Mid-Tier Food Chain Enterprises Overview and Underwriting

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Introduction

Every business needs access to affordable capital and financial services. Food-related businesses use capital to get started and to grow, whether to expand production, diversify their product line, invest in equipment, or reach new markets. Access to capital is particularly challenging for the low-income people and communities served by Community Development Financial Institutions (CDFIs). The purpose of this chapter is to assist CDFI lenders to better understand the distinctive financial characteristics of food-related businesses in order to increase investment in this sector.

This chapter outlines the defining characteristics of food-related businesses, or "Mid-Tier Food Chain Enterprises," and addresses the range of financing options most appropriate for the food-related business sector. The chapter will address sources and uses of financing, assessing feasibility, loan underwriting, and key financial ratios relevant to food-related businesses.

What are Mid-Tier Food Chain Enterprises?

The range of businesses within the "Mid-Tier Food Chain Enterprises" sector is striking. The United States Department of Agriculture describes mid-tier businesses as interconnected food-related business enterprises through which food products move from production through consumption in a local or regional area of the country. [1]

Mid-Tier Food Chain Enterprises constitute a dynamic segment of the healthy food system that is committed to providing access to healthy foods in low-income communities. This involves creating and supporting the infrastructure to produce, process, distribute, market, and sell the foods described in the Food Systems Overview.

The most common characteristic specific to Mid-Tier Food Chain Enterprises is *agricultural product processing*, where value is added to the raw ingredients which typically change form by combining, heating, cooling, or distributing in a modified form. Additional forms of value-added food production include *market differentiation*, which increases value by marketing the agricultural product's special characteristics, such as organic or grass-fed beef; *agricultural product segregation*, which increases value by keeping the agricultural product physically apart in production and distribution, such as GMO-free or non-rBGH milk; and *local food classification*, which increases value by aggregating and marketing food for local markets within a 400 mile radius, such as buy fresh-buy local campaigns and community based food enterprises. (See Appendix One: Value Added Producer Grants Program)

Value-added food enterprises generally work closely with food production suppliers, including ranches, farms, and fisheries, as well as purchasers, such as grocery stores, farmers' markets, and other retail outlets. Value-added food enterprises represent a critical link between food producers and consumers.

The concept of "food hubs" is emerging as an exciting area of research and policy development. Definitions of food hubs vary from a narrow focus on increasing market efficiency functions to

[1] Value Added Producer Grants Program, Center for Rural Affairs website, (April 2010)

broader visions of building a more sustainable food system.[2] One definition that highlights how "mid-tier" food-related businesses link with farmers and retailers is the following:

> "A Food Hub is an enterprise targeting the development of a local/regional food supply chain. Food Hubs will usually take the form of one or more business management structures facilitating the aggregation, storage, processing, distribution, and marketing of locally/regionally produced food. Food Hubs involve producers and end consumers as key stakeholders, foster the success of existing local/regional food and agricultural enterprises, and spur the development of new ones."[3]

The increased interest in food-related businesses nationally represents an opportunity for CDFIs, particularly in the low-income communities they serve, to support the successful growth of this new sector of enterprise. The community benefits that can potentially accrue include the establishment and growth of small businesses that employ people, increased products and services to the community, revitalization of communities with greater economic activity, and improved access to healthy foods to the population with the resulting community health benefits. To seize this opportunity and make sound investment decisions, CDFIs must understand present linkages and future directions of the sector.

Profiles of Mid-Tier Food Chain Enterprises

Mid-tier food chain enterprises generally fit one or more of the following profiles:

- value-added production;
- food aggregation and distribution; and,
- waste management.

Each is described below, with key elements illustrated by specific case studies.

Value-added production

Food enterprises that focus on value-added production are characterized by increasing value through the process of modifying raw ingredients into new food products. By combining, heating, cooling, or packaging raw ingredients, food-related enterprises make a wealth of products for consumers in virtually every community. Ice cream makers, bakeries, jam makers, cheese makers, commercial kitchens, kitchen incubators, canneries, fresh-cut operations, and fresh-frozen operations are just some of the examples of value-added production.

Some value-added food producers enter the market primarily as retail operations and move into a model of vertical integration in order to control product quality or increase profitability. Other value-added enterprises include farmers looking for a means to diversify product sales and to offset seasonality associated with perishable crops.

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[2] Jim Barham and Errol Bragg, USDA presentation, "Regional Food Hubs: Linking Producers to New Markets" (May 2011)
[3] Nessa Richman, (June 2011)

An ice cream shop that uses local organic ingredients to make and sell specialty ice cream is an example of a *retail-first* enterprise. Turning surplus berries into jam and selling at the famers' market is an example of a *farm-first* operation. A third example is a shared-use kitchen incubator where aspiring or established entrepreneurs can rent a certified kitchen on an hourly basis or arrange for co-packing at the facility. All are adding value to their respective raw ingredients and selling their food products in their local or regional marketplaces.

Case Studies (found at the end of this chapter)

- Case Study One: The Penny Ice Creamery (Retail-first value-added food production)
- Case Study Two: Happy Girl Kitchen (Farm-first value-added food production)
- Case Study Three: Greensgrow (Shared-use kitchen incubator)

Food aggregation and distribution

Efficient, cost-effective food aggregation and distribution is critical to getting access to healthy foods in communities around the country. The widespread movement of food-related products is accomplished by assembling food products from multiple providers, or multiple products from several providers, and distributing them to a variety of retail and wholesale outlets where they are available for purchase by consumers.

Food aggregation and distribution enterprises include wholesale operations, internet-based order and delivery operations, auction houses, and buyer-seller operations. A regional cooperative distribution center for products including organic produce, bulk foods, organic meat and cheese, and other food products is an example of successful food aggregation and distribution. Another example is a farmers' cooperative with a packing facility that allows participating farmers to package, market, and deliver their produce to wholesale and retail buyers across the country.

Case studies (found at the end of this chapter)

- Case Study Four: La Montañita Cooperative (Food aggregation and distribution)
- Case Study Five: Farm Fresh Rhode Island (Food Hub)

Waste management

Almost all businesses, including food enterprises, generate some form of waste. For food enterprises, waste may represent an opportunity to create a new product, such as compost, or a secondary use of a food byproduct such as a fishmonger making and selling soup stock from fish scraps. Creative approaches to waste management represent a growth area in the value-added food sector, driven in part by an increased national concern with environmental and ecological considerations.

Forms of Mid-Tier Food Chain Enterprises

There are several common legal forms for businesses operating in the United States. For-profit food-related businesses are generally organized as sole proprietorships, partnerships, or corporations. Non-profit organizations may be stand-alone entities, may be affiliated with for-profit enterprises, and may be organized as cooperatives. Some Mid-Tier Food Chain Enterprises use innovative structures that integrate elements of both for-profit and non-profit structures.

Each specific food-related enterprise must carefully choose the most appropriate legal form for their business. The following description of the primary legal business forms is intended to provide general background. New enterprises in the start-up phase are strongly encouraged to consult legal and tax advisors to determine the best form for their individual businesses.[4]

Sole Proprietorship

A sole proprietorship is a business owned by one person. The majority of businesses in the United States are sole proprietorships, most of which are small businesses.

An advantage of a sole proprietorship is the relative ease of business start-up and operation, with fewer legal restrictions than other forms of organization. The owner is typically able to be her own boss with the power to make decisions for the business.

A disadvantage of a sole proprietorship is the personal liability for any debts of the business. If the business becomes insolvent, creditors have rights to the personal assets of the owner, regardless of the amount of the owner's investment in the enterprise. It may also be difficult to raise funds for a business organized as a sole proprietorship.

Partnership

A partnership is an association of two or more people who are co-owners of a for-profit business. Partnerships may be structured with both partners having unlimited liability for debts incurred by the business, or as a partnership in which one or more of the partners has limited liability, as long as at least one partner retains unlimited liability. Partners have co-ownership of company property and each may act as an agent of the company, with authority to enter into binding contracts.

An advantage of a partnership is the ability to combine the capital, managerial talent, and experience of two or more people. There may also be an ability to limit personal liability for at least one of the partners, which may be advantageous when trying to raise capital for an enterprise.

A disadvantage of a partnership is the risk associated with more than one person having authority to make binding commitments on the part of the business, as well as a loss of autonomy in decision making. Another disadvantage is that all assets contributed to the partnership become property of all of the partners jointly.

Corporation

From a legal and tax standpoint, a corporation is an artificial being, created by law with a distinct existence separate and apart from the people who are responsible for its creation and operation.

[4] Principles of Financial and Managerial Accounting, Second Edition, Warren & Fess, South-Western Publishing, Cincinnati, 1989

Most large businesses in the United States are organized as corporations. A corporation may acquire, own, and dispose of property and may incur liabilities and enter into contracts in the name of the corporation. The ownership of a corporation is divided into transferable units known as shares of stock. The shareholders (also known as stockholders) may buy and sell shares and have personal liability limited to their amount of investment in the corporation. A board of directors is elected by the shareholders to determine the corporate policies and select officers who manage the corporation.

The principal advantage of the corporate structure is the ability to limit personal liability in the event of business failure. Disadvantages include the loss of freedom of decision making available to the sole proprietorship and partnership.

Non-profit Corporation

A non-profit corporation is a legal entity that does not have private owners or distribute surplus earnings to owners or shareholders. Similar to for-profit corporations, non-profit corporations have a board of directors elected by the membership to oversee the policies and procedures of the organization. Most non-profit corporations operate for educational, charitable, social, religious, civic, or humanitarian purposes.

An advantage of non-profit corporations is that they are generally tax-exempt entities, with a tax benefit to donors who contribute to the mission of the organization. A disadvantage of non-profit corporations is the inability of an individual member or shareholder to financially benefit from earnings generated as a result of the economic activity of the organization.

Sources and Uses of Financing for Mid-Tier Food Chain Enterprises

All businesses need access to affordable capital at each stage of their development. Some capital is internally generated through income earned by the business. It is common for businesses, including Mid-Tier Food Chain Enterprises, to need additional sources of capital during start-up and growth phases. Capital needs may range from a few thousand dollars to multi-million dollar capital injections. The focus in this section is on identifying capital sources in the $5,000 to $250,000 range for value-added food production enterprises.

