

GROWING UP ORGANIC

BUSINESS PLAN

**Prepared for
Canadian Organic Growers and Island Natural Growers (Gulf
Islands Chapter)**

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1. Introduction

This document proposes an approach to maintaining the Growing Up Organic (GUO) Salt Spring Island farm produce distribution system beyond the conclusion of its current grant funding in March 2010.

- ✓ It outlines a plan based on GUO experience to date for organizing and financing the distribution system as a transitional step through the next 36 months.
- ✓ It lays the foundation for long-term sustainability using the established model of community-supported agriculture.

The plan has been a work-in-progress for the past five months, involving many discussions with farmers and food business owners and chefs.

The document outlines the business goals. It describes the potential for achieving the goals and the obstacles that will have an impact. It analyses the market place based on the Growing Up Organic experience through the past 18 months. It identifies opportunities for expanding the customer base. Section 6 reviews Growing Up Organic sales since its inception in July 2008. Section 7 discusses the considerations affecting financial feasibility leading to the proposal in Section 8 that focuses on managing the transition from grant-funded to self-sustaining.

2. The Proposal in a Nutshell

The Need

There is general agreement that in the past year and a half Growing Up Organic has provided a valuable service by coordinating the sales and delivery of produce from Salt Spring Island farms to institutions and restaurants. Growing Up Organic has filled a void in the distribution of local food. It has provided a reliable alternative to the international distribution businesses that truck the majority of food that is eaten on Salt Spring onto the island.

A business dilemma

Financing an independent local food distribution business that is in competition with the international food distributors is challenging. Even operating on a very modest scale, competing on price with cheap imported food leaves no margin to pay for a local distribution service.

At the same time, it is generally recognized that coordinating the distribution of local farm foods to local grocers, restaurants and institutions plays an important role in shifting local food away from the fringe of our eating habits and into the mainstream.

Agriculture is a key community value

Growing Up Organic is based on the following principle:

small scale farms that are producing high quality organically-grown food are essential to the agricultural economy of Salt Spring Island and the sustainability of the community.

What is the Plan?

The plan is to continue operating Growing Up Organic as a community-supported local farm food distribution service. The enterprise will be financed through a combination of very modest farmer and food business fees with the main funds coming from community contributions. In return, the community will benefit from better access to local farm produce in our grocery stores, restaurants and institutions, including in the high school cafeteria.

Island Natural Growers will continue to sponsor the service. The fundraising arm will continue to be called Growing Up Organic. The distribution service will be called **Salt Spring Farm Food**.

3. About Growing Up Organic

Growing Up Organic was started in 2008 by Island Natural Growers with funding provided by Canadian Organic Growers. In addition to doing public outreach, farmer education and promoting increased local organic production, a primary aim of the project has been to demonstrate the feasibility and capacity for building a coordinated and centrally-organised distribution system for locally grown organic food on Salt Spring Island. 100% of the operational costs have been covered by the grant funding as part of the demonstration.

The intention from the outset of the project has been to learn what works best and what is needed to establish the key infrastructure elements that are required for a sustainable operation.

To date the project has:

- developed the market for the first phase of a local farm food coordinated distribution system;
- established regular delivery of farm produce to the Gulf Islands Secondary School, the Meadowbrook Seniors Residence and a selection of restaurants;
- involved 37 farms in the GUO farmer group;
- established operational and administrative processes for the distribution system;
- completed a study of the capacity and financial feasibility of value-added processing of farm produce; and
- produced educational materials for farmers on a variety of topics and promotional materials about the sales and delivery service.

4. Business Goals

Vision

To set up the mechanism for Growing Up Organic to make the transition from a grant-funded demonstration project to a business enterprise that: 1) has a stable financial structure; and 2) that supports long-term sustainability.

