The Food Hub Feasibility Study and Needs Assessment

Prince Edward Island Co-operative Council

FINAL REPORT

Prepared by

Worth Consulting Group

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To: The Prince Edward Island Co-operative Council

Ann Worth, President
Worth Consulting Group
17235 Trans Canada Highway, Bonshaw, PE C0A1C0
Tel: 675-2916 Fax 675-4916
Email: ann@worthconsultinggroup.com
www.worthconsultinggroup.com

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1. Project Background and Introduction

The future and sustainability of Prince Edward Island's (PEI) food industry is of paramount importance. With pressures to reduce our economic carbon footprint, the business of promoting and supporting essential industries like local food production has never been more timely. The production and sale of locally grown food is just good business growing employment, promoting healthy lifestyles and offering consumers diversity in food choices. Getting products to market as a food producer sounds simple enough. The realities are it is more complex than it sounds with a multitude of companies operating within the food supply chain that have significant influence on the process and ultimate success of the producer in the marketplace.

The spirit of this project is sin*gle minded: the establishment of a PEI based Food Hub may help producers gain a stronger foothold in today's marketplace generating new growth, opportunity and financial success. The primary goal of the contained report - "The Food Hub Feasibility Study & Needs Assessment" is to determine if there is a market for the Food Hub and what the farmer's (primary producers) needs and wants are regarding the project. Additionally the study should determine what the interest level is among bulk food buyers and other co-operatives.*

In January, 2010, with financial assistance provided by the PEI Adapt Council, the Prince Edward Island Co-operative Council (here in referred to as the PEICC) in January, 2010 issued a request for proposal for a company to undertake "The Food Hub Feasibility Study and Needs Assessment". A steering committee to guide the study comprised Charles Crockett, the Executive Director of the PEICC , Fred Martens and Siri Jackson Wood, directors on the board of the PEICC and Phil Ferraro, Executive Director of the Prince Edward Island Adapt Council. Following a competitive bid process, the successful proponent selected to undertake the project research work was Worth Consulting Group, led by President Ann Worth and contributed to by project associate Ed McKenna. The project commenced January 30th with a projected end date of April 30th, 2010. Committee guidance and support were provided throughout the projects progress with committee input into two key areas of research: 1. selection of primary interview candidates including suppliers, buyers, distributors and wholesalers and 2. providing some suggestions for macro level research into Food Hub models and cooperative systems. This is acknowledged as an important component to the project's research effort and facilitated valuable information to the research team. We wish to acknowledge this contribution and the leadership strong support provided to the research team.

Through information provided in the RFP document, the Food Hub is envisioned as a PEI based wholesale and bulk distribution centre(s) intended to distribute produce from primary producers directly to wholesale buyers within the province and power beyond provincial borders to other markets of opportunity, notably Atlantic Canada, Central Canada and the Northeastern United States. The target market identified within the document included various foodservice channel buyers including large institutions, restaurants, hotels and other foodservice purchasers. It should be noted that the RFP described the initial focus of the project targeted to produce, however, in consultation with the steering committee, a broader view inclusive of other PEI food products across multiple food categories was addressed within the research.

The deliverables upon completion of the project is the contained report inclusive of primary and secondary research results that articulate the overall market interest for a Food Hub and a series of conclusions and recommendations for further consideration by the PEICC and future stakeholders.

1.1 Scope of Work

The PEICC seek answers to the question: Is there a market need and feasibility of establishing a Food Hub in Prince Edward Island?

The path to determining need feasibility: answering some important questions

There are three main questions that this project has sought to provide answers to in our efforts to determine true "feasibility "of the establishment of a Food Hub:

1. Determine the level of producer and buyer interest. With established interest, determine the products and services which the Food Hub could or might offer.

2. Conduct a market analysis to determine if a proposed Food Hub co-operative has an economic role to play in the marketplace, and clarify how it can best play this role. The very real questions of the level of producer support in terms of business volume and whether or not there would be sufficient participation and overall commitment by producers and buyers to participate and frequent a Food Hub.

3. Feasibility assessment: The findings of the producer survey and market analysis were used to develop some basic operating assumptions, allowing for some initial assessment of financial feasibility. Although the scope of this feasibility does not include a thorough assessment and analysis of the costs associated with various potential Food Hub models, the report does contain some modelling examples to provide some background data and related intelligence of Food Hubs in other jurisdictions.

The situational analysis that Worth Consulting Group have undertaken is an investigation of the viability of creating a Food Hub on Prince Edward Island. This report's findings facilitate the transfer of knowledge concerning the current producer / buyer relationship, their strengths and weaknesses, the challenges as they relate to price, quality, quantity as well as distribution methods. Armed with this knowledge, the PEICC will be able to review conclusions and recommendations based on demonstrated interest level, cost considerations and viability with a focus on location, space and export potential.

1.2 Overview of Project Research Requirements and Goals

1. Determine if there is a market for the Food Hub

2. Determine primary producer needs and desires concerning a Food Hub

3. Determine interest level of bulk food buyers and other stakeholders / co-operatives in the establishment of a Food Hub

4. Recommend potential physical locations for a Food Hub

Research Goals:

- Industry marketplace opportunity is accurately captured and communicated;

- The viewpoints and perspectives of the individual stakeholders are identified and understood;

- Key Food Hub distribution challenges and opportunities are accurately pinpointed.

1.3 Research Methodology and Approach

1.3.1 Primary Research Methods

Primary research methods were enlisted to gain insights and background information necessary to develop project conclusions and recommendations. Primary research in the form of face to face and telephone interviews with the target of stakeholders were conducted to gather data related to market need, environment, supply, distribution and buying. To drive maximum effectiveness from these interviews, the PEICC provided to each interviewee advance information on the project with a formal request to participate. In addition, the research team developed interview questionnaire templates as a tool to ensure continuity and consistency in interviewing. *These templates for reference are listed as appendices 1 within the appendices section located at the end of the report.*

An interview list of prospective stakeholders was researched and developed utilizing firsthand knowledge of the industry, market directories and referrals from the steering committee. *A complete list of all 35 interview stakeholders is provided in appendices 2. In addition, appropriate report references are listed in the references section near the end of the report.*

Interview Observations and Results

A vast majority of interviewees contacted expressed a willingness and receptiveness to participate in the research. Many questions concerning who is driving this research, the purpose of it and ultimately how the information would be used or acted upon were fielded. Many companies and organizations felt compelled to offer that they would be pleased to participate in the research and felt a responsibility to input into this process. All interviewees were assured the resulting content of interviews and ultimate final report would be made available to them if so desired.

A number of private sector companies were sensitive to sharing company specific information. Who will be viewing this information? How will this information be disseminated? Who else is being interviewed? Will my comments be specifically identified? This is a sampling of stated questions asked prior to agreement to participate. If some companies chose to limit feedback in specific areas of the interview to protect and ensure confidentiality, it should be noted that this could result in a filtering affect to the intended reader. New product innovation, sales channel discussion, sustainability (profitability) and government program support emerged as key interview components that companies particularly seemed sensitive to sharing information about. It should also be noted that 3 companies approached in the end declined the interview request in part to proprietary concerns or time restraints.

The majority of interviews were done on a face to face basis with personal interviews of the principals lasting on average an hour in duration. It's fair to say that this project generated significant interest and enthusiasm amongst a number of those interviewed which lended itself to longer interview times with some. Most interviews took place at the interviewee's place of business, in their homes, a neutral location or over the telephone in the form of a prescheduled call with advance background information provided.

Key Interview Questions were formed with the idea that we'd seek to get an accurate picture or view inclusive of the following areas:

- **Operations and sustainability**
- **Sales**
- **Distribution**
- **Market Environment**
- **Government Action**

Operations and Sustainability: Discussions around operations supplied insight into methods of production, product selection, product quality, food security, quality problem solving, price structuring as well as scope of production and market size.

Sales: Customer base was central during these discussions. The majority had a following of repeat customers of which they were very protective. Issues around obtaining customers, sales approach, product requirements, relationship building, initial customer contact, account payment, web site usage, product branding and competition were paramount to this discussion, but all took a back seat to the value of a strong customer base.

Distribution: Current product distribution methods were discussed from a stand point of central warehousing, storage capacity, product delivery methods, receiver requirements, timing, costs involved, product inspections, and export capabilities.

Market Environment: Size and quantities of operations as well as product quantities were central in these discussions. External influences lead to a variety of recommendations.

Government Action: An examination of government's support and understanding of the world of the agriculture producer and the markets they serve were central discussion points. "Buy Local" initiatives as well as governments role in business development was explored.

1.3.2 Secondary Research

Secondary Research was conducted that took the form of an information scan utilizing various print publication sources, existing research reports and internet research sources to seek out information related to Food Hubs, Cooperative Food Distribution Models and Best Practices related to the operations of a potential Food Hub. This Information scan helped provide a relevant history of live examples of working Food Hubs other jurisdictions. A full listing of report information sources are contained within the section of the report entitled Report References.

2. Food Hubs

2.1 What is a Food Hub?

A Food Hub is a central marketplace that connects food producers, suppliers or processors with the foodservice, retail and wholesale industries. In addition, some Food Hubs connect the producer directly to the consumers. A good example of this would be a farmers market. Food Hubs are becoming more relevant as consumers are demanding access to safely grown products in all aspects of their daily life. Food Hubs are often associated with the supply of local food as more consumers become aware of the importance of buying local and producers strive to get better returns for their products. Food Hubs are also utilized to help leverage access to export markets which may not be otherwise attainable with an independent approach. Self sufficiency, market access, a healthy, vibrant food sector and environmental stewardship are key drivers that have fostered interest and establishment of Food Hubs around the world.

Food Hubs come in varied forms, from as simple as a consolidated online marketing presence, as substantive as a physical location which links buyers together with producers via a selection of varied services. The aim of Food Hubs typically share a single commonality: Gaining new market opportunities to facilitate new growth for the producer and providing buyers with more choice to help satisfy customer interests. Ref: www.food-hub.org Many Food Hubs of today don't tie their existence to 'local market opportunity' but rather the broader view of which markets could a Food Hub service for the betterment of its constituents. Commercial success dominates the scope and market focus of Food Hubs in this context.

2.2 Benefits of Food Hubs

Food Hubs are increasingly being employed by sustainability advocates as a model for coordinating the supply of food from groups of local producers to consumers. As well as reducing food miles and providing new economic opportunities, Food Hubs can also be used to promote connections between consumers and proximate rural productive spaces.

Reducing Costs

Pooling capital and resources through a co-operative approach can enable producers to access services, such as marketing expertise, that they could otherwise not afford alone.

Achieve Economies of Scale

By handling larger volumes of product, a co-operative approach can reduce the per-unit cost of marketing and processing for producers. Similarly, the cost of inputs and services can also frequently be lowered if larger volumes are ordered through a central agency.

Increase returns

Depending on the form of the Food Hub, some hubs can generate additional profits beyond the farm gate by developing other supply channels for the business providing increased returns back to the producer.

Improving Quality and Service

The coordination of the timing of delivery of products to markets can positively impact product quality and supplier service. Food Hubs that offer value added services such as grading systems and standards control systems can be valuable service enhancers from sellers to buyers and ultimately, the consumer.

Reducing Risk

In the case of some agricultural commodities, prices can often fluctuate considerably throughout the year. Food Hubs can facilitate producers to pool their production with the aim of maximizing price from the buyer and minimizing overall market risk.

Needed products or services

Often buyers require certain products which producers can be reluctant to provide due to the small potential sales volume or uncertain profits. In joining together, producers may be able to address common opportunities or challenges, develop new market opportunities or expand existing markets.

Common Goals

To be successful, successful Food Hubs require a group of individuals who are committed to working together to address a common economic goal or need. If this commitment is not there, a different business structure may be more suitable.

2.3 Models / Systems

There are many models and systems that incorporate elements in part or whole of a Food Hub. On a simple level, a Food Hub can be as basic as the coordination of supply of goods from a variety of producers. In a more complex model, a Food Hub can take on multi-level functions within a supply chain including acting as an intermediary that facilitates supplier products into the hands of retailers, foodservice buyers and potentially direct to the consumer.

A Food Hub as a business model could be an extension or partnership of an existing supply channel intermediary (retailer, wholesaler, distributor, and producer), a stand alone business entity or a social enterprise with community volunteerism or public sector support.

The nature of what types of products a Food Hub would service has a large influence on what structural requirements a Food Hub facility would need. Dairy, meat, seafood, produce, processed foods, etc. all have unique characteristics with specialized requirements and ideal conditions for storage and shipping as an example. There are literally dozens of different variations of Food Hubs this project has looked at. The defining of a Food Hub is a varied exercise which depends wholly on the requirement of the users in a specific sector, region or demographic. A central location which brings the supplier together with their customers, usually on the same platform, is a common model for a successful Food Hub. Face to face interaction, product inspection, quantities and price are steps in business building which is a backbone of a successful Food Hub.

