

Accessing the Broader Public Sector Marketplace

Local Food Hub Business Plan and Implementation Strategy
Erie Innovation and Commercialization

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1 Introduction

Erie Innovation and Commercialization is investigating the feasibility of a regional food distribution system to access and serve the Broader Public Sector (BPS) in south-western Ontario in order to improve the livelihoods of south-western Ontario growers. The goal of the project is to provide a market assessment of the Broader Public Service institutions, consider the competitive market and challenges to be faced and determine the best option for a regionally based local food distribution system. The culmination of this effort is presented in this Local Food Hub and Implementation Strategy.

Increasingly, local food systems are being turned to as an alternative for farmers to regain more control over production, capture intermediaries share of profit, address issues of environmental pollution and emissions and improve the health of local citizens. Local food systems are believed to enhance the environmental, economic, social and nutritional health of a particular place. In addition, local food systems address the rural livelihoods of local farmers in providing access to fresh and local food while redistributing value along the food value chain.

As significant purchasers of food, public sector institutions are seen as a logical first step in providing local farmers with a market for their product; they offer producers a consistent, predictable demand that is planned and purchased in advance. Ontario in particular has made great strides in increasing the local food purchases of their public sector institutions. In recognizing their ability to strengthen rural livelihoods, the Government of Ontario created the Broader Public Sector Investment Fund to facilitate market connections between Ontario farmers and Public Sector institutions.

The initial deliverable for this project, a Broader Public Sector database for the South Central Ontario Region (SCOR) provided the background information required to:

- Estimate the size of the BPS market in the SCOR area
- Understand the facilities procurement requirements and processes
- Describe the BPS food distribution network and competitive landscape

This information was shared and discussed with members of the project advisory committee to determine potential options for a BPS local food hub in SCOR. The business plan presented in section 5 of this report puts forth the concept of a virtual local food hub and describes the governance, operational and financial model required for the successful implementation of the virtual hub.



2 Broader Public Sector Marketplace

2.1 Defining the market

The South Central Ontario Region (SCOR) is made up of the County of Brant, Elgin County, Middlesex County, Norfolk County and Oxford County. While not members of SCOR, the Cities of Brantford, Aylmer, St-Thomas, London and Woodstock were also included for their significant BPS institutions and potential market. A variety of public institutions were examined including: hospitals, long-term care and retirement homes, universities and colleges, elementary and secondary schools, and community services organizations, focusing on those who prepare and serve food as part of their services. Table 1 outlines the institution types and number in the SCOR region.

TABLE 1: NUMBER OF PUBLIC INSTITUTIONS WITHIN SCOR

Long Term Care Homes	52
Hospitals	11
Post secondary institutions	10
Regional Government Offices	5
School Boards	4 (serving 67 secondary schools with on-site food facilities).
Penitentiaries	3
Total	85

The broader public sector institutions are largely concentrated in the larger cities in SCOR, notably London (28) and Brantford (12) with an additional 4 institutions in the City of Woodstock. These three urban areas account for 51% of all public sector institutions in SCOR.

Through a comprehensive consultation process an overview of the purchasing policies of each of these broad public sector categories has been developed. Each BPS market segment has developed unique purchasing behaviours. Each of these market segments is explored in detail below.



2.1.1 Post-Secondary Campuses

SCOR is home to several post-secondary institutions, including: The University of Western Ontario, Fanshawe College (with 4 campuses across the region), Mohawk College (Brantford Campus and the Mohawk-Laurier Centre), and the Ontario Police College. Of these, the University of Western Ontario (Western), Fanshawe College London Campus, Mohawk College Brantford Campus, and the Ontario Police College all have on-site food services for the estimated 38,000 students they serve on a daily basis.

The post-secondary market has some of the highest potential for increased local food purchasing for two reasons:

- students are often purchasing food at a higher retail price
- campuses' full capacity kitchens combined with large food services staff allows them to prepare the bulk of their offerings from scratch.

The variety of daily menus also has improved potential for one-off purchases direct from farmers, and the demand for product is high – the University of Western Ontario Hospitality Operations alone has an annual sales average of \$30 million.

Western has made a commitment to local sourcing, with 40% of its suppliers being local. They work with current suppliers to receive local berries, asparagus, peppers, peaches on a seasonal basis, and apples, mushrooms and tomatoes year round. Last year they made arrangements with local producers to provide seasonal berries, while their produce supplier cleaned, froze and packaged the berries for the University. The University also has a direct relationship with some farmers including a local beef supplier, outside of its major produce supplier relationships. A regular 100 Mile Market menu focuses on this supply by offering meals that feature in-season, local ingredients.

Fanshawe College's food services are largely contracted out to Chartwells, who operates the bulk of the on-campus food service offerings. Along with this food service the student union operates a dining centre and the hospitality services program operates an on-campus restaurant. The College and Chartwells have a long-standing relationship that has been on-going for 35 years. Chartwells and Fanshawe were unable to release totals regarding sales or daily customer tallies, but the London campus, which is the only campus with food services, had 14,702 full time students in 2009-2010. Chartwells purchasing division, located in Mississauga and serving all Chartwell operations in Canada, makes purchasing decisions regarding vendors which the operations must use. Produce is sourced locally on a seasonal basis through Bamford Produce, which purchases both local and non-local produce via the Ontario Food Terminal and through on-going arrangements with producers. The on-campus services provided at Chartwells occasionally provide feature sheets on locally-sourced meals or products, but only when they have been provided this information from their purchasing division.



Procurement processes vary from institution to institution. Western uses a request for proposals process managed by their procurement services. Local sourcing and sustainable practices are now a requirement for any respondents to the University's requests. Fanshawe's Chartwells food services are supplied through Chartwells' purchasing division, who utilizes a request for proposals process.

Procurement processes are perhaps the most complicated at The Ontario Police College, located in Aylmer, as it is funded by the Ministry of Community Safety and Correctional Services. On average, the college hosts 400 students year round, the bulk of whom are police and civilian members of police services throughout the province. As part of the course offerings, food services are included, providing students with three on-site meals daily. The budget and procurement has to follow provincial procurement processes, including the use of vendor of record companies and suppliers for certain contracts.

The facility is currently served by a number of suppliers, including Sysco, Flanagan Foodservices, John's Fruit and Vegetables, among others. The College prefers to utilize the locally sourced product offered by their distributors, and operates with a significant daily budget in the \$15-\$18 range per person, per day. As these contracts are well over the minimum of \$25,000 or more, they are open to the RFP process and are managed by the Province's Supply Chain Management Division and advertised on MERX. However, Ontario also opens bids for vendors of records, who compete to be long-term (3 year) suppliers for the Province or a specific ministry. In the case of food services, the Ministry of Community Safety and Correctional Services sources food and food services from the following (* indicates a vendor of record): Agropur Dairy, Brum's Dairy*, D & D Poultry, Flanagan Foodservices, John's Fruit and Vegetables, Loblaw's, Massey Wholesale, No Frills, Skor Food Services*, Steen S. Dairy, Summit Food Services*, Sunrise Juices, Sysco, Kawartha Dairy, Canada Bread Company* and Vitality Foodservices. The yearly budget for food services at the Ontario Police College is estimated at \$1.56M yearly, based on a 15\$ a day meal cost per student.

2.1.2 Penitentiaries

The three correctional facilities in the region differ considerably in the number of people served per day depending on sentencing. Similar to the Ontario Police College, each facility is given a list of key distributors in their region from whom they may supply. The facilities generally purchase scratch ingredients, although some items are bought pre-made. Correctional facilities are purchasing prepared or packaged goods to ensure equal and individually sized portions in order to mitigate the risk of inmate disagreement. The average daily food cost per inmate is 11.60 per day, but varies across the Province and is not regulated.



All of the correctional facilities interviewed used Stewarts Food Services located in Barrie for their purchasing needs. One of the respondents noted that a purchasing relationship had been formed with a local potato farmer and purchases were made seasonally to the farm directly. This highlights the importance of one-on-one relationships between local food producers and purchasers in public facilities and how this can be a key factor in purchasing decisions.

The Ministry is currently preparing a cost-benefit analysis for the out-sourcing of food services in Ontario's correctional facilities and several institutions began out-sourcing their foodservices in 2010-2011. Thus far, this has not been instigated in SCOR.

2.1.3 Long-Term Care Homes

Long-term care homes are the largest category of broader public sector institutions in the region, with 47 facilities serving an estimated 4500 individuals. Facilities range in size from 34 beds to almost 400. In addition to their publicly funded care services, they often provide community services such as meals on wheels and privately-funded retirement home services. Retirement homes were not included in the market segment totals, as they are outside of the broader public sector. All of the long-term care home facilities attempt to work within a set per day meal cost as mandated by the Ministry of Health and Long-Term Care, which was reported by respondents to be somewhere within \$7.41 and \$7.61 per resident, although several discussed going slightly over this amount on a daily basis. The actual regulated cost is \$7.46 per resident, per day. The long-term care homes also follow very strict nutrition guidelines as provided by the Ministry, which provides regulations regarding sodium, protein and fibre content, as well as stipulations regarding special dietary needs. The Canada Food Guide also serves to inform menu choices, in addition to on-staff or contract dietitians.

Some of the facilities interviewed were members of a Group Purchasing Organization (GPO), which allows the facilities to leverage the purchasing power of a group of businesses in order to obtain volume-based discounts from vendors. Silver Group, Health Pro, and Nutrition Management Services were among the more popular GPOs in the region. The GPOs are a contractual agreement, which can go as far as to mandate what products are purchased and from whom. However, the day to day purchasing by the facility is still done via wholesale suppliers, distributors, and manufacturers such as Sysco, Flanagan Foodservice, Summit Foods, Canada Bread Company, Natrel Milk, etc. Produce was not often reported as being strictly controlled by the group purchasing organizations, and as a result, several of the homes had relationships with smaller local wholesalers, such as John's Fruit and Vegetables, Gifford's Wholesale Foods, or Fort's Wholesale. Other smaller homes even sourced their meat from local butchers, but these were not common arrangements for the long-term care homes in general.



None of the facilities had developed an explicit goal or policy to increase the portion of the purchases they source locally. However, many of the respondents noted that they were interested in purchasing locally, and in some cases, they would purchase food locally on a seasonal basis, either by having staff visit a local farm gate establishment or by developing seasonal relationships with certain producers for particular products. The level of local purchasing in this category seems to vary based on staff efforts, interest and time availability to source, price and process these items. These elements were mentioned repeatedly as major factors in buying decisions; tight budgets, lack of staff time, and the labour associated with the additional processing local food often requires, are all seen as major challenges to increasing the facility's local purchases. Delivery was also instrumental to developing local relationships; the long-term care homes who did source locally, either on a seasonal or year-round basis, had a producer who was willing to deliver produce on a regular basis and take payment by cheque, as the home required.

All the long-term care facilities in the region have full kitchens, and the large part of respondents prepared at least 50% of their patients' meals from scratch. Five facilities serve a high ratio of prepared foods, reporting that 75%-80% of their meals were not produced from scratch. As a result, these respondents noted that a lack of locally sourced, pre-prepared foods was an obstacle to increased local sourcing. The large majority of respondents, however, estimated at least 75% of their meals were prepared from scratch, with the average being around 80% scratch. Despite the high level of scratch cooking, the high use of lightly processed goods, such as frozen and canned goods, was noted by several respondents as a limiting factor in increasing the volume of local supply.

The long-term care homes present a steady, continuous market segment in the south central Ontario region, and will continue to grow in number and capacity over the next 20 years, which is when the OECD estimates Canada's proportion of those over 65 will be 23% of the total population.

Local producers can access care homes from numerous points, either by developing seasonal relationships to selling produce to local or national distributors. As the long-term care homes are affected by a number of price, staff and safety pressures, any producers interested in engaging this market segment should focus on providing a quality, traceable product, some minor processing services such as washing, and delivery with an invoicing system for payment.

2.1.4 Hospitals

The 11 hospitals in the region vary in their size and in the complexity of their organizations. Larger hospitals tend to use more prepared foods, even cold-plating systems where negligible amounts of food are prepared on site. The bulk of the region's hospitals are served by the Healthcare Materials Management Services, a joint venture between London Health Sciences Centre and St. Joseph's Health Care to consolidate purchasing and other services. The bulk of the area



hospitals, including Alexandra Hospital, Listowel Memorial Hospital, Wingham & District Hospital, Woodstock General, St. Thomas Elgin General Hospital, Strathroy Middlesex General Hospital, London Health Sciences Centre and St. Joseph's Health Care London, which encompasses St. Joseph's Hospital, the Mount Hope Centre for Long-Term Care, Parkwood Hospital, and Regional Mental Health Care London and St-Thomas are all members of St. Joseph's Health Care. At this time, the bulk of these facilities have declined to speak with us. However, having conducted some interviews with the Strathroy Middlesex General Hospital and Alexandra Hospital, we assume that all these facilities are all part of the Health Pro group purchasing organization, which purchases from Sysco and Canada Bread Company. The other hospitals in the region, Brantford General Hospital, Norfolk General Hospital, and the Tillsonburg Memorial Hospital, are all separate from this arrangement but also source their food largely from Sysco.

Much like the long-term care sector, hospitals are often purchasing food through a group purchasing organization, and price is a major factor in purchasing decisions. Foods purchased are typically prepared meals, in some cases needing very minimal preparation. The typical ratio reported for scratch versus prepared meal cooking is 80% prepared, 20% scratch. Per day meal costs are not ministry regulated, but seem to hover around an 8\$ average for food costs only. Respondents in this category noted that local producers and vendors do not understand the procurement process, and that local produce is often inconvenient, due to the work required to find and prepare products that meet the hospital's quality and safety needs. Some of the smaller facilities did, however, report occasionally purchasing local food in one-off, seasonal type situations.

The hospital market segment is difficult to access, with the bulk of the facilities sourcing their services from large distributors. The high proportion of prepared foods being purchased makes it difficult for local producers to meet hospital needs at a low price point. However, several hospitals are undertaking local food projects as part of the Broader Public Sector Fund and there is increasing awareness of local food in the industry. Larger producers should work to establish relationships with larger distribution chains such as Sysco or Gordon Food Services in order to gain access to this market currently.

2.1.5 Elementary and Secondary Schools

The region's 4 school boards – Brant Haldimand Norfolk Catholic District School Board, Grand Erie District School Board, London District Catholic School Board, and Thames Valley District School Board all contract the cafeteria services in their 47 high-schools to Chartwells Foodservices. Neither the school boards nor Chartwells were interested in releasing profits, service arrangements or other details. Chartwells' services follow the provincially mandated School and Beverage Policy, which includes nutrition standards for all foods and beverages sold in schools and took effect on September 1, 2011. The policy outlines three categories of food as well as the percentage of these categories that must be sold on campus.