Key goals for 2010

- a. To set up an expanded structure for managing Growing Up Organic.
- b. To increase the volume of produce distributed through Growing Up Organic/Salt Spring Farm Food.
- c. To consolidate the number of farms actively participating in Growing Up Organic/Salt Spring Farm Food.
- d. To increase the number of Salt Spring food businesses regularly purchasing produce through Growing Up Organic/Salt Spring Farm Food.
- e. To establish a multi-faceted funding base that pays for the operation of Growing Up Organic/Salt Spring Farm Food.
- f. To improve and refine distribution processes and procedures.

5. Potential and Obstacles

Ideally, Salt Spring Farm Food/Growing Up Organic will become a profitable local food distribution business. The benefit of operating as a demonstration project has been to identify the potential for this to happen and the obstacles.

Identified Potential

- A significant number of farmers are selling their produce through Growing Up Organic to institutions and restaurants. They represent about 40% of the market garden farmers on SSI.
- The quality of produce is generally very high, picked fresh and, generally, well-presented.
- Two institutions on Salt Spring Island have been purchasing local organic produce through Growing Up Organic. This is the first time these institutions have purchased local produce in any significant quantity and have made a formal budget commitment to do so.
- A small number of restaurants are regularly purchasing local organic produce through Growing Up Organic and more have expressed an interest in doing so. They recognize the superior quality of the produce.
- Growing Up Organic is the only coordinated, centralized wholesale distribution mechanism for local produce on Salt Spring Island.

- The distribution service provided by Growing Up Organic does not duplicate or overlap with an existing service. It is filling an infrastructure gap in the local food system from agriculture production to consumption.
- Public awareness of the benefits of eating local organic produce instead of imported produce is growing.
- Growing Up Organic experience shows that a local food distribution system can make a positive contribution to the local economy generally and to the local agriculture economy specifically. **Every dollar that buyers spend on local produce and that is paid to local farmers would otherwise be paid to off-island, international distributors.**

Identified Obstacles

- Building this business is an incremental activity that has not yet reached the pace of the required cash flow. For example production capacity, farmer confidence and a wholesale customer base are building but have not yet reached the point where they are producing the sales volumes required to cover the full operating costs.
- The wholesale price of local organic produce is higher than the wholesale price of imported food. In many cases it is higher than the retail price of imported food and in some cases it is the same price as the retail price of local organic produce.
- Increasing sales volumes will put pressure on Growing Up Organic/Salt Spring Farm Food to establish a sorting and a storage facility. This will require capital investment.
- Key factors that play a part in the price/volume/profitability equation are:
 - The higher price of local organic produce significantly reduces the competitive edge of a local food distribution business. Pricing is set by international distributors who buy in the global commodity market with little regard for the actual cost of production at the small farm level. It is hard to impossible for a local food system to affect those prices. As a result the local food system is a niche player struggling to build a sustainable base.
 - The small scale of production on most Salt Spring farms means that farmers have very little room in their margins to set true wholesale prices. We know less about these margins than is ideal and would need much more rigourous cost-of-production analysis in order to calculate the actual margins.
 - The seasonal nature of the restaurant business on Salt Spring means that restaurants have very little room in their margins to pay more for their inputs.

- The high cost of doing business on Salt Spring means that margins which are generally small in food businesses are even smaller on Salt Spring.
- Public institutions have limited capacity to pay higher prices for local organic produce given that their budgets are affected by government budget decisions.
- The ability and the willingness of the general public to pay more for local organic food whether in restaurants or at the grocery store is affected by cheap food imports and the general cost of living.

In summary, the increase in the price of local farm produce that would be required to pay the total cost of the distribution service is not feasible at this time. At the same time if local food is going to replace a significant proportion of the industrially-produced food that our community eats, we need to find creative ways of increasing access to local farm food and of building agricultural infrastructure to support the production of local food.

6. Market Analysis

Existing Customer Base and Potential

a. Institutional Customers

When the Growing Up Organic distribution system was implemented in 2008, its primary focus was to build a base of institutional customers. Two institutions came on stream.