It is important to note that many loan applicants will not have access to many of the sources of financing identified below. Because Community Development Financial Institutions are motivated to help their customers build credit and join the economic mainstream, CDFIs reach out to individuals and communities generally considered to be high-risk by conventional financial institutions. Part of the mandate of CDFIs is to assist customers to build their financial knowledge and resources in order to qualify for traditional sources of financing in the future. As outlined in the Chapter on Financial Services for Small Food Related Businesses, CDFIs often work closely with other sources of financing to help a borrower raise their needed capital.

Traditional Sources of Financing

There are multiple sources of financing, each with advantages and disadvantages from the borrower's perspective. Financing is often a combination of equity investment by the owner and outside investors, plus debt, which is an obligation that is paid off according to agreed-upon terms and conditions. It is common for a food-related business to use a combination of financing avenues during the life of the enterprise, both consecutively and concurrently.

- **Self-Financing:** Lenders almost always look for some form of equity investment by the borrower. This typically takes the form of owner savings and may include an equity investment by family members or friends of the owner. An owner's investment in the enterprise may be structured to be part equity investment and part a loan to the business to be repaid when cash flow and profitability permit.

- **Credit Card:** Credit cards can be a convenient source of revolving credit and are particularly suited to small purchases of less than a few thousand dollars. Credit cards do not generally require the borrower to provide collateral. The disadvantage of credit cards is the often relatively high interest rate, sometime following a low introductory period; lower overall credit limits; and a potential debt trap as a result of only making minimum payments for a long period of time.

- **Home Equity Line of Credit:** A home equity line of credit, or HELOC, is a line of credit based on the borrower's equity in his home which is pledged as collateral. Issued by a credit union or bank, a HELOC generally carries a lower rate of interest than other types of consumer credit. An advantage of a line of credit, including a HELOC, is the borrower only pays interest on the amount of credit used, and interest paid on a HELOC may be tax deductible. HELOCs are based on the verifiable equity in the borrower's home rather than on historic or projected business profitability.

  Disadvantages include conditions that may be placed on the loan, for example, the need to repay the line down to zero every twelve months or annual fees whether or not the HELOC is used. Using a primary residence as collateral on a loan also puts the borrower's home at risk in the event of business failure. HELOCs typically need to be paid in full in the event that a home is sold, which may not reflect the capital needs of the business at that time. Another disadvantage is that HELOCs are only available to homeowners, and during the current economic retraction, many potential borrowers are finding their home equity significantly reduced due to market conditions.

- **Business Line of Credit and Term Loan:** Business loans are issued by financial institutions and are based on a combination of factors, both financial and non-financial. The level of analysis and collateral requirements by the lending agency generally reflect the loan size, perceived risk, and strategic priorities of the lending institution.
  Lines of credit are generally for one year and are well suited for short-term operational needs such as inventory or supplies. Term loans are designed for longer-term investments such as equipment and land, and are generally structured to be repaid over a three- to fifteen-year period, depending upon the loan size and use of funds.

  A value-added food enterprise may benefit from having both a line of credit and a term loan to assist with financing both short-term and long-term needs. An advantage of access to both business lines of credit and term loans is the ability to match the loan terms with the proposed use of funds, helping to ensure the borrower's ability to generate sufficient funds to repay the loans in a timely manner. Lines of credit are particularly useful in the case of cyclical borrowing needs, seasonal cash availability, and irregular cash flow. Term loans help stretch out payments on large purchases, with the asset value amortized over the life of the loan. In addition, a food-related business may find it helpful to establish a good relationship with a formal sector lender in the early stages of the business in anticipation of larger capital needs in the future.

Disadvantages of business loans are the direct costs of borrowing, including fees and interest expense, as well indirect and opportunity costs as a result of the sometimes lengthy process of assembling and submitting required documentation related to a loan request. Another disadvantage is the need to fully draw on term loans at the initial time of disbursal, incurring interest expense on the full amount of the loan. Because collateral is generally required for all but the smallest business loans, often including all business assets as well as personal real estate, the risk of collateral in the case of business failure may be considerable.

Community Supported Financing

The Community Supported Agriculture (CSA) model is increasingly popular in farmers' markets and local communities. The typical structure is for individual customers to purchase a season's worth of produce, paying at the beginning of the season in order to provide quick capital to the grower at the time when it is most critically needed. The customer is effectively repaid in the form of fresh produce and other food products such as local honey. Although less common for other types of value-added food production, community supported financing is a viable option in some geographical areas.

Matched Savings Programs

Individual Development Accounts (IDAs) are a form of grant-supported matched savings sponsored by a financial institution or non-profit organization. In an IDA program, an individual makes regular savings deposits toward a specified goal, usually for education, buying a home, or starting a small business, such as a value-added food production enterprise. The sponsoring organization raises capital to match the individual savings goals and often offers financial education as a requirement for program participants. When the individual reaches his savings goal, he graduates from the program with a lump sum of capital to invest in his asset-building goal, strengthened by improved financial management skills. Part of an asset development and poverty-alleviation movement nationally, IDAs are a limited but growing financing option.

Unique Role of CDFIs as Lenders to Mid-Tier Food Chain Enterprises

Community Development Financial Institutions generally work closely with their potential borrowers to identify all of the sources of potential funding available to them, as described above. In addition, CDFIs as lenders, are critical direct players in financing Mid-Tier Food Chain Enterprises sector with their track record of serving low- and moderate-income communities, proven ability to work with borrowers without access to traditional capital, and commitment to providing technical assistance to help borrowers succeed. CDFIs have a shared vision of expanding economic opportunity and improving quality of life for low-income people and communities, the four CDFI sectors – banks, credit unions, loan funds, and venture capital (VC) funds – are characterized by different business models and legal structures.[5]

[5] Opportunity Finance Network website (June 2011)

Of these four types of lenders, community development banks are for-profit with community representation on their boards of directors, community development credit unions are non-profit financial cooperatives, community development loan funds tend to be non-profit and governed by boards of directors with community representation, and community development venture funds are either for-profit or non-profit and include community representation.

CDFIs have a history of entering new and evolving sectors that support community development, such as charter school financing, child care center financing, and financing healthy food retail. Now, through this effort, CDFIs can build on their capabilities to support a critical element in the food chain, the Mid-Tier Food Chain Enterprises sector.

Assessing feasibility of Mid-Tier Food Chain Enterprises

The most critical challenge for a lender when reviewing a loan application from a Mid-Tier Food Chain Enterprise is to assess whether or not the business will be successful and whether the borrower will repay as agreed. The process for evaluating the feasibility of a value-added food enterprise is similar to the process used for other small business loan requests.

Although Community Development Financial Institutions are committed to taking more risk than conventional lenders, it is still important for CDFIs to be prudent in their lending in order to protect their loan funds and to manage risk effectively. In order to make informed loan decisions, CDFIs need to understand the financial needs of the business and to implement institutional underwriting policies in a consistent manner.

Business plan

A coherent business plan is a key tool used by lenders to assess the feasibility of a loan request. A business plan does not have to be fancy, but it must tell the story of the enterprise – its history, present situation, and anticipated future – in a way that makes sense to both the borrower and the lender. In geographic areas with significant non-English language communities, it is both respectful and good lending practice to accept business plans written in the applicant's native language whenever possible.

In addition to helping a loan applicant tell the story of her business to a potential lender, a good business plan can also be used as a road map for running the business, for telling the story internally as well as externally, and for attracting outside capital to start or expand the business venture.

A business plan generally includes the following topics (See Appendix Two: Business Plan Outline; and Appendix Three: Writing a Business Plan):

- **Business Description**
  A business description explains what the business will make or do, whom it will serve, where it will be located, when it will operate, why the business owner is doing it, and whether it is a start-up venture or an expansion of an existing business. A business description will help to answer two key questions:
  Why does this business makes sense?
  Why will this business be successful?

- **Market Analysis**

A critical element of a business plan, the market analysis describes the demand or need for the product or service provided by the business. This section includes an in-depth look at the existing market for the product or service to be offered by the enterprise, distinctive characteristics of the new product or service, its competitive advantage in the marketplace, and why customers will purchase it. The analysis will consider market saturation and regional, national or global trends that might affect supply, demand and market prices. Product packaging and pricing are key elements of a market analysis. For value-added food businesses, an effective distribution model is critical to the success of the enterprise and should be addressed in detail in the business plan.

- **Marketing Plan**
  A marketing plan explains how the business owner will attract and retain customers through advertising and promotion, including building relationships and effective use of technology. The marketing plan is focused on the customer and demonstrates a clear picture of how the customer will be reached in order to buy the business's product or service.

- **Operations and Management Plan**
  An operations and management plan describes who will run the business and how the products or services will be produced to sell to the customer. For value-added food production, food safety is a critical issue to be addressed in the operations and management plan and needs to be described in detail.

- **Financial Plan**
  A financial plan answers the question of whether the owner can price the product or service to be competitive in the marketplace, cover expenses, and generate a profit or surplus. This is done through analysis of historical and projected financial statements, including the balance sheet, income statement, and cash flow statement. A break-even analysis is generally included as a basis of estimated profitability. A comparison with industry metrics, or financial performance standards, helps demonstrate the past and projected financial performance of the business. Industry-specific expenses, such as those related to food safety compliance, are described with additional detail.

Loan Underwriting

The loan officer, or person responsible for loan underwriting, evaluates the following "Five Cs of Credit" in order to accurately and transparently analyze the business's strengths and weaknesses. Accurate analysis of financial statements, including profit and loss, balance sheet, cash flow statements and the budget, as well as key financial ratios assist the loan officer in the evaluation of the potential viability of the business.

- ***The "Five Cs of Credit"***
  - **§** ***Character:*** Always an important element in the evaluation of a loan request, the personal integrity of a borrower is generally verified by her credit history, the submission of complete and accurate information, and her apparent honesty throughout the application process.

  - **§** ***Capacity:*** Capacity generally describes the borrower's financial ability to repay the loan as agreed, as well as the management ability to run the enterprise effectively.

- ***Capital:*** Capital describes the individual and business net worth, as well as the owner's investment in the business and unencumbered assets available to support her ability to repay the loan.

- ***Collateral:*** Collateral is a physical asset pledged as a source of repayment in the event that the loan is not paid as agreed.

