



AGEC-279

Food hubs: Considerations for beginning farmers and ranchers

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Introduction

Food hubs provide wholesale and consignment opportunities for producers to sell their products to local markets while diversifying from traditional direct-to-consumer platforms such as farmers markets. These outlets offer unique opportunities for beginning producers to mitigate risk, reach new customers and reduce operating expenses associated with direct-to-consumer sales strategies. While they may not fit every business model, they offer a unique sales strategy that should be explored by beginning farmers and ranchers.

What is a food hub?

A food hub is a centralized organization or network that plays a key role in the aggregation, distribution and marketing of locally produced food. The U.S. Department of Agriculture defines food hubs 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). Food hubs provide unique sales channels for many small- to medium-scale farm and ranch operations. Food hubs serve as an intermediary between local producers and various market outlets, including food retailers, institutions and end consumers. Food hubs facilitate the integration of small-scale producers into broader markets through aggregation of products to meet the needs of larger buyers such as restaurants, schools, hospitals and other institutions (Barham et al., 2012). The primary goal of a food hub is to streamline the supply chain, making it more efficient for farmers to get their products to market and to provide buyers with easy access to a diverse range of local and regional food products.

The USDA Agricultural Marketing Service provides useful resources for understanding food hub operations, including a series of guidebooks for establishing and managing food hubs. These resources can be found on the AMS Local and Regional Food Sector Toolkit webpage at <https://www.ams.usda.gov/services/local-regional/food-sector/aggregating-and-distribution>

Types of food hubs

Food hubs may have different business models and operational structures (Bielaczyc et al., 2020). For instance, some are structured as non-profit entities, while others are for-profit businesses. Some focus on retail markets, and others on wholesale markets. The terminology used to describe food hubs may vary regionally, with terms like *farmers market hubs*, *farm hubs* or *farm stores* often used to describe retail-focused hubs.

Retail

Retail-focused food hubs generally consist of a retail location that acts as an ongoing marketplace for local farm products to be sold. Rather than being sold by the producer, the products are sold by a representative of the hub, similarly to a traditional grocery store model. This allows producers to access local buyers without setting up a weekly farmers market booth. The biggest difference between this type of food hub and a traditional grocery store is that the hub generally operates on a consignment arrangement. The producer enters into an agreement with the hub to carry their items and a consignment fee is collected when the product is sold. The producer is then paid after the sale is completed. The Oklahoma Department of Agriculture, Food and Forestry through its Oklahoma Agritourism program maintains a list of retail farm hubs in Oklahoma. <https://oklahomaagritourism.com/activity/farmers-markets-and-hubs/1/>

Wholesale

Wholesale food hubs generally focus on institutional markets and large bulk order buyers such as restaurants, schools, hospitals and other institutional buyers. Wholesale-based food hubs rely on the aggregation of local farm products to meet bulk orders. An example of this type of food hub is the OKC Food Hub: <https://www.okcfoodhub.org/>

Understanding the role of food hubs

Demand for local and regional food products continues to rise. Yet, many small farm and ranch operations lack the production, distribution and processing infrastructure to gain reliable access to institutional and wholesale food service markets. Food hubs offer a combination of distribution and marketing services that bridge this gap for producers, allowing them to enter markets that would be otherwise difficult to access on their own (Barham et al., 2012). For small-scale producers, food hubs may provide needed infrastructure. This may include organizational and physical infrastructure that can provide producers with access to streamlined aggregation, distribution and marketing of their products. Organizational infrastructure may include digital sales platforms, sophisticated demand metrics, marketing and branding support. Physical infrastructure may include cold-storage, warehousing and occasionally, value-added processing services such as freezing and drying of products. For institutional buyers who would like to buy local, food hubs can reduce transaction costs by providing a single place from which to purchase products from local and regional producers (Barham et al., 2012).