The other main institutions on the island that serve meals are within Vancouver Island Health Authority jurisdiction and are not purchasing locally produced food at this time. Developing that part of the institutional market will take more time, given the layers of jurisdiction and bureaucracy involved and the food budget restrictions. In addition, at this time island farms are not producing sufficient volume to serve the health institutions.

b. Restaurant Customers

Growing Up Organic began restaurant distribution in the summer of 2009. Although the intent in the spring of 2009 was to build a moderately sized restaurant customer base, the development was slowed down in order to work through some pricing and to ensure that the GUO distribution was complementary, not competing with, the few farmers who already sell directly to some restaurants.

In order to test best practices and manage the pricing issues, it was decided that GUO would deliver to one restaurant only on a regular basis. A second one was added following the September promotional event.

In September 2009, Growing Up Organic organised a special one-time event with 10 of the island's restaurants which involved them preparing special menu items using local ingredients. The restaurant response was very positive and some restaurants that were not included in the promotion wanted to be. Some of the

restaurants noted that the wholesale price of local produce compared with imported was an obstacle to buying local on a regular basis. All, however, were very pleased with the quality of the produce. Most commented on its superior quality compared with imported produce. This experience suggests that there is considerable potential to develop the restaurant market on Salt Spring.

Developing the restaurant market is essential if Growing Up Organic is going to create enough volume to become a viable and sustainable enterprise. There are 24 restaurants and cafes on Salt Spring. GUO is currently delivering to only 2 of them on a regular basis. About 6 others are using some local produce delivered directly by individual farmers. The remainder of restaurants are either not using any local produce or only a negligible amount.

c. Special Community Events and Catered Functions

Growing Up Organic provides a vehicle for various groups to serve locally grown food at special community events (e.g. Salt Spring Film Festival). This part of the market is barely tapped, however. Developing it further has strong potential and the key is through non-restaurant caterers. There are five caterers who advertise their businesses and many more who free-lance.

Caterers do a variety of different food services on Salt Spring, ranging from private parties to business lunches, to weddings. Sourcing produce on their own is an onerous task and very time consuming. Growing Up Organic would provide them a more feasible option for creating a local menu.

d. Grocers

Grocers are not part of the current customer base to March 2010. There are two large grocers on the island, one medium-sized grocer and four small-to-very small outlets that include groceries as part of their retail business. The main obstacles to developing this customer base at the present time are price and insufficient volume of produce.

The medium-sized grocer is the only grocer that is retailing local produce on a regular basis. Currently the produce is ordered and delivered on an individual farm-by-farm basis. The grocer has expressed an interest in working with GUO to replace this process with the coordinated distribution that GUO can offer.

Organisational stability and farmer cooperation are key factors in developing this potential customer.

Summary of Opportunities for Expanding the Customer Base

High potential

- 2 grocers of the grocers that are currently buying small quantities directly from farmers
- Restaurants that are currently sourcing directly and who would see the benefits of having a reliable, cost-effective local distributor handle their orders. There are six restaurants that fall into this category.
- A number of caterers who are currently promoting local food on their menus.

Medium potential

- 3-4 restaurants currently buying irregularly or not buying because of the extra labour involved in sourcing and buying directly from farmers
- An as yet unknown number of caterers who could develop their local menu choices in response to market demand if there was a system in place for sourcing the produce.

Low potential

- Health care institutions for the reasons cited previously.

7. Sales Experience

Sales data indicate strong growth from the first year of Growing Up Organic’s operation to the second. **Chart 1** shows the rate of increase through each year. It shows that sales increased at a much faster rate between the 2nd quarter and 3rd quarter in 2009 than was the case in the first year of operation. The heavy dark line shows that the trend for sales in 2010 is on a steep increase.

