



# **FEASIBILITY STUDY**

# **MUSKEGON FOOD HUB OPERATION AT MUSKEGON LAKE**

**A PROJECT SUPPORTED BY MEMBERS OF THE  
MUSKEGON COUNTY PORT ADVISORY COMMITTEE**

**PARTNERS:  
MORSE MARKETING CONNECTIONS, LLC  
CHERRY CAPITAL FOODS  
COMMUNITY FOUNDATION FOR MUSKEGON COUNTY  
CONSUMERS ENERGY  
USDA RURAL DEVELOPMENT**

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# 1 EXECUTIVE SUMMARY

## PROJECT BACKGROUND

Morse Marketing Connections of Muskegon and Cherry Capital Foods of Traverse City, along with guidance from a Muskegon Community Advisory Council, conducted a feasibility study to guide implementation of a food hub in Muskegon County. This hub would source local products from a four county West Michigan region to increase local food supply to wholesale and retail buyers in Muskegon County, the region of West Michigan, and along the US31 corridor, including Chicago, Illinois.

Key partners (including Consumers Energy, local government officials, farmers, and businesses) have identified the goal of this feasibility study: to assess the potential for locating a self-sustaining food hub and processing facility that aggregates, processes, and distributes regional foods, as well as creates jobs in this region with direct access to Muskegon's deep-water port.

The community, through a private/public partnership, is working toward establishing Muskegon as a multi-modal logistics hub utilizing the airport, rail, highway, and port assets currently in place to support the location of a food hub and associated processing facility, among other industries in the region, and other properties for a self-sustaining facility that aggregates, processes, and distributes regional foods while creating jobs in the region.

West Michigan is ideally positioned to benefit from a food hub that connects farmers to new markets. With potential volume and reach from Detroit to Chicago, such a hub will also improve access to fresh foods for low income families and create new jobs. The study is being conducted from October 2014 to June 2015 and includes: 1) extensive research, soliciting input from community leaders, wholesale food buyers, and the region's farmers; 2) knowledge of what works (and what doesn't) with food



hubs around the country; 3) technical ability and experience with food hub planning, development, and operations.

This study will guide strategic investment and implementation of sustainable agri-business initiatives in the region and increased food access to the community include the low-income sectors. The Community Foundation for Muskegon County plays a catalytic role in West Michigan by identifying promising economic development initiatives, developing partnerships, and coordinating resources to bring good ideas to fruition. Recognizing the importance of agriculture and accessible fresh food to the health and wellbeing of the region, the Foundation has become increasingly focused on food issues. The Foundation is playing a central role in the “1 in 21” initiative, which seeks to move the county from its current rank – 69th out of 83 counties – to become the healthiest county in Michigan by 2021. Among its various initiatives, the Foundation is supporting the development of a new, expanded downtown farmers market.

For the Food Hub Feasibility Study, the Community Foundation sought the most experienced and qualified professionals to conduct the research and make recommendations. Two individuals rose to the top, one based in Muskegon: Marty Gerencer of Morse Marketing Connections, a leader in the national effort to create food hubs, and Evan Smith of Cherry Capital Foods, one of the most innovative food hubs in Michigan. Cherry Capital is nationally known for its work in aggregation and distribution of locally sourced foods around Michigan.



## PROJECT IMPACTS, OPPORTUNITIES, AND BENEFITS

### Beneficiaries

The study focuses on farmers in the four-county West Michigan region composed of Muskegon, Newaygo, Oceana, and Ottawa, and places a primary emphasis on specialty crops. In-depth research with farmers in these counties, with buyers stretching from Detroit to Chicago, as well as careful analysis of secondary data (including the recently released 2012 Census of Agriculture) has ensured that the particular needs and interests of the region’s farmers and wholesale food buyers will be met through this work.

**Food hubs** provide a potential solution to regional infrastructure development. At their core, food hubs are managed facilities that provide **aggregation, processing, and distribution services** for regional agricultural products from groups of producers. Food hub models are constantly evolving because they are developed in response to the particular needs of an agricultural region. Michigan has some long-established food hubs, such as Eastern Market in Detroit and Cherry Capital Foods in Traverse City. The consultant team is highly knowledgeable about food hub models throughout the country.

Food hubs also often go beyond basic services. Recognizing the need to rethink their local food systems, private and nonprofit entrepreneurs are incorporating facilities and programs within food hubs to provide farmer and buyer education, to support logistics, and to offer branding and other marketing functions. Farmers in West Michigan face a rapidly changing landscape, and need training and new skills to compete in the current environment. In particular, they seek business planning skills, food safety certification, training on sustainable on-farm practices, and technology skills. These needs, and potential solutions, have been explored. A capacity building and farmer workshop was conducted in April 2015 and included 45 attendees. This workshop offered GAP food safety training and more in-depth discussion about food hubs by



the core team and other experienced resource providers.

This study explored the best approaches to ensure our region's farmers are connected to new markets and increase their economic livelihood through this new food hub. The study also looked at ways to better utilize Muskegon's excellent deep-water port, railway, highway, and airport systems to be more efficient in the distribution of Michigan products to the region and beyond. Buyers that have been requesting Michigan fruits and vegetables will now be serviced, also increasing the supply of healthy, regionally produced food in the marketplace.



## FINDINGS, ANALYSIS, AND RECOMMENDATIONS

The outcomes support the need for a food hub in Muskegon County while supporting other counties, West Michigan region and the US31 corridor, including Chicago, Illinois. The food hub will have four core functions: aggregation, marketing, distribution, and retail selling. The operation will be located in the downtown Muskegon community near the Muskegon Farmers Market and other food businesses with access to highway, rail, and the port. This operation is a project of overall strategic initiative for Muskegon County of a project supported by members of the Muskegon County Port Advisory Committee as a sustainable agribusiness, and will be owned and operated by a local food entrepreneur who has relationships with area farmers, buyers, and stakeholders, as well as knowledge and experience aggregating, distributing, and selling locally produced foods. Phase 1 (1-5 years) is estimated to generate up to \$2 million in sales and utilize up to 10,000 square feet of facility space. During phase 1, the core team may continue involvement to provide mentorship and assistance in ensuring the success of the operation.

## 2 PROJECT BACKGROUND

### PURPOSE AND VISION, MUSKEGON COUNTY BACKGROUND, AND MICHIGAN AGRICULTURAL INDUSTRY

Morse Marketing Connections (MMC), a national leader in the food hub movement based in Muskegon, was asked by local government officials and business leaders to explore the potential for creating one or more food hubs within the West Michigan region. The decommissioning of the Consumers Energy power plant on Muskegon's deep-water port provides a rare opportunity to strengthen the region's agriculture by transforming this property into a food hub that aggregates, processes, and distributes local foods throughout the Midwest. Other sites in the region are also being explored as potential locations for facilities that address the distribution, processing, and marketing needs of the region's farmers.