There are three primary challenges for small-scale and beginning producers addressed by food hubs that limit the growth of local food systems (Barham et al., 2012):

1. **Limited Market Options and Revenue Opportunities:** Many small operations rely on direct-to-consumer marketing outlets such as farmers markets but often lack the volume and consistent supply necessary to attract larger wholesale customers. Seasonality of production compounds this issue, as wholesalers are often reluctant to commit to suppliers with limited-time product availability. Food hubs mitigate this challenge by aggregating products from multiple producers to meet the volume and consistency needs of wholesale buyers.
2. **Limited Distribution and Processing Capacity:** Small-scale or beginning producers may lack the capacity to devote the resources necessary to develop business relationships with key wholesale buyers. In addition, producers often lack access to facilities for storing, processing and distributing their products. Food hubs may offer support in this area, including value added processing such as use of commercial kitchen space, co-packing services or light processing services such as chopping and freezing of fresh produce.
3. **High Transaction Costs:** Wholesale buyers generally require suppliers to meet specific certifications, including those mandated by the Food Safety Modernization Act of 2011, Global Food Safety Initiative standards, traceability programs, and Good Agricultural Practices certification for fruits and vegetables. Many also require food product liability insurance. Meeting these requirements can be a significant barrier for small-scale and beginning producers. Food hubs may help producers navigate these requirements by facilitating training and helping navigate the certification processes.

Key features of food hubs

- **Aggregation and Distribution:** Food hubs provide aggregation and distribution services to move products from farms to wholesale buyers. This service allows increased access to markets and simplifies logistical complexities for individual farm operations.
- **Diversified Market Access:** Food hubs provide connections to wholesale and institutional markets, lowering entry barriers for producers and providing access to a variety of market channels that may otherwise be inaccessible.
- **Logistic Support:** Food hubs may provide logistic services, including transportation, refrigerated storage and packaging, reducing the logistical burden on farm operations and allowing them to concentrate on production. Additionally, food hubs may help to facilitate training and attainment of needed food safety certifications required by institutional buyers.
- **Data and Analytics:** Food hubs often assist producers with understanding crucial data on consumer trends, empowering them to make informed production decisions.

How do food hubs benefit beginning farmers and ranchers?

- **Financial Resilience:** Food hubs can help secure favorable prices for the aggregated produce, ensuring a consistent and resilient income stream for beginning farmers.
- **Risk Mitigation:** By pooling resources and products from multiple farmers, food hubs function as risk mitigators for producers, dispersing the impact of supply and demand fluctuations and providing some safeguards for individual farmers.
- **Strategic Market Expansion:** Food hubs strategically position beginning farmers in larger markets, leveraging the collective production to overcome market barriers and carve out a niche market for small agricultural businesses.

What are the limitations of food hubs for beginning producers?

- **Limited Branding:** Food hubs' aggregation of local products may dilute the ability of individual farms to emphasize their own brand with buyers.
- **Lower Premiums:** Food hubs will take a fee or premium for facilitating aggregation, marketing and distribution of local products. This will reduce the overall price that a producer can demand when compared to direct to consumer market strategies such as farmers markets.

Conclusion

Small-scale, and beginning farmers and ranchers face many challenges developing resilient and profitable enterprises. Food hubs provide options for diversifying sales channels and mitigating risks for producers. The USDA AMS offers a searchable USDA Local Food Directory with a map for locating known food hubs across the U.S. USDA Local Food Directories (usdalocal-foodportal.com)

Food hubs are just one of several options for diversifying and stabilizing sales channels that producers should explore. Other common options include pick-your-own operations, community-supported agriculture (CSA) programs and restaurant-direct sales. The USDA AMS provides valuable resources for producers interested in exploring local food marketing.

References

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- Bielaczyc, N., Colasanti, K., Atwell, E., & Bomstein, E. (2023). Findings of the 2021 National Food Hub Survey. Michigan State University Center for Regional Food Systems. <https://www.canr.msu.edu/resources/2021-national-food-hub-survey>



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