Companies need capital to implement the technologies
Hub Adds Trucking Company

• HUB couldn’t get reliable LTL or full load trucking anymore.
• Started their own trucking company.
• This now hauls for them as well as other local companies in a rural part of Wisconsin.
SUPPLY CHAIN FORUM

With a focus on supply chain maximization, the Supply Chain Forum creates and seizes opportunities to strengthen our supply chain for a more connected and sustainable ecosystem to supply, move and store ingredients and products.

Offering valued, purpose-driven engagement, the role of this Forum is to garner input from, and offer opportunities for its members to:

• Share best practices and discuss common issues facing their business and our ecosystem
• Shape FaB’s strategic direction, actions and member offerings
High Speed Data

- Modern food processing facilities are highly automated.
- How can you run a plant with robots, or more simply process automation, that manufacturers support remotely via VPN without high speed data?
New Product Development

• Many of WI’s niche farm products align strongly with consumer food trends. This creates opportunities for supply chain driven brands.

• Do an audit of what products are being produced and what aggregation and processing exists in your region and share the data widely.

• Be a connector to technical assistance and collaborators
Help with Financing Private Projects

- Help companies secure the financing they need to fund R & D and build new production capabilities – they need financial technical assistance to package these projects
- TIF – Tax Increment Financing
- SAD – Special Assessment Districts
- PACE – Property Assessed Clean Energy
- Power Company Programs
- New Market Tax Credits
- Revolving loan funds
- SBA 504, SBA 7a
- Opportunity zones
- Industrial Revenue Bonds
Other Things

• Wastewater treatment
• Road access
• Zoning
• Be ready to respond....
How Existing Farms are Adapting

• Dairy
• Agrotourism is real
• Ag Tech coming
Dairy

• There are parts of dairy that are growing, but they require significant investments – lots of stranded assets
  – Organic cheese
  – All grass-fed dairy products
  – A2 milk
  – Goat and sheep milk

• Things that could help
  – Supporting processors who want to invest in things like organic conversion, mixed milk cheeses
  – Supporting the development of technical assistance for farms who want to make some of these transitions
  – Farm level R & D on goat and sheep is needed
Cheese on the Farm

- Pleasant Ridge Reserve was one of the first single farm artisanal cheeses in the US.
- 400 cow grazing dairy herd with cheese plant and aging caves on the farm.
- The cheese maker recently purchased the farm and cheese business from its original owners.
- Still make cheese exclusively with milk from this farm.
The Agrotourism Opportunity
Pizza on the Farm

- This is working in fairly remote areas.
- People bring their kids.
- Need place to accommodate parking and bathroom(s).
- Best if some of the ingredients come from the farm.
Gourmet Dinners on the Farm

- Campo di Bella is 40 minutes outside of Madison.
- $35 - $60/ person.
- Multiple courses with wine pairings.
- Typically sold out a month in advance.
- Operates all year.
Lodging

- Flower farm that rents out two camping sites, one camper, and two queen bed rooms.
- All have bathroom access.
- Listed Hipcamp and Airbnb.
- Also do weddings.
Weddings on the Farm

- Bridle Barn and Gardens.
- 40 minutes outside of Madison.
- Rents out site including barn, farmhouse for the bridal party, outdoor tent if needed; bride contracts for the rest.
Ag Tech Is Coming to Your Farms

• 2018 was the year Ag Tech got hot ... (from a funding perspective)...

• This is a multidimensional tech opportunity that includes the biological sciences, robotics, information systems applications.

• Optimizing growing, food safety and indoor food production are big applications.
Biological Sciences

- **California Safe Soil** – Recycling food waste into fertilizer for farms
- **Concentric** – Makes microbial consortia – combinations of bacteria and fungi – that when combined improve crop yields while decreasing chemical fertilizer and pesticide use
- **Indigo Agriculture** – Used machine learning and analytics to compile a database of what microbes work best to promote higher yields
- **Pivot Bio** – Proprietary process that wakes up the genes in microbes that fertilize fields
Existing Enterprises
Robotics

• **Soft Robotics** – Robotic arms with soft grippers that enable robots to handle fruits and vegetables in processing facilities

• **Hummingbird Technologies** – Uses drones to scan fields and build maps for automated farm equipment to follow
Indoor Production