To ensure the feasibility study would be technically sound and lead directly to implementation, MMC reached out to Evan Smith of Cherry Capital Foods. Evan Smith has developed Cherry Capital Foods into the state's foremost local food distribution company, and is intimately knowledgeable about the needs of the state's farmers and wholesale buyers.

Key project advisors include Consumers Energy, the Muskegon County Port Advisory Committee, the City of Muskegon, farmers from Muskegon Farmers Market, Sweetwater Organics, Swanson Pickle, and local/state government officials. The core team has relationships with sustainable food systems leaders at the state level and food hubs from around the country. Ongoing dialog and advice is being sought from state and national leaders as well.

### Background

Agriculture is Michigan's second biggest industry, with over \$100 billion in total annual economic impact. The industry employs a quarter of the state's work force. The West Michigan region stands out within this robust economic sector: the region contains 10% of the state's land in farms, yet commands 16% of the state's total agriculture revenue. The total economic impact of West Michigan agriculture includes \$579 million in labor income, \$498 million in property income, over 26,000 jobs, and \$2.4 billion in economic output. A modest 5% increase in agriculture's performance would create an additional \$29 million in labor income, \$25 million in property income, 1,300 new jobs, and \$120 million in economic output.<sup>1</sup>

The median household income in Muskegon County is 17% lower than the State of Michigan, and 24% lower than the national median income. The poverty rate in Muskegon County averaged 18.5% between 2007 and 2011, compared to 15.7% for the state and 14.3% nationally. The percent of people with a bachelor's degree or higher is only 16.8% in the county, compared to 25.3% statewide and 28.2% nationally.<sup>2</sup>

West Michigan agriculture is extraordinarily diverse, with a large variety of high quality, specialty crops including fruits and vegetables, meat, dairy, and other products. The four-county region of Muskegon, Newaygo, Oceana, and Ottawa counties includes nearly 3,600 farms, predominately small and mid-sized family operations. Despite a long-term trend of declining net farm income, farmers in West Michigan have demonstrated tremendous resilience by finding new marketing opportunities, and have begun to reverse years of declining revenue. While the market value of agricultural products sold in the region increased significantly between 2002 and 2007, the increase lagged behind the state average by more than three percentage points.

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<sup>1</sup>All figures for 2007. Sources: Michigan State University, "Second Interim Update on the Economic Impact of Michigan's Agri-Food and Agri-Energy Industry"; USDA Census of Agriculture, 2007

<sup>2</sup> US Census Quickfacts accessed at <http://quickfacts.census.gov/qfd/states/26/26121.html>

By virtue of its geographic position and excellent deep-water port, airport, highways, and rail system, the community of Muskegon is strategically positioned to supply fresh and value-added products from farmers in nearby rural counties to a region that stretches between the large metropolitan areas of Detroit, Chicago, and Indianapolis. Buyers in these regions are aggressively seeking locally grown, fresh, and value-added products to meet increasing demand from consumers, and to positively affect health outcomes of their citizens. In the past decade, an entire new market has developed as hospitals, universities, K-12 schools, and restaurants seeking healthy and fresh products from local farms. The region's large-scale buyers, including Sysco Corporation, Meijer Supermarkets, and Spartan-Nash, have all actively sought locally grown foods, but have not been able to consistently source products that meet their volume and quality standards. Lastly, community and regional food access organizations such as the Veggie Van, Kids Food Basket, community food banks, and Feeding America West Michigan have sought options for purchasing locally produced food, and have agreed to purchase from a Muskegon Food Hub Operation.

## FEASIBILITY STUDY FUNDING

The feasibility study budget is \$85,000, with \$30,375 granted from USDA Rural Development. Funds from USDA were matched by local partners, including Consumers Energy and the Community Foundation for Muskegon County. Consumers Energy indicated their interest in supporting this project as part of its community transition commitment, due to the planned retirement of the Muskegon-based B.C. Cobb Generating Complex. The collective strategic initiative of a project supported by members of the Muskegon County Port Advisory Committee provides an umbrella framework for this operation.



## CORE TEAM

Marty Gerencer, Principal, Morse Marketing Connections, LLC

Evan Smith, Chief Operating Officer, Cherry Capital Foods

Renae Hesselink, Vice-President of Sustainability, Nichols, Inc.