Chart 1 Growing Up Organic sales, 2008 and 2009 and the trend line for the future

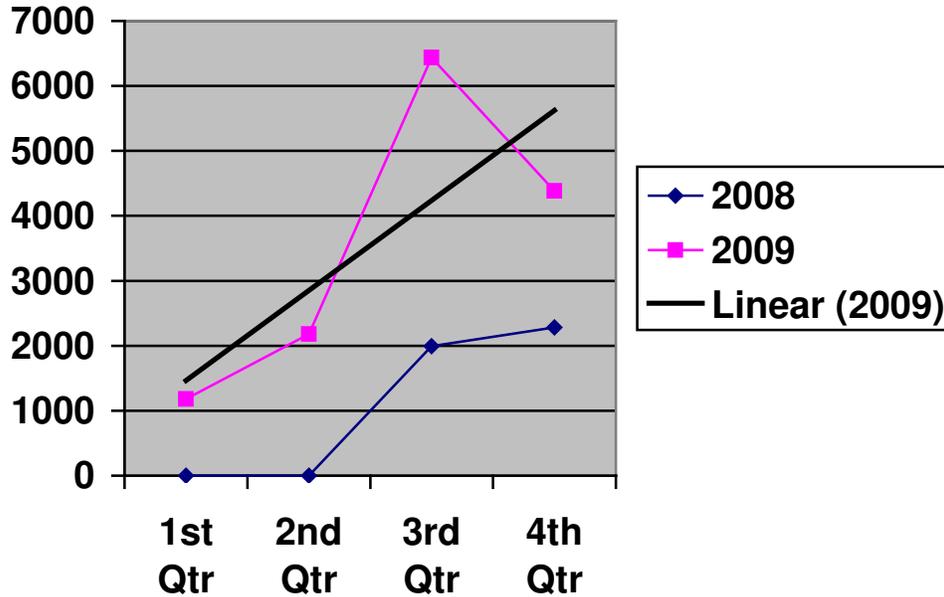
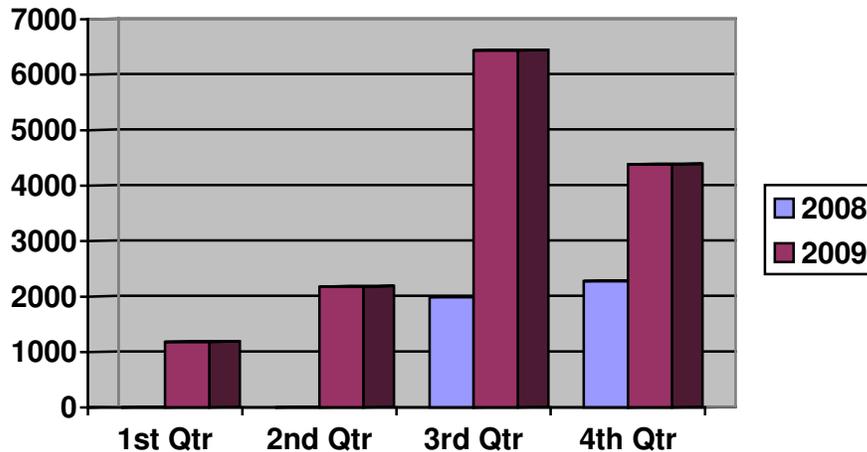


Chart 2 compares sales, quarter by quarter, from 2008 to 2009. Sales in the 3rd quarter in 2009 were more than twice as high as they were in the 3rd quarter in the first year of operation.

Chart 2 Growing Up Organic sales comparison by quarter, 2008 & 2009



A more detailed analysis of the sales experience shows where the sales increases occurred:

- Sales to one of the two institutional customers increased by an average of about 33% per quarter in 2009 over 2008 average quarterly sales.
- Sales to restaurants account for 41% of 2009 sales even though sales to restaurants did not begin until the 3rd quarter.
- The restaurant sales include a very successful 3-day special event that Growing Up Organic organised in September called “Eat Out/Eat Local” in which 10 restaurants were invited to create feature dishes using local produce. Growing Up Organic provided the order sheet for them and delivered their orders fresh from the farms. The event was organised to coincide with the Salt Spring Fall Fair weekend.
- The Eat Out/Eat Local weekend event and a community celebration dinner that was held in December, sponsored by The Islands Trust, account for 26% of the year’s sales. Clearly, special events are important opportunities for the sale of local farm produce.