TABLE 2: ONTARIO SCHOOL FOOD AND BEVERAGE POLICY

Category	Percentage of offerings	Description
Sell Most	Must constitute at least 80% of all the food choices available	Products in this category are the healthiest options and generally have higher levels of essential nutrients and lower amounts of fat, sugar, and/or sodium.
Sell Less	May not constitute less than 20% of all food choices available	Products in this category may have slightly higher amounts of fat, sugar, and/or sodium than food and beverages in the "Sell Most" category.
Not Permitted	Cannot be sold in schools	Products in this category generally contain few or no essential nutrients and/or contain high amounts of fat, sugar, and/or sodium (e.g., deep-fried and other fried foods, confectionery).

However, the policy specifies availability and does not mandate the percentage of sales that these categories can occupy, meaning that the Sell Less category may still account for 80% of the school's food sales. Chartwells' does have a Balanced Choices program in place for its food services, which offers healthier cooking methods, minimum amounts of vegetables, whole grains, and other healthier alternatives. In addition, the Balanced Choices program indicates that the program will also include a selection of fresh, seasonal products, from sustainable sources, but with no mention of local sourcing or product.



2.1.6 Community Services

Many of the long-term care homes and local community organizations operate meals on wheels and daily food programs. The per-day funding for these programs is very similar to that of long-term care homes, but varies by operator. Long-term care homes providing the meals on wheels service tend to serve meals that they are also serving in-house, meaning it remains within the \$7.41-\$7.61 range and utilizes food procured through their standard purchasing relationships. Community service organizations, such as the Four Counties Health Services, or St-Leonard's Community Services, are operating with a slightly more flexible price point, and scheduled interviews will provide a clearer picture of where they purchase their food and how. These programs are a relatively small market, as each of them serves approximate 15-20 people each.

2.1.7 Overall Characteristics of the Broader Public Sector

The region has a larger variety of facilities, each with different client needs, price points, and food preparation capacity. As a result, the SCOR region broader public sector offers a number of opportunities and challenges to local producers seeking to better access the market. In our discussions with BPS food purchasers, the following trends emerged:

- Facilities that reported local purchases also often referenced the importance of relationships and personal contact.
- Price point emerged as a major point of contention, in particular for the health-related BPS facilities. Most facilities in the region cannot offer local producers a higher price point for their local product. The exception to this trend is the post-secondary market, where retail pricing and a local-interested market allows for price premiums.
- Produce was often sourced through a local distributor and a major area of potential for increased local purchasing.
- Most BPS facilities already offer a seasonal menu, with daily recipes reflecting seasonal options.
- When BPS facilities reported purchasing from producers, they referred to farms within the SCOR region. However, several respondents noted that when they purchased local goods from their local or larger supplier, the foods they were purchasing were often identified as Ontario products, or even Canadian products.
- Purchasing local food was considered to be more time consuming and logistically challenging with a lack of prepared or semi-prepared local options.



2.2 Size of the market

2.2.1 Market Size

The Broader Public Sector presence in the region is clearly diverse, including long-term care homes, a number of post-secondary institutions, high schools, hospitals, penitentiaries and community services, who serve food to their local population on a daily basis. The various facility categories are highly segmented, with different needs, price points, volumes and food preparation capacity. The figure below outlines the various market segments in the broader public sector, their market size and price points.

TABLE 3: ESTIMATED SIZE OF THE BPS MARKET IN SCOR

BPS Category	# of clients	# meals served daily	Price point per day	Total market size, yearly
Long-Term Care Homes	5806 based on full capacity	17,418	\$7.46	\$15,809,157.00
Hospitals	1518	4554	\$8.00	\$4,432,560.00
Secondary Schools	40,471	13,500	Retail cost per meal (\$5 estimate)	\$13,085,300.00
Post-Secondary Institutions	44,400	34,200	Retail cost per meal (\$12 estimate)	\$64,920,000
Penitentiaries	Varied	Varied	\$11.60 average	
Community Services	250	2 or less	\$7.46	\$484,900

The long-term care homes are the easiest category to establish yearly budgets, as all the facilities in the region operate with a \$7.46 base, per day cost for meals and snacks for their residents. The region has a total bed number of 5806; and



most facilities reported being at or near full capacity. On that basis, it is estimated that the 50 care homes in the region represent a yearly market of approximately \$15,809,157.00.

Hospitals operate with a similar price point as long-term care homes, but the varying needs of their patients make it difficult to estimate the number of daily meals. For the purposes of the market size, we've estimated hospital capacity at 90% or 1518 patients, with 85% of them eating three meals daily, totalling approximately 3900 meals daily, and a \$4,432,560.00 market yearly.

Secondary schools food services are often provided by Chartwells, which is the case for the four boards in the region, who had 40,471 secondary students enrolled in 2010. Chartwell's estimates that approximately a third of the student body at its various locations purchase food daily from their cafeterias. Based on 2010 enrolment, this number would be approximate 13,500 students purchasing lunch daily, at an average cost of \$5.00, an estimate as the costs can vary by item as well as across schools. Based on the provincially-mandated minimum of 194 days in a school year, the secondary school market represents a \$13M yearly market in the region.

Post-secondary institutions continue to be one of the most profitable and largest markets, with approximately 44,400 students enrolled at Fanshawe, the Ontario Police College, and the University of Western Ontario every year. Based on the estimates provided by each of these facilities, approximately 34,200 meals are served daily on the region's campuses. The post-secondary institution market also has the highest daily price point, with the retail cost per meal averaging around \$12, with the exception of the Ontario Police College, which works with a \$15-\$18 price point per day for its students. In total, the market size for the post-secondary market is an estimated \$64.9M, with Western making up the bulk of the sales at a self-reported \$40M yearly for its campuses.

The SCOR region's three penitentiaries have a varying population which makes it difficult to estimate yearly food expenditures. However, the facilities have an average daily meal cost of approximately \$11.60, and provincially the penitentiary food services cost is approximately \$34M yearly.

Community services such as meals on wheels and adult day programs are also difficult to estimate, as these services are often being provided by organizations in other BPS categories, mainly long-term care homes and hospitals. Each program is relatively small, and we estimate 250 individuals receive regular meals on wheels or another meals service during the work week. Many of the long-term care respondents who were also providing this service operated with the \$7.46 price point for their meals on wheels program, and this number was used as a basis for the market size estimate, which is just under a half million in food purchases yearly.



2.2.2 Product Demand

Through an online survey application a snapshot has been developed of the local public sector product demand. Survey respondents were asked to identify specific food products bought on a regular basis. Generally, the product demand survey highlighted the high demand for traditional products of each of the categories and limited market demand for specialty products in all of the categories. The complete results of this survey are depicted in Appendix A. Below are brief summaries of each product category.

2.2.2.1 Produce

Overall, many of the facilities bought a wide variety of fruits and vegetables with over 90% of respondents noting that they purchase peppers, lettuce, carrots, tomatoes, potatoes, mushrooms, cucumber, corn, celery, broccoli, apples and melons on a regular basis. Not only is the variety of vegetables and fruit important to note but also the fact that particular speciality produce was bought in frequently and by few institutions. Collard greens, bok choy, eggplant, and swiss chard, for example, were relatively unpopular. This highlights the fact that traditional produce is in higher demand than exotic and specialty products.

2.2.2.2 Meat, Fish and Poultry

Like the findings from the produce section, public institutions in SCOR buy traditional products such as pork, chicken and beef every week. However, specialty meats such as lamb, goat and buffalo have an extremely limited market.

2.2.2.3 Dairy and Egg Products

Generally, excluding dried egg products all dairy and egg products specified are purchased frequently by many of the public institutions surveyed. A total of 100% of respondents noted that they purchase milk, eggs and cheese regularly.

2.2.2.4 Prepared Foods and Condiments

There is a great level of variety in responses to this question with many institutions purchasing prepared items such as jams, pickles, ketchup and cereals regularly. The market demand becomes much smaller for specialty prepared items including maple products, chutney and dumplings.

2.2.2.5 Non-alcoholic Beverages

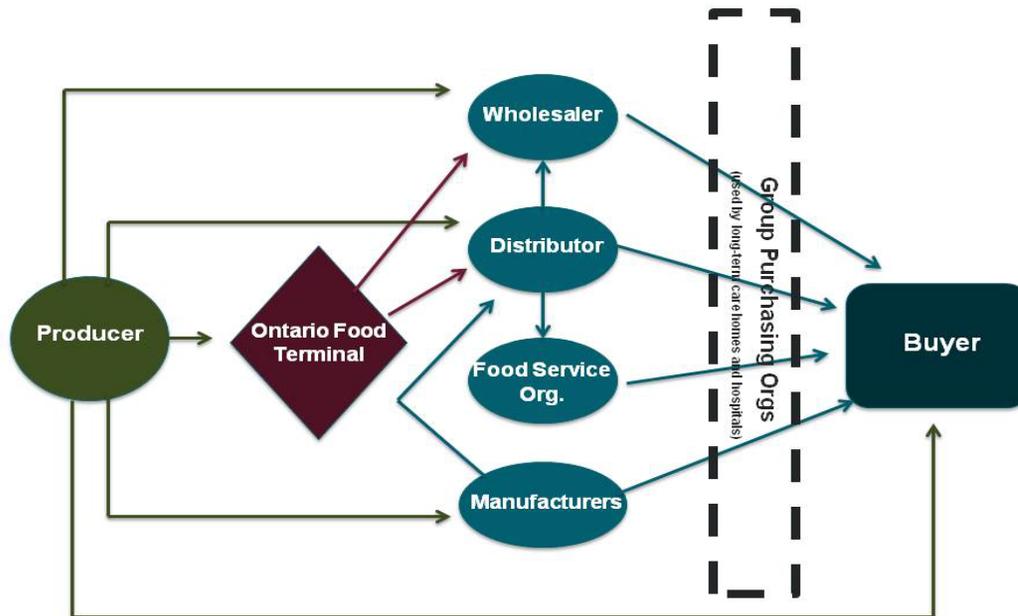
Tea, fruit juice and vegetable juice were in high demand in the region with over 90% of the respondents buying each of these items on a regular basis. Specialty products such as cider and eggnog have limited market demand.



3 Broader Public Sector Food Supply Chain

The public sector market offers a variety of opportunities through multiple access points for both small and large scale producers in the supply chain. Figure 1 highlights these access points as well as the broader public sector supply chain.

FIGURE 1: PUBLIC SECTOR FOOD SUPPLY CHAIN KEY ACCESS POINTS FOR SMALL AND LARGE SCALE PRODUCERS



The current supply chain offers different access points to producers based on production volumes, pricing and business services such as invoicing, delivery, etc. Large producers able to offer significant volumes, invoices for their products, light processing, Canada GAP and other certification, as well as delivery, are able to supply local and national distributors and intermediaries, often establishing long-term relationships with their main market. These producers are most often selling to local and national distributors and wholesalers. Distributors, as well as some wholesalers, especially in produce,



deliver food provided by their suppliers to the facilities, who have their own food services staff who prepare and serve the facility's clients.

Smaller producers who are unable to offer the same volumes, certifications or business services often find themselves on the sideline of the supply chain, perhaps managing seasonal, one-off farm gate sales or deliveries, and potentially a reoccurring seasonal sale on this basis. However, their ability to wash, package, track and deliver their products limits their involvement with distributors, intermediaries and larger institutional buyers. As a result, small and medium scale producers do not have a consistent venue for their product. Many of the small long-term care facilities, penitentiaries and other public facilities commented that certain produce was bought from local producers on a seasonal basis due to close relationships, affordability and accessibility of the product. These relationships can be limited due to the procurement requirements that many broader public sector clients have to meet. Small scale producers who supply individual facilities directly bear the cost of developing those relationships which can take substantial time, effort, knowledge and resources. Transportation costs of shipping product can also wear away at the profitability of the sale. However, by selling directly to the facility producers have better ability to negotiate a fair price and develop long-term relationships with purchasers.

Currently, smaller producers can partner with larger producers to take advantage of their infrastructure and access the broader public sector supply chain. By forming strategic relationships with larger producers or wholesalers in the region smaller local producers can better access the local public sector marketplace. In selling production to large-scale producers small-scale farms do not have to worry about the costs of marketing, transporting and sometimes adding value to their product. Most large-scale producers also have formal food safety and traceability programs in place. Generally large-scale producers will buy from small scale farmers in the region to supplement their own production. This lack of value-added also means that small-scale farmers have a decreased ability to negotiate the price of the product sold.

The decision to access the public sector market place will greatly depend on the specifics of each individual local small-scale producer in SCOR and the products they produce. Training, support and knowledge can be provided to the producers, however, to ensure that they make the most appropriate decision for their business and livelihood. In order to develop programming options for SCOR producers it is necessary to better understand the public sector food supply chain. Below important supply chain entities will be examined.

3.1 The Buying Process

The buying process in the broader public sector is largely regulated by provincial and municipal procurement processes, meaning the total contract value determines how the organization must solicit bids, and how many. These bids are often out of the control of the actual food purchaser or food services manager, as in the case of long-term care homes,



hospitals, and the school boards, who are either part of a group purchasing organization or contract out their food services to a third party who determines these relationships. Many municipal procurement directives follow a similar approach but vary by municipality. Currently, the Broader Public Sector Procurement Directive, established by the Province in 2011, applies to the following organizations:

- **Hospitals**
- **School boards**
- **Colleges**
- **Universities**
- **Community Care Access Corporations**
- **Children's Aid Society**

The Directive also expanded on January 1, 2012, to include any publicly funded organizations that received public funds of 10 million dollars or more in the previous government fiscal year (April 1-March 31). The Directive outlines 4 thresholds which determine the procurement requirements.