Food Hubs can be as generic or universal as to include all types of food producers or suppliers in a specific region. Food Hubs can also target specific categories such as a Health Food Hubs, Organic Food Hubs, Member Grower Food Hubs, Natural Food Hubs or a Processed Food Hubs, as examples.

By enlarge most Food Hubs fall within the following categories:

Retail Driven

This model encompasses Food Hubs that have been established with the principal objective of supplying traditionally a larger, market leading retailer. The retailer, perceiving a win opportunity engages in the development of a Food Hub with producers or intermediaries with the intention of addressing a local supply challenge.

Foodservice Driven

This model encompasses Food Hubs that have been established with the principal objective of supplying traditionally a foodservice company. The foodservice company, perceiving a win opportunity engages in the development of a Food Hub with producers or intermediaries with the intention of addressing a local supply challenge.

Public Sector Driven

The primary features of this Food Hub model are they are driven with or without an ownership stake by the public sector with various motivations at play including addressing policy objectives and improving food industry market access.

The public sector can drive this development by tangibly providing direct financial assistance, human resource support and staffing and project funding for various needs the Food Hub may have.

Producer Driven

This model represents ownership and leadership developed by producers that have like interests and see a Food Hub as a real business option to growing their market success. The scale of these Food Hubs typically reflect the common goals of the individual businesses that it serves. This often dictates the focus of the Food Hub determining local, regional or broader market aspirations.

Producer Co-operative Driven

This model features a sharing of risk where producers typically have shared ownership of the Food Hub. To better understand this model, it's important to understand the business of co-operatives. A co-operative is an organization owned by the members who use its services. Co-operatives can provide virtually any product or service, and can be either a non-profit or for-profit enterprise. Co-operatives exist in every sector of the economy and can touch every aspect of our lives. All co-operatives around the world are guided by the same principles: Voluntary and open membership, democratic member control, member economic participation ,autonomy and independence, education, training, and information ,co-operation among co-operatives and concern for community are cornerstones to co-operative principles. The key features of co-operative businesses offer people distinct advantages in addressing a variety of market situations and issues.

2.4 Agricultural co-operatives

Agricultural co-operatives enable producers to realize economic benefits which they could not otherwise achieve alone. Some of the reasons why producers form co-operative businesses include improving bargaining power. Co-operatives can provide groups of producers with marketing power more comparable to that held by processors and other market players. The co-op sector has deep roots in Canada. In the late 19th century, farmers in Quebec, Ontario and Atlantic Canada developed co-operative creameries and cheese factories to meet the needs of the growing dairy industry. Agricultural co-operatives were some of the first co-ops in Canada.

With over 9000 co-operatives operating in Canada present day, Co-operatives offer a wide range of services for their members including processing, marketing and distribution of members' farm products. Others provide farm inputs such as seeds, fertilizer, machinery, and even labour. Some recent co-ops have pooled members' resources (such as land) to farm jointly, while others have created a variety of management services to make small-scale farming viable for their members

2.5 Applications and Examples of Food Hubs

The secondary research internet scan and interviews demonstrate there are literally hundreds of versions of Food Hubs in existence with producers working collaboratively in many forms in many jurisdictions. It would be exhaustive and not critical to this study to present a volume of examples within the report. Instead, a number of relevant Food Hub examples have been listed within the reference section of the report to provide the reader with the opportunity to path find a number of Food Hubs. For demonstration purposes, a number of these examples have been maintained within this section of the study.

The information assembled to follow represents many of the most common models of Food Hubs this research has uncovered.

Food Branding Hubs or Programs

Branding as a strategy for building customer awareness and loyalty has evolved as an important tool for food producers particularly over the past couple of decades. Often the missions of such programs are to effectively sell more products with same attributes – whether they are linked to origin, quality or other common feature. Cooperative branding efforts succeed when producers see the tangible benefits of belonging and participating in such programs. Programs such as Aliments du Quebec www.alimentsquebec.com and Taste of Nova Scotia www.tasteofnovascotia.com are good Canadian examples of producer cooperation driving awareness, brand equity and new business for producers. Foodservice and retail channels partner in one form or another with these Food Hubs to add value to their own marketing initiatives.

Web Food Hub

A centralized marketplace online can be created as quickly and easily as hiring one of the many web site development companies, once a framework of your Food Hub is arrived at. There are many advantages to a Web Food Hub, the best being able to connect with a new generation of entrepreneurs in a format that they fully understand. Membership driven, password protected, the Web Food Hub exposes members to a comprehensive catalogue of buyers and suppliers; their profiles, blogs, business practices and bulletin boards. With hundreds of food products and hundreds of Web Food Hub members a quick search brings an almost immediate response. One message through the Web Food Hub message center can quickly solve your food product issue and you go back to running your business.

> *Sample 1* Looking for Cherry Tomatoes? Just enter online "Cherry Tomatoes" for an immediate list of Cherry Tomato producers along with their harvest schedules, location, prices etc.* Got a few rows of beets ready to harvest next week and no buyer? Post it on the Food Hub bulletin board or send a tweet on your Twitter Food Hub. *Want to try something new next year for your restaurant? Issue a new product challenge to producers. *Too many greens growing coming into frost season? There's a chef on the Web Food Hub who can advise you how to process the greens, so they can be sold throughout the offseason.*

Central Food Hub Market

This is what people commonly think of and associate with the words Food Hub. A central location where buyers can meet producers weekly or more if required. It's an opportunity to inspect this weeks production, introduce product variations, haggle over price, research new product ideas, discuss delivery options, receive customer feedback or purchase and take product with you.

Important aspects of the Central Food Hub Market are relationship building. A weekly meeting in a relaxed atmosphere with your best customer or supplier would be the envy of any international sales and marketing company. A number of Central Food Hubs take on a "Social Tail Gate Party" feel where the producer works in front of the buyer in some form (even out of the back of their truck), offers refreshments or cooks their product for buyers to sample. A number of chefs interviewed indicated going to a Central Food Hub is as important for the experience as it is for the products acquired.

In our research, it appeared a closed roof warehouse style building, which utilizes some temperature control and lighting, is a common structural form of a Central Food Hub. Although relaxed, a commercial atmosphere is maintained where selling takes place.

Process Food Hub

Members of this Food Hub agree to sell a certain amount of their fresh products at a fixed price into the Food Hub. Each member has a prearranged day where they either deliver to the Food Hub or the Food Hub arranges to pick up the product. The products are then consolidated, washed, inspected and packaged for delivery to the commercial buyer. Other fresh products are assembled, cleaned and processed into portioned servings as contracted by the customer. Customers that become Food Hub members experience a reasonable mark-up for this service which is in line with their costs or pay a higher price for non membership.

To demonstrate how such a Food Hub could be utilized, take the two fictitious scenarios below serving to demonstrate live situations that a Food Hub could provide a solution to.

Scenario Example

The local Culinary Institute decides they want to use only locally grown products for their teaching and serving curriculum, but find the amounts they require surpass any one producer's capabilities. Finding the numbers of producers willing to supply them, a range of variations in quality, inconsistent quantities and price differentials are all challenges they are facing. The lack of year round suppliers and the aggravation of having a large number of producers delivering to the institution at different times of the day, or not delivering product when promised are difficulties all have to be overcome. And the increase in paperwork, training suppliers in their purchasing and payment methods have got staff complaining.

Scenario Example

The kitchen at the local senior citizens home want a healthier diet for their residents, so a decision to buy locally grown fresh products has been made but is proving to be difficult finding a single supplier to deliver the volume they require. They require 50 lbs tomatoes, 800 lbs potatoes, 30 lbs lettuce, 100 lbs yellow beans on a weekly basis. On top of that, because of a limited staffing, their sister senior home has been buying frozen ready to eat meals, which are not great but quick and easy to serve. This is becoming a major issue as the environment for seniors nutritional requirements is growing.

Export Food Hub

This type of Food Hub is very similar to a Process Food Hub, in that the Food Hub member agrees to sell a certain amount of their production at a fixed price to the Export Food Hub. Products are cleaned, inspected and packaged under a common brand for the export market. Export Food Hub staff are responsible for marketing, selling, shipping and all other activities involved in an export market operation.

CSA Food Hub

Community Supported Agriculture is not a new idea and in fact is making resurgence in the fresh market industry on P.E.I. as suppliers look for ways to improve cash flow, reduce logistics and develop relationships with people who enjoy quality fresh products directly from the farm. Some producers are joining together to offer more variety of products to maintain their customers interest or to reach customers they have had no previous relationships with. A CSA is a true investment in the farming operation which gives the buyer (investor) a true interest in the products.

> *Scenario Sample: a restaurant determines they would like to serve only local Black Angus beef products on their menu for the next season, so a budget for 20,000 lbs of beef product is allocated. Being a member of the local CSA Food Hub they discover that there is a farm that specializes in Black Angus cattle about 40 miles away. The local Black Angus beef farmer agrees to grow-up an extra 20,000 lbs of cattle for the restaurant agrees to tag these animals as exclusive to the restaurant and guarantees the restaurant, fresh meat cut to their specifications for the next busy season. For this, the farmer accepts a cash deposit and periodic payment arrangements are arrived at until the transaction is complete. Scheduled delivery is also arranged.*

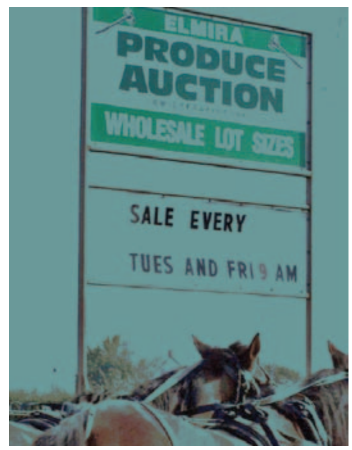
> *Scenario Sample: a restaurant then determines it will require 2,000 lbs of potatoes and about 500 lbs of mixed veggies a week. The CSA Food Hub is contacted and two farmers respond with the capability to supply acceptable quantities. The restaurant accepts either one or both farmers and invests in their operation, paying the farmer a cash deposit as well as periodic progress payments. The farmers agree to guarantee weekly delivery of fresh potatoes and veggies to the restaurants location at a pre appointed time.*

For the restaurant the issues around consistent supply and price fluctuations are settled. For the farmer issues of product quantities, customer base, anticipated expansion and cash flow have just been settled for this aspect of their production. Buyers are encouraged to visit their investment farm and have been known to take a greater interest in the well being of the farm. Prince Edward Island farmers are familiar with contract farming on a large scale, but a CSA Food Hub has yet to be tried in the wholesale fresh market to any great extent.

A Food Hub Example: the Elmira Produce Auction Cooperative

The Elmira Produce Auction Cooperative is an important part of the closely knit Mennonite community north of Kitchener-Waterloo. As a result of the BSE (Bovine Spongiform Encephalopathy) crisis, Mennonite beef farmers began to explore other avenues of agricultural production. They started growing more vegetables and fruits but needed a way to sell their products if they chose not to market directly to the public

The produce auction incorporated as a producer co-operative because the farmers wanted to control how the business was operated. Five members were elected to the Board of Directors and the auction quickly became a reality in the summer of 2004. The success of the Elmira Produce Auction Co-operative is attributed to its determined members and the well-designed simplicity of operation. The auction occurs three times a week during the summer season and once a week in the spring and fall in the co-op's 8,000 square foot building in Elmira. The sixty-five local Mennonite producer members and other producers bring their goods to the auction using trucks and horse-drawn wagons. Both small scale and larger producer members sell at the produce auction. This creates a variety of different vegetables and fruits as well as varying quantities of produce which helps the buyers who come from a range of backgrounds. The largest group of buyers tend to be farmers' market vendors or farmers with farm gate businesses. Grocery stores and universities also regularly partake in the auction to source the locally-grown produce.



Examples of Food Hubs in other jurisdictions

An example of an organic co-operative

Organic Meadow Co-operative Inc.

Organic Meadow Co-operative Inc. was formed to provide an opportunity for organic farmers in Ontario to collectively store, process and market organically grown products. Organic Meadow Co-operative now represents over 100 family farms that produce milk, eggs, grains and oil seeds. The co-op is actively working with producers across Canada to see that this vital element of the initial Mission statement, "decreasing the distance…" is fulfilled. Their goal is to unite as many farmers as possible under the one brand, letting them share in the benefits of a national marketing effort.

3. Market Assessment: Is there a foodservice market for the establishment of a Food Hub in Prince Edward Island?

3.1 Macro Snapshot of the PEI Market

Like many tourism economies in a seasonal window, the visitor to the Island dominantly visits between the months of May – October peaking food demand during these months. The population of Prince Edward Island is approximately 140,000 residents swelling to seasonal highs of close to 1 million people if combining seasonal residents, visitors and full time residents.