• **Bright Farms** – Indoor greens production at large scale, distributed in local markets

• **Plenty** – Indoor farming company using machine learning, AI and crop science to optimize yields and give produce exactly what it needs to have optimal freshness and taste
Information Systems

- **AgCode** – Vineyard management software application
- **Aquabyt**e – Computer vision software and AI in fish farms to manage food consumption
- **CiBO Technologies** – Virtual field trials using AI
- **Understory** – Weather sensors that go under the plant canopy to collect hyper-local data on hail, wind, precipitation, and temperature. Completely solar powered and no moving parts
Food Safety Products (FabCap)

- **Clean Beam** – Infrared technology that cleans feet as people walk into food processing facilities, thereby killing all pathogens before they enter.

- **Bioionix** – Disinfectant technology that eliminates pathogens from salt water environments, with applications for brined meats and cheeses, and ocean seafood.
How Communities Can Help Transitioning Farms

- Build a collective understanding that agro-tourism is a real opportunity for your farms and your communities
- Look at your zoning and regulations to see if they are hindering this transition
- Farms need data access to use the emerging technologies
- Can you position your community and its farms as test sites for emerging ag tech companies?
- Can you attract an ag tech startup based on access to test sites?
Three to-do’s to for Existing Food Companies and Farms

1. ____________________________________________

2. ____________________________________________

3. ____________________________________________
Making Entrepreneurial Food & Ag Work – What the Businesses Need

• A business model that can work financially
• Supportive zoning and regulations
• Access to a sufficient amount of the right capital to support their growth
• Relevant high quality technical assistance
• Economic development initiatives for food that are more impactful
Food Business Models That Work
A Profitable Business Model

- A defensibly unique value proposition
- Sufficient market and business scale to generate adequate cash flow
- The right brand, packaging, pricing, sales and distribution channels, and promotional programs
- The right staff, production facilities, & QA
- Enough Appropriate Capital to fund Growth

It’s a business model not a product that determines whether a company makes money.
Defensibly Unique Value Proposition

Characteristics of a value proposition for competing against large existing players in understood markets:

– New solutions to old problems
– Differentiation in a niche or re-segmented market
– Hip new brand
– Rapid innovation
– Potential to grow into other markets
What Makes a Food Company Defensibly Unique?

- Product
- Ingredients
- Varietals
- Terroir
- Brand
- Packaging
- Availability
- Personal Relationships
- Customer Experience
The Typical Scale Problem
Take grass-fed beef...

- 1,554,593 - 2010 Milwaukee Metro Region Population
- 58.4 lbs/yr per capital consumption of beef
- 90,788,231 lbs/yr market in MKE metro
- 3% of beef consumption US = average grass-fed consumption
- 2,723,647 Lbs/yr; 46,638 people = MKE metro grass-fed beef market
- 580 lbs/animal average yield
- 4696 animals/yr – 93 herds of 50 animals
- 60% of beef consumed is ground that can come from dairy culls so number of beef herds significantly less
- 15 animals/day – rate small scale slaughter
- 313 days of slaughter/yr – 1 facility
The Right Brand, Sales, Marketing, Distribution
The Right Facilities and Staff

• Facilities
  – Development phase
  – Small scale production phase
  – Co-pack or not?

• Staff – The Bar is WAY Higher Than You Think
  – Experience running a business
  – Experience in the food industry
  – Coachability
  – Resourcefulness
  – Financial acumen
  – Sales relationships
  – Experience with QA, production
Huge Cash Management Issues

Sources of cash usage

- Low volume = high cost
- Pay to play for new accounts – slotting, free fills, demos
- Delayed payments from new distribution
- Low profitability generates little cash internally to fund rapid sales growth
Long Term Financial Plan

- Customer consolidation is forcing sales to grow in large increments.
- Production capacity also scales in large increments.
- Each major growth step brings cash deficits that are potential valleys of death for food companies.