TABLE 4 BROADER PUBLIC SECTOR PROCUREMENT DIRECTIVE PROCUREMENT THRESHOLDS

Goods, Non-Consulting Services and Construction		
Total Procurement Value	Means of Procurement	Recommended/Required
\$0 up to but not including \$100	Petty cash	Recommended
\$100 up to but not including \$3,000	Procurement card (P-card)	Recommended
\$3,000 up to but not including \$10,000	Purchase order	Recommended
\$10,000 up to but not including \$100,000	Invitational competitive procurement (minimum of three suppliers are invited to submit a bid)	Recommended
\$100,000 or more	Open competitive process	Required

Procurements should not be divided by the organization in order to circumvent procurement processes, which in the case of food procurement, results in large, long-term contracts for broad categories of products. For example, much of the broader public sector undertakes three procurements for the supply and delivery of food, under the following categories:



consolidated groceries, which includes fresh, canned, frozen and dried produce, meats, spices, baking supplies, nutritional supplements, and disposable kitchen items; dairy products for all categories; and bread and bun products. As a result, most facilities have three suppliers, and certain companies emerged in our research as the major competitors in the SCOR region and the Province generally:

- **Consolidated Groceries:** Sysco, Summit Foods, Flanagan's Food Service, Stewart Foodservices, Skor Foodservices, Gordon Food Services.
- **Dairy Products:** Agripur, Natrel, Brum's Dairy Products, Saputo Dairy Products.
- **Bread and Bun:** Canada Bread Company, Dempsters

Most of the region's broader public sector facilities used one of these suppliers for each category of supply. The companies in the consolidated groceries sector in turn source their produce, meats, and other goods through a variety of mechanisms, including long-standing relationships, or through sales calls from producers. Sysco, Summit Foods, and the other distribution companies have several requirements for their suppliers, such as Canada GAP certification, volume and pricing requirements, delivery capacity, traceability mechanisms, as well as other standards that vary company to company. Certification and food safety were repeatedly mentioned by distributors, intermediaries, and BPS organizations, but few were able to clearly identify their requirements beyond Canada GAP and in some instances, federally rather than provincially inspected meat.

While some BPS facilities in the region sourced their consolidated groceries exclusively from these major distributors, many had also developed relationships with wholesalers or local distribution companies for their produce, citing the ability to make more frequent, smaller orders with 3-4 deliveries weekly with these companies as the main reason for their decision to pursue these supply relationships. Most facilities in the region are operating with limited budgets, and as a result, waste because of lack of refrigeration space and a limited capacity for storage do not permit them to receive large, weekly orders of produce efficiently. Several food purchasers for BPS facilities also mentioned that these supply relationships allowed them to easily purchase local food on a seasonal basis, and that they had developed strong relationships with their suppliers, allowing for complaints and issues to be easily and quickly resolved. Methods for sourcing produce supply varied, with some facilities having undertaken a formal request for proposals process, others sourcing three quotes for services, while others had long-standing relationships that had been established for some time, having started with personal relationship or a well-timed sales call. The three quotes for services system is generally utilized by health care providers, including larger hospitals in the region, to purchase particular items that they cannot easily purchase through group purchasing organizations, namely fresh produce. This gap in service by GPOs allows small-scale producers in the area increased opportunity to access BPS markets. The requirement of submitting weekly quotes on produce can be daunting and time consuming for many producers, however, and greater capacity building needs to be developed in order to take full advantage of this opportunity.



As a result of the nature of BPS organization needs, producers are often unable to sell directly to BPS facilities due to their inability to provide the wide range of goods required for the procurement category. This is not only true in the SCOR region, but also provincially and nationally. In the current BPS supply chain, producers must sell to wholesalers or distributors to access the BPS sector. Even in a highly localized system, no one producer can supply the various needs of the facility, meaning their products have to be aggregated at some point in the supply chain. Producers need a body to respond to requests for proposals, coordinate supply for the various items ordered, and to deliver the product. This is currently being done through distribution and wholesale companies, who work on a volume and pricing basis that excludes most small and medium sized producers.

3.2 Distributors

Agriculture and Agri-food Canada defines Canada's food distribution sector as the final link in the food supply chain from food producers and processors to consumers. They include both the retail entities including supermarkets, grocery stores, restaurants and fast food operations as well as wholesalers, distributors and brokers that supply them. In this expanded definition total consumer sales in Canada reached \$131 billion in 2005 employing 1.4 million people and accounting for 4% of Canada's total GDP.

For our purposes, this section discusses only the distributors within the larger food distribution sector. Food distribution is the method of distributing or transporting food or drink from one place to another and is a vital component to the food supply chain. There are three main components of food distribution:

- Transport infrastructure, such as roads, vehicles, rail transport, airports and ports
- Food handling technology and regulation, such as refrigeration and storage, warehousing.
- Adequate source and supply logistics, based on demand and need.

In SCOR there are four large players in the food distribution space, they include: Flanagan Food Services, Summit Foods, Gordon Food Services and Sysco.

Flanagan Foodservice Inc.

Flanagan's distribution is organized in three locations across Ontario: Kitchener, Owen Sound and Sudbury. With each hub servicing a specific geographic territory, they have a fleet of over 60 vehicles that maintain dual temperature climate controlled environment.



Flanagan Foodservice supplies and equips every aspect of a food service operation, from frozen food to small wares and equipment. Flanagan emphasizes marketing locally grown produce, whenever possible. Roseland Produce, a partner firm that supplies all of Flanagan Foodservice's produce, offers "home-grown produce" year round, fully listed and illustrated on its website. Roseland food is headquartered in Burlington, Ontario and works with local food producers throughout the region during appropriate times of the year.

On top of their local food buying initiatives Flanagan is also committed to environmental initiatives. The company is committed to reducing waste and incorporating green business practices. The company recently completed a 65,000 square-foot expansion of its Kitchener facility; increasing the size of the structure by 50 percent. Most of the 65,000 square foot expansion is a state-of-the-art freezer that uses technology developed and implemented in Japan but that has never been built in Canada before. This refrigeration unit is extremely energy efficient and is another step towards their commitment to environmental sustainability.

Summit Foods

Summit Foods is a leading distributor of brand name products in Canada and have a selection of over 10,000 products. The company is based in London, ON and has additional offices in Ottawa and Mississauga.

Summit Foods advertises a host of 'value-added' that they can bring to their clients. These include:

- Available expertise to plan and implement menu selections that will help their clients better serve their customers and achieve their business objectives.
- Clear and easy to understand invoices, to help clients accurately track food costs and point of origin. Customers are also informed about upcoming specials and provided with ideas on maximizing their margins.
- To help develop and test menu items they offer access to their in-house kitchens, including their new state-of-the-art facility in Toronto.
- Customers can also utilize their modern lecture theatre, complete with the latest A/V resources, for training and other professional development meetings.

The company's activities as well as their vision do not mention locally-sourced foods. They are extremely concerned with the best possible price and value they can give to their clients and did not emphasize freshness or local in any of their marketing information or throughout their website.

Gordon Food Services

Gordon Food Service (GFS) is the largest privately owned foodservice distributor in North America. Originally based in the United States, GFS entered Canada in 1994 with the purchase of two divisions of Maple Leaf Foodservice.



Gordon Food Services supplies all of their produce through Markon Cooperative the first produce-purchasing agent created for foodservice based in California. Markon was created to connect the food service and the produce community. Markon prioritizes fresh fruits and vegetables that are picked and packed with an emphasis on longer shelf-life and maximum yield.

Currently, Markon procures, delivers and markets fresh produce for nine of the leading independent foodservice distributors in North America, and its members account for more than \$22 billion in annual sales. Because Markon is extremely focused on increasing the shelf-life and yield size of the produce it buys and not necessarily 'buying local' it tends not to purchase produce from within Ontario. However, Gordon does carry a "best at fresh" line for chefs and restaurateurs and emphasizes that the goods purchased are "fresh produce from local farmers and every other growing region in North America".

As part of a funding grant from the Broader Public Sector Investment Fund, Gordon Food Service recently launched a local team to source, procure, market and sell local product under the banner of Ontario's Own. The initiative was a result of an increased customer interest in local product, and local sourcing and sustainability was becoming a consistent trend in the public sector request for proposals. As part of their project and foray into local procurement, they produce a regular list of local items available and have begun to develop local relationships with regional suppliers.

Sysco

Sysco is a global leader in selling, marketing and distributing food products to restaurants, healthcare and educational facilities, lodging establishments and other customers who prepare meals away from home. Its family of products also includes equipment and supplies for the foodservice and hospitality industries. Sysco Canada has approximately 4000 employees and operates a fleet of 500 trucks.

In order to meet the diverse needs of their health care customers, Sysco offers an extensive line-up of items from a broad range of products as well as items specifically designed for healthcare. They work to establish strategic partnerships with their key healthcare supplier partners to provide high quality, consistent, safe, sustainable and marketable food service products for the healthcare customer. It is through these partnerships that Sysco is able to provide an additional level of added value programs to hospitals and long-term care facilities.

Although Sysco does not have a policy or vision for local food, Sysco Ontario is spearheading a program that aims to increase the supply and demand of locally-produced cheese to public institutions across the province. The "Building Supply and Demand for Ontario Cheese" project, funded by the *Broader Public Sector Investment Fund: Promoting Ontario Food* program, being led by Sysco brings together local food producers, public sector institutions and Sysco's supply chain and food safety expertise to develop innovative solutions to local food procurement.



In May 2011 a group of Sysco Ontario representatives including a dairy category analyst, regional sales managers, business resources manager, inventory control and quality assurance manager presented information about various factors that affect the marketability and growth of cheesemakers' businesses. Participating cheesemakers had the opportunity to openly discuss the challenges they face while attempting to break into the broad foodservice and/or broader public sector market. Programming like this is a best practice in bringing together large-scale distributors and local producers to exchange ideas and brainstorm about possible avenues for local food procurement.

TABLE 5: KEY CHARACTERISTICS OF FOOD DISTRIBUTORS IN SCOR

Characteristics	Distributors			
	Flanagan	Summit Food Services	Gordon	Sysco
What do they supply?	<ul style="list-style-type: none"> ■ Food stuffs (both prepared and raw) ■ Kitchen equipment ■ Small wares 	<ul style="list-style-type: none"> ■ Food stuffs (both prepared and raw) ■ Kitchen equipment ■ Small wares 	<ul style="list-style-type: none"> ■ Food stuffs (both prepared and raw) ■ Kitchen equipment ■ Small wares 	<ul style="list-style-type: none"> ■ Food stuffs (both prepared and raw) ■ Kitchen equipment ■ Small wares ■ Specialized medical equipment/supplies
Who do they supply?	<ul style="list-style-type: none"> ■ Schools ■ Office buildings, ■ Restaurants ■ Long-term care facilities 	<ul style="list-style-type: none"> ■ Schools ■ Office buildings, ■ Restaurants ■ Long-term care facilities 	<ul style="list-style-type: none"> ■ Schools ■ Office buildings, ■ Restaurants ■ Long-term care facilities 	<ul style="list-style-type: none"> ■ Hospitals, long-term care facilities
How big are	<ul style="list-style-type: none"> ■ Provincial 	<ul style="list-style-type: none"> ■ Provincial 	<ul style="list-style-type: none"> ■ North American 	<ul style="list-style-type: none"> ■ Global



they?				
Are decisions made centrally or regionally?	<ul style="list-style-type: none"> Regionally 	<ul style="list-style-type: none"> Regionally 	<ul style="list-style-type: none"> Centralized 	<ul style="list-style-type: none"> Centralized
Do they have local buying programs?	<ul style="list-style-type: none"> Attempts to facilitate local buying 	<ul style="list-style-type: none"> Attempts to facilitate local buying 	<ul style="list-style-type: none"> Is more focussed on efficiency than buying local 	<ul style="list-style-type: none"> Is more focussed on efficiency than buying local

3.3 Wholesaler

Wholesalers purchase large quantities of food and resell these stuffs to retailers and institutions rather than consumer. Generally distribution companies as well as some food service companies have a wholesale function or branch that allows them to increase their efficiency through vertical integration. Produce and food wholesalers in Ontario buy both directly from producers and from the Toronto Food Terminal. Local wholesalers such as Forts Wholesale, John's Fruit and Vegetable, Roseland Produce Wholesale and SKOR Food Services generally have direct relationships with producers and manufacturers.

3.4 Food Service Organizations

Food Service organizations constitute a large segment of the public sector food supply chain and can describe companies and organizations that warehouse, import/export food and provide services such as sorting, packaging, labelling, preparation and customer services.

As was aforementioned intermediaries including food services constitute major component of Canada's agriculture and agri-food sector with expenditure totalling \$137 billion in 2005¹. For the past two decades the global food system has

¹ Carter-Whitney, Maureen (2008). Bringing Local Food Home: Legal, Regulatory and Institutional Barriers to Local Food.



become highly concentrated in a handful of firms that place emphasis on economies of scale and post a significant barrier to local food procurement². Currently the three largest intermediaries in the SCOR region are: Compass, a smaller division of Compass called Chartwells, and Aramark. These three large intermediaries not only control most intermediary activity in SCOR but also food services throughout Canada and internationally.

Although these large multinationals control much of the marketplace some medium sized firms are competing well in the market; most notably Sodexo and Brown's Dining Solutions.

TABLE 6: KEY CHARACTERISTICS OF FOOD SERVICE INTERMEDIARIES (BIG THREE)

Characteristics	Intermediaries		
	Aramark	Chartwells (now a division of Compass)	Compass
What do they supply?	<ul style="list-style-type: none"> Food services Facilities management Uniforms and apparel 	<ul style="list-style-type: none"> Prepared meals, raw food, semi-processed Cooks, customer service representatives 	<ul style="list-style-type: none"> Prepared meals, raw food, semi-processed Cooks, customer service representatives
Who do they supply?	<ul style="list-style-type: none"> Business Colleges and Universities Hospitals, long-term care facilities 	<ul style="list-style-type: none"> Schools Office buildings Hospitals, long-term care facilities 	<ul style="list-style-type: none"> Schools Office buildings, Hospitals, long-term care facilities
How big are they?	<ul style="list-style-type: none"> Global 	<ul style="list-style-type: none"> Global 	<ul style="list-style-type: none"> Large, a global player

² Ibid.



<p>Are decisions made centrally or regionally?</p>	<ul style="list-style-type: none"> Regional offices have some power although many decisions are centralized. 	<ul style="list-style-type: none"> Decisions are extremely centralized. There is one purchaser for all of the high schools Chartwells supplies in Ontario. 	<ul style="list-style-type: none"> Regional hubs where decisions in that area are made.
<p>Do they have local buying programs?</p>	<ul style="list-style-type: none"> Has an extensive environmental stewardship policy that includes purchasing locally grown and sustainable food whenever possible. 	<ul style="list-style-type: none"> Are involved in buy local programs at many schools throughout Canada, however, could not acquire actual policy statement. 	<ul style="list-style-type: none"> Growers and producers local to their regional hubs are purchased from.