The size of the local market, particularly during the shoulder season of November – April is more limiting with many producers challenged to find the right sized, year round accounts for their businesses. Looking at off Island markets as the first priority for volume sales and new account growth has been a well honed strategy for many Islander producers who successfully sell off Island to achieve the sales volume they desire in larger urban centres.

The PEI market is typical of a seasonal, tourism influenced Island economy with a variety of restaurants, hotels, resorts, bed and breakfasts, cafe's, and quick serve (QSR establishments). It's important to note that the sheer volume of foodservice operations within this space changes dramatically on a seasonal basis as there are a significant number of quick serve restaurants in particular that operate only during the summer months. This fact helps create an interesting market dynamic with demand for food products spiking for the summer months and then reducing with the seasonal closure of these businesses.

A province wide system of health and short and long term care facilities and hospitals exist with over a dozen provincially managed institutions. Although not a research requirement of this study, it's worthy to note that specific to educational institutions, the PEI school system comprises a University, a college and 50 plus public schools and private institutions of learning, all with food purchasing needs on an ongoing basis.

Overview of Supply

The Food and Beverage Industries in Prince Edward Island are important contributors to rural and urban economic wealth creation and significant employers in the province employing thousands of people and consistently ranking as the leading industry in the province.

Sub-sector snapshot: Agri-Food Processing

Prince Edward Island has approximately 65 agri-food companies creating a strong agri-food processing industry. Food processing (both agriculture and fish) accounts for 66 percent of PEI's manufacturing industry; this share rises to 78 per cent for value added. Primary agriculture and agri-food processing contributes 9.4 percent to the Gross Domestic Product (GDP) while the national average is 3.6 percent. The 2006 value of the products in the processing industry (including fish) was $843 million. The value of processed food shipments averaged $800M annually over the past 3 years.

Major Agricultural Commodities

Potatoes

Any drive or walk across Prince Edward Island during the spring, summer or fall reveals a landscape dotted with potato fields. Although Prince Edward Island's landmass is small relative to other provincial jurisdictions, (total area 568,000 hectares of which 33,185 hectares were in potato production, 2009), the Island annually produces more than 25 percent of the total Canadian potato crop. Potatoes represent Prince Edward Island's single largest agricultural commodity. Prince Edward Island potatoes are processed into frozen potato, baked chips, flakes and granules and are also supplied to the fresh table market in eastern Canada, the United States and overseas. Prince Edward Island seed potatoes are shipped within North America and to countries overseas.

Dairy

There are approximately 213 dairy farmers in the province. Dairy production has become highly specialized and mechanized, like other farming industries. Quality standards are very high with rigid inspection programs covering every phase from the health of the cow through to the finished product. The size of milk cowherds ranges in number from 20 to more than 250 with the average milking herd having 50 cows. Annual milk production in PEI exceeded 100 million liters in 2009, 15 percent is used to supply the fresh market and the balance is manufactured into butter, cheese, ice cream and other dairy products. Breeding stock is sold to dairy farms in other parts Canada, the United States and other countries around the world.

Hogs

There are over 30 hog farms producing less than 100,000 hogs annually. Many hog farms have moved to confined housing with highly mechanized, temperature-controlled barns. A number of larger operations also produce quality, disease free breeding stock to supply animals for local regional operations and for export as breeding stock.

Beef

Beef production on Prince Edward Island accounts for 35 percent of all farms (agrifood awareness website 2008), greater than any other type of farming operation. The beef industry comprises two main sectors; cow-calf operations where calves are raised to the feeder stage and beef feedlots that purchase the feeders to finish for market. The average cow/calf herd is 25 cows. The larger feedlot operations are concentrated in the Kensington-Summerside area where their proximity to potato processing plants and large potato packing operations allows the feedlots to incorporate cull potatoes and potato by-products into the feed ration. A beef processing plant established in Borden/Carleton area over 5 years ago produces beef for the Maritime market. It is currently operating below production capacity.

Grains and Oil Seeds

Grains and oil seeds are, by acreage, the largest group of crops grown on P.E.I. In 2006, Statistics Canada estimated that there were 152,000 acres of wheat, oats, barley and mixed grain and 12,000 acres of soybeans seeded on the Island. Of the grain total, barley accounts for 90,000 acres of production. Grains are primarily grown in rotation with potato crops but on some farms they are the main crops grown. The total value of the 2006-grain and soybean crop is estimated to be $22 million dollars. The majority of the grain and soybeans grown on P.E.I. are fed to livestock on the Island with surplus production being exported for sale off-Island. In addition to livestock feed, a smaller amount of the total wheat produced is grown for the milling wheat market and the production of flour. A small amount of the soybean grown is food grade and is used for the manufacture of various food products. Grain and oil seed production forms an integral part of the potato and livestock sectors here on P.E.I. in that it acts as a rotation crop for potatoes and at the same time provides a local supply of feed for our valuable livestock sector.

Vegetables

Vegetables are an important cash crop to many producers and are a source of fresh and processed product for consumers in Atlantic Canada. A core group of diversified growers produce a significant percentage of the fresh market vegetable acreage. Some vegetables are processed at a facility for off -Island markets, while carrots and brussel sprouts are often shipped to off-Island processors. Rutabagas, carrots and cabbage are stored and sold throughout the year to local, national and international markets. It is estimated from provincial records that there are approximately 170 farms involved in some vegetable production. Many of these farms are within a reasonable proximity of the province's larger urban centres, particularly Charlottetown. There are approximately 25 different vegetables being produced on these farms.

Fruit

The main fruit crops are low bush blueberries, cranberries, strawberries, raspberries and apples. Very small quantities of specialty fruits such as gooseberries and high bush blueberries are also grown. A number of cranberry bogs have been constructed in the past decade. The province also produces strawberry nursery stock that is sold primarily into the southern USA.

Organic Farming

People are becoming increasingly aware of the connection between the foods they eat and their health. There are 35 plus certified organic producers in the province who produce crops and/or raise livestock organically. Farmers can only label their products "certified organic" if they produce according to a national standard, pass an annual inspection and maintain an audit trail of their crop and livestock inputs.

Bakery

All cities and significant sized towns in Prince Edward Island have local baked goods suppliers. Of these, significant suppliers to the institutional markets include Buns and Things, Montague Bakery, Snairs and various others.

Beverages

Bottled carbonated beverages, cider, Vodka, Shine, micro brewed beer and wine are produced in Prince Edward Island and primarily service local retail and specialty channel needs.

Others

There are other crops and livestock that are produced by a smaller number of farms including eggs, broilers, turkeys, sheep, honey, mushrooms, medicinal, and culinary herbs.

Seafood

With over $200 million in export revenues, Seafood Processing on PEI is a major contributor to provincial GDP. The many seafood companies on PEI provide local markets for thousands of fishing operations and jobs for thousands more people on the Island. PEI has gained an international reputation for high quality shellfish products. The vast majority of seafood harvested is bought and shipped off the Island for processing. Various seafood processing plants exist seasonally and year round and process various species and shellfish for domestic and diverse export markets. A few local seafood suppliers are actively trying to grow their local business more aggressively in recent years.

Specialty Foods Manufacturing

"Specialty Foods" are defined as premium-quality foods of some uniqueness with good presentation and select distribution. There are a number of small companies in PEI producing unique specialty food items such as fruit spreads, flavored honeys, fruit syrups, antipasto, gourmet spice blends, dips, dressings, sea salt, jellies, apple butters, preserves, pastas,maple syrup products, cranberry sauce, chutney, garlic, mustards, pepper jellies, fruit salsas and barbeque sauces, chocolates, teas and coffee blends.

Supplier Situation Analysis

Gaining insights into the views of producers was an important project requirement. Having a current understanding of the environment for the day to day business was essential to provide context into determining if there is a need for a Food Hub.

Insights gathered from producers represent their views looking specifically at areas that impact operations, sales, distribution, sustainability and environment. Key threads and dominant themes are presented within the subjects they pertain to with contained capture of strengths, weaknesses, opportunities and threats. It is noted that not all producers necessarily contributed equally across all of these areas of analysis. In aggregate form, the most prominent information heard has been compiled to demonstrate the dominant themes that emerged from the supplier interviews:

Operations

The operations of producers are as varied as the products they produce with every conceivable situation in existence. Part time, full time, multiple season, multiple crop, small, medium and large operations with sales as small as $500 a year to annual sales in the multiple millions of dollars. For larger operations, machinery and equipment are utilized to harvest and further process products. For some, this may be as simple as washing produce. For others it may involve a more intensive level of processing such as peeling and cutting, cooking, freezing and a variety of other applications that often value add to the product.

Some crops are more labor intensive to grow and harvest than others. Cold crops / root vegetables are dominant on the provincial production scene with these crops being well suited to our climatic conditions. Quality and storage of these vegetable crops are important considerations in any produce operation and distribution is an important component of getting this product to market in good shape cost effectively.

Identified Challenges

Common challenges mentioned throughout supplier interviews included the labor intensiveness of current production methods and anticipated what and when the demand will be for products. Many producers interviewed said that they don't have a deep client list for their products but rather a smaller list of customers that their entire inventory is sold too. This kind of concentration for some was worrying with their book of business being in the hands of so few decision makers. The question of having more customers was generally supported by most producers interviewed. For producers with any scale at all, wholesale to retail and foodservice were well established channels for their products regardless of whether they acted as their own wholesaler/ distributor or engaged an independent wholesaler.

Supplier Minimum Order Requirements

Some PEI suppliers who have transported their own products to institutions have instituted a minimum order requirement for institutional buying. They have done this to eliminate the "small volume, frequent delivery" cycle of order demand which can challenge the profitability of their business. Other small volume suppliers have simply abandoned the business in favor of pursuing more lucrative channels of business development.

From a buyer point of view, minimum ordering creates challenges in that they cannot guarantee minimum order volume ordering weekly because of fluctuating demand, seasonal menu rotations and menu changes. The result is supplier instituted minimum ordering sometimes discourages institutional buyers from dealing with them. Year round demands for some products such as apples challenge local producers to supply consistently in deliver and quality in the shoulder season.

Trace Back – Food Safety and Traceability

Producers are responsible for ensuring they produce safe food. Today, producers are responsible for documenting the process and steps taken to ensure optimum food safety assurance for the safety of the public. This level of accountability has consistently grown in importance over the past decade throughout the supply chain. Producers have to contend with routine site inspections and unscheduled audits by P.E.I. buyers. Food safety training and other initiatives continue to be supported and adopted by producers in a effort to maintain and exceed standards for safe food production. Minimum quality assurance/food safety standards are also more likely to cause difficulties for smaller suppliers, who often have no contingency should equipment malfunction (e.g. refrigerated vans, etc). The lack of well-developed local distribution networks was also highlighted as a potential barrier to increasing local procurement

Producers vary in size, scope and product mix in the province from garden market farmers producing smaller quantities to larger producers such as one vegetable producer who farms 118 acres of vegetables including 3 million pounds of cabbage.

Sales and Growth

The selling or business development efforts by producers by and large are approached in a number of ways including face to face, telephone communication, email exchange, attendance at trade shows and participation in wholesale shows. Producers suggest they almost always initiate the contact with buyers and mention if time wasn't in such short supply, more efforts would like to be spent in this area. Another area some producers referenced as aiding in their sales efforts were the internet. Being able to do client research online, etc. has been aided by the internet.

A number of producers referenced the model of achieving export growth through selling their produce through the PEI Vegetable Growers Cooperative – solely focused on export market development. Some companies large enough simply go to the customer to present their products directly whether it means flying to Toronto or driving to Amherst, Moncton or Stellarton.

Some island producers grow a variety of products in a variety of quantities which gives them a good cross section of market opportunity on a smaller scale. This scale of producer has the capability of reaching 10-20 customers who buy products throughout that growing season. In an effort to increase revenues, grow profits and extend the growing season, the producer will grow a larger variety of products they know their customer base will require and will readily purchase from him.

Importance of the Direct Relationship

Many producers interviewed stressed the importance of maintaining a direct relationship with the buyer. This relationship was described as a critical window of learning into the market and one that most producers suggested was vital to maintain. In the context of the establishment of a Food Hub, many producers maintained that a Food Hub if structured properly could enhance the communications and interaction between them and buyers. If participating in a Food Hub model created any perceived or real disconnection to the buyer, it doesn't seem likely that producers would participate.

Lack of Economies of Scale has been a disadvantage for smaller producers

Achieving higher volume purchasing quantities from fewer suppliers to achieve efficiencies and cost savings for the buyer have helped disadvantage smaller producers operating on a smaller scale. This fact as it exists within public sector procurement environments tends to favor larger businesses that can more easily meet the technical requirements of the contract and can provide cost-effective delivery through economies of scale. These businesses are generally better equipped to find, bid for and win public tenders and have resources dedicated to this purpose.