Unlike tech and biotech companies, food companies often experience more than one “Valley of Death”. Our work with clients is often serial.
Most food companies can be positioned to follow one of these three paths to success. Each presents different ways to generate scale and cash. Young businesses have to choose one path – pursuing more than one is a recipe for failure...
Food Co’s That Go Where the Market Is

- Midwest National Brands - teraswhey, RP Pasta, Carr Valley Cheese. Palermo’s
  - Sell nationally
  - Most started using co-packer then built own processing
  - All now do their own processing – QC control, margins improve by moving co-packing in-house
  - All have conventional bank financing
  - Most grew slowly using bank financing and free cash flow
  - Teraswhey sold to a public company

- Other National Centers (Boulder, CA) – Izzy’s, Justin’s, Love the Wild
  - Sell nationally
  - Used co-packers for entire early stage
  - Relied more heavily on equity financing to support faster growth into larger home market
  - Niman ended up merging with its processor to make the business model viable
  - Niman sold to private equity fund; Izzy’s to a public company

National brands are the only ‘professional investor grade’ return opportunity in local food. Need at least $1M - $1.5M in funding to succeed. Regional Brands require less funding but can have a hard time reaching sufficient scale.
Food Co’s That Stay Local & Diversify Income

- **Horizontally Integrated** – Zingermann’s, Underground Food Collective
  - More than one interrelated business
  - Some businesses do processing that supply others
  - All sell to consumers – retail, restaurant
  - At least one cash cow in the portfolio
  - Can micro-finance in pieces over time
  - Need bank financing to scale

- **Vertically Integrated Processing** – Microbreweries, Cedar Grove Cheese, Palermo’s Pizza, Madison Sourdough, Chocolaterian
  - Process for multiple suppliers
  - Scale of processing and investment drive volume decisions
  - Co-pack/private label to fill volume
  - Have own brand
  - Sell direct to consumers
  - Capital intensity requires bank financing
  - Early stage rapid growth to capacity requires equity financing

Processing businesses are very difficult to start without early lender financing and very patient equity. Horizontally integrated business models are a better fit for direct lending. Restaurants and retail outlets enhance cash flow for local food processing businesses.
Food Companies That Stay Small

**Business Attributes**
- Consumer facing
- Strong gross margins
- Low overhead costs
- Low personal financial requirements
- $150K revenue target
- CDFI financing

**Typical Farm to Consumer Value Chain**

<table>
<thead>
<tr>
<th>Farmer</th>
<th>Processor</th>
<th>Distributor</th>
<th>Retailer</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>150</td>
<td>200</td>
<td>450</td>
</tr>
</tbody>
</table>

| Net Income | Interest | SGA | Rest of Cogs | Raw Materials |

**Community Attributes**
- In larger metro area with strong local food culture
- Large farmers market and/or public market
- Significant food truck opportunity
- Shared use production facility
- CSA business model

Direct Marked Product Profit Potential = Profit Margins for 3 + Part of SG&A = 5% - 34%, BUT the base of sales is small. Very difficult to leap to a scalable business model, but some can earn enough to stay small if their local market is large enough or if this is a hobby.
Most value-added farm enterprises can be positioned to follow one of these paths to success. Each presents different ways to generate scale and cash. Farm entrepreneurs can combine paths OVER TIME, but in the short run they have to pick...
Farms That Go Where the Market Is

Ag in the Middle – Niman Ranch, Organic Valley
- Sell nationally; source from multiple small local farms nationally
- “Plain Folk” typically constitute over 25% of the supply
- Most started using co-packer(s)
- Some own processing to capture sufficient margin - Niman
- All now do their own QC control and brand management
- All have conventional bank financing
- Most grew slowly using bank financing and free cash flow - OV
- Those that used private equity have sold – Niman Ranch

Artisanal On Farm Processing with Target-Marketed Brands – Pleasant Ridge Reserve, Hidden Springs Creamery; Wallersheim Winery
- Sell nationally
- Used co-packers for entire early stage, then moved production on farm
- Brand inseparable from farm operation
- Artisanal quality product with terroir that makes it defensibly unique
- Have ag lender and bank financing
- Farm enterprise separated legally from value added processing entity
- Entrepreneurs tend to have strong business backgrounds

Horizontal Growth into Retail or Restaurant – Black Earth Meats/Conscious Carnivore;
- One or more farms set up separate business and sell in local urban market
- Controlled processing or used co-packers for entire early stage
- Relied heavily on equity financing to support faster growth into larger home market
- Can use bank financing for retail entities
Farms That Stay Small & Direct Market

CSA—Vermont Valley, Driftless Organics
- Presale model
- Out of city production and distribution where there are more people
- Market maturing & reaching saturation in Madison region
- Future will need more product and service differentiation