All three of the large food service companies highlighted either have explicit local food procurement policies or have developed local food programs in conjunction with particular institutions and/or facilities that they have been serving. For example, Aramark worked closely with the University of Toronto to develop a local foods menu and diversify the local food products that they could supply to the campus. Chartwells has similarly worked with secondary and post-secondary institutions to incorporate local food purchasing and education in their menus. It is possible to work within the framework of the highly centralized food service industry to develop local food opportunities. Champions and consumer demand must be strong, however, to jumpstart these initiatives.

3.5 Ontariofresh.ca

Ontariofresh.ca is an interactive web portal that seeks to connect producers across Ontario with institutional, commercial and retail purchasers of Ontario food. The site was developed to provide an online, accessible connection to entities across the supply chain and to provide tools that will assist buyers to source local products quickly and easily, while opening the door for Ontario producers to create new business relationships.

By creating an online portal that brings together producers and buyers on an institutional and commercial scale Ontariofresh.ca has the ability to create the linkages and relationships between producers and buyers in an extremely



efficient manner for both sides of the supply chain. Organizations at various points in the value chain can create profiles, providing descriptions of their products or areas of purchasing interest, and these profiles are searchable by a variety of parameters. The site also has a Marketplace feature that allows short-term (2 week) postings on the site for immediate sales and needs, much like online classifieds.

From hospitals to major foodservice providers Ontariofresh.ca has seen steady growth in registrants to this free, new online local food marketplace. Currently 50% of the registrants are farmers/producers, 25% are buyers or distributors and the remaining 25% are friends/supporters of the industry.

Although Ontariofresh.ca is working to better connect producers to consumers throughout multiple points on the supply chain there are some clear challenges and shortcomings to the Ontariofresh system. Firstly, the Ontariofresh interactive model does not necessarily develop long lasting relationships between producers and consumers. Throughout the research conducted thus far within the SCOR region it was found that a large portion of local procurement occurs through relationships developed between particular institutions/organizations and local producers. In addition, Ontariofresh does not work to simplify the buying process for either party. You cannot purchase produce through Ontariofresh but simply become more educated on the variety of producers and distributors of particular goods in a geographic area.

The site's utility comes largely from a marketing angle, with producers and buyers alike able to create a profile for themselves and interact with other value chain members. These new online relationships have been both beneficial, as well as problematic; some respondents from the large distribution services noted that the number of calls they received from local producers had increased significantly, but in 90% of the cases, the producer did not understand the buying process or needs of the distributor, such as certification and volume requirements. Producers have been equally frustrated, finding that the inconsistent requirements across the food distribution industry is confusing and in some cases, contradictory.

However, the site is currently exploring ways to facilitate online transactions and greater relationship building between producers and suppliers. They have investigated online purchasing software and are extremely interested in further engaging with the local food marketplace. The site has been in contact with service providers in the United States, namely Farmreach.com to gain a greater understanding of best practices in the sector as well as to determine technology available for them to facilitate this expansion. Currently, Ontariofresh.ca does meet a need for the value chain, and further promotes Ontario producers and processors, while also being a catalyst for much needed conversations around the value chain. While helpful in this area, updates and increased capabilities are needed to increase local food sourcing in the SCOR region.



4 Challenges in Accessing the Public Market

4.1 Accessing the Public Market

The broader public sector is very similar to the private sector, in that large distribution companies largely dominate the servicing and supply of public sector organizations, and small and medium sized producers find themselves often unable to access this market in a meaningful way. The similarities to accessing the BPS marketplace, is, as a result, very similar to the issues discussed in *Accessing the Market*, including: logistics, regulatory, operational, and marketing.

The SCOR region produces enough of the major produce, dairy and meats to satisfy the market demand for the various products in these categories. The problem is largely one of access to the market, which is restricted by several issues:

- Producers are unable to adequately respond to large category requests for proposals, which means wholesalers or distributors, who can respond to these requests, control access to the BPS market.
- Large scale volume requirements, light processing needs, year-round supply, delivery mechanisms, and an invoicing system are all obstacles to small and medium scale producers, who are unable to provide these services while also offering a competitive price point.
- Volume and product price are tied together, with producers supplying large volumes able to meet lower price points, while smaller producers find themselves unable to compete.
- Regulatory issues affect most products, in some cases severely impacting food producers and processors in the region.

An organization servicing the SCOR region with the aim of increasing local food production will need to address these issues, which are the major obstacles moving forward. In the following section we will break down these obstacles by category in order to address them fully.

4.1.1 Marketing Challenges

The region currently has a number of organizations or initiatives that promote local food consumption, such as Bountiful Brant, Get Fresh Eat Local Middlesex-London, Norfolk's Ontario's Garden Initiative, Buy Local Oxford and Buy Local, Eat Fresh Elgin County. These initiatives are largely focused on the marketing and branding of local food sold at farm gates, small retailers, restaurants, and in other direct to consumer formats. Largely providing business listings, regional local



food maps, and occasional networking events, the focus of these organizations is not the large scale institutional market. As a result, there is a lack of a larger, more commercially-oriented organization to assist with the establishment of the value chain.

While online resources such as Ontariofresh.ca have been created, the region's producers have not been engaged, with only the local champions and larger producers establishing an online presence through the site or through social media. A major barrier is the region's lack of broadband internet access. Less than half of the population has adequate access to broadband, making online marketing to local consumers difficult, though there has been some recent funding provided by the Province to increase access to the region. Those who do access these online options often find the time to update listings is not worth the effort.

The disinterest in online options reflects a larger issue of a lack of marketing skills and knowledge of the market. Many producers do not understand the procurement process and as a result, do not have the certifications, training, or organizational sophistication required to participate in the value chain.

4.1.2 Operational Challenges

Operational challenges are largely concentrated around issues of certification, food safety, and traceability. These issues are particularly important when attempting to access the broader public sector, as their clientele is often sensitive to food borne illnesses. Large distributors each use their own distribution labels and traceability systems, and producers need to be able to adapt to their requirements in order to supply these key market players. Large buyers like grocery store chains and foodservice companies work primarily with larger producers who have a recognized food safety and quality program on-farm with good production practices that can deliver what they promise - in terms of volume and quality.

The infrastructure provided by distribution and wholesale companies is essential; the aggregation, marketing, distribution, responding to requests for proposals and the invoicing and processing of payments can be expensive and time consuming for an individual producer or processor. This is why many stakeholders rely on distributors/wholesalers to sell their product and provide the networking and marketing function for them. By working with brokers, producers ensure that they are paid on the regular basis; however, they also have to negotiate a price which allows the distribution or wholesale company to recover its costs when reselling the product.



4.1.3 Regulatory Challenges

Food production, processing and distribution are heavily regulated for food safety as well as price and volume control. The result is a value chain that is increasingly complicated by varying certification and safety requirements, which limit accessibility. Local meat products are often not of interest to large distributors, who cannot export provincially inspected meat to its national clients, creating major obstacles for increased local meat consumption in the public and private sector food providers.

Produce, while often seen as less difficult to market, also has several categories of regulated products, usually those destined for processing. Tomatoes, green peas, corn, cucumbers, etc. are regulated by the province and their price is negotiated through the Ontario Processing Vegetable Growers. As a result this makes the sale of these items more difficult in the region. Quotas for chicken, eggs and other products limits the amount a producer can sell to the market and procuring a quota can be extremely expensive.

The food regulatory system in both Ontario and Canada often create inconsistencies and contradictions. Combined with a distributors and wholesalers, as well as clients, who impose various training and certification programs, and a general lack of knowledge about the industry, the result is a highly confusing market that is often seen as discouraging to those who desire to increase their participation.

4.1.4 Logistical Challenges

The BPS market presents a significant logistical challenge for producers and processors who are not interested in partnering or who cannot partner with a large distributor or wholesaler. The consolidated product categories, need for processed product, and delivery and financial infrastructure require a logistical requirement that is impossible for a single producer to create while remaining financially viable.

Even supplying distribution and wholesale market requires a logistical response in that producers need to be able to deliver their goods efficiently, in the desired packaging and sizes. A lack of logistical efficiency causes smaller profit margins or larger more obvious inconsistencies, such as surplus product or a glut in the market. Producer efficiencies versus distributor/wholesaler efficiencies can often create market problems due to a lack of understanding on either side. For example, small meat processors who receive large orders from a distributor for certain meat cuts find themselves having to store or sell the large volume of remaining cuts from the animal. In the end, these sorts of arrangements are not financially viable for the producer or processor.



In order to move forward a level of coordination and collaboration is needed, especially for producers delivering their own product. It is expensive and time consuming for individual sellers to move product on their own and a reluctance to collaborate makes distribution inefficient.

4.2 Best Practice Review

In order to gain a greater understanding of innovative practices in food hub development local food distribution practices across North America were identified and analyzed. Farmreach.com, an online directory of agricultural sector assets across the United States as well as Grasshopper Distribution, a producer owned distribution company are explored in greater detail below to provide key lessons to the development of local food hub business plan.

4.2.1 Farmreach.com, across the United States

Farmreach.com is a query and list generation tool that utilizes a comprehensive database of over 1.4 million active farmers and ranchers throughout the United States. This online tool allows users to generate a list of producers in their area who supply the products that they need. Users begin to develop their customized list of producers by identifying a specific location or many locations. The database has access to information from every county in the U.S. and users can specify one county or a number of counties that comprises a particular region. The data can then also be filtered by characteristics including crop acreage, livestock head/herd size, contact information and other criteria including crop and animal practices (free range, organic, de-worming processes and others).

Users must pay to gain access to the listing they create based upon their specifications. This list details contact information for each of the producers that are retrieved from the search. The information provided by Farmreach is updated on a daily basis with users updating their profiles and information. Users of the site pay per listing for the data provided. This database is more advanced than Ontariofresh.ca and can offer a variety of lessons to online local food direct marketing. Firstly, Farmreach's database is extremely comprehensive with over 1.4 million users; they have engaged a wide variety of players in food distribution including distribution centres, intermediaries, wholesalers and processors which has allowed the database to be an extremely valuable source of information. Secondly, the search mechanism that has been created by Farmreach.com is extremely sophisticated and well developed to pinpoint the exact businesses by number of key factors.



4.2.2 Grasshopper Distribution, Louisville, Kentucky

Grasshopper Distribution provides product aggregation services, direct marketing and online purchasing capabilities to over 80 producers and 20 additional food artisans in the Louisville region. Local farmers buy into Grasshopper through user and transaction fees. Buying into the operation gives local farmers the ability to advertise and sell their products on Grasshopper's online platform as well as gain access to Grasshoppers distribution centre and trucking equipment. It also allows local farmers to pool their products in order to fill large orders from institutional buyers. It is important to note that Grasshopper does not purchase produce from the local producers but rather acts as a facilitator for local farmers to gain access to markets they would not normally be able to gain access to.

Grasshopper coordinates contracts with large public institutions including local schools boards and hospitals to facilitate local food purchasing from its producers. In order to supply the necessary quantity and quality of food needed for public institutions Grasshopper lays out extremely specific guidelines and rules for producers willing and capable of meeting these specific guidelines. For example, Grasshopper currently has a contract with a local school board and provides a variety of produce to local schools in the area. In order to retain this contract the quality of the produce had to be ensured, the local schools would not take certain produce that was too small, over ripe or bruised. Compared to broader consumer markets Grasshopper believes public institutions to be more particular about the quality of the product as well as the way in which it is packaged. Before farms are allowed to gain access to Grasshopper's aggregation services that provide produce to large institutions the farms must be willing to follow extremely specific packing requirements per order.

Grasshopper also caters to the broader consumer market through their online application that allows consumers to order products directly from producers using Grasshopper's online transaction interface. This interface is detailed and allows consumers to buy product and coordinate delivery. The State of Kentucky conducted a variety of local food market reports through its Board of Agricultural Diversification which Grasshopper utilized to develop a clear baseline of local food purchasing in the Louisville region. By gaining an understanding of the market size prior to their activities they could better gauge their performance in increasing local food market accessibility. In the first year of business in 2007 Grasshopper completed \$300,000 of sales in the Louisville area and currently facilitates \$1,000,000 in sales per year for local farmers, seeing an increase of over 300% in 5 years.

4.2.3 Lessons Learned

By acting as a coordinator, intermediary and facilitator, a local food hub in the SCOR can utilize online applications to facilitate increased purchasing of local food. The online application must have a complex and well developed search mechanism that allows for consumers to pinpoint specific locations, products, services and practices in order to make the



most informed decisions. In order to really increase sales, however, it is vital that the food hub be able to develop online transaction capabilities that allow consumers from a variety of institutions to purchase products from local producers in the SCOR. All of the public institutions interviewed throughout this research utilized online ordering systems that made purchasing as quick and easy as clicking a button and this ease must be developed in the local food market as well. It is important that the local food hub develop an understanding of the baseline local food sales that are currently being conducted. This baseline, as was seen in the example of Grasshopper, can better allow the food hub to measure their impact on the local market. By not only marketing but also facilitating direct transactions the food hub can increase sales significantly in a short period of time as was seen in the best practice of Grasshopper Distribution.



5 Framing the business plan

5.1 Business Plan Vision

The proposed business plan establishes a producer-processor owned distribution company (PPOD) who will provide efficient market access to producers in SCOR. The PPOD does not seek to work outside of the current food marketplace, but rather will work alongside the current system, utilizing existing value chain access points such as wholesalers and distributors with the long-term goal of responding directly to buyer-issued requests for proposals.

To this end the objectives of the PPOD are to:

- Facilitate purchasing relationships between producers and consumers are local food in SCOR
- Increase the sale of local food in SCOR by 10% over 2 years
- Coordinate local distribution assets in order to best serve local producers
- Develop RFP processing that allows local producers the ability to gain access to broader public sector markets

5.2 Business Plan Rationale

The BPS market presents a substantial opportunity for SCOR region's producers and processors. However, meeting the region's needs will require significant knowledge and infrastructure development to better allow small and medium producers and processors to take advantage of efficiencies in order to profitably access the broader public sector market. The system that is put in place must be simple and effective in order to aid producers in the area and it must build on the momentum that already exists in the local food marketplace in the region. This includes being cognisant of the very of local food initiatives currently being done at a municipal level including:

- A Harvest of Haldimand Local Food
- Buy Local, Eat Fresh, Elgin County
- Eat Local - Middlesex Tourism
- FlavourFest - Norfolk County

As well as noting the current positive relationships that exist between key public sector institutions and local producers most notably the University of Western Ontario and their buy local initiatives. This particular example can be replicated and built upon across post-secondary educational institutions in the area.