Specification Issues

Individually, quick-frozen (IQF) products are convenient. A cook can open a box, tip out the required amount of protein, and then put the rest back in the freezer. However, it is a huge obstacle to smaller, local processors to produce a certain volume of one cut of an animal without a viable market opportunity for the remaining cuts. Each protein segment of the food industry (beef, pork, chicken, fish, turkey) is confronted with this challenge. This creates a disadvantage for local producers who lack the sheer physical size and capacity to produce and supply to specification at the volumes needed by significant sized PEI based institutions.

Trucking / Transport Pick up services

For smaller volume producers, it was noted in a number of interviews that access to various transport options were limited and in some cases, producers could not demonstrate enough sales volume to warrant having an account with a company such as McInnis Express as a ground courier example. The more rural the business, the more prevalent this seemed to be in discussion with smaller companies. The potential benefits that a Food Hub could bring to a company who currently do all of their own door to door deliveries were noted by some producers who admit the delivery of their products is time consuming.

Ease of One Stop Shopping with Consolidated Purchasing

With institutional buyers pressed for time in an increasingly demanding field, the need to source and order food and beverage products quickly and efficiently is ever present. Food distributors that represent a variety of food manufacturers and their products gain a competitive advantage over " single product / line manufacturers " as they represent an easier way for buyers to source the bulk of the their product needs. The alternative, multiple calls, orders, PO's, and overall increase in administrative effort to deal with a multitude of small suppliers become burdensome.

Narrow Margins and High Maintenance Buyers

Suppliers not flexible enough with payment terms was a common theme heard with institutional buyers. From the supplier perspective, this business is narrow margined and high maintenance in that it focuses on unit costs and delivery to a tight budget, often large volumes of food required that are difficult to service to one account, costs associated with preparing tenders with no guarantee of success, and stiff competition from much larger firms.

Lead-time for Food Companies to Respond To Tenders Is Too Short

This diminishes the opportunity for food companies / distributors to secure / quote the very best pricing from their suppliers. Suppliers spoken to have suggested that adding an additional two to three weeks to the response window on tenders would make a significant difference not only in increasing the volume of potential responses on tenders but potentially produce better pricing to buyers. For food distributors who carry large numbers of products and manage multiple business channels, agreements and contracts, an expanded response window would deliver significant process improvement and potential cost savings to government.

Growing Awareness of Buy Local

Awareness of PEI food and beverage products available is growing but there is still have much work to do. Knowing clearly, what is available, from whom, when and at what price is clearly basic information that should be at the fingertips of all buyers. Building on existing promotional and educational efforts that puts this information into the hands of buyers should continue and be potentially enhanced.

Some Producers do not Perceive an Opportunity

For some producers, the public sector is not well understood as a potential marketplace, and sometimes perceived as a low margin opportunity with poor contractual terms. In many cases, the only route to the public sector is to be a downstream supplier through the big foodservice companies, a route many medium and larger scale producers have followed to ensure market access and a place to sell for their particular volume of production.

It's the opinion of the research team that the true value and scale of the complete local opportunity may not be well understood and therefor, not fully capitalized on. As the analogy states, sometimes the 'lowest hanging fruit' is the fruit that get's picked first. A more thorough assessment of the local market by some producers may uncover some 'new fruit' or opportunity that could help grow their business.

Diversity Amongst Suppliers

Despite the fact that this is a small province, there is an incredible array of diversity amongst it's food suppliers all with an independent business model and philosophy about the operations and future growth plans for their businesses. To determine 'commonality' amongst a group sounds simple enough but in fact isn't. What it really equates to each producer as an 'individual business person' will weigh the pro's and con's of participating in supply chain development initiatives on the merits of 'how will this positively impact me' and what the time, effort and cost is to determine participation and interest.

Negative perceptions may be contributing to an overall lack of interest in supplying food to publicly managed institutions. Real or perceived, supplier insights offer; Price is the predominant consideration when awarding contracts, Public sector contracts do not always allow the producer a sufficient profit margin on their products: this can be more easily secured by supplying other sectors.

Supplier or Primary Producer Needs / Desires concerning a Food Hub

As diverse as suppliers are in terms of their business operations, for simplicities sake, there are 3 distinctive groupings of suppliers that emerged through the research effort, namely;

1. Existing Producers Who Are Currently Distributing Products Themselves But see the Food Hub as an additional Site for Wholesale Buyer Purchasing. It's more than conceivable that if a Food Hub Facility acted as a "Cash and Carry" Wholesale outlet for some buyers, this could create "incremental sales opportunities" for a supplier that isn't doing business with these customers.

2. Producers Who are looking for a different model for servicing their wholesale accounts vs. back door deliveries and working through an independent wholesaler.

3. Producers Who Desire to Enter the Wholesale Business who have only sold direct to customer from farm gate and farmers markets. This group of suppliers may well gain significantly from a Food Hub – gaining new contacts and other benefits with top line incremental growth to their businesses in a new area of business. This group likely haven't made substantial investments in transport and distribution yet but want to grow their businesses beyond the direct to customer model.

B. Buyers

Would wholesale foodservice buyers frequent a Food Hub? This is an important question with a multitude of considerations to contemplate as listed below:

Restaurant, Hotel and Institutional Buyers- Diverse in Interest and Profile

Opinions / perspectives on the establishment of a Food Hub

PEI government procurement of food and beverage products for institutional usage is a multi-million dollar business annually. The bulk of this purchasing is driven through an effective, disciplined procurement tendering process.

Government Institutions predominantly fall in one of three categories: health, schools and corrections. Although government administrative buildings do have some food requirements for cafeterias, etc., the bulk of the volume procurement is found within the three dominant categories. Each of these three categories is separate and distinct from each other in that they are legislated under different acts. In the case of health facilities, the Health Act governs its policies and procedures under the HFS system. The three School boards in the Province operate under the School Boards Act, and the corresponding HFS system with differing procurement legislation. Corrections, the smallest of the three categories operate under the government procurement act, or public purchasing act. For the purposes of this project, the health and corrections buying viewpoint were directly sought through face to face interviews with a resulting snapshot of the system and observations gathered;

Tendering Policies

A dedicated procurement division within the Office of the Attorney General is responsible for the process management, issuance, and legislative compliance of Procurement Services. The Procurement Services Section purchases goods for government departments with public funds and in effect, for the people of the Province of Prince Edward Island. The importance of good value and minimizing cost are dominant considerations in contract awarding. Hospitals, penitentiaries and schools all operate on strict schedules and have a dedicated clientele they`re tasked with providing varying levels of foodservice to. Acquiring goods efficiently and economically are priorities and suppliers who can provide this are well positioned to do this business. The desire to present suppliers with equal opportunity and consideration is diligently pursued. Existing policy dictates procurement services are to obtain written competitive tenders on quotations for all supplies over $5,000. Purchases are generally made on the basis of the lowest over-all total price that meets the specifications of the competition. In emergency or urgent situations, tenders maybe issued by telephone or facsimile. They adhere to the normal terms and conditions of formal tenders and are issued in accordance with the Atlantic Procurement Agreement (APA) and the Agreement on Internal Trade (AIT). The APA, signed in September 1992 among the Atlantic Provinces, was introduced to reduce interprovincial trade barriers regarding government procurement and applies to tenders above the following thresholds: Goods – $25,000; Services – $50,000; Construction – $100,000.

Opportunities

The Provincial government managed Institutions offer a significant foodservice growth opportunity for local producers who are "well positioned" to do this business. Public disclosure of all awarded tenders can be found on the provincial government website at www.gov.pe.ca under procurement. A number of PEI Producers and distributors participate in this electronic bidding and award system including example companies such as Amalgamated Dairies Limited Foods, a local cooperatively owned dairy processor and distributor and Sysco, an international broadline distributor headquartered off Island. Note that the policies of some suppliers to institute 'pre paid minimum's in ordering' have resulted in not being able to supply this business that typically don't pre pay and sometimes require small amounts particularly for the smaller institutions rurally based. TRA Atlantic, a Stratford based cash and carry that closed approximately a year ago is an example of a business that were unable to meet this delivery expectation and stopped pursuing this segment of business.

Contracts are let on the basis of the most economically advantageous bid, which means suppliers who can offer this solution together with a distribution service and price that meets the needs of the procurement body. AIT compliance procedures strictly prohibit the letting of contracts on the basis of the geographic location of suppliers i.e. the procurement department cannot specify "local" in a tender. However, requirements for freshness, delivery frequencies, and specific varieties can be included if desired.

Importance of Specifications

Large volumes of standardized items with pre determined specifications are a regular need, particularly in larger settings like the Queen Elizabeth Hospital (QEH). Operating with set menus for patients and residents with short and long term care needs, the menu development is staggering with over 18 different menus alone for specialized needs. The QEH alone serve on average 1300 meals a day. Becoming an approved vendor requires an effort to satisfy stringent documentation requirements and payment to vendors typically operates on a 30-60 day turnaround.

Product sourcing is a time consuming process for buyers. The ease of sourcing from Oracle, the internal purchasing system containing approved vendors is easy and efficient. On occasion, institutions may require something specific not on this system. Sourcing dry goods and other products outside of Oracle was described as time consuming and difficult involving finding a supplier, calling and faxing orders and getting delivery in a timely fashion. Buyers interviewed suggested they may not have a good sense of what suppliers are out there and who can supply what. Institutional buyers do attend distributor shows to source products.

Taking a look at the penitentiary buying, the volumes and specifications are different than hospitals and seem to offer a great degree of flexibility in product sourcing. An effort is made to better understand what local options exist for food supply and past efforts have been made to initiate contact with local producers including bakery, beef and other products.

Although the system has some rigidity within, institutions can and do source items outside of this system database. Regardless of origin, suppliers need to meet all standards and specifications to do the business. This is where many smaller local suppliers are challenged. From packaging to billing systems to delivery, compliance in these areas have acted as a barrier to doing the business for many smaller companies.

Food Buying Groups

In an effort to secure a wide array of products and services at the best prices, many foodservice operators have actively joined 'buying groups' as a strategy for driving high value, efficiency and cost savings in their buying processes. Buying groups range from smaller regional companies like UNIPCO – focused on restaurant supply to AVENDRA www.avendra.com, a large international procurement group servicing the needs of the hotel accommodation, golf, convention services and catering sector. With $3 billion in goods and services purchased annually under their contracts and agreements with over 900 suppliers, Avendra's large scale suggests they can deliver competitive pricing, enhanced service and advanced quality assurance – creating a strong value proposition for their customers. A number of local companies including Rodd Hotels and Resorts are supplier members of AVENDRA. AVENDRA like any other buying group maintain a list of criteria in evaluating suppliers for inclusion. Interest in products, business history, record of supply, liability insurance and indemnification requirements are only a short list of the factors considered in this evaluation process.

Food Hub Sourcing

The good news is most buyers we conducted research with are keenly interested in supporting buying local when they can and suggest they would make an effort to visit a Food Hub to better understand what local options exist. The Food Hub would need to be conveniently situated and hours of operation would need to be well suited to their buying patterns. Buyers suggested spending more time and having enhanced interaction with producers would provide them with an opportunity to educate them on specifications, sealing and packaging requirements, etc. A Food Hub at the very least would give buyers a chance to simply 'see what's out there and establish contact.'

Buying from a Food Hub is likely for large scale institutional buyers and restaurant and hotel purchasers!

In the opinion of the research team based on the interviews conducted, although not quantifiable, **we believe buying from a Food Hub is a very real possibility for many buyers**. Delivery of products would need to be carefully assessed as part of a part of Food Hub and accessibility, ease of sourcing and billing would need to be carefully considered as well with the aim of it being hassle free for the buyer. This assumes quality, food safety assurance, price and service are all complied with.

Buyer Interest in a Food Hub

Buyers in general have suggested they would utilize the services of a Food Hub for a variety of potential offerings including new product discovery, relationship development with producers, actual ordering and potentially transport of goods to their place of business. Buyers are an important part of the consideration for where a Food Hub facility could be located as `buyers `will be the audience a Food Hub would look to attract.

Some buyers care about buying local and actively invest time and energy into sourcing local products to use in their restaurants, hotels, etc. Some open the door with a welcome hand when producers show up back door looking to sell what they harvested that week. Others are indifferent but when all things are equal will buy locally. It's not a burning desire but something they perceive as nice to do if and when the opportunity presents itself.

Some of the reasons that buyers are so diverse relate to their particular circumstance re: nature of the food institution / restaurant ,etc. they work at. Private sector run businesses have more autonomy to simply set their own course, policies and decisions around how they procure products. Public sector run operations have a much more tightly defined "system" of buying to manoeuvre / work within.