- ***Conditions:*** Loan conditions describe the terms of the loan agreement, including how and when the credit will be repaid, as well as performance standards mandated by the financing agency.

- **Financial Statements**
  Financial statements provide a numeric picture of a business's history, and in the case of financial projections, where the business owner anticipates the enterprise heading in the foreseeable future. The key financial statements used by business owners, investors, and creditors include the profit and loss statement, balance sheet, cash flow statement, and budget.[6]

  Because not all food-related business loan applicants have the capacity to generate complete, timely, and accurate financial statements, CDFIs often recommend financial education to potential borrowers in order to help them strengthen their capacity in this area. Most CDFIs provide this type of financial education directly or in partnership with community organizations such as SCORE or local community colleges.

- **Profit and Loss**
  A profit and loss statement, also called an income statement, provides a snapshot of financial income and expense over a defined, finite period of time. Profit and loss statements are generally prepared monthly as well as year to date. Profit and loss statements for food-related businesses are generally organized as follows:
  - *Revenue from sales* (gross sales less cost of goods sold equals gross revenue); minus
  - *Operating expenses* (selling expenses plus general administrative expenses); equals *income from operations*; plus
  - *Other income* (interest earned); minus
  - *Other expense* (interest expense); equals
  - *Net income*.

  Because food-related businesses may experience seasonality in sales as well as variation due to external factors (weather, competition, interest rates), it is important to look at profit and loss statements over a period of time in order to capture trends and anomalies affecting the business profitability. For businesses with high degrees of seasonality, consider review of

[6] Principles of Financial and Managerial Accounting, Warren & Fess, 1989

profit and loss statements quarterly, or even monthly to get a stronger understanding of the trading cycle of the enterprise.

- **Balance Sheet**
  A balance sheet shows the financial results of a business's operations since it was founded. At the end of each month, adjustments are made to the balance sheet to incorporate the net income or loss, as well as change in assets and liabilities of the business. A balance sheet for food-related businesses is often organized as follows:

  Assets = Liabilities + Equity

  Where:
  - § ***Assets*** include all current assets including cash, notes receivable, accounts receivable, merchandise inventory, office supplies, and other short-term assets plus long-term assets including food processing and office equipment, less depreciation;
  - § ***Liabilities*** include all current liabilities including accounts payable, notes payable plus long-term liabilities including loans payable in more than one year;
  - § ***Equity*** includes all retained earnings plus current profit or loss.

  The balance sheet captures the direct financial impact on the business of all of its financial activity since the business was started and clearly illustrates the financial worth of the business in terms of what is owed and what is owned. A balance sheet does not typically reflect other impact indicators as a result of its activities, such as employment provided or environmental impact of its operations.

- **Cash Flow Statement**
  A cash flow statement illustrates the timing and amount of cash flowing in (sources of cash) and flowing out (uses of cash) of the business. Because cash is the source of loan repayment, it is important to understand the cash position of a business over time. For food-related businesses, it is important for the business owner to be able to plan for cash shortfalls or cushions, and to arrange financing accordingly. Cash flow statements for food-related businesses generally include cash receipts and cash payments by the following three types of activities:
  - § Cash flows from *operating activities* (includes cash transactions that enter into the determination of net income); and
  - § Cash flows from *financing activities* (includes receipts from issuance of debt and equity instruments; and payments for dividends and other financing activities); and
  - § Cash flows from *investing activities* (includes receipts from the sale of investments and plant assets such as large equipment; and payments for the acquisition of investments and plant assets).

  For small and mid-sized food-related businesses, the primary cash flow activity is from operations, with investment in equipment secondary, and cash flow from financing activities tertiary.

- **Budget**
  Budgets and budget analysis focus on a plan for financial operations for future periods and provide a framework within which to measure planned versus actual financial performance of the business. Generally prepared annually with monthly detail, it is important that a budget present a realistic picture of planned financial activity for the coming year in order to be useful in strategic and financial decision making for the business.

- **Key Financial Ratios**
  Similar to many small to mid-sized enterprises, the most important key financial ratios for most value-added food businesses reflect the relative strength or weakness of the enterprise in the following areas: liquidity, debt coverage, leverage, and operating.[7] Ratios provide a framework for evaluation, and are typically used to gain a better understanding of the business. CDFIs will typically be aware of the range of typical benchmarks for each of these areas, and then interpret each enterprise's financial strengths and weaknesses based upon their unique situations.

  It is important to note that industry data may be unavailable for small food-related business types. For example, the Financial Ratio Benchmarks by RMA, a well-known source used by the financial sector for comparative data, does not have financial information or standard ratios for many food manufacturing businesses with sales of less than $10 million.

  § In *value-added food production*, data are not aggregated for small enterprises doing fruit and vegetable canning, cheese manufacturing, ice cream manufacturing, cookie manufacturing, or making commercial sauces, although data are available for commercial and retail bakeries. For comparative purposes, the data for $1-3 million in annual sales for "All Other Miscellaneous Food Manufacturing," provide the basis for value-added food production ratios discussed below.

  § For *food aggregation and distribution*, sales data for enterprises with gross annual sales of less than $10 million are not available for dairy products, poultry, or meat, but are available for fresh fruit and grocery wholesalers. For comparative purposes, the data for "Other Grocery and Related Products Merchant Wholesalers" with $1-3 million in annual sales are used as the basis for comparative ratios for food aggregation and distribution.

  § For *waste management*, recycling is primarily included in "Solid Waste Collection" which includes data for businesses with $1-3 million in annual sales and is the basis for waste management comparative ratios.

  Because accurate aggregated financial information is limited for small and mid-sized food-related enterprises, financial ratios may provide some context for evaluation of a loan request. However, it is important to take all relevant information, both qualitative and quantitative, into account when evaluating a loan request from a food-related business enterprise.

- **Liquidity**
  Liquidity is important because it demonstrates the quality and adequacy of current assets to meet current obligations. This answers the question of whether business assets will be able

[7] RMA (Risk Management Association), Financial Ratio Benchmarks, 2009-2010

to be quickly converted to cash in the case of business failure and liquidation without a significant loss in value.

Although there are many ratios related to liquidity, the three most commonly used ratios are the current ratio, quick ratio, and cost of sales/inventory.

§ ***Current Ratio***
The current ratio divides the total current assets by the total current liabilities. This gives a general indication of the enterprise's ability to meet its short-term obligations. In general, the higher the ratio, the stronger the business's ability to pay its debts.

Median ratio for value-added food production:	0.8
Median ratio for food aggregation and distribution:	1.5
Median ratio for waste management:	1.4

- ***Quick Ratio***
The quick ratio adds cash, cash equivalents, and trade receivables and divides that sum by total current liabilities. A tougher measure than current ratio, the quick ratio or "acid test" eliminates inventory and other less liquid assets from consideration as a source of quick cash to meet obligations. In general, a quick ratio over 1:1 shows relative strength in being able to meet short-term obligations.

Median ratio for value-added food production:	0.4
Median ratio for food aggregation and distribution:	0.6
Median ratio for waste management:	1.3

- ***Cost of Sales/Inventory***
The cost of sales/inventory ratio divides the cost of sales by inventory. The reason this is important is it shows the number of times inventory is turned over during the year. For food-related businesses, a relatively high number of inventory turns per year is generally a good thing, indicating good liquidity, merchandising, and inventory control. Conversely, a very high turn ratio could reflect chronic shortages of inventory to meet consumer demand.

Median ratio for value-added food production:	8.4
Median ratio for food aggregation and distribution:	8.2
Median ratio for waste management:	N/A

- ***Debt Coverage***
Debt coverage ratios measure an enterprise's ability to service its debt. Different from liquidity ratios which focus on the possibility of liquidation, debt coverage ratios try to measure how well the enterprise's cash covers its debts. The debt coverage ratio most commonly used is Earnings Before Interest and Taxes/Interest.

- ***Earnings Before Interest and Taxes (EBIT)/Interest***
The EBIT/interest ratio divides earnings before interest and taxes and divides it by annual interest expense. This shows whether a business is able to meet its interest payments and whether it has capacity to take on additional debt. A high EBIT/Interest ratio generally shows strong ability to meet existing interest payment obligations.

Median ratio for value-added food production:	2.9
Median ratio for food aggregation and distribution:	2.8
Median ratio for waste management:	3.7

- ***Leverage***
  Leverage ratios reflect how much of an enterprise's assets are owned by creditors. Highly leveraged companies have a significant amount of debt in relation to their net worth, making the business more vulnerable during economic downturns. The most commonly used leverage ratio is the Debt/Equity ratio.

- ***Debt/Equity***
  The debt/equity ratio divides total liabilities by tangible net worth. This illustrates the amount of capital contributed by creditors relative to capital invested by the owners. A high debt ratio reflects relative weakness on the part of the business; conversely, a low debt ratio indicates relative financial safety and a potential to take on additional debt.

Median ratio for value-added food production:	2.6
Median ratio for food aggregation and distribution:	1.6
Median ratio for waste management:	4.2

- ***Operating***
  Operating ratios help to understand management performance of a business. The most common operating ratio is Sales/Total Assets.

- ***Net Sales/Total Assets***
  The net sales/total assets ratio divides net sales by total assets. This ratio reflects the ability of the business to generate sales in relation to its total assets. A high percentage shows stronger sales relative to assets.

Median ratio for value-added food production:	2.0
Median ratio for food aggregation and distribution:	3.0
Median ratio for waste management:	2.5

These six ratios point toward the following comparative characteristics within the Mid-Tier Food Chain Enterprises:
Waste management enterprises typically have relatively stronger ability to convert assets into cash in the case of liquidation, as seen by both strong current and quick ratios. Food aggregation and distribution enterprises initially appear to have strong ability to convert assets to cash when looking at the current ratio, but that ability declines significantly when inventory is subtracted in the quick ratio. Value-added food production enterprises have a relatively weaker ability to convert assets to cash, as demonstrated by both the current and quick ratios. (Current ratio and quick ratio)

Both value-added food production and food aggregation and distribution enterprises appear to generally turn their products relatively quickly, possibly reflecting reasonable liquidity, merchandising, and inventory control. Data were not available for waste management enterprises. (Cost of sales/inventory ratio)

Waste management enterprises show the strongest ability to cover existing debt, with both value-added and food aggregation also demonstrating good debt coverage. (Earnings Before Interest and Taxes (EBIT)/Interest ratio)

Waste management enterprises typically carry significantly more debt relative to net worth than either value-added food production or food aggregation and distribution enterprises. (Debt/Worth ratio)

Food aggregation and distribution enterprises typically generate more sales relative to assets than either value-added food production or waste management. (Net Sales/Total Assets ratio)

- **Critical Issues in Loan Underwriting**
  The most important elements in underwriting any loan request are to understand the credit's strengths and weakness and to structure the loan appropriately. In working with value-added food businesses, a loan officer is likely to meet some applicants who may not be ready to start or expand their businesses. This may be particularly true for CDFIs who by definition serve low-income people, including immigrant communities which may have a strong history of entrepreneurship but limited experience operating a small business in a formal sector setting.