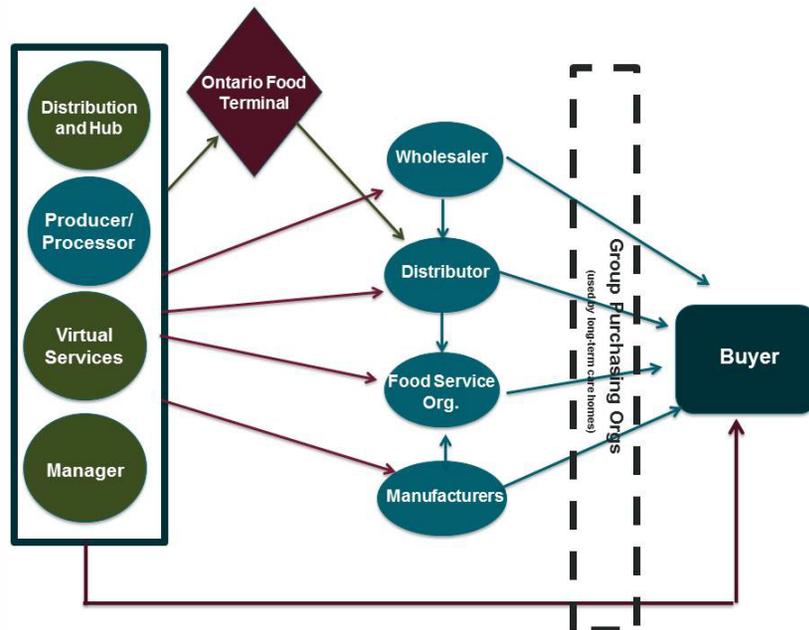


This is not to say that there are not key challenges in creating greater access to the broader public sector market. Because of the many existing obstacles in the value chain, as well as a history of weak collaboration, a proposed solution must incorporate the following elements:

- Logistical Coordination (distribution, storage, supply)
- Training and Market Intelligence
- Business development to build local capacity
- Marketing and championing local products
- Collecting and tracking local sales and capacity information

These components are not simple, nor are they easily found in one individual. However, by leveraging local assets, capacity and community support, some of the major obstacles can be addressed in a sustainable way. The proposed business plan is outlined in Figure 2 below.

FIGURE 2: PROPOSED BUSINESS PLAN FOR THE SCOR REGIONAL FOOD VALUE CHAIN





The proposed business plan establishes a producer-processor owned distribution company (PPOD) who will provide the elements outlined above, working alongside the current system, utilizing existing value chain access points such as wholesalers and distributors with the long-term goal of responding directly to buyer-issued requests for proposals. For the PPOD to be successful in the long-term, scale-up is important, to ensure both sustainability and profitability to members, which will further contribute to regional collaboration and capacity development.

The major elements to be included are a PPOD manager, as well as several online tools to track local supply and assets for the purpose of assisting with logistical coordination.

5.3 Operations Model

The primary role of the PPOD will be the logistical coordination of buying and selling, shipping and storing and delivering food. The goal is to increase efficiency while not creating the level of infrastructure that requires large, up-front capital costs. Six major areas need to be coordinated in order to address the current obstacles for SCOR producers and processors; supply, storage and distribution.

5.3.1 Supply

Inherent to an increased participation of small and medium producers and processors in the SCOR food value chain is the aggregation of product to meet buyer volume needs. The PPOD will need to work with members to track product availability, pricing, and location. An online or internal system, such as the Ontariofresh.ca Marketplace listings or a similar tool, could list product availability for local wholesalers and distributors who currently service the BPS market. The organization would aggregate product and sell to the buyer, and then redistribute the payment to the various producers involved in the sale.

For the first year of operation, it is suggested that all sales information is tracked, in order to provide a clear idea of supply and demand in the region to be used in future business planning and development. For this reason, it may be easiest to develop a SCOR focused tool for local product listings which could also track sales, volumes and price.



5.3.2 Storage

The capital costs of establishing a central physical hub is a major obstacle to the development of a PPOD in south central Ontario. The business plan proposes the development of an inventory of local storage assets, and the use of a large, decentralized system to capitalize on unused storage capacity across the region. An online tool can be created to track various storage locations including dimensions, storage type (cold, controlled-atmosphere, freezer, meat storage, etc) and current capacity. This option can allow producers who provide storage facilities a free membership based on their in-kind services, or could utilize a credit or cash based payment system with the PPOD.

5.3.3 Distribution

South central Ontario currently has a strong agricultural sector, producing 48% of Ontario grown vegetable products. As a result, the region has a large number of deliveries taking place on a daily basis. *Accessing the Market* argued that there were a number of trucks travelling through the region, often with less than a full truck load, leading to cost inefficiencies for local producers and processors. A key service for customers, distribution is the key factor in the successful increase of local food in the SCOR BPS value chain.

An unwillingness to collaborate, as well as the difficulty in coordinating logistics, has resulted in distribution continuing to be a major obstacle. The PPOD can connect producers and processors who are interested in the same market and travelling to the same area. A listing tool, or the use of the PPOD as a match-making service for distribution, is the main value proposition for the organization and allows for increased efficiencies. PPOD, therefore, does not take ownership of product to resell but rather acts as an agent to facilitate greater coordination and cooperation in the SCOR. The development of informal and formal relationships between producers and processors, around distribution, is a major area of further capacity development for SCOR. The PPOD can also establish relationships with local transport companies, such as Erb Transportation, to offer volume discounts to its members who do not currently have transportation capacity.

5.3.4 Training and market intelligence

Accessing the Marketplace identified the lack of food safety and traceability programs in a number of SCOR operations as an obstacle to further growth in the region's local food sector. This element, combined with difficulties targeting appropriate markets, can be addressed by the PPOD, who can facilitate local knowledge sharing through sessions focused on best-practices, presentations on the various BPS and other customers, as well as training for certification such as Canada GAP, You Pick, and other desirable certifications.



5.3.5 Business development to build local capacity

The sustainability and long-term profitability of the PPOD is highly dependent on its ability to develop new business relationships and build local capacity in order to respond to new supply volume demands or new product categories. This task is highly dependent on the information gathering and relationship building efforts within the region.

Initially, local wholesalers and distributors should be targeted as potential purchasers of PPOD product. They are already active in the region and would value the opportunity to purchase product locally rather than travelling to the Ontario Food Terminal. As the organization develops, the PPOD manager should work closely with BPS buyers to develop a clearer understanding of producer and buyer requirements, with the hopes that a better a request for proposals process can be developed.

5.3.6 Marketing and championing local products

The marketing and branding of local products within the region will be a major task of the PPOD. Educating regional buyers about the PPOD as well as the benefits and range of local products could be facilitated by a local brand and by working with current local food organizations in the region. A strong value proposition will need to be developed, not only for buyers, but also distributors, wholesalers, and producers and processors themselves. A belief in the importance of local procurement was demonstrated throughout the consultations to be a strong motivator for action, despite the additional effort it sometimes required. Continuing to promote this importance, while also offering high quality products with strong a strong customer service element, will be an important factor in the organization's success.

5.4 Virtual Logistics Model

It is proposed the logistical coordination of RFP responses, procurement, shipping, packaging, storage, distribution and invoicing be handled by a tailored, web based virtual program. Discussions have been conducted with Ontariofresh.ca to gauge interest in incorporating the proposed virtual logistics model into their current service. Ontariofresh.ca is interested in working with Eerie Innovation in developing the ideas proposed below. In addition to the matchmaking services provided by Ontariofresh.ca currently additional services provided by the web portal would include:

- Secure RFP postings
- Secure 'drop box' for RFP responses
- Secure postings for the requirements of distributors, wholesalers and food service organizations



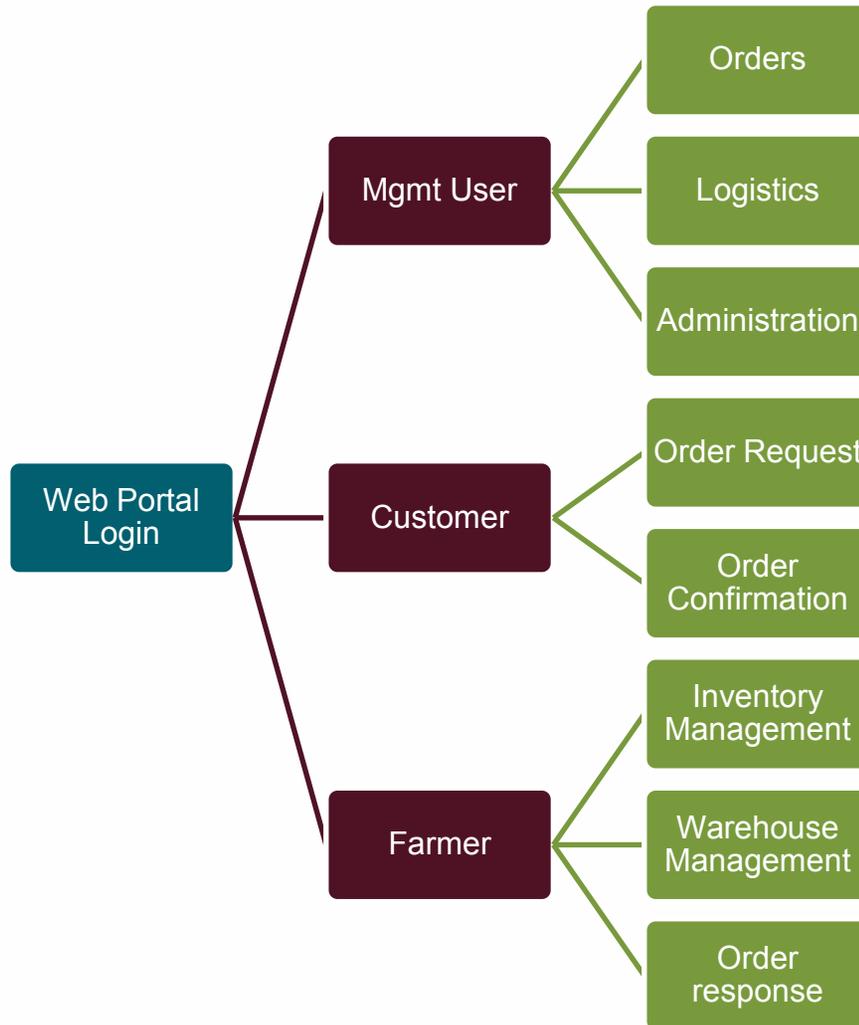
- Assembling responses to RFP's based on producer responses – price, volume etc.
- Selecting appropriate temporary distribution centres
- Coordinating pick and delivery through temporary distribution centres
- Invoicing and payment

Additional features of the program would be quantitative analysis of product demand and supply including when and in what volume suppliers tend to order and when local product is likely to be available.

The Web Application would be accessed by the end users via a Web Portal. Once the user logs into an account they will be presented with the appropriate modules or subsystem based on that user's assigned role. including customer, producer and management . The figure below articulates this concept and how this may be displayed to the end users.



FIGURE 3 VIRTUAL LOGISTICS MODEL: SITE MAP





There is no off the shelf solution or current technology that can provide the services outlined above. Generally, this technology can be created three ways:

- Firstly, a website developer can be contracted to build the web application entirely from the ground up as a proprietary system. There are drawbacks to such a closed source application including limitations with regards to functionality as well as a lack of integration with emerging technologies unless the application developers are constantly improving or updating the application to current Open Standards. These types of applications are also associated with higher development costs. For this proposed web application an initial investment of \$100,000 could be required to create just the basic application framework. Additional costs can be expected for maintenance, support, and future improvements. In addition, you are tied to the application developers for the entire lifecycle of the web application. If the business relationship is severed, for any reason, ongoing development of the application would cease to continue. It would be imperative to clearly define who owns the intellectual property of the application code before development begins. This would ensure that you would have the ability to source a new application development firm to continue to support and develop the application if necessary.
- Another viable option rather than the completely proprietary system would be to create a hybrid application. This application could continue to use a customized web front end but outsource the Logistical aspects of the application. Many of the larger logistics companies now offer web services that allow application developers to integrate some of their existing business intelligence directly into the custom application. Utilizing these existing technologies can reduce the complexity of trying to recreate solutions for many logistical problems. Leveraging these web services would also reduce the time to completion and therefore reduce overall development costs. Generally this hybrid approach would cost around \$75,000.
- In addition to these two web development options, web applications that currently exist can be researched and potentially licensed to function as an add-on to Ontariofresh. Although there are no web applications that currently function exactly in the manner proposed there are specific applications that can be utilized to better facilitate transactions between consumers and producers. Grasshopper Distribution, one of the aforementioned best practices, has developed a transaction interface that could be utilized by the PPOD to better facilitate relationships and purchasing in the BPS. Licensing programming already developed will cost approximately \$25,000,



5.5 Personnel Needs

5.5.1 Staffing

PPOD will be staffed by a Local Food Hub Manager who will be primarily responsible for coordinating the logistical supply chain of responding to RFP's, storage, packaging, distribution and invoicing. Over time it is suggested these roles be transferred to the virtual logistics model developed for the PPOD. However, it is anticipated that this system will take some time to create and implement. As such for the early 2012 growing season, the PPOD manager will have to handle these functions. The Manager will also oversee the development of the virtual system. Additional tasks of the manager will include:

- Establish an annual work plan with clear actions, timelines and performance measures for the PPOD to meet its goals of increasing access to the BPS by local area farmers
- Working with buyers to issues RFP's in line with farmer capabilities e.g. Issue an RFP for asparagus only
- Serve as a two way flow of information between producers and buyers
- Act a champion for local food building relationships between buyers and farmers
- Seek and sign agreements with local farmers that can serve as distribution points
- Manage the finances of PPOD
- Regularly meet with an advisory board/board of directors

5.5.2 Advisory Board

An Advisory Board can serve to both direct the goals and administration of the PPOD as well as provide strategic advice to the Local Food Hub Manager. Board members are selected by commitment to the goal of the PPOD and their skills, experience and connections to contribute to its success. Members should be drawn from and represent key supporters, buyers, distributors and farmers as well as those with specific accounting, legal and IT skills. Smaller boards (8-10) can be more responsive and collaborative and provide more creative leadership for the PPOD. Board responsibilities will include:

- Hiring and evaluating the Manager
- Guidance and advice to the action plan of the PPOD
- Assist in liaising with and marketing the program to key stakeholders including farmers, buyers and distributors
- Monitoring budgets and program evaluation



5.5.3 Local Area Support

The Producer-Processor Owned Distribution Company will require the support of local food agents and organizations to market the concept to local area farmers and BPS buyers. As the PPOD grows the system will also be able to accommodate private sector operators such as restaurants and local area grocery stores. Local food organizations will be ideally suited to assist in the expansion into this area. These organizations are also ideally suited to assist the PPOD with required working space, computer and telephone. The member counties of SCOR, most notably Elgin and Norfolk have strong local food programs operated by economic development departments. These departments should be contacted as supporters of the PPOD and requested to provide office space, computer and telephone for the start-up period of the company.