Some buyers simply don't place significant stock about origin as a critical component of decision making. This is important to acknowledge for a simple reason: If a Food Hub existed, would the buyers come? Regardless of product selection, pricing, convenience and accessibility, do enough buyers care enough to incorporate a Food Hub into their buying process. Based on the buyer interviews this project conducted, there is an appetite within the buying community to do just this. Ultimately, how big that appetite is and if through strong marketing and operational excellence it can be stimulated to grow is the challenge and yet the opportunity simultaneously.

Buying Convenience

Buyers shared a number of important points about their considerations for buying. Buying is simply a function of getting what they need when they need it at a reasonable price to satisfy the customer. The less time "the act of buying takes" the better. Some buyers cited the most efficient model of buying is from as few people as possible carrying all the inventory they'd need. Although this was stated, it is noted that not all buyers practice this for the reasons of supporting buying local is important to many. The success of foodservice distributors like Sysco model this carrying thousands of products. Supported by electronic ordering, systems, food costing support tools and marketing support, larger companies make it easy and convenient to centralize ordering from a single broadline distribution source.

The Business of Back Door Buying

Back door buying from local producers is still alive and well in many foodservice operations in the province. Despite buyers suggesting that back door buying wasn't their preferred method of buying, most restauranteurs and hotel food purchasers interviewed still buy some products from local producers on a regularly scheduled basis, dominantly in the summer months. This is to a lesser degree with larger institutions but is still happening there as well, just on a smaller scale. Some restaurants interviewed reported they buy from more than 20 suppliers in the run of a single week in this fashion with weekly deliveries coming in through the back door. Most interviewed suggested there was a product duplication in what people brought to the back door and in the words of one restaurant owner, `I can only buy so much lettuce.`

Desires

Hotel Restaurant buyers look increasingly for high quality standards in product offerings, consistency in supply and delivery and availability of the product each week or possibly more often than once a week depending on the volume consumption and shelf life of the product.

Price

Many buyers told us that price often was marginally higher with local products but they were willing to pay a little more because it is local and make up the margin on some other product purchase. The comment that there is not a simple, easy way to see "the inventory of all local products / producers" at once was noted. The context of these comments suggested that if buyers had more product knowledge, the possibility of more business being done was a natural next step.

A number of buyers also referenced having bad experiences with Island food suppliers who ran out of product during busy periods or delivered inconsistent quality to the establishment. It should be noted that the vast majority of comments received however were positive in nature and referenced the strong performance of local suppliers who took great pride and care with their products.

Brand Equity

Buyers generally felt that PEI branded products were viewed in good stead by their customers and ultimately consumers. Although not paramount in their sourcing decisions, effective branding of food products was stated as an important consideration and tool some buyers use to offer the best selection of products to their customers. A Food Hub with a strong,effective, PEI branded effort could feed into and build on this " buyer goodwill and existing PEI brand equity.

Importance of Buy local and Organic

When buyers were asked specifically about their active interests in sourcing local and organic, all levels of buyers we spoke with indicated an interest in both but no mandate to do either. Some buyers were passionate about finding local products and putting real effort into getting them. Some buyers were passionate about sourcing some organic products and referenced often the one on one relationships they have with organic producers. Despite sometimes challenging circumstances, the interest in acquiring local and organic are present and we believe can grow with the reduction of some of the barriers to buying. Many buyers suggested they would be receptive to being approached by more local producers to discuss the opportunities for their products.

C. The Distribution –Wholesale Environment

How are PEI producers reaching the foodservice wholesale market? PEI producers are having some success in successfully selling into the foodservice wholesale channel. They are doing so in a number of ways including:

Through an existing, established wholesale distribution company that they deliver to or have arranged pick up with and distributing their products themselves direct to foodservice buyer with their own trucking and people.

Distribution

Producers typically get their products into foodservice establishments one on three ways: They deliver their own products to the receiving door of the buyer, they arrange for pick up from their gate / facility by a distributor or they arrange for shipping / or deliver it themselves to a centralized warehouse or distribution center for goods to be taken title of by a wholesaler or distributor. A Buyer picking up directly from a wholesaler was definitely a choice for some buyers who had a need for smaller quantities and didn't mind the effort to source and pick up. The PEI Vegetable Growers Co-operative along with TRA and others provided the smaller independent with the option to buy directly at wholesale prices. *This service, in the case of both of these examples are no longer offered with TRA going out of business and the PEI Vegetable Growers Cooperative was discontinued with the issues of potential on-site liability and servicing becoming more nuisance than overall benefit to their operations. It's been suggested that there is a gap in service as a result for smaller independent foodservice buyers who typically buy smaller quantities with more frequency and aren't serviced well by larger distributors.*

Food Product Distribution

The distributing of food products on PEI with an emphasis on fresh produce involves a number of larger and smaller players, namely ADL Foods, Harvest Wholesale, Gordons Foodservice, Sysco to a smaller degree, Rolys Wholesale and a number of producers who have invested in and distribute their own products. Across multiple food and beverage segments, local companies have made distribution investments to get their products into local foodservice and retail establishments. Some local, better known examples would include Purity Dairy distributing their own dairy products, Montague Bakery distributing their own bakery products, Waddells Chicken distributing their canned chicken and PEI Spice Merchants, distributing their own specialty line of spices to select wholesale customers around the Maritimes. If we take a look at PEI produce, a number of companies are trucking their own products to the wholesaler warehouse or " back door " right to the wholesale foodservice and retail customer including MacKenzie Produce, Roger Doiron, Jewells, Dykerman, Baldersons and Roger MacDonald as examples. A number of large organic produce growers engage the services of a local trucking company to have produce shipped to a central off island warehouse to be redistributed back out to retail grocery outlets throughout the Maritimes. *The account scale they need necessitates this RETAIL based approach as the opportunities for SCALE in PEI based foodservice don't appear to exist for organic. A more in-depth research specifically in this area admittedly may produce some additional insights.*

Many of the more significant producer combined distributors mentioned above not only service PEI as a market but service off Island markets as well. This fact alone impacts the thinking of a producer who may have aspirations to grow their business not only locally but in off island markets as well. *By securing successful distribution to Island accounts with a distributor who services multiple markets, this provides increased opportunity for new account development and greater volume. This fact needs to be carefully considered in the assessment of a Food Hub and the markets it could service. Export markets as a primary market focus of a Food Hub could be appealing to a segment of producers who desire off Island account development.*

The ever changing face of distribution demonstrates the difficulty of being sustainable in a smaller, seasonal market like Prince Edward Island. As mentioned above, TRA wholesalers in the past year closed their doors in the face of a highly competitive field chasing a limited number of accounts. Some buyers have said that the foodservice channel is actually " over serviced " by distributors. The answer to this is highly dependent on who you ask. Note competitive issues around a potential Food Hub competitive distribution service in the market `along with other factors needs to be taken into account as perspectives are put forward in research results.

Distribution Snapshot

A snapshot of the significant companies involved in PEI distribution have been captured below to illustrate the true inventory of distribution options available to PEI food producers. Note this is not a comprehensive list as some companies operate with a single truck and represent a limited number of manufacturers through contract and may not be specific to food. It is rather a list of companies mentioned by buyers as having significant influence and presence in the PEI market and companies they utilize for food product sourcing.

Gordons Foodservice www.gfscanada.com www.gfs.com

Gordon Foodservice started out as a butter-and-egg delivery business more than a century ago. Today, they`re the largest family-owned broadline foodservice distributor in North America—and one of the largest privately held companies in the United States. GFS Canada is represented on the East Coast by GFS Atlantic.As a full service broadline distributor, Gordons carry thousands of national brand products and private label GFS brands. The company market themselves as maintaining rigid standards and providing exceptional Quality Assurance support to customers. The GFS Atlantic, Amherst facility, the location that services the foodservice industry in Prince Edward Island comprises 77,000 sq. ft. of warehouse space plus 12,000 sq. ft. of office and mezzanine space. To provide some insight of the scale by which they operate , the distribution center has 15 shipping doors six temperature zones and 34 ft. of inside warehouse height.

SYSCO Foodservice www.sysco.ca

Operating from 161 locations throughout the United States and portions of Alaska, Hawaii, and Canada,Sysco is the largest foodservice distributor in North America and specialize in service to restaurants, healthcare and educational facilities, lodging establishments and others. . In Atlantic Canada, Sysco employ 800 people across their two distribution centers, one in Halifax, NS and the other in Dieppe, NB. Sysco services the PEI market from their Dieppe distribution center. Sysco are recognized as one of the most significant broad line – multiple category food distributor in the PEI market.

Amalgamated Dairies Limited and ADL Foods an important stakeholder

Amalgamated Dairies Limited (ADL) are a cooperatively owned, vertically integrated food and beverage manufacturer and Maritime food distributor headquartered in Summerside, PEI. Amalgamated Dairies Limited is now the largest island based food producer/distributor with sales of in excess of one hundred million dollars. Using 2% of the Canadian milk quota, ADL produces four main dairy products which it distributes around P.E.I. and throughout the Maritimes using a fleet of 30 trucks which accounts for only 20% of their market. The bulk of the products are shipped to other Canadian markets under the ADL label or other private label. In conjunction with their dairy products, ADL distributes produce, paper products, dried goods, cleaning supplies and a complete line of frozen products.

Fresh product accounts for less then 5% of their total P.E.I. food distribution with the balance made up of frozen product. Reductions in sales of frozen product while requests for fresh product lead to an analysis of the food market which indicated significant growth in the fresh products.

In 2008 ADL decided to place more focus on the fresh market which was completely new to their operation. To prepare to enter this market, ADL increased the size of their warehouse, sectioning a refrigerated cooler specifically for fresh products. Delivery vehicles have been rezoned to include a fresh products compartment and all employees have been retrained in all aspects of handling, inspecting or purchasing. Handling is to be kept to a minimum with all products cleared within a 48 hour period. The company is HAACP approved but not the new warehouse.

The biggest challenges so far has been staff training and introducing their buying practices to the supplier. Only 5% of their current product line is fresh produce produced on P.E.I. The balance is frozen and dry goods. ADL are constantly looking for new products and do so in a variety of ways including trade show discovery and face to face meetings with producers. With a fleet of trucks, ADL acquire products in one of two ways; they initiate the pick up from suppliers or they receive supplier deliveries at their distribution warehouse. The company strive for a fast, frequent turnaround (24—48 hour) on fresh products and look for documentation of HACCP certification / plans / Quality Management Practices from their suppliers.

Key considerations around the products they carry are market demand and request, pricing and their ability to provide a consistent supply to the buyer. With the market demand for fresh increasing consistently in the past number of years, ADL have consciously made the decision to invest and expand their business into this market. This better positions them to provide one stop service to the buyer and secure larger volume orders and category contract opportunities.

ADL noted that they see their success and the success of PEI Agriculture being closely aligned as they position themselves to facilitate produce to PEI foodservice and retail buyers. Their experiences with PEI growers by enlarge has been favourable and describe PEI producer products as being synonymous with quality. Enhanced communication about market needs, product market readiness (specifications required for the customer like washed produce for example) and forecasting quantities needed during peak demand periods will help facilitate increased usage of PEI products. In the past 18 months, ADL acknowledge there is more "buyer local market awareness" and emphasis as a result of Buy Local Initiatives that have been launched.

For some PEI producers, the ability to get products to this enhanced state of readiness isn't achievable on-farm without significant investment. A Food Hub could potentially provide a centralized service for packing, washing, and other market preparation required. ADL suggested ongoing training needs to be provided to PEI suppliers on ADL business practices and requirements to doing business. ADL receivers inspect all incoming products and provide immediate feedback to vendors. ADL suggest they are well positioned to do more business with local suppliers and could use various promotional vehicles such as the Annual ADL Food Show to help showcase local suppliers to buyers.

ADL suggest a Food Hub in it's most basic form centrally located could pick up products from a variety of producers under one roof thereby creating some improved logistics efficiencies and reducing the volume of individual shipments required to be picked up at the farm gate. ADL are on the heels of a recent expansion of their own refrigerated warehousing to ramp up for growth in produce distribution. A number of possibilities for supporting a Food Hub included potential membership to a Food Hub facility and acting potentially as a " Food Hub " themselves for PEI products.

ADL – Export Access Gained

The reality is that PEI as an independent market is by enlarge small. The benefits to establishing improved distribution through a company like ADL is potentially new market access the PEI producer would achieve to Off –Island or Export Markets – a key area of future focus and growth priority for ADL.

Harvest Wholesale

Harvest Wholesale, based in PEI are a year round fresh produce distributor that established their operations in 2008 and supply approximately 500 plus products to foodservice outlets in the province. Their product mix, dominantly produce is comprised of a significant percentage of back hauled produce sourced predominantly from the Boston wholesale market to a selection of Island products including some organic produce. Harvest offer Island Wide distribution with 4 trucks servicing the market May – September inclusive at full capacity and the company operating at 80% capacity October – May.