  Helping loan applicants understand how they can evaluate the potential for success or failure of their business helps borrowers avoid disappointment and builds relationships between the borrower and lending which could be helpful for future funding needs. (See Appendix Four: Are You Ready to Start or Expand a Business?)

  When underwriting loans for Mid-Tier Food Chain Enterprises, there are several considerations for strengthening the potential for success for both the borrower and the lender.

- **Mitigating risk through credit enhancement**
  Loan applications from small businesses often have at least one material weakness, often due to insufficient collateral or net worth. In order for the lender to be able to be comfortable making the loan, it is helpful to mitigate risk through credit enhancements such as loan guarantees.

  Loan guarantees generally offer to reimburse the lender between 75-90 percent of the loan principal in the event that a loan is not repaid, assuming the lender has done his due diligence and properly documented the loan at the front end and has responsibly pursued collection efforts at the back end. Loan guarantees may be provided by individuals who support the business owner, by nonprofit development corporations, and by government programs including the Small Business Administration (SBA) and United States Department of Agriculture (USDA).

  CDFIs recently became eligible to participate in the Community Advantage Program with the Small Business Administration. Details of this program are found at www.sba.gov/advantage

- **Increasing impact of loan portfolio through leveraged financing**
  In addition to mitigating risk through loan guarantees, lenders may leverage the value of their loan capital by securing lending partners to finance a portion of a loan. Loan

participation may be particularly useful for CDFIs with limited access to loan capital, allowing the institution to support qualified food-related businesses without depleting their loan fund capital.

- **Leveraging local community partnerships and technical assistance**
  In working with small value-added food producers, it is generally beneficial to both the lender and the borrower to leverage local community partnerships. In addition to taking advantage of potential loan guarantee options to mitigate financial risk, it is possible to strengthen the management of an enterprise through technical assistance, training, and mentoring in areas such as the following:
  - Developing a business plan
  - Keys to a successful loan application
  - Basic money management
  - Credit history: Building it, repairing it, maintaining it
  - Finding Customers – Marketing 101
  - Inventory control and pricing

  The economic downturn has resulted in deterioration in credit quality for some food-related loan applicants. Financial education related to how to build, repair, and maintain one's credit history is often of strong interest to potential borrowers.

  Successful community partners may be linked with the agriculture sector and technical advisors, such as the Farm Bureau, USDA Farm Service Agency, Farmers' Markets, organic associations, and others. Other community partners may be more closely tied to small business development, such as Small Business Development Centers, SCORE business counselors, Adult Education, and microenterprise associations.

- **Determining a reasonable pricing structure for small loans**
  Evaluating, documenting, funding, monitoring, and collecting on small loans between $5,000 and $250,000 can be expensive for a lender. For this reason, conventional financial institutions may focus on larger business loans, thereby restricting access to affordable credit for smaller start-up and growing food-related business. Loans in the $5,000 to $250,000 range represent a potential market niche for CDFIs, with the related need to control expenses related to loan analysis, disbursement, and collection.

  An analysis of direct and indirect costs associated with microloans and small business loans in this size range often reinforces the importance to the lender of working with community partners in order to make the loans affordable for the borrower and sufficiently profitable for the lender. Without some form of financial subsidy, it is unlikely that a lender could afford to do a full business assessment of each loan request; provide technical assistance before, during, and after the loan; and pursue full collections in the case of default while simultaneously providing access to affordable credit for borrowers.

In order to help strengthen the borrower's success and associated ability to repay the loan, financing institutions often turn to community partners for assistance in non-financing elements of small business planning and implementation. Lenders may also adopt streamlined evaluation and underwriting processes for microloans under a determined dollar amount.

- **Overcoming barriers to lending to value-added food enterprises**
  Barriers to lending to value-added food enterprises may exist for both the borrower and the lender. Many of these barriers may be mitigated with sufficient training, investment, and commitment by both parties.

- **Limited borrower personal identification**
  Some members of immigrant communities may have insufficient personal documentation to be successful working within the formal financial sector. However, many residents have Individual Tax Identification Numbers (ITINs) and foreign-issued identity cards (including matrícula consulars from Mexico) which a lender may use for borrower identification. Local partners, such as legal assistance centers and immigrant advocacy groups, often can help residents to work with their consulates and obtain identification cards.

- **Poor or limited personal credit history**
  Poor credit and limited formal credit histories are common barriers for microentrepreneurs and small business owners when applying for a loan. Financial education and credit repair workshops and individual counseling are offered around the country, often through Consumer Credit Counseling and Small Business Development Centers. As part of a "credit-builder" process, financial institutions may use non-formal forms of credit histories for small loans, such as utility and rent payments over time.

- **Limited borrower capital or collateral**
  The microenterprise movement has developed a number of successful approaches to mitigate the risk to an owner's limited capital, in addition to loan guarantees, including:
  - *Stepped lending*, when the lender starts with a small loan to a borrower and increases the loan size with subsequent loans based on the borrower's good repayment record.

  - *Peer group lending*, when the lender makes loans to a group of associated borrowers who provide a group guarantee.

Loan management
Successful lending to any group of borrowers, including value-added food enterprises, depends on clearly defined and applied loan management processes. Loan underwriting, documentation, disbursal, servicing, tracking, and collection all play an important role in risk management of the loan portfolio.

- **Loan Underwriting**
  The first step in loan underwriting is a review of the loan application, usually in consultation with the applicant, and verification of submitted information. Based on consistent application of written loan policies and procedures, the loan application is approved or declined and the applicant is notified. In the event of a denial, financial institutions often try to offer alternatives, including options for future funding if specified conditions are met.

- **Documenting and disbursing the loan**
  The next step is to document the loan using standardized loan agreements, to secure collateral if applicable, and to disburse funds to the borrower.

- **Loan servicing and tracking**
  Loan servicing, or the process of notifying the borrower of payments due and accepting the payments, as well as loan tracking, or documenting the date and amount of loan payments made, may be done in-house by the lender or outsourced to a third party vendor or partner financial institution. Servicing also requires the CDFI to track receipt of periodic financial statements, as specified in the loan agreement, as well as evidence of timely payment of taxes and insurance as required.

- **Loan collection**
  Lenders must have clear written policies and procedures for loan collections. This avoids preferential treatment for some borrowers and gives collections agents the tools to collect on delinquent payments in a fair and consistent manner. It is often in the interest of both the lender and the borrower to try to work out a modified loan agreement prior to liquidation in the event of a delinquent loan situation.

Summary

In the Financing Mid-Tier Food Chain Enterprises chapter, the following topics have been addressed, with focus on Community Development Financial Institutions:

- Definition of Mid-Tier Food Chain Enterprises and Food Hubs

- Profiles of value-added food production, food aggregation and distribution, and waste management

- Legal forms of food-related businesses, including sole proprietorships, partnerships, corporations, and non-profits

- Sources and uses of financing for Mid-Tier Food Chain Enterprises, including traditional and other sources of financing

- Assessing the feasibility of food-related businesses, including key business plan elements

- Critical issues relevant to loan underwriting, financial statement analysis, and key financial metrics for food-related businesses

- Overcoming barriers to lending to food-related businesses

- Loan management processes

The underlying theme in the Financing Mid-Tier Food Chain Enterprises chapter is three-fold. First, food-related businesses represent an important segment of the small business sector nationally and can represent a compelling market niche for Community Development Financial Institutions around the country.

Second, it is possible to understand the food-related sector and to underwrite loans in a way that is prudent and manages risk appropriately.

Third, Community Development Financial Institutions play a critical role in filling the market gap not adequately served by conventional financial markets, and in providing access to affordable capital for start-up and growing food-related businesses.

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Robin Seydel, La Montañita Cooperative
Nessa Richman, Brightseed Strategies

Case Studies

Penny Ice Creamery (Retail-first value-added food production)

Happy Girl Kitchen (Farm-first value-added food production)

Greensgrow (Shared use Community Kitchen)

La Montañita Cooperative (Food aggregation and distribution)

Farm Fresh Rhode Island (Food Hub)

THE PENNY ICE CREAMERY

By Ginger McNally, National Federation of Community Development Credit Unions

THE PENNY ICE CREAMERY
Santa Cruz, California

SECTORS: Food Processing and Retail

WEBSITE: www.thepennyicecreamery.com

OWNERSHIP TYPE: Limited Liability Company (LLC)

YEAR FOUNDED: 2010

NUMBER OF STAFF: 17 (there were 3 employees nine months ago)

TOTAL REVENUES: $54,000/month (approximately)

BARRIERS TO CAPITAL: Start-up, limited collateral

STRUCTURAL LINKAGES TO CAPITAL: Loan guarantee through American Recovery and Reinvestment Act[8], business plan training through Small Business Development Center.[9]

SOURCES OF CAPITAL: Owner Equity, Investors, SBA loan

SPECIAL INTEREST: Commitment to environmental sustainability; support for local small and organic farmers, thank you call from Vice President Joe Biden.

IMPACT/OUTCOMES: The loan permitted the start-up of a successful small business with a strong commitment to environmental sustainability. Loan proceeds were used for extensive leasehold improvements made to LEED standards. The business created 17 new jobs.

The Penny Ice Creamery opened in August 2010 in Santa Cruz, CA. The only artisan ice cream shop in the area, Penny makes small batches of delicious ice cream from scratch using local, seasonal, sustainably grown, and organic ingredients. Flavors change daily, with nine rotating flavors including specialties like Olive Oil Sea Salt with Chocolate Ripple, Burnt Cinnamon, and Cardamom Pistachio Chocolate Chip.