6 Governance

In establishing the PPOD, decisions must be made regarding legal structure (profit or not for profit), board of directors, mission and staffing.

6.1 Legal Structure

Distribution companies can be established as either a private, for-profit enterprise or as a not-for-profit agency. There are several advantages to the PPOD facility being established as a not-for-profit agency including exemption from business taxes and the ability to apply for grants and government support programs.

6.1.1 Mission Statement

A mission statement explains the purpose of the hub and why it exists. Establishing a mission statement will assist in:

- Defining program activities
- Seeking service providers to join the professional network
- Seeking members of the board
- Measuring success – tying impact to the mission statement.

In developing a mission statement Erie Innovation and Commercialization should consider:

- Value the hub brings to clients and supporters
- What makes it different from other food distribution models
- Delivery of services to a broad spectrum of potential producers, buyers and clients
- The goals of the organisation such as fostering entrepreneurship and stimulating economic expansion/employment

The mission statement needs to be developed in the initial stages of establishing an hub. This step needs to be conducted before funding applications are made, before the board of directors or advisory committee is selected and before the management staff is recruited. The mission statement should be developed by a group of key stakeholders, economic development staff, planning staff, municipal politicians and local producers and processors.



6.2 Board of Directors or Advisory Committee

Establishing a board of directors to function as an advisory committee can serve to both direct the goals and administration of the hub as well as provide strategic advice to the incubator staff and client businesses. Board members are selected by commitment to mission, skills and connections to contribute to the program's success. It is understood that this project current has an advisory board, however the PPOD facility will require a board with skills more closely aligned with the services provided by the hub (see Composition of the Board). Members should include members from the agricultural community, the broader public sector food service and procurement community, and sector, financial and legal experts. Smaller boards (8-10) can be more responsive and collaborative and provide more creative leadership for the PPOD. According to '*Best practices in action*', typical board responsibilities include³:

- Hiring and evaluation the director
- Assistance to develop and update the strategic plan
- Assist in liaising with government agents and other stakeholders
- Marketing the incubator to stakeholders, funders and potential client companies
- Support in establishing a professional services network, mentor network and angel investor network
- Considering being a member of the professional services network and mentor network
- Monitoring budgets and program evaluation
- Support/assistance in fundraising

The formality of the advisory committee or board, and its responsibilities will be the decision to be made during the formation of the organization. Whether the hub will operate independently with the advice of a committee, or the formal direction of a board, will be an important decision.

In either case, a priority for the organization is setting out a strategic plan. The strategic plan should be updated annually to reflect changes in demand and service provision. A strategic plan:

- Sets out clear goals and objectives for the hub to achieve its mission
- Assigns responsibilities and timeframes to complete goals and objectives
- Includes performance measurement – keeps the PPOD on track and tracks progress on achieving goals and objectives

The strategic plan will be the guiding document from which to measure the success of the PPOD's services.

³ ibid



Composition of the Board/Advisory Committee

In order to meet the demands set out above and extend the advisory function of the board, the composition should include:

- Community leaders in support of the mission
- People with connections to professional service providers, larger business community and investors
- Business operations and industry representatives to assist with daily management issues
- Professional service providers and mentors to advise clients
- Producers and Buyers to check that services are providing for clients' needs
- Representatives from provincial or federal government funding body or department might serve vital advisory roles that are not board members *per se* but still actively engaged in the hub's activities and successes

Prior to selecting the board, the PPOD committee should establish recruitment and selection processes, terms of service, executive structure and assemble a welcome package explaining the mission of the PPOD and anticipated role of the members. Upon selection of the board a by-law or governing document for the PPOD should be created. This by-law document will include procedural and administrative concerns, funding model and mandate, governance relationships and role of the board. This document will be required for not-for-profit status and will assist in mitigating any future conflict of interest in the board's governance. Initially the board should meet monthly. Once an executive is established the board should meet bi-monthly or quarterly with operational oversight of the facility becoming the responsibility of the manager or director.



7 Financing/Budget

In establishing the financial plan for the Producer-Processor Owned Distributor, three membership or fee structures were considered. Each option considers a three-year planning horizon and targets financial sustainability as a goal. There are some important assumptions being made that apply to each option that have direct impact on the viability of the PPOD:

- It is assumed that during the start-up phase, the PPOD will require financial support:
 - Experience and research shows that local food initiatives and local food hubs require substantial initial investment from government funded agencies⁴. As with all businesses, the Producer-Processor Owned Distribution Company will have considerable costs that will not be recoverable in the initial years of operation. The most significant costs being a full time Local Food Hub Manager and the development of a virtual web based logistics system.
 - In the planning budgets presented in this section, this support has been built in to 'plug' the financial gap leading each year to a near break-even point. Therefore, each year has varying amounts of financial support shown in the 'Revenues' chart. Estimates have been provided as to which expense items might be covered by funders. The reality is that these funds will need to be provided up front to cover expenses before PPOD is able to self-generate funds.
 - Financial support, to varying degrees, is also anticipated from SCOR municipal governments. Should it be possible for any of the municipalities to provide the hub with office space, the financial contribution required would be reduced.
 - Additional financial support will also be sought from an external granting agency. This is particularly noted in the 'capital' variation to each option presented.
 - It is assumed that the PPOD will begin operation shortly after the growing season is completed in 2012; therefore, revenue in the first year of operation is expected to be minimal
 - Three web-based options have been highlighted, because it is unclear which option will be most attractive to Eerie Innovation the average cost of has been utilized as an estimate of the expense of the web-based application.
- There are a number of unknown factors, notably the cost and availability of storage in SCOR. As such, these financial projections do not include the cost of renting or utilizing these facilities. Their use would ideally be traded for services,

⁴ Summary of presentation by Alison Blay-Palmer extracted from <http://canada-europe-dialogue.ca/events/2011-03-03-05-LocalFoodSystems/summaries/2011-03-04-summary-alison-blay-palmer.pdf> February 3, 2012



or paid by the individual producer. The expense of a dedicated facility can be considerable and short of a physical location being donated in-kind or purchased outright through a capital grant, it is not a feasible option. The budgets presented also show the change in financial situation should a capital grant for the facility be provided.

- Each option will require a staffing complement that will need financial support for the start-up years of the hub.

In addition, a number of revenue streams have been tabled. Option A considers only a straight membership fee for use of the PPOD services. Options B considers a strict transactional fee based on a percentage of all sales, and Option C considers a mixed approach using membership fees and a lowered transaction fee. Only Option B and C allow local producers and buyers to access the PPOD on an ‘*a la carte*’ basis. Larger services such as networking events and training sessions would be available to the larger community.

7.1 Option A – Membership Fee Structure

Option A assumes that there will be a number of producers and buyers who will be willing to pay a membership to utilize the PPOD services. Services will be provided to members only, providing them with exclusive access to buyers, wholesalers and other markets for their product. The fees presented below are annual fees producers and consumers would pay in order to access PPOD's services. The number of memberships was calculated through information garnered from best practices in conjunction with the size of the BPS market and the number of producers in SCOR.

TABLE 7 MEMBERSHIP BASED FUNDING STRUCTURE

OPTION A	Year 1			Year 2			Year 3		
	Local	External Funds	Company	Local	External Funds	Company	Local	Funds	Company
PPOD Food Hub									
Expenses									
Office Space	\$ 6,000.00					\$ 6,000.00			\$ 6,000.00
Virtual Logistics System (Design and Updates)		\$ 66,000.00			\$ 3,000.00			\$ 1,000.00	
Marketing (print media)		\$ 3,000.00			\$ 3,000.00			\$ 3,000.00	
Office Expenses (telephone and printing)		\$ 3,000.00			\$ 3,000.00			\$ 3,000.00	
Travel Expenses		\$ 2,000.00			\$ 2,000.00			\$ 2,000.00	
Staff									
Local Food Hub Manager		\$ 80,000.00		\$ 7,000.00	\$ 30,000.00	\$ 43,000.00		\$ 15,000.00	\$ 65,000.00
Total Expenses	\$ 6,000.00	\$ 154,000.00		\$ 7,000.00	\$ 30,000.00	\$ 60,000.00	\$ -	\$ 15,000.00	\$ 80,000.00
Food Hub Income Generation									
	Year 1	Year 2	Year 3						
Producer/Processor Fee	\$ 16,000.00	\$ 40,000.00	\$ 56,000.00						
Buyer Fee	\$ 10,000.00	\$ 20,000.00	\$ 25,000.00						
Total Revenue Generation	\$ 26,000.00	\$ 60,000.00	\$ 81,000.00						



The below table outlines the membership cost per month, the projected number of memberships and the annual income that will be derived from a membership fee.

TABLE 8 PROJECTED REVENUE

	Year 1		
	Membership Cost	# of Memberships	Total Income
Producer/Processor Fee	\$ 800.00	20	\$ 16,000.00
Buyer Fee	\$ 500.00	20	\$ 10,000.00
			\$ 26,000.00
	Year 2		
	Membership Cost	# of Memberships	Total Income
Producer/Processor Fee	\$ 800.00	50	\$ 40,000.00
Buyer Fee	\$ 500.00	40	\$ 20,000.00
			\$ 60,000.00
	Year 3		
	Membership Cost	# of Memberships	Total Income
Producer/Processor Fee	\$ 800.00	70	\$ 56,000.00
Buyer Fee	\$ 500.00	50	\$ 25,000.00
			\$ 81,000.00

7.2 Option B – Transactional Fee Structure

Option B allows for the PPOD the most flexibility in its operations. By charging a flat percentage rate on the volume of business being facilitated by the hub, the PPOD can maximise its return during summer months and has a strong incentive to increase the capacity of the organization. Based on research conducted during the first phase of this project, most long-term care homes are spending \$7.41 per patient, per day, for food. From there we can extract that their weekly food budget is an estimated \$5,187.00 for all food items. For the purposes of this example, produce is estimated to represent a quarter of that cost. With four 100 bed facilities sourcing their produce through the PPOD directly or through a



wholesaler, we've estimated \$4000.00 in weekly sales, at a 10% transactional fee, resulting in \$20,800 yearly income for the PPOD.

TABLE 9 TRANSACTIONAL FUNDING MODEL AND BUDGET

OPTION B	Year 1			Year 2			Year 3		
	Local	External Funds	Company	Local	External Funds	Company	Local	Funds	Company
PPOD Food Hub									
Expenses									
Office Space	\$ 6,000.00					\$ 6,000.00			\$ 6,000.00
Virtual Logistics System (Design and Updates)		\$ 66,000.00				\$ 3,000.00			\$ 1,000.00
Marketing (print media)		\$ 3,000.00				\$ 3,000.00			\$ 3,000.00
Office Expenses (telephone and printing)		\$ 3,000.00				\$ 3,000.00			\$ 3,000.00
Travel Expenses		\$ 2,000.00				\$ 2,000.00			\$ 2,000.00
Staff									
Local Food Hub Manager		\$ 80,000.00			\$ 32,000.00	\$ 48,000.00			\$ 80,000.00
Total Expenses	\$ 6,000.00	\$ 154,000.00		\$ -	\$ 32,000.00	\$ 65,000.00	\$ -	\$ -	\$ 95,000.00
Food Hub Income Generation									
10% Transaction Fee	\$ 20,800.00	\$ 65,000.00	\$ 195,000.00						
Total Revenue Generation	\$ 20,800.00	\$ 65,000.00	\$ 195,000.00						

TABLE 10 TRANSACTION REVENUE

Years of Operation	Volume of Sales, weekly	10% Transaction Fee	Annual Income
Year 1	\$ 4,000.00	\$ 400.00	\$ 20,800.00
Year 2	\$ 12,500.00	\$ 1,250.00	\$ 65,000.00
Year 3	\$ 37,500.00	\$ 3,750.00	\$ 195,000.00
Year 4	\$ 62,500.00	\$ 6,250.00	\$ 325,000.00

However, as these volumes rise, the yearly return becomes immediately evident. With 10, 30 or 50 orders weekly the amounts quickly result in a significant annual income for the organization.

7.3 Option C – Mixed Fee Structure

Option B provides the best of both worlds, with a low transactional cost being charged on all sales, as well as a 'pay to play' membership that provides producer and buyer access to the online portal and the PPOD services.



TABLE 11 MIXED FEE MODEL BUDGET

OPTION C	Year 1			Year 2			Year 3		
	Local	External Funds	Company	Local	External Funds	Company	Local	Funds	Company
PPOD Food Hub									
Expenses									
Office Space	\$ 6,000.00			\$ 6,000.00					\$ 6,000.00
Virtual Logistics System (Design and Updates)		\$ 66,000.00				\$ 3,000.00			\$ 1,000.00
Marketing (print media)		\$ 3,000.00				\$ 3,000.00			\$ 3,000.00
Office Expenses (telephone and printing)		\$ 3,000.00				\$ 3,000.00			\$ 3,000.00
Travel Expenses		\$ 2,000.00				\$ 2,000.00			\$ 2,000.00
Staff									
Local Food Hub Manager		\$ 80,000.00				\$ 80,000.00			\$ 80,000.00
Total Expenses	\$ 6,000.00	\$ 154,000.00		\$ 6,000.00	\$ -	\$ 91,000.00	\$ -	\$ -	\$ 95,000.00
Food Hub Income Generation									
	Year 1	Year 2	Year 3						
5% Transaction Fee	\$ 10,400.00	\$ 32,500.00	\$ 97,500.00						
Producer/Processor Fee	\$ 16,000.00	\$ 40,000.00	\$ 56,000.00						
Buyer Fee	\$ 10,000.00	\$ 20,000.00	\$ 25,000.00						
Total Revenue Generation	\$ 36,400.00	\$ 92,500.00	\$ 178,500.00						

TABLE 12 5% TRANSACTION REVENUE MODEL

Years of Operation	Volume of Sales, weekly	5% Transaction Fee	Annual Income
Year 1	\$ 4,000.00	\$ 200.00	\$ 10,400.00
Year 2	\$ 12,500.00	\$ 625.00	\$ 32,500.00
Year 3	\$ 37,500.00	\$ 1,875.00	\$ 97,500.00
Year 4	\$ 62,500.00	\$ 3,125.00	\$ 162,500.00

TABLE 13 MEMBERSHIP FEE MODEL FOR MIXED FEE FUNDING STRUCTURE

	Year 1		
	Membership Cost	# of Memberships	Total Income
Producer/Processor Fee	\$ 800.00	20	\$ 16,000.00



Buyer Fee	\$ 500.00	20	\$ 10,000.00
			\$ 26,000.00
Year 2			
	Membership Cost	# of Memberships	Total Income
Producer/Processor Fee	\$ 800.00	50	\$ 40,000.00
Buyer Fee	\$ 500.00	40	\$ 20,000.00
			\$ 60,000.00
Year 3			
	Membership Cost	# of Memberships	Total Income
Producer/Processor Fee	\$ 800.00	70	\$ 56,000.00
Buyer Fee	\$ 500.00	50	\$ 25,000.00
			\$ 81,000.00

7.3.1 Budget Assumptions

The budget presented in Table 7 was created with several assumptions in mind:

- Office space will be provided free of charge by a local area partners (E.g. County of Elgin).
- Actual costs of development for the virtual site are unknown at this time. It is suggested that system requirements be established prior to contacting anyone to quote on creating the system. This can be achieved through a series of workshops with some good business analysts and the key stake holders in the organization (probably take at least of week to fully flush out the features). Set aside \$5,000 for this process which will determine the final budget amount to website design.
- The company will earn very little money in the first year. Revenues are earned on a fee for service basis with farmers and buyers being charged a fee for use of the virtual system.
- Distribution and storage costs are external to the PPOD direct expenses. Farmers will responsible for covering these costs and will need to consider these costs in their responses to RFPs or procurement requests. The PPOD Manager will negotiate storage and transportation prices on behalf of the farmers. There are unutilized or underutilized storage facilities that can be capitalized by farmers in SCOR making it redundant and cost prohibitive for PPOD to develop its own distribution and storage facility. By acting as a facilitator and bringing together storage operators and producers PPOD can effectively utilize the resources already developed in the region.