Like many distributors, Harvest have vendor criteria that must be met to establish new accounts with producers. Key vendor requirements include Food Safety and a committed, documented HACCP plan to be in place. The issues of liability within the supply chain are real and concerning for distributors who have to be accountable and able to trace back to the product's origin should any problems arise in the marketplace. Other key determinants in doing business with vendors include whether the business opportunity between Harvest and the producer is a full time, year round supply arrangement and the supplier offers a professional approach to the business.

According to an ADAPT Council commissioned study on HRI (Hotel, Restaurant, Institutional) opportunities for PEI food companies, completed April 2007,the vast majority of growers interviewed indicated that they have the capacity to produce more products if the prices were right, support resources were in place and the labor shortages could be addressed. In this research, the emphasis appears to skew to getting fair pricing for products. This research did hear that generally PEI products were slightly higher in price than competitors however most buyers we spoke to suggested this was acceptable. Anything more than 'slightly higher' however seemed to be more of an issue.

The logistics of moving food products from local production areas to the local Hotel Restaurant market is generally in place and has improved since the arrival of Harvest Wholesale and the expansion of ADL Foods.

Comments made by some distributors interviewed suggested that some PEI producers are not in touch with what the customer wants therefor not necessarily selling what buyers are looking for. Additional comments included Product Specifications for foodservice are not always known or able to be met by producers and the ongoing challenge of providing consistency of supply varies which creates challenges for the distributor and the buyer. Finally, turn around time on orders fluctuates impacting on the overall consistency of availability on a week to week basis. Interviews with a number of distributors suggest there is a strong need for supplier education to achieve greater market readiness and compliance with what buyers need and want.

An example of a Direct to Consumer Channel Success – Farmers Markets

Farmers Markets in Prince Edward Island currently fill a valuable role in that they provide a selling and relationship development venue for local producers to interface with local consumers.

Farmers markets have grown in awareness and popularity in recent years across the Island. One of the most well known and long established is the Charlottetown Farmers Market (CFM). The CFM facilitates the sale of food, beverage and craft products to the PEI consumer and visitor. Located in Charlottetown on Belvedere Avenue with dedicated parking, the market has been in existence for over two decades. The market has helped bridge the gap between local consumers and producers by providing a venue for relationship building, communication, product knowledge sharing, marketing and ultimately the sale of local products.

The market operates two days a week and is comprised of 30 plus vendors inclusive of just over half certified organic. The majority of products are sold in bulk form with minimal processing and exude quality, a key driver of traffic to the CFM. From Smoked salmon to organic carrots, the bulk of vendors do a brisk cash business while some extend other methods of payment such as debit or cheque for customer convenience. Almost all products bought at the market are small quantity and are carried out by the buyers / consumers. The physical restrictions within the existing facility ie. Refrigeration, receiving area, etc. all require investment that the CFM does not have existing funds for.

Roger Greaves, the manager of the Market offered some valuable insights that held strong relevance to this research. The consumer preoccupation with food security, safety, quality and nutrition are significant considerations in the minds of CFM customers. With annual sales upwards of $ 900,000 annually, it was noted that restaurant chefs were also sourcing and buying from the market. Greaves suggests that the motivation for visitation to the CFM is part social, part higher social responsibility, and simply lifestyle. This lends itself to community based marketing and networking as a business, part of the fabric of the business at the CFM. This model of selling is not without it's challenges. Having a variety of different , independent businesses and personalities can require some brokering of cooperation.

The consistent demand and support the community provides the CFM suggests expansion is viable but not without it's challenges, namely the location it currently holds. The Market is located just off University Avenue, near one of the busiest intersections in the City of Charlottetown. The land around the CFM is not owned by the market. This could be investigated for viability at some point down the road for future consideration in expansion. The idea of the CFM building on it's existing success and reputation to broaden out it's services to local producers and foodservice buyers has some real opportunity with many positives for wholesale business development. There would have to be a clear sense that more suppliers could be found to house an expanded facility that could serve multiple market segments – direct to consumer, wholesale distributor, foodservice buyer and retail buyer direct.

4. Food Hub: Feasibility

It's the opinion of this research study team that there is viability in establishing some form of a Food Hub in Prince Edward Island to satisfy and grow local and export wholesale market needs for PEI made products.

Food Hub Location

Food Hub locations will depend mainly on the type of Food Hub that eventually comes into play with contributing factors such as member usage, member fees, access, financing, government support and the overall scope of the Food Hub. Most start up Food Hubs are singularly focused operations which quickly grow into multi sector facilities lead by customer perceptions or requirements.

By examining the types of Food Hubs, it provides some strong information for further consideration around the best potential location(s) of a PEI Food Hub.

Web Food Hub

This is the quickest most inexpensive to establish a Web Food Hub incorporates the basic foundation of any Food Hub which connects the supplier directly with the buyer. Company profiles, photos, market boards, directories, web messaging, newsletters, advice and recipe sharing are just some of the common elements used by all concerned. The location in cyber space is irrelevant. As a member driven site all activities are directed to information sharing or the buying and selling of products. Web site monitoring can be handled by a web master who would report monthly on web usage, engage members with blogs or research information which would be posted for member interest.

Strengths:

Easily produced
Most cost effective
Low maintenance
Easy access
Time management
Content rich
Government Program Support

Weakness:

Lost personal contact
User abilities

Central Food Hub - Potential Using a Former Food Facility

The best customer relationship building is a face to face meeting in a neutral relaxed environment, where issues are ironed out, ideas are discussed so all parties concerned feels a contribution. A stand alone property in the center of the region or activity base would be the most logical effort where access is easy, refrigeration available and supervision is minimal. Examples would be the Little Christo's Processing Plant in Desable or the Deblois Foods warehouse in West Royalty. Property ownership is critical as continuously moving an established Food Hub could be fatal to its existence. Gaining further input from 'wholesale buyers' as to desired potential locations they would support is essential. The business of 'what markets will the Food Hub service' comes into play here. If the shipping needs of a Food Hub are dominantly export focused, locating it in the middle of Charlottetown may not make the most sense but rather locating off a major traffic artery to access off island accounts may be more advisable.

Building on an Existing Effort - Farmer's Market Partnering

Teaming up with an established Farmer's Market, which is independent or board run would seem another logical fit for a Food Hub. A number of producers are already suppliers or members of farmer's markets where buyers are already customers. The issue of time management is also answered if Food Hubs days coincide with Farm Market days. The producer can service commercial and retail customers through this one stop selling method. Current Farmers Markets in Charlottetown, Summerside and Kensington are either at capacity or under utilized. With proper planning Farmer's Markets could adjust themselves into multi use facilities to the member's best advantage.

Potential Strengths

Producer Lead
Simple management structure
Cold Storage
Access
Time management
Controlled market
Knowledgeable staff
Government supported
Cost effective
Increased customer base
Expansion possibilities
CSA possibilities

Potential Weakness

No logistical support
No export
Limited distribution

Process Food Hub

As close to a co-operative based distribution center with processing capabilities, a Process Food Hub acts as a wholesaler for the fresh market industry. Ideal locations would be centralized with cooler facilities large enough to handle large quantities of product on a daily basis. Repackaging, rebranding and processing customer orders for next day delivery are all activities within this Food Hub. A government inspected processing center with kitchen facilities would employee individuals with food preparation skills for the ready to serve market.

With no regular customer traffic, this type of facility should be located in an industrial park type setting with good access to labour and highway infrastructure. The West Royalty Industrial Park or Slemon Park in Summerside could be locations that should be considered but not limited to.

Strengths:

Ownership
Availability
Management
Regular business hours
Time management

Potential Weakness:

Highly Competitive market
Established food distributors
Existing facilities already in place
Labour costs
Sales support
Ongoing Operating Cost
Start up cost
Lack of funding
Inventory control
Minimal government support

Export Food Hub

This type of Food Hub would be an extension of the Process Food Hub with allowances made for the federal regulations for larger markets.

CSA Food Hub

There are two main locations for this type of Food Hub. The producers place of business and his customer's facility. The producer maintains care and control of the commodity which can be monitored periodically by the buyer. When harvesting starts, the producer commences delivery in an orderly fashion to the buyer at an appointed time. The CSA Food Hub also lends itself greatly to the Central Food Hub Market.

Food Hub Sustainability: Defining Factors for Success

As a stand alone statement of importance, making a Food Hub work financially needs to prevail. Comments heard from a variety of stakeholders suggest that some people are attracted to cooperative efforts such as Food Hubs for ideological reasons. This is great but has to be balanced with the fiscal realities. Some combined thoughts that emerged from producers, buyers and wholesale distributors are the more homogeneous the group, the better and more in common users will have. This demonstrates the clear, direct common relationship and often "need" for the Food Hub and it's services.

Food Hub Service Example

Range of Services a Food Hub Could Provide	Benefits	Users
Processing and Packaging	Increase market readiness of products, stimulate value added	Producers, Buyers
Quality Assurance Services	Establish, ensure QA compliance for the marketplace	Producers
Warehousing and Storage	Provide central location for product storage for market servicing	Producers, Cash and Carry Buyers, Distributors
Product Distribution	Distribute products to accounts	Producers, Foodservice operators, retailers
Marketing and Sales Support	Create and administer programs, develop collateral materials, promotional program help, advice, advertising, demo. Services, trade show support	Producers, Buyers
Consulting Services	Special project assistance, overall business development support, contract bid support	Producers
Educational Tools, Pathfinding and Resources	Hand holding, teaching,	Start ups, SME's, all producers, Buyers, Distributors
Incubation – Start up Leased Space	Use of facilities for establishment of operations	Start ups
Billing Services and Documentation compliance	General accounting services support: Electronic Data Interchange, distributor electronic documentation compliance	Producers

Feasibility Check List	Pre Feasibility	Feasibility
Market Opportunities	Confirmed	
Assessment of Competition	Active, Many players	
Start up costs		
Capital costs		
Operating Costs		
Personnel and Management Requirements	Skilled people in the market	
Stakeholder Investment required	Yes – some level of support	
Producer and Product interest	Confirmed	
Scale or Size of Membership needed		
Gross and Net Revenue Anticipated		
Buyer Interest (dominantly foodservice by virtue of scope of project) More retail research could be conducted	Confirmed	
Wholesaler Interest	Confirmed	

Food Hub Pricing and Model Considerations Related to Price

One of the issues that came up time and again was the price of fresh market products and how it was obtained. Concern amongst producers was more prevalent with indications that they were not receiving fair commodity value for their products. However, it was found that in most cases, it was the producer who set the price for the buyer's consideration. Pricing levels ranged anywhere from five to eight percent higher then conventional foodservice costs, which the buyer either absorbed or passed on to their customers.

Buyers pricing concerns centered around variations within their own circle of industry associates. Different prices for similar commodities to a competitors within a short distance or price fluctuations for the same product within the same growing season was the main cause for irritation amongst buyers. Competitive concerns coupled with territorial selling led to recommendations for suppliers to start to work together in the interest of industry survival.

A Food Hub could act as a vehicle to level the price playing field within a region for the fresh product market. Methods of accomplishing this are varied but here are three that have worked in other regions with varying degrees of success. Caution should be taken when introducing multiple new systems, so that change happens slowly, easing concerns and suspicions.

A Dutch Auction is an auction where the seller offers two or more bundles of the same product for auction. The price starts at a high level and is reduced until it arrives at a point where the buyer is willing to pay or a pre determined reserve is reached. Bids on all or a portion of the bundles are indicated by bidders but in the end all bidders can pay the same price for the commodity. In order to beat another bidder and obtain the quantities desired, a bidder must simply have a higher or first price bid. Dutch Auctions or Dutch Clock Auctions are convenient for selling large quantities of products in the shortest amount of time.

Marketing Boards are commodity driven organizations made up of producers concerned about raising consumption and pricing. Controlled and funded by producers, marketing boards also act as product pool to control or set commodity pricing. Prince Edward Island has a number of marketing boards which are familiar to producers.

Commodity Food Auctions are another popular means of moving large quantities of products. Weekly or Bi-weekly auctions for anything from a half bushel to a field bin to full trailer loads of fresh product are common

Food Auctions are mainly geared towards large commodity growers or smaller producers marketing excess quantities. It enables growers to group product into various size lots or market new variations in varying sizes. Most buyers are commercial or institutional used to discount purchasing practices.

Financing of a Food Hub

Co-operatives are financed by the people who use the services provided by the business. Investing risk capital in a co-operative business is a basic member responsibility and a function of owning the co-operative. In a corporation, anyone with capital to invest may become an investor, regardless of whether or not they use the services provided by the business. Similarly, anyone may establish a sole proprietorship or participate in partnerships, regardless of whether or not they use the services provided patronize the business. Sole proprietorships, partnerships, and corporations are often referred to as investor-owned firms when compared to co-operatives, which are member-owned, and, in the case of agricultural co-operatives, producer owned.