Janelle Mair, Community Foundation for Muskegon County

Dennis Marvin, Consumers Energy

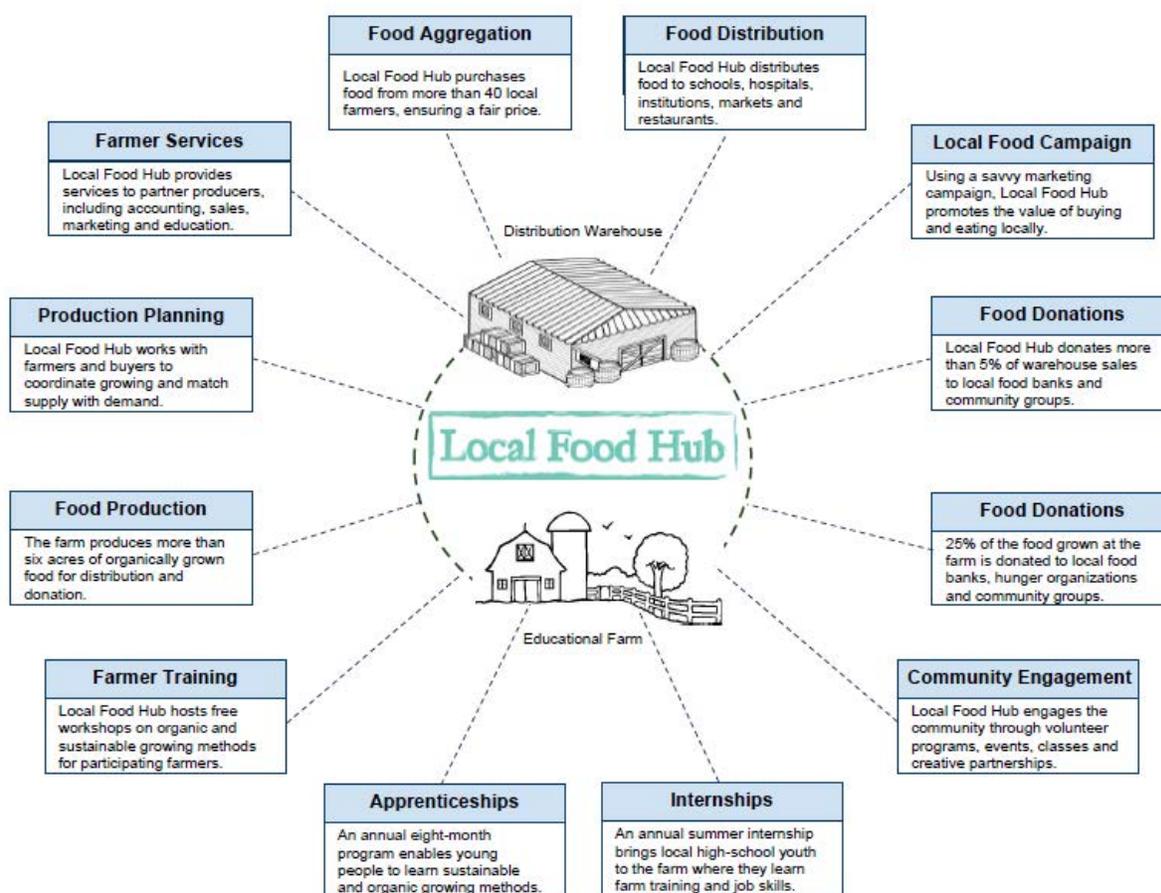
## APPROACH

### Food Hubs

Research released by the USDA National Food Hubs Collaboration provides evidence that regional food hubs increase agricultural sales, encourage rural and urban economic development, strengthen rural and urban connections, provide jobs, and increase access to healthy, fresh, and value-added products. Food hubs typically provide aggregation, processing, and distribution services for regionally produced agricultural products. In addition, food hubs help to re-localize the food supply, and thereby reduce transportation costs and associated environmental impacts, providing a sound strategy for improving a local food system.<sup>3</sup>

Despite West Michigan’s clear advantages in terms of agricultural base and proximity to large consumer markets, the region currently lacks the needed infrastructure to efficiently move high quality products from growers’ fields to buyers’ warehouses. This shortcoming is particularly problematic for the small and mid-size growers who comprise up to 80% of the region’s farmers for certain products. Food hubs provide a potential solution to regional infrastructure development. As yields increase, farmers in West Michigan will be ideally positioned to supply numerous Midwestern metro areas through regional food hubs.

Through surveys and interviews, the core team sought to identify the infrastructure needed to



Local Food Hub \* localfoodhub.org \* P.O. Box 4647, Charlottesville, VA 22905 \* (434) 288-2176

<sup>3</sup>USDA research shows that regional food hubs average 6 full-time paid positions, several part-time paid positions, and a host of volunteers that support this entrepreneurial yet cooperative business operation. The average food hub achieves sales of about \$1 million in its first year of operations, yet some hubs reported as much as \$200 million in sales. For more information see <http://www.ams.usda.gov/AMSV1.0/FoodHubs>.

### PHASE 1

coordinate supply chain logistics, utilize ordering systems (such as MarketMaker), accept EBT, accept credit cards, and to implement other technologies that will ensure efficiency at the food hub for farmers and buyers.

#### Feasibility Study

While food hubs have been created throughout the country, and there is significant support for the idea from USDA, the National Good Food Network, the Michigan Food Hub Network, and others, there has not yet been a carefully constructed planning and feasibility approach that can serve as a model for other communities interested in developing food hubs. The proposed Muskegon Food Hub Feasibility Study has been designed to offer a model for other regions throughout Michigan and around the country.

Our approach to the Muskegon Food Hub Feasibility Study combines three primary elements:

- A research-based, creative process that solicits input from a variety of sources, including rural development leaders, wholesale food buyers, the region's farmers, and those connected to the local food economy
- Knowledge of the best practices for food hubs around the country
- Technical ability and experience with food hub planning, development, and operations to conduct a thorough, independent analysis and provide reliable information for making informed decisions



#### Muskegon Community Advisory Council

The core team brought together a Steering Committee of regional stakeholders to provide guidance and oversight for the study. The Steering Committee met three times during the study: (1) at the project outset to provide input into the scope and process; (2) at the conclusion of the research tasks to review findings; (3) to review final recommendations and next steps. Please see Appendix for the list of Muskegon Community Advisory Council members.

#### Demand Analysis

The purpose of the demand analysis was to identify and seek to quantify the types, volumes, and product characteristics of local foods, including both fresh and processed items, which might be sought by wholesale buyers at a food hub in Muskegon County, the west Michigan region, and the US31 Corridor including Chicago.

#### Key Informant Surveys and Interviews

The core team conducted surveys and interviews with representatives from the key sectors of food buyers at the wholesale level. These buyers included independent and national food distributors, food manufacturers, supermarkets, restaurants, and institutional buyers (schools, hospitals). The interviews determined likely buyers, what products they seek (and at what quantities), pricing practices, and product requirements (such as traceability, GAP certification, insurance, post-harvest handling, etc.). The research also explored these representatives' reactions to the food hub concept, locational preferences, and operational requirements.

#### Data Analysis

The core team analyzed economic census and other data about food sales in the region to determine the region's demand characteristics and recent trends.

#### Sales Potential

Based on the key informant research and published industry data, the core team quantified potential demand for West Michigan products from wholesale buyers.

## **Supply Analysis**

The purpose of the supply analysis is to assess the interest of regional specialty crop farmers and their capability to utilize a food hub in Muskegon County.

## **Stakeholder Surveys and Interviews**

The core team conducted surveys and interviews with individuals knowledgeable about farm and distribution issues and trends in West Michigan, including Cooperative Extension staff and nearby distribution facility operators.

## **Data Analysis**

The core team analyzed USDA and other data about farming in the region to determine production characteristics and recent trends.

## **Farmer Surveys and Focus Groups**

The core team organized and conducted surveys of farmers in Muskegon and nearby counties. A face-to-face meeting also explored farmers' interest in participating in food hubs, their current and potential capacity to provide products, and infrastructure and training requirements needed to successfully participate in a food hub.

## **Supply Potential**

Based on the research and analysis, the core team quantified the supply potential for West Michigan-area farmers to utilize a food hub in the region.

## **Regional and National Food Hub Feedback, Case Studies**

The core team researched other relevant food hubs in the region and nationally. This work also built on the findings of the recent Food Hub Collaboration study and the Food Hub Financial Benchmarking Study. The research identified programmatic elements, project participants, sales volumes, development costs and funding, operating budgets, success factors, challenges, and lessons learned.

## **LOCATION ANALYSIS**

### **Location Characteristics**

Based on the market research and national experience, the core team identified location

characteristics such as size, infrastructure, proximity to highways and rail, availability, cost, and zoning.

### **Site Identification and Analysis**

Based on the location characteristics, the core team also identified high potential sites in and around Muskegon, and analyzed advantages/disadvantages of each.

## **OWNERSHIP AND MANAGEMENT STRUCTURE DEVELOPMENT**

### **Ownership**

Options for owning the food hub were explored, including public, nonprofit, cooperative, and private structures, as well as the potential for creating the food hub within a mixed-use or existing development.

### **Management**

Based on national models and experience, a management structure for the food hub has been recommended, linking the needs for financial accountability and stability, representation of the hub's various constituencies, and operational efficiency. Key management responsibilities were outlined.

### **Impact Analysis**

The core team provided a high level estimate of the economic, environmental, and social benefits of the food hub, including both direct benefits and multiplier effects. Numbers of new businesses and jobs will be estimated, as well as sales of locally produced food.