- Profits will be shared with the producer-processor owners of the company.
- External funding from government funded agencies will only be required in the initial year of operation. The PPOD company will be financially self-sustaining in the second year of operation and produce profit in the third year of operation. These profits will be rolled into a profit sharing program for member producers and invested into building the PPOD.

7.4 Potential Partnerships

Developing strong partnerships will be a key element to the success of the PPOD. Valuable roles played by partners of the company will include networking and relationship building, accessing financing, data collection and providing strategic advice. Partnerships that should be developed by the PPOD company include:

Producer Associations

In the initial Food Hub Distribution RFP issued by Erie Innovation and Commercialization five broad sectors of producers and processors in the region were identified: fruit, vegetable, meat, poultry and dairy. Associations in each of these categories will play an important role marketing the company to farmers and processors and ensuring the company serves the needs of producers and processors. Potential lead marketing associations to assist in this endeavour include:

- Dairy Farmers of Ontario
- Ontario Independent Meat Processors
- Ontario Fruit and Vegetable Growers
- Ontario Berries
- Ontario Tender Fruit Producers
- Chicken Farmers of Ontario
- Ontario Pork
- Ontario Sheep
- Ontario Veal
- Ontario Corn Fed Beef
- Ontario Cattlemen's Association
- Ontario Turkey
- Alliance of Ontario Food Processors
- Association of Ontario Chicken Processors



- Canadian Poultry and Egg Processors Council.

Government Support Programs

As stated in the budget earlier, securing financial support from government agencies for start-up costs will be crucial to the initial operation and long term success of the PPOD company. The most likely funders suggested during the stakeholder engagement process include:

- **Federal Development Agency of southern Ontario:** FedDev's prosperity initiative encourages both for profit and not for profit institutions in southern Ontario to undertake projects that will result in a more productive, diversified and competitive economy in the region. Applicants must be planning to undertake projects that will enhance economic clusters in southern Ontario that have or are developing a significant position in producing products services within the global economy. Eligible costs associated with project activities can include: labour and operating expenditures; materials and supplies; capital costs; consulting and professional fees; travel and meeting costs; minor capital and non-capital acquisitions and administration fees. Not-for-profit enterprises are eligible for contributions of up to 50% of direct eligible costs.
- **Ontario Trillium Foundation:** The Ontario Trillium Foundation (OTF) distributes its funding to charities and not-for-profits through three granting programs: Community and Province-Wide programs and the Future Fund. The PPOD would be eligible to apply to the Community Program which makes grants of up to \$375,000 over five years. This can include up to \$75,000 per year in operating or project expenses and up to \$150,000 for capital initiatives. The PPOD could also apply to the OTF's Future Fund which allocates money to innovative projects that are focused on Ontario's future. Each year the focus of this funding changes slightly pointing to different aspects of Ontario's economy. In the 2010/2011 the Future Fund was aimed at building economic opportunities for Ontario's youth. the PPOD should stay on top of programming available with the OTF and understand the organizations priorities for that fiscal year.
- **Rural Economic Development Program:** of the Ontario Ministry of Agriculture, Food and Rural Affairs – The Rural Economic Development (RED) program assists with the costs of projects that benefit rural Ontario. The priorities of the RED program include: supporting the food processing sector, community revitalization and improving access to skills training. Projects are cost-shared with the provincial government investing up to 50% of the project's eligible costs in most cases. While the program is fully subscribed representatives from the program may be able to provide advice regarding other funding sources. This program will reopen for additional intake in the next fiscal year if deemed appropriate to seek additional funding.
- **Community Futures Development Corporations:** may be able to provide initial support to office and marketing expenses



- **Food producer/marketing association mentioned previously:** these associations may not be able to provide large sums, however, their contributions will be viewed favourably by other potential funders

Local Food Organizations and Supporters

The region currently has a number of organizations or initiatives that promote local food consumption, such as Bountiful Brant, Get Fresh Eat Local Middlesex-London, Norfolk's Ontario's Garden Initiative, Buy Local Oxford and Buy Local, Eat Fresh Elgin County. These initiatives are largely focused on the marketing and branding of local food sold at farm gates, small retailers, restaurants, and in other direct to consumer formats, however, their networks within their communities are well positioned to assist in the marketing objectives of the PPOD Company. In addition, as the company grows and expands these organisations are in the ideal position to connect the company to new local markets.

Food Wholesaler, Distributor and Group Purchasing Associations

The group is perhaps the most valuable for the company to build connections with. It will be important to build networks and connections with key buyers and coordinators of local food buying initiatives. Relationships are key to in the BPS food market and reaching out to this group will be a primary task for the Local Food Hub Manager. The market is concentrated and focus should be to:

- Food distributors: Flanagan's, Summit, Gordon and Sysco
- Intermediaries: Aramark, Chartwell's and Compass
- Wholesalers: Forts Wholesale, John's Fruit and Vegetable, Roseland Produce Wholesale and SKOR



7.5 Recommendations & Action Plan

Any sound feasibility study must build on the unique assets and resources of a community to form a framework for taking advantage of the opportunity. This framework must contain aspirational goals and objectives, as well as a set of associated actions for achieving these desired outcomes. But a successful plan implicates more than just the organizations that develop it; it provides a blueprint for the kinds of actions that existing and potential partners can undertake to assist with achieving the new vision for prosperity. For that reason, the business plan must be generated from a detailed assessment of the local economy and assets, as well as through the consensus of the community it is intended to guide.

By definition, strategic goals represent the overall vision and desired response to an opportunity. In short, the strategic goals will articulate the kind of organization that the PPOD intends to be. Detailed research and consultation has identified two strategic goals to guide the development of the food hub in the South Central Ontario Region.

1. Increased local food consumption in the region's broader public sector organizations.
2. Increased collaboration, inclusion and participation of local producers and processors in the value chain.

The following section provides an overview of the business plan and its actions, based on a chronological development. The associated actions are prioritized on a scale from 1 to 5, where actions designated as '1' are the lowest priority (long-term) and actions designated as '5' are the highest priority (short-term). It should be noted that in some cases, both staff time and financial resources may be needed from a number of organizations to fully implement the action. In an effort to coordinate activity among the various players in the Region, potential lead and partner organizations are recommended for each action. Finally, performance measures are proposed for several of the actions in order to assist with evaluating success.

7.5.1 Engage community partners, producers and processors in the development of PPOD

SCOR is home to a large number and variety of agricultural and food producers and processors, as well as a variety of broader public sector institutions. As a result, there are a number of access points for local food to enter the value chain. The challenge is to engage this broad range of stakeholders, who have different needs and obstacles to increasing local food sales or purchases, in a common vision for the region food value chain.

The presentation of the feasibility study and its results will allow the project to gain momentum in a variety of ways:



- Increased local knowledge of the plan and market potential for local food
- Opportunity to brand and market the plan to potential project champions and key stakeholders
- Increased local understanding of the current obstacles and issues for those attempting to access the broader public sector market
- Increased local understanding of buyer needs and market segmentation

This is an important factor in the implementation of actions emerging through from the business planning process, as financial and human resources constraints will require broad community engagement, the emergence of champions, and the private sector commitment to supporting local economic development.

Key stakeholders at the meeting should also be considered as potential advisory committee members, who will guide the development of the organization to ensure that the strategic goals of the business plan are achieved.

Objective: Engage community partners, producers and processors in the development of PPOD				
Required Actions	Lead	Potential Partners	Priority	Performance Measures
1.1 Present the business plan to community and industry stakeholders. Attendees should include: <ul style="list-style-type: none"> a) Local Government b) Producer and Processors Associations c) Producers and Processors d) Broader Public Sector Representatives e) Ontariofresh.ca f) The Broader Public Sector Investment Fund g) Local food distributors, wholesalers and other value chain members 	Erie Innovation and Commercialization	Millier Dickinson Blais	5	Attendance at meetings Stakeholder engagement and buy-in
1.2 Establish the PPOD advisory board to guide the process.	Erie Innovation and Commercialization	Value Chain members	5	

7.5.2 Establish a common vision and mission

Once the advisory committee and local project champions have been established and met, a clear vision and mission for the PPOD should be developed, as well as a preliminary list of goals that will lead to the implementation of the business plan.



Key partners should be identified and consulted, with the goal of creating memorandums to define clear partnerships and expectations. In particular, partners who can offer in-kind services or initial funding will require requests for their support, which the PPOD can leverage in funding applications or utilize in the short and long term to house the organization. Project champions, who may or may not be advisory committee members, should be utilized at this stage to identify resources and garner financial support for the project.

Objective: Engage community partners, producers and processors in the development of PPOD				
Required Actions	Lead	Potential Partners	Priority	Performance Measures
2.1 Establish a common vision for the PPOD, with a formalized mission and vision statements to guide the organization.	Advisory Committee	Project Champions	5	Clear Vision and Mission for the PPOD
2.2 Develop a list of preliminary goals for the organization.	Advisory Committee		5	
2.3 Develop memorandums of understanding with major stakeholders and partners.	Advisory Committee	Value Chain Stakeholders	5	Number of memorandums of understanding
2.4 Ask partners and stakeholders to provide letters of support for the project, to be used for grant applications.	Advisory Committee	Project Champions	3	

7.5.3 Recruit Local Food Hub Manager

The time and resources needed in order to secure funding and begin developing the PPOD will necessitate a dedicated staff person. Initially, a manager or coordinator position should be established to shepherd the development of the organization.

Qualifications should include knowledge of the agricultural value chain, the SCOR area, financial management, marketing, grant writing and administration, and have experience working with an advisory committee or board of directors. Technological aptitude will also be essential, as the manager will be responsible for the management of the virtual hub component. Largely be tasked with client and producer relations as well as the coordination and logistics of the PPOD's distribution services, the manager will need to be able to network within the community and respond to the needs of a diverse group of stakeholders.

It is proposed that the PPOD's manager be given office space within a local economic development department or municipal office in the region. Partnerships with local municipalities should be explored in order to better gauge which municipalities have available space and are willing to collaborate on this project.



Objective: Recruit Local Food Hub Manager				
Required Actions	Lead	Potential Partners	Priority	Performance Measures
3.1 Establish job requirements and qualifications for the Food Hub Manager.	Advisory Committee	Value Chain Stakeholders	4	Funding secured from key stakeholder or funding agencies. Response to the position posting. Successful hiring of a candidate who meets the requirements.
3.2 Secure funding for the local food hub manager for the first year of operation.	Advisory Committee	Provincial, Federal or Municipal governments, other funding agencies.	5	
3.3 Undertake the hiring process.	Advisory Committee	Talent agency or Human Resources Consultant	5	
3.4 Establish a workplan for the position, with short-term development goals and a long-term vision.	Advisory Committee	Value Chain Stakeholders	4	
3.5 Secure office space for the manager.	Advisory Committee	SCOR municipalities	4	

7.5.4 Establish the virtual logistics web-based program

The virtual program will manage a large portion of the supply and demand relationship, as well as the PPOD’s distribution capacity across the region. It is essential to maintaining the cost-effectiveness of the organization, and acts as a portal for buyers and sellers by facilitating transactions.

Currently, Ontariofresh.ca offers online listings for food producers and buyers in the province. While their programming is largely focused towards advertising, it could be expanded to facilitate transactions. The Advisory Committee for this project is exploring the potential for a partnership between Ontariofresh. that would add a transactional capacity to the Ontariofresh.ca website, allowing the virtual hub to be available across the province, with SCOR being the pilot. Potentially, any community could utilize the service, with a regional staff person or organization that coordinates its use.

The development of the virtual logistics program could be funded through initial government funding, followed by a revenue generation model based on a percentage of sales or a per transaction fee. The program is then available to be rolled out to other regions in the province.

The virtual hub will need to include the following capabilities:



- Client/Buyer Portal to upload and respond to orders.
- Invoicing
- Order Traceability
- Information Tracking
- Advertising – Producer/Buyer Profile
- Storage Capacity Tracking
- Distribution Tracking

Objective: Establish the virtual logistics web-based program				
Required Actions	Lead	Potential Partners	Priority	Performance Measures
4.1 Develop program requirements.	Manager	Ontariofresh.ca	4	Funding secured from key stakeholder or funding agencies. Program is scalable and able to be implemented province wide. Program pilot developed and implemented for testing.
4.2 Secure financing to develop the model.	Manager, Advisory Committee	Provincial, Federal or Municipal governments, other funding agencies. Ontariofresh.ca	5	
4.3 Undertake a request for proposals process or other sourcing process to secure a developer.	Manager	Web development or programming company.	4	
4.4 Introduce certain clients to the system (in beta) to garner feedback.	Manager	Key clients or stakeholders.	3	
4.5 Project launch events to market the service in SCOR	Manager	Ontariofresh.ca	3	
4.6 Develop membership or transactional fees framework.	Manager	Ontariofresh.ca, Advisory Committee	4	

7.5.5 Develop local knowledge and relationships

Once the virtual hub component is established, information and transactional flows should be tracked and monitored to gain key supply and demand information in the region, in order to inform future development plans.