8. Feasibility

The key factors for determining financial feasibility are:

- a. Is there a sufficient customer base?
- b. Can this enterprise generate enough revenue to establish a business profile in the community?
- c. Is there funding available for whatever capital costs need to be incurred in the first 2 to 3 years?
- d. Will there be enough annual revenue to cover the operating costs?
- e. Is there a stable organizational structure in place?

The discussion that follows provides responses to these questions.

Customer Base and Revenue Forecast

Sales are off to a good start. But at present the volume of business is too small to warrant the infrastructure that is required. The key issues from a business point of view are:

- i. GUO has been operating with a small number of customers while testing operating procedures.
- ii. GUO farmers and some restaurants are still doing direct ordering and delivery, in part at least because of the uncertainty of GUO's future.

Because of economies of scale, the operational processes that need to be in place for a few customers are the same as those that would be required for twice or three times that many. For example:

- i. the amount of time it takes to prepare the order list each week is the same whether three or ten customers place orders;
- ii. delivering to ten customers versus three does take more time but not three times as much especially if the sorting is streamlined; and
- iii. travel costs do not increase proportional to the dollar value of the orders. In August, for example, the travel distance to pick up and deliver \$1,152.30 worth of produce was 201 kilometres. Compare this with only 310 kilometres to pick up and deliver \$4564 worth of produce in September. That is one-third more travel costs for three times as much business.

In short, increased business activity is necessary if this enterprise is going to make the most efficient use of operating resources such as time and travel. In section 6, we identified a number of food businesses that have high to medium potential for building the customer base.

Table 1 shows the estimated revenue forecast from expanding the customer base if a selection of businesses and the farmers were to use Growing Up Organic exclusively for distribution. This commitment could add significantly to the volume and revenue. Not incidentally, if GUO can recruit more buyers it will generate more income for farmers, laying the foundation for long-term production increases and sustainability.

Table 1 Forecast sales if customer base increased, 2009-2010

	Forecast annual <u>incremental</u> income	Forecast of annualized total income
Forecast sales if the current customer base is maintained in 2010 with no expansion	\$2,000/annum	\$16,000
Forecast restaurant sales in 2010 if 4 restaurants are added to customer base (@ 5200 each)	\$20,800/annum	\$32,000
Forecast restaurant sales in 2010 if 8 restaurants are added to the customer base	\$41,600/annum	\$57,600
Forecast sales in 2010 if only 1 grocer added to the current customer base	\$3,000/annum	\$19,000
Total annual forecast sales if 8 restaurants and 1 grocer are added to the current customer base	\$44,600/annum	\$60,600+

Operating Expenses

In the longer-term plan, this distribution enterprise may require capital investment for a sorting, preparation, processing and storage facility. It may also require a delivery van. In the short-term, however, capital investment is not feasible in 2010 or 2011. A capital plan could be developed over the next two years in line with the capacity of the cash flow to service the debt. In the meantime, it is recommended that the enterprise lease the use of facility on a per-use basis.

Table 2 itemizes the estimated annual operating costs for the next two years of operation. The third year operating costs would be adjusted according to the actual costs for year one and two.

Table 2 Year 1 and 2 annual operational cost estimates

Coordination & distribution	\$	\$9,900.00
Contract based on 15 hrs/week <u>averaged</u> over 44 wks		
Facility leasing	\$	1,200.00
\$100/month x 12 months		
Administration	\$	750.00
Banking, postage, office supplies, bookkeeping		
Delivery transportation costs		
3000 kms @\$.30/km		
	\$	900.00
TOTAL	\$	12,750.00

Revenue Sources

GUO has been absorbing 100% of the operating costs with grant funding. It has not put a mark up on the produce it sells and it has paid 100% of the revenue from sales back to the farmers. As noted previously, local produce is acutely price sensitive on both the production and market side of the financial equation.

Therefore, the following funding model is recommended. It is based on an adaptation of the Community Supported Agriculture (CSA) model with buy-in from those directly using the distribution service—farmers and businesses—and from the community-at-large through fundraising.