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[8] The American Recovery and Reinvestment Act of 2009 has three goals: Create new jobs and save existing ones; Spur economic activity and invest in long-term growth; Foster unprecedented levels of accountability and transparency in government spending. (Source: www.recovery.gov)

[9] The Small Business Development Center is a partnership between the Small Business Administration and a local college and aims at giving educational services for small business owners and aspiring entrepreneurs. (Source: www.sba.gov)

The operations of The Penny Ice Creamery promote the sustainability of the business, the community, and the environment, with strict attention to resource use, minimizing their carbon footprint, and striving toward a goal of zero waste. All paper products are 100% recycled and biocompostable. Because the owners recognize that much of the environmental impact of their food product takes place before it reaches their kitchen, they work hard to be responsible in purchasing of raw ingredients.

Prior to opening their doors, the business partners, Kendra Baker and Zachary Davis, worked closely with the local Redevelopment Agency to completely remodel an older Spanish Colonial Revival building to convert it from the 1920's layout as a doctor's office to a fully equipped specialty food production and retail business, including a pasteurization "clean room" built to the specifications of the CA Department of Food and Agriculture. The remodel was completed following LEED standards. They also worked with the Small Business Development Center at Cabrillo College to develop a business plan prior to approaching investors and financial institutions.

The business was launched with a $40,000 investment by the owners, as well as $60,000 from investors, all of whom were family or friends. A critical component of the business start-up was a $250,000 Small Business Administration 7(A) loan with a 90% guarantee under the American Recovery and Reinvestment Act. As Zachary Davis describes, "Starting in June 2009, I went to all of the local banks and credit unions in town plus (a national bank) and only two places would sit down and talk with me about my business idea. Of these, (a small local bank) was the most encouraging, so I went with them. Although it took almost nine months to complete the whole process, the ability to get a loan was huge in our success. The loan guarantee was also critical – the bank told us in no uncertain terms that without the guarantee, they wouldn't have made us the loan."

Because getting a loan was so important to realizing the dream of their food-based business, Zachary decided to create a video thank you letter which he shot over a 24 hour period on his iPhone and edited in iMovie with musical accompaniment provided by Kendra's husband. The video was released on You Tube on October 28, 2010, was picked up by Salon.com, the Huffington Post, and the official White House Twitter feed. Setting off a flurry of local news, Congressman Sam Farr visited the shop and on November 10, The Penny Ice Creamery received a call from the White House to schedule a time to talk with Vice President Joe Biden. Mr. Biden called Kendra and Zachary the next day to thank them for letting the White House know how the economic stimulus funds helped their business. By November 15, the video thank you letter had reached 47,000 viewers and Zachary and Kendra were invited to sit with First Lady Michelle Obama during President Barack Obama's State of the Union address in January 2011.

The unexpected national attention helped galvanize sales which have increased almost monthly since the small, specialty food producer with a glass-walled kitchen opened in August 2010. As Zachary says, "We really wanted people to be able to see the process, from cracking the eggs to measuring ingredients to cooling the ice cream to the required temperature." Although some expenses have been higher than expected and the owners spend many hours every day at the shop, they are pleased that their customer base and sales continue to grow and that people love their ice cream.

HAPPY GIRL KITCHEN

By Ginger McNally, National Federation of Community Development Credit Unions

HAPPY GIRL KITCHEN
Pacific Grove, California

SECTORS: Food Processing and Retail

WEBSITE: www.happygirlkitchen.com

OWNERSHIP TYPE: Sole Proprietorship

YEAR FOUNDED: 2001

NUMBER OF STAFF: 9 employees, including two owners.

TOTAL REVENUES: $270,000 in 2010

BARRIERS TO CAPITAL: Start-up, Limited Collateral

STRUCTURAL LINKAGES TO CAPITAL: Loan guarantee through Small Business Administration, business plan training through Women's Initiative microenterprise organization.[10]

SOURCES OF CAPITAL: SBA 7a loan, Owner's Investment

SPECIAL INTEREST: Farm-first value-added food production

IMPACT/OUTCOMES: The loan to Happy Girl Kitchen allowed the food processor to open their own small café/retail store and commercial kitchen which they lease to other micro-food producers. As a "micro-cannery," the small business owners support local small and organic farms by purchasing surplus seasonal produce, resulting in a reduction of food waste in otherwise unsold produce. The business expansion, made possible by the loan and the microenterprise training, resulted in 9 jobs, including employment for the 2 owners.

Jordan and Todd Champagne were working at an established organic farm, Happy Boy Farms, selling fresh produce at local farmers markets when they started to experiment with making pickles. Motivated by trying to reduce food harvest waste and make affordable, healthy food available to local consumers, Todd and Jordan used the produce wash room at the farm to preserve five different types of surplus vegetables and sold them at the farm produce tables. Learning as they went, Jordan and Todd talked with a local food inspector, moved their canning operations out of the produce wash room, and rented space at certified kitchens, first in a bakery and later at a small Grange Hall. In order to support

[10] Women's Initiative microenterprise organization serves low-income women, including women in poverty and making the transition from welfare to work. Bilingual and bicultural, Women's Initiative was awarded the Presidential Award for Excellence in Microenterprise Development in 2001. (Source: www.womensinitiative.org)

themselves and their fledgling business, Todd and Jordan continued to work at Happy Boy Farms for the first five years of their growing canning business, and for the past five years have focused exclusively on the development of Happy Girl Kitchen. In October 2010, the Champagnes opened their own commercial kitchen and small café with a retail section for their original preserved food products.

As Jordan describes, “We were ‘shoe-boxing’ it for our first several years,” including using a $10,000 personal loan from a local bank. As Todd says, “There’s not a lot of precedent for what a micro-cannery looks like. At first, we would describe it as similar to a micro-brewery, but with pickles instead.”

Faced with a decision to either sell or expand their young business, Jordan attended a three-month microenterprise training program taught by Women’s Initiative, a nationally-recognized microenterprise training program. Jordan says the program is “for women who have a dream to start or expand a business” and gave her the “full picture of all aspects of having a business.” She used the microenterprise training to plan an expansion of her business and to develop a proposal for bank financing. Jordan and Todd were successful in obtaining a $75,000 SBA 7a loan from a local bank and used the funds to sign a five-year lease on a retail space, do extensive leasehold improvements, and build their own commercial kitchen. Todd says, “There is no way we would have been able to expand our business like this without the loan. We feel so fortunate.”

In addition to selling their products on-site at the café and kitchen, Happy Girl Kitchen sells their goods at several urban and rural farmers markets, online, and teaches popular classes on how to preserve a wide variety of food.

Todd thinks that the high cost of building a commercial kitchen makes it essential to have kitchen incubators to support the network of small sustainable food producers across the country. “The cost of these kitchens overshadows the assets of these small businesses,” he says, and adds that Happy Girl Kitchen rents out space in their commercial kitchen to a local chocolatier and a baker, as well as primarily using the space for their own canning and preserving.

In addition to being a classic farm-first, value-added food production enterprise, utilizing a local, organic market differentiation approach with a retail component, Happy Girl Kitchen is distinctive in its support of local small farmers. By purchasing surplus seasonal food from local organic growers and transforming it into a wide array of preserved products, including pickled vegetables, jam, salsa, and more, Happy Girl Kitchens supports the growing of small lots of heirloom and unconventional produce that typically has difficulty selling and shipping to large grocery chain stores. In an agricultural area that was hard-hit by widespread closure of food processing plants following the passage of the North American Free Trade Agreement (NAFTA) in 1994, Happy Girl Kitchen offers a new approach to delicious food processing based on seasonal local produce, food waste reduction, and support of small organic local farmers.

URBAN FARM BENEFITS LOW-INCOME CONSUMERS: GREENSGROW

By Nessa Richman, Brightseed Strategies

GREENSGROW
Philadelphia, PA

SECTORS: Production – Processing – Distribution; “Food Hub”

GEOGRAPHY: Urban; Programs linking urban and rural communities

WEBSITE: www.greensgrow.org

OWNERSHIP TYPE: Non-profit Organization

YEAR FOUNDED: 1998

NUMBER OF STAFF: 6 full-time, 23 seasonal part-time

TOTAL REVENUES (2010): $1.1 million

SOURCES OF CAPITAL: $977,200 in farm revenue; $81,000 in grants; $17,000 in Community Commercial Kitchen revenue; and $42,800 from special events. The Reinvestment Fund (TRF) CDFI provided a revolving working capital loan of $18,700 which enabled a program of Community Supported Agriculture (CSA) enrollment for low-income residents in the community surrounding their urban farm.

OTHER FINANCIAL SERVICES NEEDED: Two bank accounts at a local bank.

IMPACT/OUTCOMES: Greensgrow has increased economic viability of 80 small and medium-sized farms in Pennsylvania while bringing fresh, healthy food to urban Philadelphia residents through its successful Community Supported Agriculture (CSA) and Farm Stand operations. It has increased access and affordability of fresh, nutritious, local food for low-income people by accepting SNAP and WIC . Greensgrow also provides nutrition education and healthy cooking classes to low income populations, as well as opportunities for small food entrepreneurs and organizations through its Community Commercial Kitchen.

Greensgrow began as an urban farm on an abandoned lot in 1997 and quickly emerged into a successful urban agriculture business. It now operates a thriving Community Supported Agriculture (CSA) which sells 500 shares of food from 80 Pennsylvania farms to urban Philadelphia residents, including 40 shares to low-income residents who may purchase specially sized and priced shares using their SNAP benefits through its *Local Initiative for Food Education* (LIFE) program, which was initiated in 2010 in partnership with The Reinvestment Fund (TRF).

Greensgrow is a federal 501(c)(3) nonprofit organization dedicated to promoting economic growth and development in economically distressed neighborhoods through the creation and operation of a socially conscious and sustainable agri-business enterprise. Greensgrow is in its 14th year of operation, and in addition to its successful CSA program, it owns and operates a commercial farm, a retail nursery, and a food distribution business specializing in locally-grown and produced products. It also operates a shared-use commercial kitchen, which it built at a nearby church. The kitchen is used both by Greensgrow to produce value-added foods from farm fresh produce for its CSA shares, and by community food entrepreneurs and organizations. Greensgrow also provides technical support and business consultation to various organizations, municipal governments, and other urban-agricultural enterprises that want to replicate the "Greensgrow Model."