On-Farm Sales and Events — Bridle Barn & Gardens; Enos Farm Dinners
- Events that bring people to the farm event marketing
- Can require significant capital investment to brings facilities to code
- Also includes pick your own and farm-stand businesses

Farmer’s Markets—Blue Mont Dairy; Madison Sourdough; RP Pasta
- Difficult to reach scale unless the market is large
- Usually used to supply local chefs as well as consumers
- Can be used to compliment local retail or manufacturing business
Lean Business Model Canvas

<table>
<thead>
<tr>
<th>Problem</th>
<th>Solution</th>
<th>Unique Value Proposition</th>
<th>Unfair Advantage</th>
<th>Customer Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 3 problems</td>
<td>Top 3 features</td>
<td>Single, clear, compelling message that states why you are different and worth buying</td>
<td>Can't be easily copied or bought</td>
<td>Target customers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key Metrics</th>
<th>Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key activities you measure</td>
<td>Paths to customers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost Structure</th>
<th>Revenue Streams</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer acquisition costs</td>
<td>Revenue model</td>
</tr>
<tr>
<td>Distribution costs</td>
<td>Lifetime value</td>
</tr>
<tr>
<td>Hosting</td>
<td>Revenue</td>
</tr>
<tr>
<td>People, etc</td>
<td>Gross margin</td>
</tr>
</tbody>
</table>
Entrepreneurial Path for Small Food Companies – Opportunity to Relieve Pain Points

1. Makes Food at Home & Shares with Friends and Family
   - Sales: $0
   - Jobs: $0

2. Moves to Using Commercial Kitchen to Sell at Farmers Market or Food Truck
   - Sales: $25K
   - Jobs: 1

3. Moves to Small Batch CoPacker to go into Wholesale Distribution
   - Sales: $250K
   - Jobs: 2-5

4. Develops Own Production in Retail Space (Vertical)
   - Sales: $300K
   - Jobs: 15+

5. Manufacture In-house With National or Regional Distribution
   - Sales: $1-10M
   - Jobs: 5-20
Community Initiatives for Pain Points

• Business Incubation
  – Shared Use Kitchens
  – Retail Ready Programs
  – Incubators
  – Co Packing
  – Shared Space

• Market Creation
  – Downtown Markets

• Improving Quality of Life
  – Food and Healthcare
  – Food Access

• Food That Attracts People to your Community

• Improving Capital Access
Shared Use Kitchen – Feed Kitchen in Madison

- $1M+ facility.
- Over 50% of their clients are food trucks.
- Some companies do out grow the kitchen, mostly because they need co-packing. More of the businesses leave when they fail so there is a lot of churn.
- Non-profit. Difficult to cash flow. Companies need a lot of industry specific technical assistance that requires access to ongoing grant funding.
- Export products or import entrepreneurs? Gluten free, organic certified
Willy Street Retail Ready Lab

• Structured program for bringing new brands into their stores
• Starts with buyer and customer feedback opportunities
• Includes education on mechanics of getting on the shelf and getting sell through in a retail store
• Can you get a local retailer to do this?
Viroqua Food Enterprise Center

- Viroqua Economic Development Commission purchased the building for $1 in 2008.
- Used EDA funds to modify it for food warehousing and to add a commercial kitchen.
- Moved offices there and provides technical assistance.
- 100,000 sq. ft. facility is now full.
Kalamazoo College Food Enterprise Center

- Indoor growing facility and Hub processing facility.
- Processing facility takes their own specialty products and others from Michigan farms and converts them and sells them to institutional buyers in the region.
- Students use the farm and processing facility as lab space and on the job training for jobs in the food processing industry.
Innovation Kitchen

• Small scale copacker in Mineral Point WI. Sheltered workshop for disabled employees.
• Co-pack for brands all over the region.
• Started apple salvage program selling applesauce to Culver’s.
• Many scaling brands have used this facility.
• Could you do this for other products, beverages, frozen, gluten free?
Commonwealth Development Corp (CDC)