## **FEASIBILITY ASSESSMENT**

### **Report**

The core team prepared this written report that incorporates the findings, analysis, and recommendations. The report was reviewed by the Muskegon Community Advisory Council in draft form. The team prepared this report for submission to the community.

## 4 SURVEY RESULTS

### NATURE OF PARTICIPANTS

#### Producers

29 Respondents from five counties: Oceana (6), Muskegon (9), Kent (1), Ottawa (7), and Newaygo (6). Most were reached through the Muskegon Farmers Market, and range from under 5-acre market gardens to orchardists

#### Buyers

- 26 Respondents, most from Muskegon County
- 20 restaurants
- 6 institutions or large buyers

### LEVEL OF INTEREST IN FOOD HUB

#### Producers

Over 60% of participants had interest and excess capacity to supply locally grown and

value-added products to a potential Muskegon Food Hub in downtown Muskegon. 17% said no. 17% said maybe.

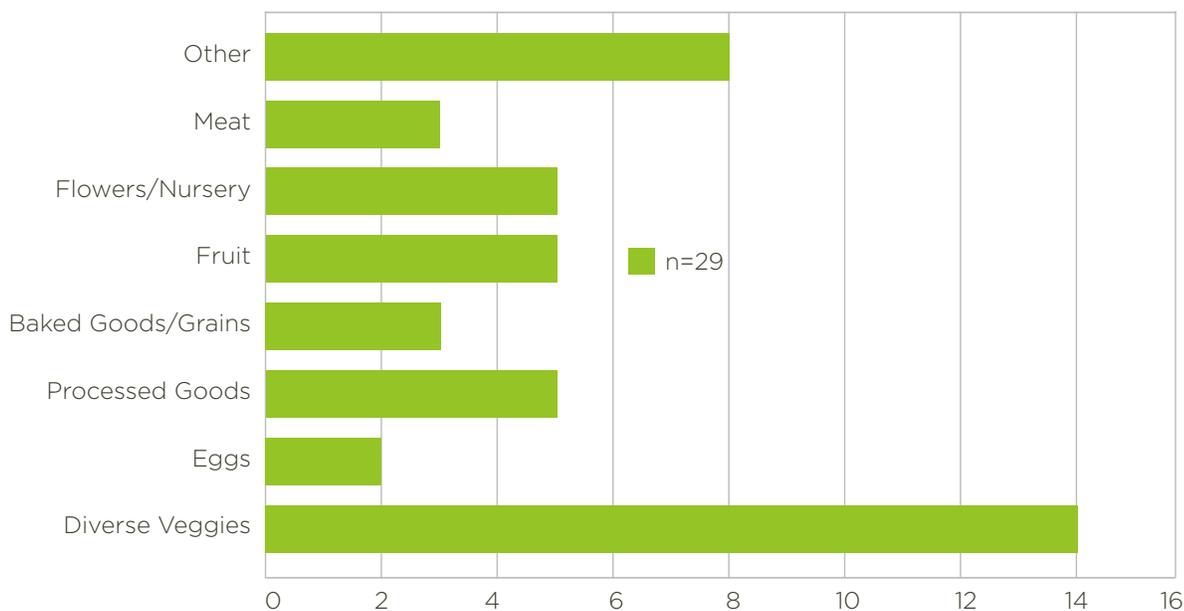
Over 70% of participants said that products sold to the Muskegon Food Hub Operation would increase volume and sales of their farm operation. It is important to note that 27% of participants responded that this question was “not applicable.”

#### Buyers

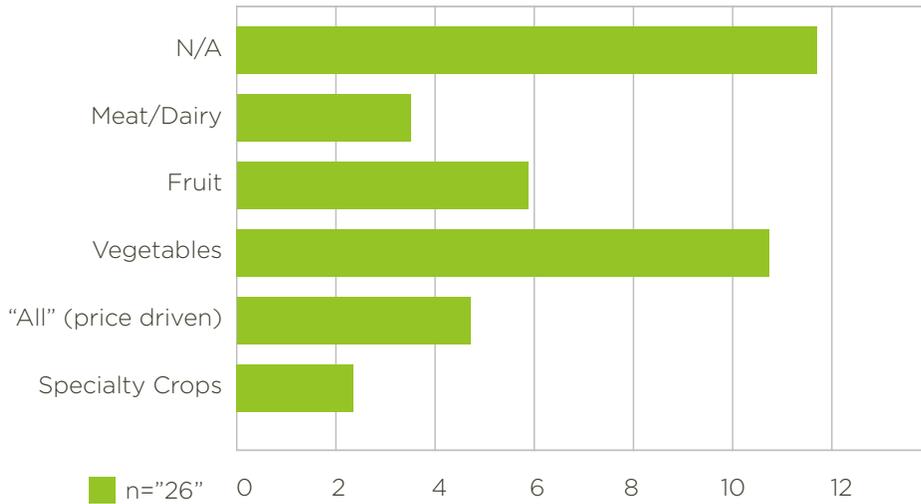
58% of participants showed interest in purchasing local products from a potential Muskegon Food Hub in downtown Muskegon, while 27% of participants are currently purchasing local food products from the Muskegon Farmers Market, and would see purchases from a food hub as incremental.

### SUPPLY AND DEMAND QUALITATIVE

#### Producers - Types of Products Grown



**Buyers** - Interested in Purchasing:



**SUPPLY AND DEMAND QUANTITATIVE**

**Producers**

- 500 batches of Fudge/year (40lbs./batch)
- Shiitake Mushrooms, up to 50lbs./week
- Fresh Blueberries, 1k-2k lbs. per week (July-Oct) (Blue Horizon)
- Frozen Blueberries, USDA Grade A-C, 30 lbs. boxes, 500,000lbs./year
- Dry Beans, 10 or 25 lbs. bags (>1000lbs./year)

**Buyers**

**High Volume (5):**

Mercy Health, Montague/Whitehall Schools, Chartwells Food Service (MPS), Pioneer Resources, Harris Hospitality

**Mid Volume - wide interest (7):**

Mia & Grace - specialty veggies, 100 lbs. meat/week  
 House of China - \$2,000/week  
 Dogs n Suds - 230 lbs. veggies in summer weeks

**Low Volume - specific interest (3):**

Carmen's Cafe (peppers), US 31 BBQ (cabbage), Wayne's Deli (peppers, tomatoes, onions)

**GROWER PRACTICES, BUYER REQUIREMENTS**

**Third Party Certification**

GAP or equivalent required for Mercy Health Partners.

**Institutions/Large Buyers**

Producers would have to become certified vendors for school districts and other institutions, but no specific third party certification is required.

**Restaurants**

The two important requirements raised by most restaurateur participants were timely delivery and competitive pricing. Food safety was also considered essential.