Urban agriculture is at the heart of Greensgrow. Each season the organization grows over 20 different types of vegetables, totaling over 2000 pounds of fresh produce for their farm stand and CSA. Due to the toxic nature of the existing soil on the site, they use large raised beds for their growing system. They have also instituted production in hydroponics, containers, green roofs, and off-site farms. They have increased their growing season by building high tunnels (inexpensive greenhouse structures) where they can grow greens year-round. They employ up to 23 part time seasonal workers, as well as 6 full time staff.

Greensgrow farm production, however, is not nearly enough to satisfy customer demand. Thus, Greensgrow purchases food from 80 Pennsylvania farms to split into shares and distribute to their shareholders. Their CSA season is 25 weeks long, beginning mid-May and ending early November. Shareholders pick up their food on a specific pickup day each week. Any share items that are not picked up by a certain time are donated to a local anti-hunger organization. Each week, the share includes a seasonal assortment (5-8 items) of locally grown, freshly picked vegetables from their own urban farm and the rural farms they work with, 2 types of fruits, a locally-produced cheese, and an additional dairy option (e.g. Yogurt, butter, eggs, or tofu). Occasional items of special interest are also included, such as fresh bread, mushrooms, apple cider, and honey. Full shares cost $775 ($32.30/week). Payment is due prior to the market season, to cover expenses.

To target low-income communities, Greensgrow launched its new *Local Initiative for Food Education* (LIFE) program in 2010. This program expands the ranks of its CSA with more low-income families and individuals who may pay for their CSA memberships using SNAP cards. The use of SNAP cards to pay for CSA shares has been approved by the USDA, under the conditions that pre-payments only cover two weeks' worth of CSA deliveries – rather than paying for an entire seasonal subscription as is typically done in a traditional CSA. To overcome this obstacle, Greensgrow worked with TRF to create an innovative revolving loan fund that provides the program its working capital and is replenished every two weeks by LIFE member SNAP payments.

Greensgrow is committed to financially sustainable entrepreneurship. With a budget of nearly $1.1 million in 2010, $81,000 was grant revenue and enterprise operations earned $977,200. Revenue details are shown in the chart below. The profits, about $150,000 per year, are used to subsidize their other programs. Their community kitchen is not yet breaking even. It earned $17,000 in 2010 and was mainly used to process farm products for distribution in CSA shares. However, several food entrepreneurs and non-profits use their kitchen space as well, and Greensgrow plans to increase this activity. Greensgrow also operates fully grant-funded nutrition education and cooking programs which specifically target low-income populations, including LIFE program members.

Revenue Sources (2010)	Amount of Revenue (2010)
Community Supported Agriculture (CSA) Operation	$466,400
Farm Stand	$129,600
Plant Nursery	$304,700
Direct-to-Restaurant Sales	$76,500
Community Kitchen	$17,000
Grant Revenue	$81,000
TOTAL REVENUE (2010)	$1,075,200

Several key partners have joined with Greensgrow on the LIFE project including TRF and Philadelphia Coalition Against Hunger. TRF committed funds from the Pennsylvania Fresh Food Financing Initiative (FFFI) to create the revolving loan fund and the Philadelphia Coalition Against Hunger provides support to families and individuals who are eligible for SNAP benefits but have not yet entered the program. This year membership was limited to 25 families. In 2011, the membership will be opened up to a total of 40 subscribers. The long-term goal is to build the membership of low-income neighborhood residents to parity with the “traditional” CSA membership of middle and upper income participants. The food provided in the LIFE CSA shares is in no way subsidized and each basket contains a portion of fresh fruits and vegetables equal to the market value of the cost of each LIFE share (which is currently $22/week).

Greensgrow also has key partnerships with the Delaware Valley Regional Planning Commission, a greater Philadelphia region quasi-governmental organization which has a Food System Stakeholder project funded by the William Penn Foundation, and St. Luke’s Church, which houses the community commercial kitchen where they process raw farm products. The USDA Community Food Projects Program provided grant funding and connection with national networks, and the USDA’s state Rural Development Office provided business planning and other related technical assistance.

Greensgrow is now working to open a second food hub in the low-income city of Camden, New Jersey. The goal of the Camden project is to establish a financially sustainable enterprise that increases the availability of affordable, fresh and healthy foods to low-income families who lack access to supermarkets or grocery stores that provide healthy food choices, and connects the area’s rural food producers to urban consumers thereby increasing the economic viability of New Jersey farmers providing direct sales of fresh produce to urban markets. The Camden project will aid the local community by offering fresh, locally-grown produce through a CSA program and a farm-stand. It will also provide education and training in the selection, preparation, and cooking of CSA foods. This ambitious effort faces many challenges, both financial and logistical. The organization is working closely with TRF and Cornerstone Ventures, a consulting and development company which specializes in the development of sustainable Social Enterprises that can demonstrate the ability to profitably integrate social purpose into their product and mission.

LA MONTAÑITA COOPERATIVE

By Ginger McNally, National Federation of Community Development Credit Unions

LA MONTAÑITA COOPERATIVE
Headquarters: Albuquerque, New Mexico

SECTORS: Food Aggregation and Distribution; Retail

WEBSITE: www.lamontanita.coop

OWNERSHIP TYPE: Cooperative

YEAR FOUNDED: Retail operations (1976), Cooperative Distribution Center (2004), Revolving Loan Fund (2010)

NUMBER OF STAFF: 217

TOTAL REVENUES: $28.9 million in 2010

BARRIERS TO CAPITAL: Cooperative structure

STRUCTURAL LINKAGES TO CAPITAL: Multiple loans from NCB Capital Impact[11]

SOURCES OF CAPITAL: Income generated from operations, several loans from NCB Capital Impact, loans from a local community bank, capital raised through community investment initiative, loans to Co-op members serviced by state credit union.

SPECIAL INTEREST: Commitment to social equity, access for all to healthy food, and cooperative economic model.

IMPACT/OUTCOMES: Loans allowed for purchase and remodel of facilities, resulting in the expansion of the food cooperative, increasing access to healthy, low-cost food for low-income residents in New Mexico. The coop supports local farmers, ranchers, and producers. Loan capital supported the development of a regional food-shed production and distribution network, smoothing seasonal income for food producers and allowing for creation of food products needing refrigeration, storage, and distribution capability. Coop expansion help to create or maintain 217 jobs.

Started in 1976 with a single consumer cooperative retail food store, La Montañita Co-op is a community-owned, consumer cooperative which now has five stores serving approximately 14,000 members throughout New Mexico. All of the Co-op stores offer fresh organic produce, bulk foods, local organic

[11] Loan was made through the NCB Capital Impact affiliate, National Consumer Cooperative Bank, both of whom are part of the NCB Financial Group consists of National Consumer Cooperative Bank, a wholesale funding company; NCB, FSB, a federally chartered savings bank; and NCB Capital Impact, a 501(c)3 nonprofit and Community Development Financial Institution. (Source: www.ncb.com)

meat and cheese, fair trade products, and a wide variety of natural and organic groceries and sundries. The Co-op estimates that they capture approximately 20% of total purchases and sales of local food in the state, and are explicit about their commitment to serving the larger community through education on the importance of the cooperative economic model and the links between food, health, and the environment.

As Robin Seydel, Membership and Community Development Coordinator at the Co-op, explains, “There are a lot of poor people in this state and a lot of low-income Co-op members. Comparatively, New Mexico is one of the poorest states in the country. It’s important to us that low-income people be able to buy good food at good prices.” Based on the Co-op’s commitment to social equity, access for all to healthy food, and the cooperative economic model, they offer their members an 18% discount on all purchases once a week, at the member’s convenience, in exchange for one hour of donated time weekly.

In a desire to expand their efforts to support local farmers, ranchers, and producers, as well as to bring high quality local and regional food to consumers, in 2004 La Montañita created the Co-op Trade Initiative’s regional food-shed production and distribution system. Designed to create wholesale markets and provide product pick-up and distribution, supply delivery service and refrigerated storage for local farmers and producers, the Co-op Distribution Center warehouse is the hub of the food shed initiative. Approximately 400 out of 900 producers and suppliers selling to the Co-op use the warehouse, which provides service within a regional watershed area defining a 300-mile radius of Albuquerque. The warehouse has had a strongly beneficial impact on local growers’ ability to store perishable items, and has resulted in the production of new value-added food items, such as product differentiation by a rancher who previously sold only goat milk to the Co-op. As a result of storage and distribution services provided by the warehouse, she is now able to make and sell goat cheese and yogurt, resulting in greater profits for her small goat ranch.

Another project of the Co-op Trade Initiative is the Beneficial Farms Eco Label. The Beneficial Farms Eco Label provides assurance to consumers that local foods that are not certified organic are produced in a manner consistent with sustainable farming practices, including strong environmental stewardship. A Co-op staff person, who has decades of farming experience in New Mexico, works with regional farmers interested in participating in the Co-op’s Beneficial Farms Eco Label to ensure that they meet all required standards.

The growth of the consumer cooperative stores and the Cooperative Distribution Center was financed through a combination of income generated from operations, several loans from NCB Capital Impact totaling several million dollars to assist with the purchase of facilities, and smaller loans from a local community bank. At the present time, the cooperative stores are sufficiently profitable to be able to continue to subsidize the warehouse operations which have not yet reached self-sufficiency.

In a new initiative, La Montañita developed an internal revolving loan fund (LaM FUND) to assist farmers, ranchers, and other food producers in the region. Using a novel grassroots community investment approach, La Montañita received approval in October 2010 to solicit investment from Co-op members living in New Mexico to fund the revolving loan program. Between October 15 and December 31, 2010, the Co-op raised over $97,000 in investment capital for the revolving loan fund. All funds are held at the New Mexico Educators Federal Credit Union which also services the loans. Credit decisions are made by the Co-op, which is modifying its lending approach as it gains experience. Explains Robin, “The loans are $250 to $5,000 microloans. We originally thought that the loans would be made at the beginning of the season to finance crop-related expenses, have a one-year term, and then be paid off at the end of the year after harvest. We are finding out that isn’t what everyone wants, so now we work individually with each person and work out a term and payment schedule that fits their individual timing needs.”