Summary of revenue sources:

- a. Buy-in from farmers through an annual CSA-type participating share in agriculture infrastructure. The share provides farmers with farm-gate pick up service and replaces the time and travel costs of farmers doing individual marketing and delivery. The cost of this share compares favourably with the fee that farmers are charged for selling at the Saturday and Tuesday markets.
- b. Buy-in from food businesses through an annual CSA-type participating fee. This fee compares favourably with the fuel fee that most food businesses currently pay to the international distributors who are delivering to them from off-island.
- c. A volume sales fee charged to farmers. This is a modest fee designed to equalize the difference in the volume of deliveries from larger farms compared with smaller farms. It will generate a small amount of revenue by comparison with the sales the enterprise will generate for farmers.
- d. Buy-in from the community-at-large through local food fundraising dinners and other special events. These will be organised by Island Natural Growers in collaboration with other community supporters, including chefs.
- e. Net revenue from sales of value-added products, produced as per the Value-Added Feasibility Study.
- f. Miscellaneous donations from community supporters of agriculture infrastructure.

Revenue Plan

Table 3 Two-year revenue forecast

	Year 1	Year 2
Producers annual participating share*	\$ 1,500.00	\$ 1,875.00
Food buyers annual delivery fee**	\$ 1,350.00	\$ 1,800.00
Value-added net revenue	\$ 1,000.00	\$ 2,500.00
Community food events	\$ 6,500.00	\$ 9,750.00
Miscellaneous donations	\$ 1,000.00	\$ 1,000.00
Sub-total	\$ 11,350.00	\$ 16,925.00
Yr 1 sales volume fees @ 4% of \$50,000 and yr 2 @ 4% of 60,000	\$ 2,000.00	\$ 2,400.00
	\$ 13,350.00	\$ 19,325.00

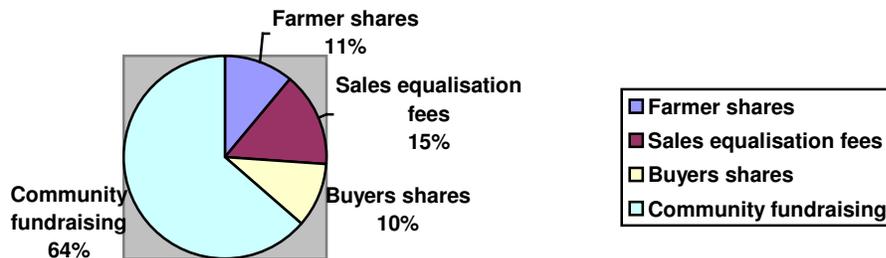
*1st year 20 farmer shares @ \$75

2nd year 25 farmer shares @ \$75

**1st year food buyers annual participating fee 9 @ \$150 (equal to a \$5 fuel charge on a minimum of 30 deliveries per year)

** 2nd year buyers annual participating fee 12 @ \$150

Chart 3 Estimated proportion of revenue from each source in the first two years



Operating Structure

The structure will operate under the umbrella of Island Natural Growers, similar to the way ING operates the Tuesday Farmers Market. A coordinator will be contracted to provide the distribution and delivery services. Island Natural Growers will set up a small committee of volunteers to oversee Salt Spring Farm Food.

9. SUMMARY OF BENEFITS

Establishing a farm food distribution (marketing) and delivery service on Salt Spring Island will contribute significant benefits to building our local food economy and culture. The service will:

- ✓ Give producers increased, reliable access to markets; supports increased farm production.
- ✓ Give food businesses increased, reliable access to consistently high quality local produce.
- ✓ Give the community-at-large increased access to high quality local produce, through restaurants, grocers and some institutions, including the high school.
- ✓ Create a local distribution system that can systematically replace off-island food in the local market. Without this mechanism international distributors will continue to dominate the community food culture.
- ✓ Take advantage of economies of scale while still respecting small scale and artisan production.
- ✓ Increase the incomes of farmers and the larger community economy as the food dollars currently being spent by Salt Spring households go to buy local food rather than imported food.
- ✓ Lower the community carbon footprint as local organic food replaces imported food.