**Grower Concerns**

Time: farmers have the capacity to sell to a food hub, but lack time to deal with another venture. They have a concern that the demand for quality food is larger than the supply. Three farmers indicated they think they are too small or too close to retirement. Participants were unsure if ramp up would pay off. Farmers also indicated that support in expanding seasons and

production would be essential, and they have questions about pricing as one farmer indicated below:

*“Selling at the farmers market gives us retail prices as producers. It would be difficult to draw away from direct retail sales to supply a food hub (at wholesale prices) without a long-term commitment from buyers.”*

### Buyer Concerns

5% of participants had corporate barriers to purchasing from a food hub. Regarding logistics, all buyers indicated that doorstep delivery was strongly preferred and that cost competitiveness was important. Most buyer participants cited price as their primary concern, while four buyer participants indicated food safety and consistency is important, as one buyer said below:

*“Price and delivery are huge for me. I receive rebates from our GPO, so I would have to really look at cost due to our volume at two hospitals.”* – MERCY HEALTH PARTNERS

### Engagement

Both buyers and producers were under-informed about what a Muskegon Food Hub might look like. It is prudent to make further engagement and education a priority as the project moves forward.

### Link to Public Presentation (Prezi)

[http://prezi.com/pxim8lihv3sp/?utm\\_campaign=share&utm\\_medium=copy](http://prezi.com/pxim8lihv3sp/?utm_campaign=share&utm_medium=copy)

### Grower and Buyer Responses

See Appendix C and D



## INTRODUCTION

Chartwells Food Service is a national provider contracted by Muskegon Public School District, Muskegon Heights, and others. Colleen Johnson, Food Service Director for Muskegon Public Schools and Muskegon Heights, provided the following information in an interview: “Chartwells currently purchases from another food hub, Cherry Capital Foods, and they have good products and communication, easy order and delivery (akin to GFS), and hold an approved Chartwells vendor status.”

### Pricing

Cost effectiveness is the largest concern for most products. Due to a consistently positive fund-balance, however, more money is available to purchase local foods. There is messaging from the Muskegon Schools district to purchase more local food products. Example: Apples from Cherry Capital cost a few dollars more per case, but provide more variety, and as well as being more fresh and nutritious, the kids love them!

### Product and Logistics

On time, consistent delivery is essential. Muskegon Public Schools has a “Robo-Chopper” and other equipment, along with staff trained to handle fresh produce, that allows them to purchase whole veggies (onions, peppers, potatoes, etc.). Muskegon Public Schools are interested in primarily fruits and veggies. Processed goods raise additional barriers due to labeling and food safety requirements.

### Vendor Approval

The Muskegon Food Hub Operation could go through one of two routes to become an approved vendor: 1) Chartwells Approved; this would likely require farmer GAP or hub GMP certification, as well as the involvement of a Chartwells District manager. Approval would allow the food hub to sell to any Chartwells district. 2) District Approved; the Muskegon Food Hub Operation would go through Muskegon Schools District (and/or other districts) vendor approval process. The hub would likely need fewer certifications, but it

would allow the hub to sell only to approved districts.

### **USDA Regulations on Processed Food**

Value added or processed foods are subject to new USDA regulations that require recipes to have proper amounts of sugars, whole grains, protein, and more. This is one roadblock the Muskegon Public Schools Food Service Director believed that a food hub could help local producers overcome (through labeling, testing, etc.).

## **IMPLICATIONS**

### **Additional Feedback from Participants**

Farmers and buyers suggested further outreach, through direct discussions or workshops, to educate about what a food hub is, how they work, and how to supply them. The main barriers with supply and demand are price, consistency, and logistics on both sides. Having a clear, communicated development and implementation strategy is paramount for farmers and buyers.

According to survey participants, evidence shows that a light aggregation and distribution food hub model might be viable in Muskegon. There are buyers and producers ready to get involved immediately. Participants suggest reaching out to the five most interested buyers and producers from the available sample. There is certainly a sweet spot of food hub interest for both buyers and producers. The most interested restaurants were single sites and also included restaurant chains. The most interested farmers were generally mid-sized and offered at least one specialty crop.



## 5 MARKET ANALYSIS

### Muskegon County Population

- 2013 Population Estimate - 171,008
- 2010 Population Base - 172,188

Growth Rate from 2010 to 2013: - 0.7% overall population

### Sales Projections:

- Average spend by local school districts: \$6,103,170 annually
- Average spend by local hospitals: \$2,030,000 annually

### Industry Trends:

- Focus on child poverty and eating habits: 33% of Muskegon County's children live in poverty (more than 13,500 kids), and this figure has increased over the past six years.

### Local Market Analysis:

- Spend per student on food: \$1.50
- One healthcare system with two campuses
  - 406 beds and \$5,000 spend per bed, on average
- Baker Culinary School and Muskegon Area Intermediate School District Culinary Program

### Competitive Landscape and Advantages:

- Gordon Foods
- Sysco
- U.S. Foods
- Leprino
- VanEerden Food Service

**Advantages:** Healthy Muskegon effort, Road to Wellville, and 1 in 21 programs, as well as the concentration of farmland in the region.



## School Districts

Numbers are from 2012-13. ADP is Average Daily Participation. Estimated 170 school days per year. Average food cost is around \$1.50/meal (all food purchases.)

2012-13	Breakfast ADP	Lunch ADP
	1978	1907
Muskegon	1889	3819
Holton	625	634
Ravenna	175	701
Oakridge	462	1268
Montague	518	1099
Whitehall	397	1364
Fruitport	394	1620
Reeths-Puffer	587	2059
North Muskegon	100	505
Mona Shores	345	1491
	7467	16467

23934 meals per day

x 1.50 per meal

\$35,901 x 170 days per year = **\$6,103,170** annually on food spend (doesn't include private and charter schools)

## Healthcare/Hospitals

Average spend: Mid-sized hospital = \$6115/bed/year

Large hospital = \$4719/bed/year

It is fairly representative to say approximately \$5,000/bed/year. This doesn't take into account patient volumes.

Mercy Health Muskegon = 406 beds x \$5000 = **\$2,030,000** annual spend on food (excluding patient food)



## 6 BUSINESS ANALYSIS

### Operating Model

The food hub will have four core functions: aggregation, marketing, distribution, and retail selling. The operation receives fresh product from growers and packs it according to customer specifications. Depending on the grower's on-farm, post-harvest handling capabilities, the product is cooled, washed, graded, packed, palletized, and placed in cold storage until it is shipped to (or picked up by) customers. Farms that field pack may bring pre-packed cases to the food hub for cooling and storage. On-farm pickup may be offered to growers who do not have refrigerated transport. There is currently a separate, complementary project starting through a partnership with the West Michigan Regional Development Authority, the West Michigan Rail Transporters, and the food hub core team to seek funding for a substantial cold storage facility to be located near the Muskegon Food Hub Operation.

The marketing operation consists of buyers and salespeople who negotiate transactions with growers and customers. They may conduct pre-season crop planning with both groups to more consistently match supply and demand throughout the season. The distribution operation handles logistics of farm and customer pickups/deliveries. This function is often outsourced, and is not included as a profit center in the business model. The retail selling phase will occur at the hub on selected days of the week, complementary to the Muskegon Farmers Market days of operation.