Buyer Support – A perspective from an importer retailer: Co-op Atlantic

* It's noted retail is not a part of this project's scope however with Co-op Atlantic's unique status as a Co-operative with experiences in foodservice and existing distributor relationships with PEI suppliers, it was deemed value added to the project to seek their input and opinion as possible stakeholders in some fashion in the future.

In an interview conducted with CEO John Harvie and VP Leo Leblanc with Co-op Atlantic, they suggest getting more producers to a larger scale will require more organization to the selling and buying process. As a retail food company working with suppliers from across Atlantic Canada, Co-op Atlantic have established themselves within the region as a champion of supporting local producers in getting their products to retail to access consumers.

For any successful retailer, the business of efficiently managing the inflow of products, warehousing, outflow of products to stores and strong product turnover at store level is golden and a critical component to their successful operations as a company. Co-op Atlantic have established buying relationships with over 1600 producers in Atlantic Canada and have provided leadership to initiatives such as the establishment of Atlantic Tender Beef and other dedicated programs designed to help grow opportunity for Atlantic producers.

Although dominantly a retail company, Co-op Atlantic dabbled in the foodservice market for a time and came to realize it was a very specialized channel with marked differences from the retail world. Some of the dominating points of difference were smaller volume orders, discerning, high expectations of service from buyers, smaller volume accounts overall that requiring servicing by smaller trucks. 53 foot trucks, a standard 18 wheeler was too much truck for adequately servicing SME accounts quickly, efficiently and cost effectively. Other challenges specific to the foodservice channel included pricing, competitive and quality issues.

Co-op Atlantic were excited to share that they were establishing a Farmers Market as an extension of their Co-op store located on Queen Street in Charlottetown. This was viewed as an investment in the PEI market and could help facilitate better connectivity between local producers and consumers.

In specific discussions with Co-op Atlantic about the need and feasibility in establishing a Food Hub, a number of salient points were captured that can be summarized as follows:

- For a Food Hub to be successful, it will have to effectively "engage both food buyers and food sellers" or it simply won't work. The idea that producers can better match products to market needs can materialize with a regular pattern of communication and exposure between buyers and sellers.

- Other critical points for success of a Food Hub include having strong management operating it. The people running the Food Hub need to truly have expertise in the food industry and understand how to broker cooperation and understand the needs of buyers and sellers.

- Co-op Atlantic wrapped up their input with the advice that they are interested in further developments and could potentially utilize a Food Hub as an incremental activity building on their existing relationships with PEI producers and perhaps some new ones as well.

Determine Food Hub capital requirements.

Once capital requirements are clearly understood, there are an array of sources that will require some further consideration and contemplation. A number of programs / potential sources have been identified below for further quantifying in the Food Hub Project development process. They are not exhaustive, but rather listed to demonstrate the potential linkages in the future:.

To determine the capital requirements of a potential Food Hub, financial projections for the start-up and the first three years of operations will be an important first step for stakeholders. Cost estimates should be based on the expected business volume plus some allowance for future expansion.

Sufficient capital will be needed to cover start-up costs such as the cost of products required to start operations, initial operating and personnel costs incurred prior to starting operations and the cost of preparing and implementing the business plan. Operating costs to consider would include items such as employee salaries, utilities, taxes, depreciation, interest, and marketing costs. Typical capital costs include land, buildings,machinery and equipment and other costs such as labor and marketing will be important considerations.

Once capital requirements are clearly understood, there are an array of sources that will require some further consideration and contemplation. A number of programs / potential sources have been identified below for further quantifying in the Food Hub Project development process. Many elements of establishing a new business offer government funding, grant or loan support. A few of the these elements would include infrastructure costs, buying or leasing a plant, machinery or property, hiring and training of employees, conducting research, export market development, improving energy efficiency and reducing pollution, quality control and new product development to name only a short list.

Ultimately, as a Food Hub took shape in planning form, needs would have to be matched with best partner / funded depending on program / agency guidelines, eligibility and criteria.

These elements are not exhaustive, but rather listed to demonstrate the potential linkages in the future with organizations such as, but not limited to Atlantic Canada Opportunities Agency www.acoa.apeca.gc.ca, Other federal departments with a stake in food industry sustainable development such as Agriculture and Agrifood Canada, The Federal Department of Environment, Innovation PEI, provincial departments of Agriculture and Fisheries and a multitude of other potential stakeholders. These federal and provincial government departments literally have dozens of programs, some that overlap each other or fund different elements of a larger project. Theoretically, if a Food Hub incorporates " green technologies" into some of it's processing processes, then programs specifically under the Federal and Provincial departments of Environment could be helpful.

The matching progress is an important one in the initial stage of project development as it helps define the most appropriate partnerships for the initiative moving forward.

Physical Locations of a Food Hub Facility

An intensive review by potential site will need to be conducted to ultimately determine a feasible location for a Food Hub. Through interview intelligence gathered, a number of suggestions were brought forward for further consideration. In no particular order, they have been listed below for inclusion within this report:

The Agriculture Canada Experimental Farm in Charlottetown

A site undergoing transition that may offer some opportunities for the establishment of a Food Hub. It's recommended that discussions of this nature be embarked upon with officials from the department.

Farmers Market

The suggestion that an existing facility such as the Charlottetown Farmers Market could be expanded to be more of a full time operation with a distinctive role to play helping producers reach new wholesale market opportunities was suggested by a number of stakeholders interviewed. Determining the true synergies and viability of this can begin with establishing a more intensive review of this site as a real option for a Food Hub.

Food Distributors and Wholesaler Site Locations

Existing wholesale suppliers such as ADL and Harvest could be approached with a view to determining their interest in serving as a Food Hub to source local products from within the province.

Retail Site Location

By virtue of the existing infrastructure that a larger retailer has in place, it's recommended that discussions take place with the retail community on the possibility of acting as a Food Hub. It's suggested this discussion could begin with Co-op Atlantic who have expressed some initial interest and support for initiatives of this nature.

Governments Role in a Food Hub

Investor, Facilitator of Business to Business Relationships, Management

Government are well positioned to invest and partner is a Food Hub. The establishment of a Food Hub could also "stimulate" growth within the industry and propel "new opportunity" within agriculture. Consider the small scale producer currently who centralizes all of his production output direct to the consumer. With an " incremental " supply option, namely a wholesale window into either foodservice or retail, the establishment of a Food Hub could very well position these producers for new growth.

5. Report Conclusions and Recommendations

Industry and organizational leadership and professional services will be required to move forward in establishing a PEI Food Hub. A number of important steps will need to be systematically approached in proper sequence to lay a foundation for future success.

1. Develop and Implement a Communications Plan to Share Report Results and Build Support for proceeding with next phases of Establishing a PEI Food Hub. The Communications Plan would be directed to all identified potential stakeholders in the Initiative including Industry, (not for profit organizations) NPO's and all levels of government.

2. Prioritize with stakeholder input core Food Hub services Phase I vs. ancillary services which may be adopted or added to core services at a later date. The true financial modelling for a Food Hub will be able to be accomplished with the service prioritization completed. A more intensive, broad based communication with various facets of the PEI food industry and industry organizations will need to be consulted with to achieve this input. An intensive costing exercise will need to follow this effort that models hard costs of required infrastructure, equipment, staffing requirements and other expenses.

3. Defined Site selection criteria:

3A. Existing Sites with Some Infrastructure

A number of existing sites referenced in the report have been identified that may offer some opportunity to house or host a Food Hub. These options will need to be intensively analyzed beyond the scope of this research. Analysis of these sites will need to encompass a thorough Situational Analysis and a collective comparison of each. The end result of this in-depth assessment will provide necessary insight into the true 'feasibility' of any of these sites identified.

3B. Existing Buildings with Warehouse and Distribution Infrastructure Already Invested In the Food Business

In addition, there may be other sites that could emerge in a constantly fluid marketplace. The opportunity of potentially partnering with an existing warehouse and distribution site or facility that may have 'excessive capacity' and an appetite for involvement should be thoroughly explored as a real option.

4. There is indeed a market and quantifiable interest on behalf of some buyers and sellers in establishing a Food Hub with some service elements to be further quantified.

5. The establishment of a Food Hub can deliver a variety of benefits to Prince Edward Island's economy including Capacity of Producers by acting as a training and support system, a marketing support and business development arm and ultimately, a shipper to the customer.

6. Continue to focus on ensuring a Food Hub Supports/ Includes Buy Local Programming

Many companies, institutions and organizations referenced having good relationships with key departmental people at provincial and federal levels. Some acknowledged that their efforts to communicate on a regular basis with governments needs to be more proactive and frequent. A sense of having good access to government people at varying levels permeated the feedback. This needs to continue and be enhanced.

7. Establish a Food Hub Task Force to build momentum and support for the establishment of Food Hub Initiatives inclusive of a pilot centrally located Food Hub facility or service. The task force would seek participation from public and private sector stakeholders and act in a leadership role to provide guidance, communications and planning for Future Food Hub initiatives.

8. Explore the 'real partnering possibilities' with existing stakeholders already invested in or planning ongoing investment in the marketplace. This would include but not be limited to potential retailers such as Co-op Atlantic and distributors such as ADL Foods or Harvest Wholesale.

9. Work in consultation with the Public Sector to Create a Food Hub Fund that would provide producers with project specific funding aimed at establishing 'new channel market readiness' for their operations.

10. Secure public and private sector financial support for next phase feasibility, business plan and implementation support for the development of a Food Hub facility or service that would be aimed to be operational in Prince Edward Island June, 2011

11. Create, in partnership with the public sector, an insentivitized buy local recognition program for food wholesale buyers that establishes vendor by category targets and rewards and celebrates their efforts to source local products with marketing promotional support and recognition in the market. The broader goal is to stimulate demand and interest in PEI food and beverage products. This should happen with an ongoing public sector commitment to investing in branding efforts that further establish PEI's image as a quality supplier domestically and internationally.

12. Play a coordinating role and spearhead the importance of Market Readiness – Channel Knowledge Training working in conjunction with food organizations that share a mandate for industry education. The goal is to help small industry players evolve in professionalization and market awareness to empower them to grow their businesses through thoughtful consideration and development of market strategy.

13. Recommend PEI based foodservice buyers and existing distributors for more cooperatively and in distributing PEI products locally and off Island.

14. Establish/ Provide Consideration for a Potential Role of the PEICC

The PEICC will need to assess the tangible role that they would play in the actioning of some or all of the report recommendations. The potential for the Food Hub Initiative to make a meaningful economic difference to the agricultural sector in the Province is tangible and promising. It seems in keeping with the spirit of the Co-operative movement and the ongoing mandate of the PEICC to assist their membership inclusive of matters of economic development that they would continue to provide coordination and play a leading or shared role in encouraging industry collaboration and cooperation around a Food Hub Initiative.

The NS Counterpart to the PEICC, the NS provide a tangible example of how effective an organization can be in leveraging investment tools such as CEDIF funds (a community investment tool) that has produced some strong new investments and developments in Nova Scotia. There are now 48 CEDIFs in Nova Scotia that have successfully closed at least one offering. These Funds, through a total of 91 offerings, now manage over $32 million in assets. The capital of these Funds has been invested by 4,825 individual Nova Scotians (some repeat investors will reduce this number) to be invested in their communities. Interest in the program continues to grow, as evidenced by the growth of new Funds, additional offerings by existing Funds and the amount of capital which has flowed into these entities, especially over the past two years. Some additional information on CEDIF can be found in Appendice 3.