Innovation, learning by doing, community investment, and passionate commitment to values of sustainable food systems, access to healthy foods, and cooperative models are enduring characteristics of La Montañita. As Robin says, “It’s an amazing group of committed people who have made it happen. Many of us have worked here for more than twenty or thirty years. Sure, we squabble and fight sometimes, but we share a common vision of a cooperative economy and that keeps us together and moving forward.”

GROWING A LOCAL FOOD SYSTEM: FARM FRESH RHODE ISLAND

By Nessa Richman, Brightseed Strategies

FARM FRESH RHODE ISLAND
Pawtucket, RI

SECTORS: Processing – Wholesale – Retail; "Food Hub"

GEOGRAPHY: Urban Headquarters; Programs bridging urban and rural communities

WEBSITE: http://www.farmfreshri.org

OWNERSHIP TYPE: Non-profit organization; operator of 9 summer and 3 winter farmers' markets, ebt accepted at all farmers' markets; aggregator and distributor of 40 small and medium-sized Rhode Island producers to restaurants, institutions and retail food stores; headquarters in former mill building in Pawtucket houses wholesale distribution center and winter farmers' market.

YEAR FOUNDED: 2004

SQUARE FOOTAGE: Total of 14,600 square feet, plus two loading docks

NUMBER OF STAFF: 9

TOTAL REVENUES (2010): $484,350

SOURCES OF CAPITAL (2010): A total of $484,350: $232,000 in grants; $85,000 in unrestricted donations; $89,500 in food hub sales (flat 15% of sales); $44,750 in farmers' market stall fees; $32,000 in direct food sales at farmers' markets (organization itself sells some items at its own farmers' markets); $1,100 from pilot year of Harvest Kitchen product sales.

OTHER FINANCIAL SERVICES NEEDED: Two checking accounts and one money market account with a local bank.

IMPACT/OUTCOMES: The success of Farm Fresh Rhode Island's programs has contributed to an increase in small and medium-sized farm viability in the state. The Market Mobile program has demonstrated the demand by building a functional marketplace, and growers have responded by increasing production acreage. This in turn builds the capacity/supply in the marketplace to serve low-income customers through schools, hospitals, grocers, and institutions.

Farm Fresh Rhode Island is growing a local food system that values the environment, health and quality of life of RI farmers and eaters. Their objectives are to preserve Rhode Island farmland and our agricultural and culinary knowledge, build healthier communities, increase access to fresher tastier food, improve impact of food production and distribution on our environment, and strengthen community-based businesses. Farmers' Markets are the core of Farm Fresh Rhode Island's operations. In 2010, the organization has made $36,500 worth of fresh, nutritious produce available to over 800 low-income residents through EBT and tens of thousands of dollars to several thousand WIC and low-income senior customers at 12 farmers markets. Their farmers' markets, collectively, have the highest WIC redemption rates statewide.

Farm Fresh Rhode Island is a non-profit organization. It has five main programs, three of which generate income. Those that generate income include (1) the Mobile Market, which aggregates and distributes products from 40 Rhode Island agricultural producers and charges a 15% fee. This project generated $89,436 in 2010; (2) farmers' markets, which charge vendors a variable flat rate stall fee of between $7 and $30 per week and generated $44,750 in 2010 (plus $32,000 in direct food sales at their own farmers' markets as noted in the Sources of Capital section above) and (3) the Harvest Kitchen commercial food processing pilot program, which trains at-risk/adjudicated youth to produce apple sauces, tomato sauce, peeled peaches, and dried peaches and apples through a state-run Youth Training Program and generated $1,100 in income in 2010. Overall, the organization has created the economic equivalent of 26 new on-farm and 3 new off-farm jobs, and pays 7 part-time drivers and 1 warehouse manager.

Farm Fresh Rhode Island is headquartered in a former mill building in Pawtucket's Woodlawn neighborhood. The Woodlawn neighborhood, located in the west and central sections of Pawtucket is home to one fourth of the city's approximately 78,000 residents. 77 percent of Woodlawn residents live in low income households, earning less than 80 percent of the area median income. 55 percent of community members are from minority populations and 43 percent of households speak languages other than English.

Farm Fresh Rhode Island leases 16,400 square feet of space, including 1400 for office space, 7700 for a twice-weekly retail farmers market, 1700 for vendor storage room for the retail market, and 3800 for the Market Mobile food hub warehouse. The Market Mobile food hub warehouse includes a 300 square foot 55º room, a 200 square foot 33º room, and a 100 square foot freezer. They also use two loading docks. Costs for the build out were roughly $100,000, and included architect fees, coolers, shelves, and a conveyer belt. Rent is $35,000 per year plus electric.

Farm Fresh Rhode Island also runs two programs that are grant-subsidized. These are the Nutrition Education Program, which provides educational activities for low-income seniors, parents and children at farmers' markets focused on cooking with fresh produce, and the Fresh Bucks Program, which is a system of augmenting Supplemental Nutrition Assistance Program (SNAP, former the Food Stamp Program) funds with private foundation dollars to increase the buying power of low-income customers at farmers' markets.

The Food Hub is growing by leaps and bounds. In 2010, Market Mobile helped 40 local farms sell $685,000 of food to 152 customers, solid growth from the 2009 pilot year sales of $225,000. For 2011, the organization plans to expand the current once-weekly delivery schedule to a more regular schedule to accommodate institutional buyers and continued overall growth. While this program is not yet self-sustaining, projections show a break-even mark at the $2 million per year level, which it is likely to reach in 2013.

With this rate of growth in the Market Mobile program, and plans to build out their community commercial kitchen program to better serve their Harvest Kitchen and Open Kitchen operations, Farm Fresh Rhode Island has a number of unmet capital needs. A processing kitchen with sinks, cutting area, steam kettle and slicers would allow Harvest Kitchen operations to be integrated into Food Hub operations and allow program trainees and graduates to do the light processing of fresh products that would both create new jobs and make the fresh Market Mobile food more attractive to institutions (e.g., Harvest Kitchen staff would clean, chop and package fresh green beans for school district buyers). However, they have not explored the potential of accessing a loan through a CDFI or bank. Executive Director, Noah Fulmer, states that the main reason that the organization has not explored this avenue is a lack of understanding regarding CDFIs and loan applications, requirements, and terms.

Farm Fresh Rhode Island has several key partnerships, including the State Department of Environmental Management Division of Agriculture, which has provided grant support, connections, and technical assistance; the federal Americorps Volunteers in Service to America (VISTA) Program which has provided funding for a number of full-time year-long staff positions; myriad anti-hunger, economic development, and agricultural producer non-profits serving farmers and low-income groups in the state, Brown University, local WIC clinics, the Providence Housing Authority, and the Rhode Island Foundation.

Farm Fresh Rhode Island faces a number of challenges as it moves forward. In order to support continued growth of the Food Hub operation, they need to streamline and standardize Market Mobile deliveries from farms and beef up their delivery schedule. If they expand beyond a delivery schedule of two days per week, they may need to build out warehouse space, develop a more efficient inventory system, and acquire accompanying certifications needed to serve institutional clients. Their Harvest Kitchen program was run as a pilot in 2010. This year they hope to expand it into a more profitable enterprise through working with top graduates from the youth training program to increase production. Agricultural product and consumer demand are not limiting factors at this time.

In order for Farm Fresh Rhode Island to gain understanding of and confidence in the potential for CDFI technical assistance and financial products to serve their needs, four main needs need to be met: (1) a basic understanding of CDFIs; (2) a meaningful dialogue with a CDFI and other food system stakeholders in the target area; (3) co-creation of a healthy food finance initiative plan in which they have “a seat at the table” from the outset; and (4) appropriately targeted technical assistance and loan products, likely including grant/loan packages.

Appendices

I. Value Added Producer Grants Programs, Center for Rural Affairs website (www.cfra.org)

II. Business Plan Outline, Santa Cruz Community Credit Union

III. Writing a Business Plan, Financial Planning for Your Microenterprise, Association for Enterprise Opportunity and the National Endowment for Financial Education

IV. Are You Ready to Start a Business or Expand a Business?, Association for Enterprise Opportunity and the National Endowment for Financial Education

Appendix I

Value Added Producer Grants Program Fact Sheet

What is the Value Added Producer Grant Program?

The Value-Added Producer Grant Program (VAPG) is a competitive grants program administered by the Rural Business Cooperative Service at USDA to help producers move into value-added agricultural enterprises. The program was first created under the Agricultural Risk Protection Act of 2000. It was then expanded and improved under the 2002 Farm Bill and has now been improved even further under the 2008 Farm Bill. This program aims to provide planning and/or capital investment for value adding enterprises started by farmers and ranchers.

See USDA's new Navigation Tool for the Value-Added Producer Grants program here.
To be eligible for grant funding, applicants for a Value-Added Producer Grant program must meet fairly strict requirements that will be outlined in the Notice of Funds Available (NOFA). If you are an independent producer, a farmer or rancher cooperative, agricultural producer group, or a majority-controlled producer-based business venture, you are eligible to apply for a value-added grant. The NOFA will provide definitions for each of these categories, along with other requirements of the program. A new NOFA is published each fiscal year and includes any information relating to any particular emphasis they are considering.

Types of grants:

When applying for a grant, applicants must choose between two different types of activities for funding. Funding is available for:
1) Developing feasibility studies or business plans, which include marketing plans, or;
2) Working capital to operate a value-added business or alliance.

Applicants are eligible to apply for only one of these two types of grants each grant cycle.

Grant funds may not be used for repair, acquisition, or construction of a building or facility or to purchase, rent or install fixed equipment. Cash and/or in-kind matching funds are required, must be at least equal to the amount of Federal funds awarded, and must be expended in advance, such that for each grant dollar advanced, an equal amount of match shall have been expended first.

New Program Features and Priorities

The 2008 Farm Bill made some positive changes to this program. Those changes include:

- An expanded definition of value-added to include locally-produced agricultural food product

- New priorities for awarding grants to projects that focus on increasing opportunities for the following: Small and mid-size family farmers and ranchers; Beginning farmers and ranchers; Socially disadvantaged farmers and ranchers.