- Private non-profit development corporation started in Madison in 1979.
- Projects preserve the vitality of communities in the city.
- One program area provides affordable space for business startups.
- Two buildings – Madison Enterprise Center and Main Street Industries.
- $9 - $12 per sq. ft. Loading docks, high ceilings, floor drains.
- Buildings like this are great redevelopment candidates.
Brands That Went Through a CDC Building
Grand Rapids Downtown Market

- Food retail space
- Seasonal farmers market
- Kitchen Incubator
- Food and Health Education
- Event Space
- Technical Assistance for Food and Farm Entrepreneurs
- Generated $31M in new economic activity in Kent County in 2017
Food, Farming and Community
Quality of Life

• Food Access
• Farming and healthcare
• Food and Placemaking
Multi-dimensional Food Access

Non Profit

• Grow Ohio Valley Non Profit. Grant dependent, highly impactful, frugal, readily raises $.
• Serves Wheeling’s population of 25,000. (10 years ago it was 50,000).
• Small organization with many diverse programs:
  – Urban farms
  – CSA baskets
  – Mobile market
  – Public market
  – Project worm
  – School educational program
  – Sprout kits
  – School gardens
Double-Up Food Bucks Program

• Michigan Fair Food Fund program. Now partnering with Fair Food Network organizations to do this in 18 states.

• Doubles SNAP benefits at farmers markets and public markets for families at or below federal poverty level.
Willy Street Co-Op Access Discount Program to Build Access

• 10% discount on all purchases for members who can demonstrate income below 150% of the federal poverty guideline.
• One free class per year.
• One free cloth grocery bag per year.
Livingston Food Resource Center

• Food pantry that sources the majority of their food from local farms.
• Job training in culinary arts.
• Shared-use kitchen.
• Home delivered meals for seniors.
• Catering.
• Nutrition education.
• Health outcomes research.
Food and Health Innovations

- CSA share rebates from HMO’s and other insurance providers in their wellness programs
- Farms and community gardens at businesses
Transforming Health Care
St. Joseph Mercy Ann Arbor seeks new and innovative ways to improve health and wellness. The Farm serves our community by improving access to fresh food, nutrition education, and therapy. Our people-centered care approach includes:

• **Engagement:** We provide a vibrant, welcoming space where we grow healthy individuals and communities

• **Education:** We foster joy and discovery through inquiry and exploration of the natural world and food

• **Therapy and Wellness:** We provide access to a healing space for patients, staff and visitors

• **Growing:** We grow produce to promote healthy seasonal eating

• **Stewardship:** We manage our environmental resources responsibly
Williamson WVA Health Center

https://www.youtube.com/watch?v=eZokkgObMhM
Food as Place Maker

- Third places
- Provenance Brands
- Place-based food centered festivals
- Basis for building community public spaces and inclusiveness
Third Place-making – (Home and office are 1 & 2) Can be many things but always involves food and drink. Third places are impactful in attracting and retaining skilled workforce.
European Provenance Model

- Region specific brand is promoted by local governments and used by individual companies.
- Deep historic roots tied to regions food products and terroir.
- Written into EU trademark laws.
- Helps all brands in the region become defensibly unique.
Boulder Brands

- Private equity fund that purchases young food brands and grows them.
- Their money and business development events enhance critical mass of food brands in the Boulder area.
- Spurs more entrepreneurs to start or move their food businesses there.
Branding the Driftless Region

- Region is geographically unique and has some of the poorest communities in the state.
- Regional leaders decided to brand the region as a way to drive their economic development.
- Logo, film, tourism campaigns to promote existing assets.
- Critically, ED office built infrastructure that was useful for businesses.
Austin Food Trucks
Portland Food Tours

• The city now has multiple companies that do food tours.

• Walking tours include several visits to local food establishments, opportunities to meet the owners and sample the foods.
NYC Cider Week

- Annual event that features apple ciders from the region in markets, restaurants across the city.
- Pairings, opportunities to meet the makers, all designed to raise the consumer’s awareness of cider as a beverage alternative.
Improving Access to Capital

• Because money actually doesn’t grow on trees, and it’s getting more complicated every day....

• Because access to money can draw entrepreneurs to a community...
Hudson Valley Agribusiness Development Core (HVADC)

- Loan fund
- Technical Assistance for Raising Money
- Incubator / Accelerator
- Feed Hudson Valley
- Conferences and Educational Programming
Natural Capital Investment Fund

- Extraordinarily flexible lender in West Virginia.
- Up to $250,000.