Objective: Establish the needs of the virtual logistics web-based program				
Required Actions	Lead	Potential Partners	Priority	Performance Measures
5.1 Develop a report outlining quarterly or seasonal food demand and supply in the region, for the key products. This report will be used as a baseline for food demand in the region and leverage the ability of the PPOD to evaluate their success in increasing the local food market.	Manager	Ontariofresh.ca	4	Clear understanding of local production capacity and market sizes. Improved ability to respond to local demand. Increased sales.
5.2 Host producer and processor information forums to assist farmers with production planning.	Manager	Producer and Processor Associations.	4	
5.3 Host information session with key local distributors, buyers and wholesalers for the purpose of marketing the PPOD and its services.	Advisory Committee	Web development or programming company.	4	

7.5.6 Develop distribution model

Once the virtual hub component is established, the distribution and storage capacity in SCOR will need to be inventoried in order to provide a clear picture of the current opportunities for collaboration.

Objective: Establish the distribution and storage capacity				
Required Actions	Lead	Potential Partners	Priority	Performance Measures
6.1 Inventory local storage and distribution assets.	Manager	Advisory Committee	4	Number of



6.2 Contact and develop memorandum of understanding for storage use or distribution sharing.	Manager	Provincial, Federal or Municipal governments, other funding agencies. Ontariofresh.ca	5	
6.3 Input contracted storage and distribution assets into tracking system to monitor current storage capacity.	Manager	Web development or programming company.	4	
6.4 Facilitate local relationship building and information sharing through events and personal contact to promote distribution/storage sharing.	Manager	Local Stakeholders	4	

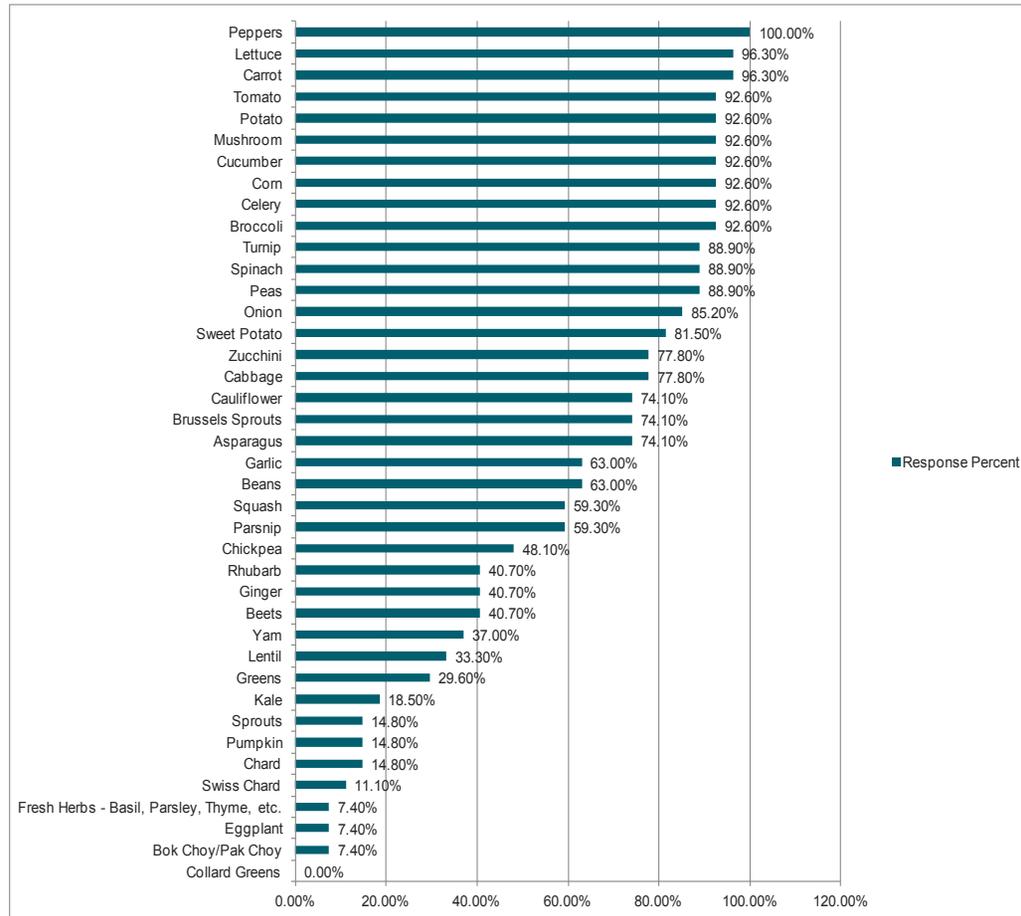
7.5.7 Develop long-term funding strategy

Objective: Establish the distribution and storage capacity				
Required Actions	Lead	Potential Partners	Priority	Performance Measures
7.1 Develop a 5 year strategic plan to include: - growth targets - potential procurement of a dedicated facility - marketing and communications plan - develop RFP capacity (if still feasible)	Manager	Advisory Committee	4	<p>Funding secured from key stakeholder or funding agencies.</p> <p>Program pilot developed and implemented for testing.</p> <p>Program is scalable and able to be implemented province wide.</p>



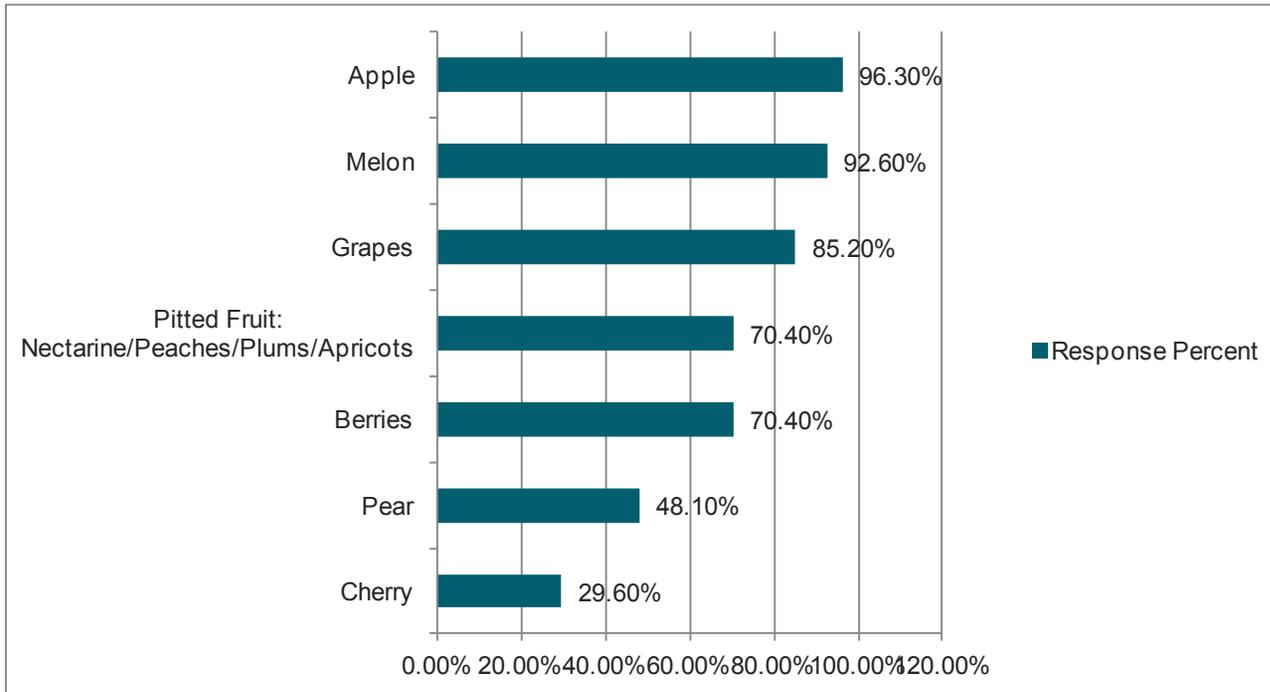
Appendix A: Product Procurement Survey Results

Question 1: What Vegetables do you usually purchase (in standard order)?



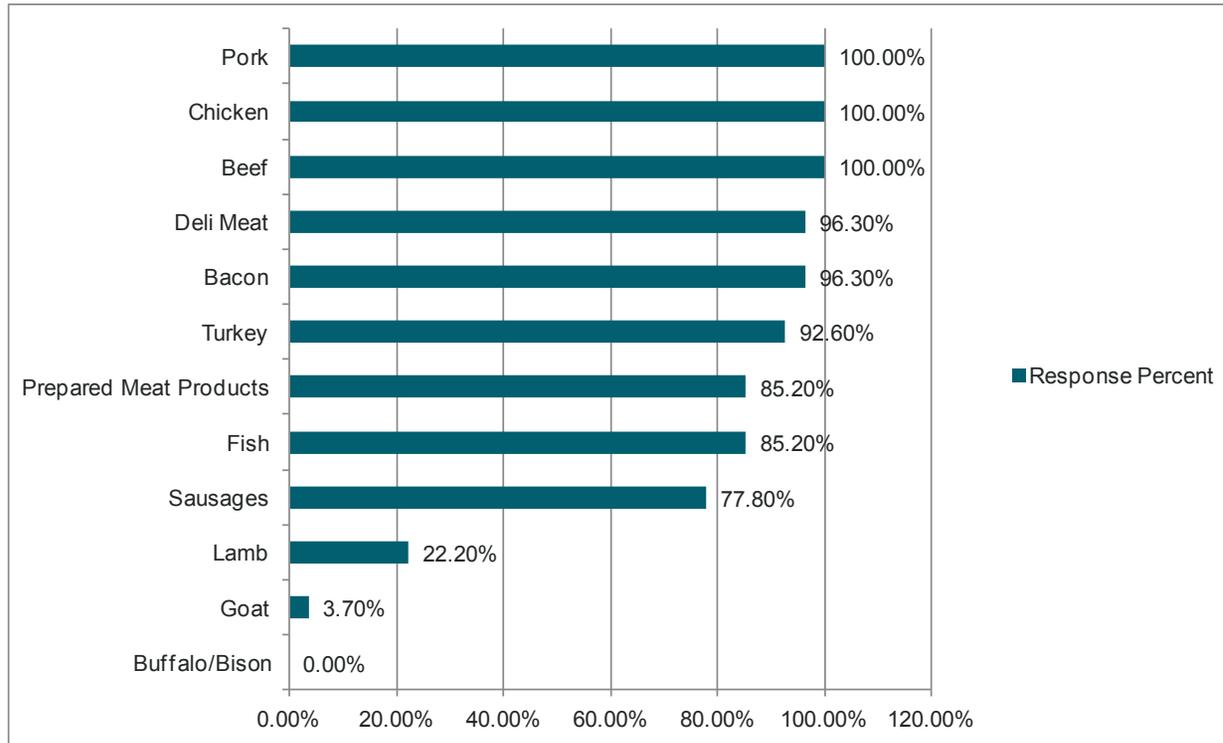


Question 2: What fruit do you typically purchase (in standard order)?



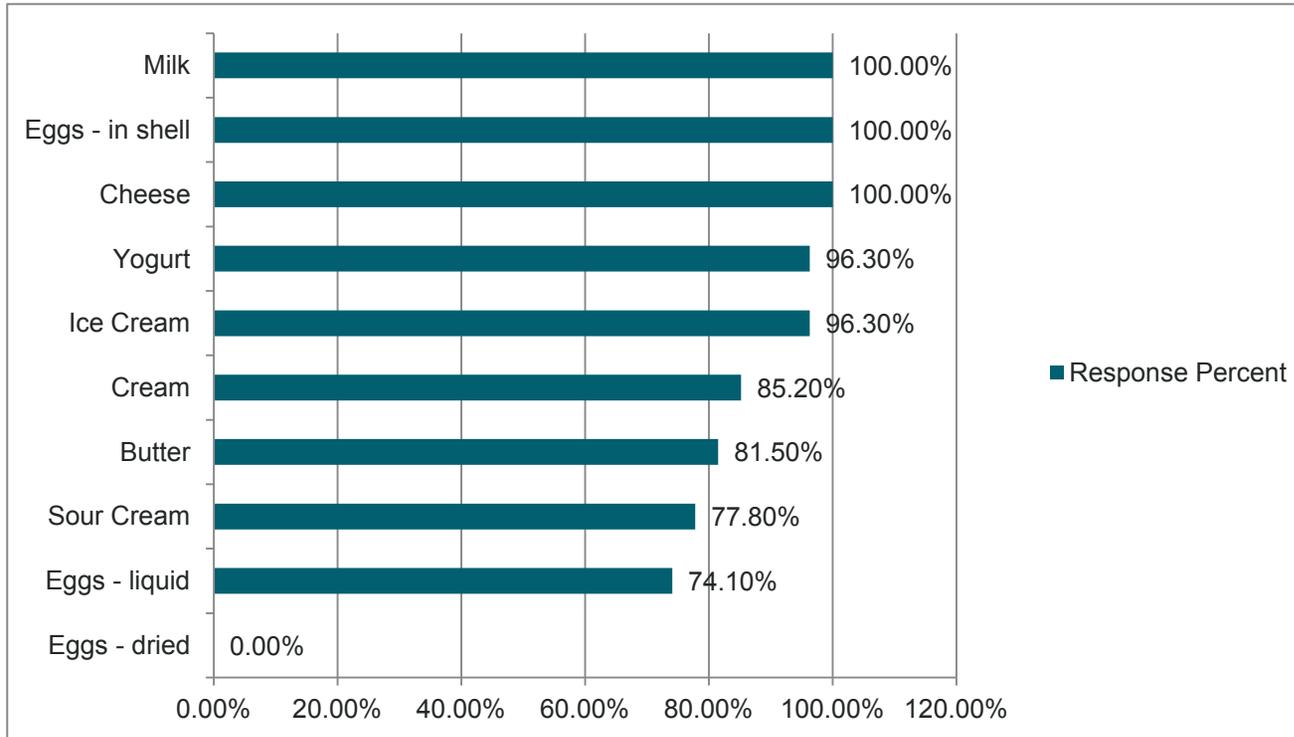


Question 3: What meat, fish and poultry do you usually purchase (in standard order)?





Question 4: What dairy/egg products do you usually purchase (in standard order)?





Question 5: What prepared foods or condiments do you usually purchase (in standard order)?