### FACILITY REQUIREMENTS

#### Location

The core team's recommendation is to locate the Muskegon Food Hub Operation in close proximity to the US31 Corridor and near the US31 and I96 interchange for easier access to expressways and state trunk lines, avoiding county roads with seasonal restrictions. Locating the Food Hub Operation near the port and railways in downtown, on or near Muskegon Lake, will provide additional opportunities for more efficient aggregation and distribution of products. The operation should provide ease of

access for the multiple modes of transportation identified above.

#### Utilities

The Muskegon Food Hub will require electric and natural gas for heating, cooling; refrigeration and freezers, compressors, and lighting, along with numerous other needs for energy. For electric use, the Food Hub needs to be equipped with 440v - 3 phase electric availability. City water/sewer is preferred for more efficient cost and ease of linking to the Muskegon Wastewater Treatment Facility.

#### Wholesale Facility

The Muskegon Food Hub Operation should be a minimum 5,000 sq. ft., ideally 10,000 sq. ft. to accommodate for growth to the targeted \$2 million in sales over 5 years. The Operation should be equipped with food grade construction (washable surfaces, etc.), ambient storage capacity (estimated at 500 sq. ft.) cooler and 200 sq. ft. freezer. The operation should be equipped with loading docks for aggregation and distribution of fresh and processed product. High overhead space, up to 18 ft. ceilings, will allow pallet racks to be located in the facility. The Food Hub Operation should be equipped with floor drains throughout the facility and a mandatory fire suppression system should be installed. Additional equipment that should be considered for the Food Hub Operation includes a 3-compartment sink, hand washing station, pallet jacks, and eventually a forklift truck.

#### Retail Facility

A small retail storefront will sell product at the Muskegon Food Hub Operation on select days, and will complement Muskegon Farmers Market selling days. The storefront should have proper signage and ease of entry for consumers interested in direct purchases of local foods. Access is critical for cars, bicycles, and pedestrian traffic. The bike path along Muskegon Lake should assist in providing such access. A shuttle service from the Muskegon Farmers Market to the Muskegon Food Hub Operation retail days could be considered. Ample parking and lighting should be made available for the purchasing public.

## Business Model

The anticipated next phase of the Muskegon Food Hub Operation Project will further articulate the business model, and be validated by testing through a pilot phase projected for 2016.

A Business Model Recommended Approach will be developed based on interviews with Common Market Food Hub and Cherry Capital Foods in April/May 2015.



## 7 ECONOMIC AND SOCIAL IMPACT

As predicted at the outset, there could be significant positive economic, social, and environmental impacts if a food hub is developed in Muskegon County. Based on the scale of the facility in the base case, the following benefits could be realized:

### Jobs

In steady state, the food hub employs 6 full-time and 16 part-time employees, and requires up to 10 third party employees to handle distribution.

Employment would increase up to 250% (2.5x) as the facility develops seasonal extension capabilities and reaches capacity. Indirect employment will also result from the enterprise.



### New Markets

According to the average acreage among survey participants, the facility would provide a new market and new revenue stream for as many as 20 family farm businesses in communities across Muskegon County and the West Michigan region, adding significant value to farmland.

Currently, there is not a grocery store in downtown Muskegon, and past surveys done by community members identified interest (and a need) for more healthy foods available to community citizens. The Muskegon Farmers Market was open on Tuesdays, Thursdays, and Saturdays from May through October 2014, and has served some of this role. Further evidence of community interest and support was validated in record attendance at the Farmers Market over the 2014 season.

Sweetwater Organics and other local community leaders have interest in developing a downtown retail store for healthy foods. The core team has researched small grocery stores and cooperatives that are successful in other communities in Michigan. Currently, our plans include a Muskegon Food Hub and Retail Store located close to Muskegon Farmers Market & Community Kitchen and The Cheese Lady Retail Specialty Store.

## 8 BUSINESS OPERATIONS AND STRUCTURE

### Ownership Structure

A for-profit business model will ensure the long-term financial sustainability of the Muskegon Food Hub. Because the success of a food hub depends on a solid core of producers, grower-stakeholders are encouraged to have a strong voice in the ownership structure ultimately chosen for the food hub.

The core team has explored a number of ownership forms and business model options, and will continue this effort through meetings with grower-stakeholders during the business planning phase of the project. Below is an overview of the business structures currently under consideration, and critical considerations associated with each of the models.

### Grower Cooperative

A traditional agricultural cooperative (co-op) is exclusively owned and operated by the group of producers who use the co-op and are its members. Profits are distributed to members based on amount of usage.

- Direct contribution through membership fees or stock purchases
- Agreement to withhold a portion of net earnings
- Assessments based on units of product sold or purchased
- Many experts believe that the single biggest driver of aggregation center success is the level of investment and support of its growers
- Cooperative models inherently lead to stronger grower support, given that they are investors and profit sharers in the business and have equal voice in decision making

Considerations: Depending on the structure chosen, there may be restrictions on membership. Producer groups may not be able to generate funding to invest in the necessary infrastructure. Finally, the collaborative nature of cooperatives can slow down and even limit effective decision making processes – key marketing, operations, or finance decisions are often made by the group, rather than by specialized experts.

### Private Corporation

A for-profit venture's primary function is to generate profit for stakeholders. There are several

business entity choices for a for-profit:

- Sole Proprietorship: Business owned and operated by one individual
- Corporations: Consisting of shareholders who finance and own the business, and who elect a board of directors to govern the business - S Corporations and Close Corporations are two common examples
- Partnerships: An association of two or more people who co-own, and are personally liable for the company obligations. Limited Liability Companies are partnerships in which partners are personally shielded from company obligations. Private corporations can more easily attract interested investors to fund the high start-up infrastructure costs. Additionally, with a for-profit structure, owners and the board of directors may pursue business strategies that generate more profits for all stakeholders – owners, staff, and producers.

Considerations: For-profits are ineligible for most grants, which can help fund necessary start-up costs. Additionally, for-profits are subject to a high corporate tax rate. It is important to seek legal advice to determine what business entity a for-profit should adopt.

### Public-Private Entity

Because agriculture forms the basis of many rural economies, there is often public interest in investing in the facilities and infrastructure that will increase rural farmer access to markets. Public-private partnerships can take many different forms. For instance, a municipality could provide needed infrastructure (land, building, packing equipment, etc.) and a private company might manage the facility without seeking full ownership of the entity.

Considerations: A municipality needs to be invested in local food systems and the positive impact of an aggregation center. Additionally, by garnering support from both public and private entities, this business form may be likely to more easily withstand price fluctuations or difficult, less profitable seasons. However, any venture that has some stream of public funding may also be subject to shifts in government and fiscal politics.