6. References

1) Information on Co-ops -- The two links below on CCA's site provide access to plenty of information. Look around at their menu bars and feature items as well.

balle-novascotia.com Elmira Produce Auction Website: http://tinyurl.com/yg8lb47

http://www.coopscanada.coop/en/about_co-operative/about_co-ops

http://www.agf.gov.bc.ca/busmgmt/bus_arrange/bus_arrang_pdf/coop1.pdf

Specific guides and tools re. Agriculture and Local

Hub Foods Distribution Center (907) 456-6608 1701 S Cushman St, Fairbanks, AK 99701

EAFL, (2008): The Market for Local Food And the Role of Food Hubs: East Anglia

Food Links Discussion Paper Somerset Food Links www.foodlinks.org.uk

www.sustainweb.org

http://www.eco-logica.co.uk/reports.html

Better food for London: the Mayor's Draft Food Strategy, LDA, September 2005.
http://www.london.gov.uk/mayor/index.jsp

Garnett, T (2003) Wise Moves: exploring the relationship between food, transport and CO2 Transport 2000, London. http://www.fcrn.org.uk/pdf/wise_moves.pdf

www.localfoodhub.org

Process Food Hub in Ireland at www.thefoodhub.com

http://www.communityfoodenterprise.org/introduction/overview-of-case-studies

Potato harvest (2009): PEI=33,185 hectares; Canada=146,340 (PEI/CAN=23%). Source: http://www.statcan.gc.ca/pub/22-008-x/2010001/t006-eng.htm
Average size of herd cattle source: http://www.statcan.gc.ca/pub/23-012-x/23-012-x2009002-eng.pdf
PEI Department of Agriculture, Caroline Wood
Dairy Farmers of PEI
Hog farms reference , PEI Dept of Agriculture; Kent Johnson
Organic Producers of PEI

Appendices I – Interview Guide Templates

Survey Questions (Buyer)
Operations

1) Who are your main PEI based suppliers for food products in multiple categories? (all food categories) .What process is followed when ordering from current suppliers?
2) How/where is the product received?
3) How much handling is involved after product is accepted?
4) Do you have a food security policy?
5) What are the determining factors for purchasing food products?
6) Are you purchasing new products from local suppliers?
7) Does it matter to your customers where your products come from?
8) Have you made an effort to purchase local food products from local suppliers?
9) What are the deciding factors when you purchase from local suppliers?
10) What has been your experience over the last 12—24 months?
11) How has the quality of local food products been? How important is quality in your purchasing decision?
12) Have there ever been problems with local producers?
13) How was the problem resolved?
14) In your view, what are the biggest challenges for you doing business with local food suppliers?
15) What do you view as the best opportunities for local food suppliers?
16) What is your view on pricing from local food suppliers?
17) Generally, how does local pricing compare with other suppliers you buy from?
18) Comments:

Sales

1) If you are purchasing local, how has this affected the overall cost of your operation?
2) Have you made extra effort to advertise that you are selling / using local products?
3) If it applies, has a focus on buying local had an effect on your sales in the last 12 months?
4) Do you see other areas where you could be promoting buying local?
5) Is there something the local farming industry could be doing to increase awareness?
6) Have your customers indicated their preference for local products?
7) Have you established any new products using the food products purchased locally? Value added/
8) How have they been received?
9) Have your customers indicated that they are coming to you because you are using local products?
10) Comments

Distribution

1) How does your current food product get to your door?
2) How many times a week do you obtain product?
3) Do you get to inspect your product before taking delivery?
4) Are you currently on a purchase plan with any one supplier?
5) Are there exclusions?
6) What complications have you encountered with a buying group?
7) Do you pay deliver fees?
8) Of your total usage, what amounts are delivered? Picked up?
9) When you purchase local, how is the product obtained?
10) Is delivery a main consideration when changing suppliers?
11) Do you know what a Food Hub is?
12) If there was a central location, would you be willing to go there to purchase fresh product?
13) Do you think inspecting your purchase 1st would be an advantage in your operation?
14) Would you be willing to pay a little more for doing so?
15) Would you be willing to pay a small yearly fee to be a member of a Food Hub?
16) Do you have excess capacity in your receiving area for increased distribution volume of local products?
17) Would you ever have an interest in acting as a " Food Hub" – distribution point for local products? Thoughts? Considerations?
18) Comments

Sustainability

1) What do think of the current move to purchasing locally grown products?
2) If you are currently purchasing from local suppliers, do you see this increasing/decreasing?
3) Have many local suppliers approached you? What is your response traditionally?
4) Are you aware of other establishments using locally grown products?
5) Have you considered purchasing all or more products locally?
6) What do see are the challenges facing local producers?
7) Comments

Government

1) What has been your experience with government's attitude towards the buy local initiatives?
2) What departments do you currently deal with?
3) Has government done enough to support local buyers?
4) Do you feel government has encouraged buy local initiatives?
5) Have there been any new regulations for buying local products?
6) Do you think government has a role in distribution of local products?
7) What could government be doing to encourage buying local?
8) comments

Survey Questions (Supplier)

Operations

1) Describe your current operation inclusive of processes, QA, food safety measures
2) What factors are considered when deciding what is produced?
3) What quantities are currently produced?
4) Describe your packaging for your market.
5) What do you consider your best product? Why?
6) What problems do you encounter using your current methods of producing?
7) What percentage of your product is sold; kept; given away?
8) Comments

Sales

1) How and where you currently sell your products?
2) Wholesale Retail % Wholesale Foodservice% Direct to Retail% Direct to Foodservice%
3) What methods do you utilize to attract customers to your products?
4) Who have you approached as prospective buyers?
5) Do you call on them or do they call you?
6) Frequency? Volume of ordering?
7) Do you use an internet site to connect with customers?
8) How are you usually paid?
9) What problems have you encountered in selling to customers?
10) In general, what is the marketplace response towards the products you sell?
11) How do you view the supply and demand for your products and the overall growth opportunity within the " category?"
12) Do you consider your products superior to others in your field? Why?
13) What is your most popular product? Why?
14) Is your product branded and easily identified?
15) Would you consider exporting your products if you had the opportunity?
16) Comments

Distribution

1) Do you currently deliver your own products? Describe your current distribution to customers and thoughts about how it could be enhanced or improved.
2) Do you have customers who pick up?
3) What type of equipment do you use for delivery?
4) From time to time, do you have others deliver your product or do you deliver theirs?
5) Do customers insist on inspecting your product before taking delivery?
6) Have you ever encountered problems with buyers?
7) How were these problems resolved?
8) Do you know what a Food Hub is? * Describe
9) Do you think a central purchasing location would be an advantage?
10) Would you consider paying a small yearly fee to be part of a Food Hub?

Sustainability

1) In the current marketplace do you see your operation growing?
2) Why do you think that?
3) Do you have other sources of income outside this operation?
4) If not would you like to?
5) Is there something else you could be doing to improve your operation?
6) What is the operations greatest strength?
7) What is the operations greatest weakness?

Environmental

1) How many other operations currently produce/sell products similar to the ones you do?
2) Do you see this number as a plus or a minus?
3) What external forces influence your operations and your ability to grow?
4) How do you deal with them?
5) What would you recommend to improve conditions in this industry?

Government

1) What has the government response been to your type of operation?
2) What departments do you currently deal with?
3) Do you feel government has a good understanding of your sector and it's challenges / opportunities?
4) Are you aware of government programs available for your operation?
5) Do you feel government are doing enough to support producers in encouraging Buy local?
6) In your opinion what more could government be doing to encourage this industry?
7) Do you think government has a role in the distribution of food products?

Appendices 2 Stakeholder Interview List

Company / Organization	First	Last	Address	City	Prov.	Telephone	Postal C	Email	Result
Manufacturers / Producers									
	Fred	Dollar							
Baldersons Produce	Barry	Balderson	1105 TCH	Stratford	P.E.I.	566-3276	CIB 2GI	strawberrybox@pei.sympatico.ca	
Purity Dairy	Tom	Cullen	317 Kent Street	Ch'town	P.E.I.	894-2125	CIA IN5		
Vanco Farms	Rit	vanNieuwenhayzen	9311 TCH	Mt Albion	P.E.I.	651-2970	CIA 7J6	rit@vancofarms.com	
Arlington Orchard	Barry	Balsom	1309 RTE 131	Arlington	P.E.I.	831-2965	COB 140	www.peiapples.com	
PEI Spice Merchants	Karen	Murray	26 Alexandra Ct	Stratford	P.E.I.	569-1770	CIA 7L3		
Flat River Blueberries	Bob	langile	25 jacks Rd	Flat River	P.E.I.	659-2393	COB IB0		
Soy Hardy	Matt	Hardy	558 Deck road	Alberton	P.E.I.	853-4014	COB IB0	info@soyhardy.com	
Blum's Farm Market	Bernie/ Carol	B lum	3264 Murray Harbour Rd	Bellevue	P.E.I.	838-4146	COB IB0		
Hills Produce	Barry	Hill	6820 Mayfield Road	Mayfield	P.E.I.	963-2561	COA IN0		
Big Hill Farms	Garry	Renkema	2123 New Glasgow Road	Wheatley River	P.E.I.	964-3022	COA IN0	garry@pei.sympatico.pe.ca	
Doiron Apples	Roger	Doiron							
Steermans Quality Meats	Scott	Drake	131 Drake Rd	Millview	P.E.I.	651-2084	COA 2E0		
Retailers/Distributors/Wholesalers									
Co-op Atantic - PEI Co-op Stores	John	Harvie	123 Halifax Rd	Moncton	N.B.	506-858-6000	EIC 8N5	john.harvie@co-opatlantic.com	
ADL Foods	Thane	MacEwen	79 Water Street	Summerside	P.E.I.	888-5088	CIN IA6		
Harvest Wholesale	Shane	Turner	7 MacAleer Drive	Charlottetown	P.E.I.	892-4343	CIA 2AI	shane@redisleproduce.com	
Dundee Arms	Patrick	Young	200 pownal Street	Charlottetown	P.E.I.	892-2496	CIA 3W8		
Riverview Country Market	David/Rose Viaene	12 Exhibition Drive	Charlottetown	P.E.I.	892-9632	CIE-2AI			
Merchant Man Pub	Peter	Hyndman	23 Queen Street	Charlottetown	P.E.I.	892-9150	CIA 4A2		
Organizations									

Company / Organization	First	Last	Address	City	Prov.	Telephone	Postal C	Email	Result
Atlantic Food and Beverage Processors	Don	Newman	500 St. George Street	Moncton	N.B.	506-389-7892	EIC IY3		
PEI Chefs and Cooks Association	Jeff	McCourt	46 Kensington Road	Charlottetown	P.E.I.	620-4264	CIA IN6	c/o Top of The Park	
PEI Vegetable Growers Cooperative	Don	Reid	280 Sherwood Road	Charlottetown	P.E.I.	892-5561	CIA 7J7		
ACORN	Beth	McMahon	Box 6343	Sackville	N.B.	506-322-2676	E4L IG6		
Hunters Ale House	Steve	Barbour	185 Kent Street	Charlottetown	P.E.I.	367-4040	CIA Ipl		
Rodd Hotel Catering	Mark	Rodd	14 TCH	Charlottetown	P.E.I.	894-	CIA 7C2		
PEI Farmers Market	Roger	Greaves	100 Belevedere Ave	Charlottetown	P.E.I.	626-3373	CIA 2Y9		
Culinary Alliance	Tyson	McInnis	134 Kent St. Suite 405	Charlottetown	P.E.I.	367-4400			
Foodservice Buyers									
Old Dublin Pub	Liam	Dolan	131 Sydney Street	Charlottetown	P.E.I.	892-6992	CIA IC5		
Murphy Group of Restaurants	Chris	Wright	49 Water Street	Charlottetown	P.E.I.	566-3137	CIA IA3		
Queen Elizabeth Hospital	Karen	Smith	60 Riverside Drive	Charlottetown	P.E.I.	894-2043	CIA 4A2		
Culinary Institute of Canada	Austin	Clements	4 Sydney Styreet	Charlottetown	P.E.I.	894-6857	CIA 4ZI		
Provincial Correctional Center (Sleepy Hollow)	Terry	Reeves	Sleepy Hollow Road	Charlottetown	P.E.I.	368-4729	CIE IZ4		
Eastern School Board	Grant	Canfield	234 Shakephere Dr	Stratford	P.E.I.	620-3452	CIA 8V7	hgcanfield@edu.pe.ca	
Chartwells	Gail	MacDonald	REGIONAL VP DECLINED REQUEST	PROPRIETARY					
Government									
PEI Department of Agriculture	Susan	MacKinnon	11 Kent Street	Charlottetown	P.E.I.	368-4880	CIA 7N8		
Atlantic Canada Opportunities Agency	Lori	Pendelton	100 Sydney Street	Charlottetown	P.E.I.	566-7492	CIA IG3		
Sites / Locations									
Experimental Farm / Ag. Canada									
TRA Distribution Outlet Mall - Ray Murphy, Stratford									

Appendices 3 CEDIF Background Overview

In 1993, the Province established the Nova Scotia Equity Tax Credit to encourage local residents to invest in Nova Scotia small businesses. As an incentive, the Province offered a personal tax credit of 30 per cent to encourage investors to participate. The Equity Tax Credit allows equity investment in corporations, co-operatives and community economic development initiatives. In the case of corporations, eligible investments must be newly-issued common voting shares without par value.

The success of the Equity Tax Credit led the Province to develop an enhancement to the program, Community Economic Development Investment Fund's (CEDIF's). In addition to the 30 per cent tax credit available under the Equity Tax Credit, investments in CEDIF corporations and co-operatives are:

- pre-approved holdings for a self-directed RRSP
- can attract investment through community solicitation
- assist, or develop local businesses within the community

Throughout 1996-98, extensive public consultations made it clear that additional sources of funding should be developed from within the community. Communities should be encouraged to take charge of their own initiatives, and retain local autonomy with respect to investment decisions. To be successful, community members must participate in the process, and take responsibility for their own development. Government cannot drive the process.

The use of CEDIF is a new approach that will encourage the formation of capital pools throughout the many diverse regions of Nova Scotia. The tax credits and guarantees offered to investors in CEDIFs, under the Nova Scotia Equity Tax Credit program, should accelerate the pace at which communities develop and implement viable projects.