Can do:
- Equipment financings
- Working capital financing
- Bridge loans,
- Gap Financing
- Participation with conventional Ag and Commercial lenders
- Finances used ag equipment purchases
The Farm Transfer Wave is Coming

- Often complicated $1M+ transactions
- Need extensive mentoring and technical assistance
- Business Model Innovation
- Operational Planning
- Financial planning
- Estate planning
- Family mediation
Iroquois Valley Farms

- Farmland Fund
- Can invest through Fidelity or directly if accredited
- Funds organic farmland conversion
- Buys farmland outright or writes mortgages
- All exits are sales to farmers
Ephrata Bank – Converging Ag and Food Lending

- Local bank in Lancaster PA
- Ag lending group does a wide variety of high value-added farm lending
- Uses SBA 7a program through its own commercial lending group
- Routinely finances intergenerational farm transfers, typically with high value added farm business models involved
Craft3 – Multistate CDFI

- Multi-state CDFI that works with farms and food processors
- Can lend up to $2M – this larger lending limit is important for agriculture and food
- Multi state is important to have sufficient deal flow in rural areas
- Packages complex projects that use multiple capital sources (including public ones)
Michigan Good Food Fund

• Non profit provides financing to enterprises who are working to increase access to affordable healthy food in low income and underserved communities in Michigan.

• Partners with other funds around the country to increase their reach.
Compeer Emerging Market Micro Loan Program

• Up to $50,000 loans, character lending.
• Targets small or emerging farmers such as urban farms or unusual value added crops or livestock.
Financing Farm Transition and FSA

• Direct Farm Ownership Program
  – Up to 300,000
  – Low interest, up to 40 yr amortization
  – Will participate with Farm Credit as senior lender
  – Down payment, operating funds, mortgage
• Guarantee Program for Ag Lenders
• Micro Loan Program
Land Trusts

- Potential vehicle for making farmland transfers financially feasible.
- Different lands trusts have different criteria and mechanisms for executing the transaction.
- Usually locks in agricultural use of the land.
And Other Financing Sources

- **TIF** – Tax Increment Financing
- **SAD** – Special Assessment Districts
- **PACE** – Property Assessed Clean Energy
- Power Company Programs
- New Market Tax Credits
- Revolving loan funds
- SBA 504, SBA 7a
- Opportunity Zones
- Industrial Revenue Bonds
Filling the Technical Assistance Gaps

- **Accelerators** – Chobani, FabCap WI
- **Food Finance Institute & Edible-Alpha®** boot camps, on-line learning platform and courses, podcast and Edible-Alpha, Live! event, and contract consulting
- **SBDC FFI- trained consultants** for financial packaging
- Farm, estate, and securities law **attorneys**
- **Accounting firms** that handle farms
Three to-do’s to for Startup Food Companies and Farms

1. ________________________________
2. ________________________________
3. ________________________________
Toward a Food and Ag Development Strategy – Boot Camp for a Town

1. Quantify the Landscape
2. Use SWOT to Prioritize
3. Identify Specific Projects that Will Advance the Sector in Your Community
Quantifying the Landscape

• Benchmarking data on the size of the sector in your community and the immediate region
  – Number of farms and what they are doing
  – Number of companies and what they are doing
  – Employment
  – Capital infusion
Use SWOT to Prioritize

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Economic Development Strategies

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All Six Strategies Are Relevant to Growing the Food and Farming Sectors
Edible-Alpha® Podcasts

• Feed Kitchen on What it Really Takes for a Shared Use Kitchen to Succeed
• Hospital-Based Farming – A Bridge to Community Health and Wellness
• Transforming a Food Pantry into an Engine for Rural Prosperity
  — [https://edible-alpha.org/transforming-a-food-pantry-into-an-engine-for-rural-prosperity/]
• Fort Lewis College Farm Incubator on Doing This at Breakeven
• Ephrata Bank on Innovating Ag Lending
• Madison Sourdough on Incrementally Growing a Sourdough Bakery
• Mobcraft on Financing a Beverage Startup
• Food and Beverage Association of Wisconsin on New Product and National Rollouts
• Midwest BioAg on Biology in Farming
Thank You

Contact us at:

info@foodfinanceinstitute.com

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https://edible-alpha.org