## 9 MANAGEMENT TEAM/OPERATOR

**The General Manager** will assume overall responsibility for the management of a 10,000 sq. ft., shared-use, USDA and State of Michigan inspected food hub and retail facility. The Muskegon Food Hub is an LLC for-profit enterprise that provides four core services to its clients, who include both farmers and food entrepreneurs:

1. Aggregation of products from area farmers
2. Distribution of products to community and regional buyers
3. Marketing of services; farmer and buyer relationships and commitments, and food hub services to suppliers
4. Retail Storefront to sell local products

### General Qualifications:

The successful applicant for this position will be the person who best demonstrates the following work skills and characteristics:

- This is a customer service business - the position needs **a people person** to effectively manage staff, work with clients, and build connections to farmers and local food system partners
- General Manager needs to be **entrepreneurial**, anticipating challenges and opportunities, and **solution-oriented** in addressing those opportunities and challenges proactively
- The food hub's success requires the GM to be an effective **salesperson**, eager to articulate the value of the services offered and committed to exceeding client expectations
- The position requires someone who is **detail-oriented** - good with logistics and scheduling, and **numbers-oriented** - capable of performing basic financial responsibilities
- While the job entails many administrative functions, this is not a desk-job: the General Manager needs to be **hard working**, able to get to work at 7:00 AM, get out on the road to meet prospective clients, and pitch in to help move storage pallets or drive the delivery truck when the need arises

### Relevant Experience:

The successful candidate will be able to demonstrate experience working with people in an **entrepreneurial, business-building** environment that includes a level of business development, strategic thinking, business management, and an understanding of community based food systems.

Relevant experience in the food industry is preferred. Also, the General Manager has **ultimate responsibility for food safety** at the hub.

### Job Responsibilities:

- **Strategic Leadership:** The GM will demonstrate long-term vision and leadership in guiding the strategic plan and working with other leaders to implement the strategy
- **Business Development:** The GM has the responsibility for growing and maintaining the hub's pipeline of users, building networks in the farm and local food communities, and implementing new ideas to enhance the food hub's repertoire of services - the GM is the public face of the Muskegon Food Hub
- **Finance and Administration:** The GM is responsible for a range of finance and administrative functions: customer billing, accounts receivable and accounts payable, payroll, insurance management, packaging inventory, storage administration, and coordination of weekly distribution runs; the GM also will meet all administrative food safety and regulatory requirements
- **Systems:** The GM will need to quickly become proficient with the systems that run the hub's scheduling - any experience with QuickBooks, Google Calendar, and NexTraq Truck Tracking is a plus
- **Management:** The GM will eventually supervise up to two staff members, the Operations Manager and the Distribution Driver, and will manage relationships with dozens of clients and community partners

- creating an atmosphere of cooperation, professionalism, and enjoyment is the essential customer service goal of the management position

- **Facility:** The GM will maintain and improve the facility and its equipment

### **Salary and Benefits:**

The General Manager is a salaried position based on qualifications. Potential exists for performance bonuses and equity participation in the Muskegon Food Hub.

Job description is courtesy of Mad River Food Hub, Waitsfield, Vermont



## **10 FINANCING OPTIONS**

The information below lists a range of financing opportunities for the Muskegon Food Hub Operation. It is anticipated this operation will be funded through a combination of grants and loan support until cash flow can sustain the operation. The business plan and pilot launch will be articulated in more detail in the next phase of this work.

### **Grant Opportunities**

The link below provides a vast list of funding resources for food hubs and related food businesses. This is a publication of MSU – Center for Regional Food Systems:

[http://foodsystems.msu.edu/resources/food\\_business\\_funding\\_sources](http://foodsystems.msu.edu/resources/food_business_funding_sources)

### **Loan Providers**

Include Michigan Good Food Fund resources (this information will be available after the launch of the fund in 2015.)



## 11 FINAL RECOMMENDATIONS AND NEXT STEPS

Findings of the Muskegon Food Hub Feasibility Study support moving forward to pursue and secure funding to conduct business and implementation plan development in 2015 and launch of the operation in 2016. The results of the supplier/buyer surveys indicated that over 60% of farmers surveyed from the four-county region of Muskegon, Oceana, Newaygo, and Ottawa had interest in selling the products they grow to the Muskegon Food Hub. The farmers also indicated they have a ready supply of local products available for a new market. Approximately 59% of the buyers surveyed indicated they would purchase locally produced products from the Muskegon Food Hub. Farmers had the highest interest in selling locally produced vegetables from their farms, and likewise, buyers had the highest interest in purchasing local vegetables from the Muskegon Food Hub.

In addition, face-to-face discussions and surveys with the Muskegon Food Hub advisory council, community leaders, local and regional nonprofit organizations, and local merchants have indicated support for the Muskegon Food Hub to be located in Muskegon County, with a preference for locating the food hub in downtown Muskegon.

It is anticipated that the Muskegon Food Hub business and implementation work will result in a 3-year business plan and pilot launch to begin implementation. As indicated earlier in these report findings, the Muskegon Food Hub will contain four component sub-operations: aggregation, distribution, marketing, and retail. The food hub will ideally be located in downtown Muskegon in close proximity to the Muskegon Farmers Market, Kitchen 242, and other potential food businesses. The retail operation is likely to be located at a separate nearby building. It is anticipated that the Muskegon Food Hub will likely become a hub for new agricultural entrepreneurial processing opportunities through partnership work with entrepreneurs testing and expanding their value-added products at Kitchen 242. Also, the Muskegon Food Hub team is in the midst of discussions with other agricultural processors. The Food Hub partnership with agricultural processors will increase efficiencies by sharing costs and resources under one roof.

The Muskegon Food Hub team is actively pursuing funding to support moving this project from feasibility analysis to implementation and launch phases.



## CORE TEAM BIOS

### **Morse Marketing Connections, LLC (MMC) – Marty Gerencer, Principal**

Based in Norton Shores, Michigan, Morse Marketing Connections, LLC (MMC) is a national food systems consulting agency, owned and operated by Marty Gerencer. MMC began in 2002. Over the past 13 years of operation, Ms. Gerencer has initiated and led several partnerships to increase outreach, farmer capacity building, and the supply of locally sourced food to communities in Michigan and around the country, contributing to stronger agriculture and food systems, local economies, and increasing the health of consumers.

Marty spent over 20 years with Gerber Products Company working in marketing, national partnerships, and supply chain teams that employed collaborative approaches to business practices, sourced locally produced food from area farmers using sustainable growing practices, and used interim food hubs to more efficiently supply locally produced food to Gerber. After the launch of MMC, Marty has participated or led a host of initiatives at the local, state, and national level to increase the supply of locally produced foods into the marketplace. The National Good Food Network is a national platform focused on increasing the supply of locally sourced food to communities through farmer and supply chain capacity building programs such as trainings, technical assistance, and communities of practice. Ms. Gerencer has served on the core team, and in co-leadership roles for these initiatives.

In 2012, Marty entered into a partnership with Michigan State University Center for Regional Food Systems to launch and operationalize the Michigan Food Hub Network, through support from The Kresge Foundation. The Michigan Department of Agriculture and Rural Development (MDARD) is also a key partner of the Michigan Food Hub Network. This statewide network brings together stakeholders interested in networking and learning more about how to develop regional food hubs to increase the supply of locally produced foods to area schools, hospitals, and other establishments,

including those in underserved communities. Marty also entered into a partnership with the Community Foundation for Muskegon County (CFMC) to develop and launch Healthy Muskegon (Healthy Eating and Access, Local Teams Helping Youth) through support from the W.K. Kellogg Foundation. This initiative is focused on increasing healthy foods available to minority and underserved children in Muskegon County.

### **Cherry Capital Foods – Evan Smith**

Evan Smith is Chief of Operations at Cherry Capital Foods, a rapidly growing broad line fresh food distribution and marketing company based in Traverse City, Michigan. Cherry Capital Foods has created a unique industry niche by helping customers and farmers figure out how to source local food, and how to provide local food to the marketplace. Their product categories include fresh, frozen, and dried produce, numerous proteins (meat, poultry, soy-based), eggs, dairy, value-added products, and wine. This diverse range of products has given them insights into many sectors of Michigan's farm economy, working with farm operations of all scales. They are deeply familiar with the evolving state and federal regulatory environment that affects all aspects of the food system, including farmers, food processors, distributors, food service, and retail stores.

Evan is actively involved with food hub development efforts in Traverse City, Michigan, and throughout the United States. As a result, he is familiar with the opportunities and challenges of developing sustainable food distribution and food processing concepts based on locally sourced products. Evan has 10 years of experience as the Vice President and Chief Financial Officer of Food for Thought, a specialty food processor and co-packer. Evan is also a licensed Customs Broker and former Freight Forwarder, with 16 years of experience in food import/export.

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- City of Muskegon
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- Downtown Muskegon Now
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- Katie Hensley
- Gary Post
- Longerdays Administrative Services
- Farmers from West Michigan region
- Buyers from Muskegon, West Michigan region, and Chicago
- FamilyFarmed
- MSU Center for Regional Food Systems
- Michigan Food Hub Network
- Michigan Department of Agriculture and Rural Development
- Senator Goeff Hansen
- Representative Marcia Hovey-Wright
- Senator Debbie Stabenow
- Washtenaw Food Hub
- Marquette Food Coop

- Wallace Center at Winrock International
- National Good Food Network
- United States Department of Agriculture - Agriculture Marketing Service
- Wisconsin Food Hub Feasibility Study
- Common Market Food Hub
- Mad River Food Hub

### Community Advisory Council

- Dan Gorman - School Food Service Director, Montague and Whitehall Schools
- Cody Yothers - Muskegon Urban Farmer, Community enCompass
- Katherine Hensley - Swanson Pickle
- Renae Hesselink - Vice-President Sustainability, Nichols Inc.
- Chris McGuigan - President, Community Foundation for Muskegon County
- Janelle Mair - Director of Grantmaking, Community Foundation for Muskegon County
- Dennis Marvin - Community Engagement Manager, Consumers Energy
- Cathy Brubaker-Clark - Economic Development, City of Muskegon
- Jonathan Wilson - Economic Development, Muskegon County

## PHOTO AND ILLUSTRATION CREDITS

### Cover photo

Aerial view of Muskegon harbor.  
US Army Corps of Engineers, Dennis Rundlett

### Page 8

[LocalFoodHub.org](http://LocalFoodHub.org)

### All other photos

Community Foundation for Muskegon County - Healthy Muskegon Project



## Muskegon Food Hub Feasibility Conceptual Framing

A Conceptual Framing Platform of Feed the Community, Feed the Region, and Feed the World was developed for this study based on strategic goals, and to keep the planning and study work organized and progressing along parallel paths. See below:

### FEED THE COMMUNITY

#### Downtown Muskegon Locations

- Healthy Muskegon – community food work, urban farming, community gardens, farm to school, nutritional training
- Muskegon Farmers Market and Community Kitchen
- The Cheese Lady Retail Specialty Store
- Veggie Van - Muskegon
- Muskegon Food Hub - light aggregation and distribution into the community (part of study\*)
- Muskegon Food Hub Retail Store Front – local and Michigan specialty foods, wine tasting room (part of study\*)

Currently, there is not a grocery store in downtown Muskegon, and past surveys done by community members identified interest (and a need) for more healthy foods available to community citizens. The Muskegon Farmers Market was open on Tuesdays, Thursdays, and Saturdays from May through October 2014, and has served some of this role. Further evidence of community interest and support was validated in record attendance at the Farmers Market over the 2014 season.

Also, there is initial interest from Sweetwater Organics in expanding to downtown Muskegon and testing a retail store in this location. The core team has researched small grocery stores and cooperatives that are successful in other communities in Michigan. Currently, our plans include a Muskegon Food Hub and Retail Store located close to Muskegon Farmers Market & Community Kitchen and The Cheese Lady Retail Specialty Store.

### FEED THE REGION

Muskegon County – between Muskegon and Grand Rapids

- Muskegon Wastewater Treatment Facility and Farm – Explore potential for developing a grass-fed beef meat processing facility at this location, serving the West Michigan area (part of study\*).

The core team is in the midst of assessing the Muskegon Wastewater Treatment Facility site as a potential location for a grass-fed beef cattle ranch, local meat processing operation, and a malting operation. Results of these assessments will be submitted under separate cover.

The feasibility studies listed below are not a part of this study. However, findings are shared in some cases, and a collaborative approach is being taken to unify all of the findings to progress agricultural initiatives in Muskegon County, the region, and beyond.

- Cherry Capital Foods Distribution Center – Explore potential for locating a new distribution center in Norton Shores to service the US31 corridor between Traverse City and Chicago
- Green Spirit Farms – Explore potential for locating a sustainably grown, vertical farm in Norton Shores – this could be in same facility as CCF
- Malting Operation in Muskegon County

### FEED THE WORLD

#### Downtown Muskegon Location

- Muskegon's deep-water port (Muskegon Lake)
- Explore potential for exporting Michigan-made food products from Muskegon, to Cleveland port, to European locations, based on results of cost-analysis (done by a separate group)
- MDARD International

In November 2014, the core team, the Muskegon Deep-Water Port Team, and MDARD International arranged a meeting to assess potential farmers and processors that may be interested in shipping/exporting their products via Muskegon Lake. Currently, a cost/benefit analysis has been commissioned by Consumers Energy to assess reduced cost for Michigan farmers, processors, and other manufacturers in shipping/exporting via Muskegon's deep-water port. The results of this study will be released during the spring 2015. Findings from this study will inform

Michigan farmers and processors of their potential cost savings for exporting their goods through Muskegon.

### **Site Exploratory Locations**

The following locations were suggested by stakeholders and have been explored by the core team: Muskegon Wastewater Treatment Facility, Muskegon Farmers Market, Martdock Aggregation, Distribution, and Storage Facility located on Muskegon Lake, multiple vacant buildings on Western Avenue in downtown Muskegon, and Muskegon County Industrial Park North.