- Grants for projects that help farmers and ranchers establish marketing partnerships that are equitable for all parties involved. This is called “mid-tier value chains.” This will help those mid-size farms that are too large to market directly but too small to be profitable selling raw commodities.

§ 20% of the total funding (10% for each) will be set-aside for projects from the following: Beginning or socially disadvantaged farmers and ranchers; and mid-tier value chains.

§ USDA will now be offering a simplified application form and process for small projects requesting less than $50,000. Many of the smaller grants are single farmer projects or lower cost feasibility studies, for which larger-scale working capital applications are unnecessarily complex.

Status of the Program
USDA issued a proposed rule for this program in October of 2008 and public comments were due in December of 2008. The proposed rule fell short in addressing some of the changes made to the program in the 2008 Farm Bill. Hopefully, the public comments will encourage them to revise the rule to better reflect the farm bill changes. Once the department finalizes the rule, they will publish a NOFA for the 2009 funding cycle. Any changes to the program rules will be spelled out in the new NOFA.

Matching Funds
The program requires a one to one match. A cash match is defined as actual funds dedicated to the project. An in-kind match includes time, equipment, space, staff salaries, etc. Examples of a cash match might be: third party contributions from groups, farm organizations or individuals donating cash towards a project; the salary of a person or persons working on a project (cash transaction); travel expenses to attend meetings or participate in training sessions; state appropriations or non-federal funds that have not been spent; bank financing; revolving loan funds; or county financing.

Examples of in-kind contributions include: space; equipment; supplies, copies, telephone and other expenses which are dedicated to the project; volunteer time/unpaid services provided to a recipient by an individual or employee working on a project (non cash transaction); value of hours of non-federally funded personnel assisting with project, e.g. State Dept. of Agriculture, local economic development agencies, volunteer board members, etc; donation of office space or meeting rooms; or donation of inventory including equipment or buildings.

Types of Valued-Added Activities Eligible for Grants
Commodity Processing Market Differentiation Commodity Segregation On-Farm Renewable Energy Local Food Mid-Tier Value Chain.

Increasing value by changing commodity's physical state Increasing value by marketing the commodity's special identity or character Increasing value by keeping the commodity physically apart in production and distribution Realizing value by transforming natural resources into energy on the farmstead. Increasing value by aggregating and marketing food for local markets. Increasing value by linking farmers with local and regional supply networks in which they are equal partners.

Examples: wine, flour, cheese, jam, biodiesel Examples: organic, grass-fed, humane, state branding Examples: GMO-free, no-rBGH, Varietal purity Examples: wind, solar, geothermal, on-farm biodiesel Examples: buy local - buy fresh, community based food enterprises, supplying local procurement preferences Examples: farm to institution, farm to food service or restaurant, value chain using a consumer seal.

Planning or working capital Planning or working capital Planning or working capital Planning or working capital Planning or working capital Planning or working capital.

Examples of Past Grant Recipients

Nebraska Small Farms Cooperative, O'Neill, Nebraska
The Nebraska Small Farms Cooperative received a $250,000 grant in 2004 to expand its product line and market overseas. The coop has grown from 29 farmers/members in 2004 to over 90 today. It markets pre-cooked, USDA verified, non-hormone treated meat to businesses in the U.S. and Europe. Not only has the coop passed value-added profits back to farmers, but its success has also spilled over to a local meat processing plant as annual processing contracts were signed to benefit both parties.

Pinn-Oak Ridge Farm, Delavan, Wisconsin (www.wisconsinlamb.com)
In 2005, Steve and Darlene Pinnow received a $150,000 grant to brand and direct market their pasture-raised lamb. It has allowed them to expand their market from 40 restaurants and grocery stores to 60 retailers in Wisconsin and Illinois. The Pinnows are now working with a distributor in Chicago who learned about their pastured lamb from the USDA announcement of their VAPG grant.

Ives Cream, Norwich, New York
The Ives family operates a sustainable dairy farm that has been handed down through six generations. With the help of a $47,550 VAPG grant in 2004, they planned and executed a successful marketing campaign for their premium ice cream. Today, they operate a seasonal retail ice cream parlor in downtown Norwich, NY where great locally-produced ice cream, customer service, and a community focus have proven to be a winning business combination.

Prairie Pride, Inc., Deerfield, Missouri (www.prairieprideinc.us)
This new-generation, producer cooperative that will be converting soybean oil into bio-diesel fuel with the help of a $300,000 working capital grant in 2006. The new facility will ultimately crush 21,000,000 bushels of soy beans per year to obtain soy oil. The refinery will then convert that soy oil into 30,000,000 gallons of bio-diesel.

How Do I Start?
We strongly recommend that you locate a resource person in your county, state or region that can give you some professional advice on your grant application, as well as your business ideas. We have provided some contacts in our resource guide that are organized by state.
The most recent information on funding availability and applications is available through your state USDA Rural Development Office.
Now is a good time to check with your state office or your state's Department of Agriculture about recent news or upcoming workshops about the program. They can provide information, applications and guidance on when and how to apply for a grant. Set up a meeting with your USDA Rural Development office and educate them about your project and ask them for information about the program.
Other sources for information regarding value-added enterprises or how to apply for a VAPG can be found at:

1) The Agriculture Marketing Resource Center website: www.agMRC.org. This website offers a broad range of information on value-added, direct marketing initiatives. Through links to Innovation Centers around the country at the state level, the website makes available information on a broad range of issues.

2) The University of Nebraska offers a template of the grant proposal, which is helpful in completing the financial reporting requirements in the application. That template is available here.

USDA Contact Information and Online Resources

USDA website for the VAPG Program: www.rurdev.usda.gov/rbs/coops/vadg.htm.
An online assessment tool is available at www.rurdev.usda.gov/rbs/coops/vapgea.htm that will assist you in determining whether or not you are eligible to apply for a VAPG grant.
Tracey Kennedy, USDA VAPG Program Manager, 202-690-1428.

Appendix II

Business Plan Outline

I. Summary of Business

A. Name of business
B. Location and description of business facilities, condition, and planned improvements
C. Product, market and competition
   1. Description of product(s)
   2. Description of market in general and your approach in particular
   3. Description of competition
D. Ownership: Legal structure and documents
E. Goals

II. Analysis of Business

A. Manufacturing/production (if relevant): Description of process, timing and supplies
B. Technology: Compare your technology with competitors
C. Capacity: Compare your capacity to produce or serve relative to your competitors
D. Business equipment
E. Major strengths and weaknesses
F. Key success factors

III. Management

A. Experience of owners and key personnel
B. Staffing plans
C. Operating plans

IV. Financial Data

A. Pro forma balance sheets
B. Profit and loss projections
C. Cash flow projections
D. Loan budget
E. Insurance
F. Description of collateral
G. Tax returns

Appendix III

Writing A Business Plan

Financial Planning for Your Microenterprise

Association for Enterprise Opportunity and the National Endowment for Financial Education

Think of a business plan as your blueprint to building a successful enterprise. Just as a carpenter should never start hammering away on a project without a blueprint, you should never jump into a business without a plan.

No one knows your business like you know it, so don't hire an "expert" to write your business plan. Doing it yourself also will help you focus on your business idea, figure out who your customers will be, and chart your operational and financial needs. A good plan will also show you if your idea can succeed. Plus, it's easier to fix any problems that appear while they're still on paper.

Even after you launch your business, a plan can help guide you from the start-up phase to stability. A plan also is a must if you're going to seek financing. All in all, creating a business plan is a good idea: Studies show that businesses that have plans perform better and are more likely to succeed than those that lack plans.

You can find many books, courses, and Web sites devoted to writing business plans. For a small business like yours, you can boil down you're your business plan to a few key elements. Remember: Your local Microenterprise Development (MED) organization can offer guidance and training while you're putting the plan together.

Writing a business plan may seem like a daunting task. At your local MED organization, however, you're likely to find courses that will teach you how to write a business plan. Staff members also will be available to offer suggestions and help as you go through the business-planning process.

Take Your First Step

A feasibility analysis is a simple first step to help you decide if you are on the right track with your business idea before you spend long hours on a complete business plan. The analysis, only a few pages long, will answer two key questions: Is there sufficient demand for the product or service and can the product or service be provided profitably? To start, write a few paragraphs that summarize your business idea. Then, briefly outline the market for your product or service. This includes the growth potential of the industry as a whole as well as specific demand for your product or service. Next, explain your product's or service's advantages over competitors' offerings. The last section of your analysis will look at basic financial measures: Can you price your product or service to be competitive in the marketplace and still cover your expenses? To do this, perform a break-even analysis, described in detail in Chapter 6, which shows the total sales you need to make to cover your costs. If you find the number of units you must sell or your selling price are impossibly high, stop here. There is no need to move ahead on a full business plan until you figure a way to trim costs or increase sales. If the analysis is positive, then continue into a full-blown business plan.

Describe your business

A business description begins your business plan. It explains what the business will do or make, whom it will serve, where it will be located, when it will operate, and why you're doing it. Answer these questions to gather information to write your business description:

- What product will I make or service will I provide?
- Am I being realistic about my idea Do I have the skills, finances, and equipment to carry out my idea? (For instance, starting a full landscaping business takes a lot of money, but beginning a lawn mowing and snowplowing business is a lower-cost alternative.)
- Am I starting a new business, taking over or expanding an existing one, or buying a franchise?
- Will it be my full-time or part-time employment?
- Why am I going into this business?
- Why is there a need now to start this business in this area?
- Who will be my customers and how many of them are there?
- How will my business be different from similar businesses?
- When and where will I do business? How will my locations and hours benefit my customers?

Analyze the Market

A market analysis is the part of the business plan that describes the demand or need for your proposed business. A successful business offers a service or product that customers can't easily find elsewhere, or that is better, cheaper, or otherwise different from competitors' offerings. It also offers a product or service for which demand is steady or growing. Typewriter repair doesn't have much of a future, for instance, but computer repair does!

Analyzing the market will involve more than checking listings in the phone book, or driving through the neighborhood to count similar businesses to the one you'd like to start. You will be able to find some of the information you need through the public library, the Internet, or government offices. You may also find help through business associations, such as the Chamber of Commerce. Answer these questions to gather information to write your market analysis:

- How much do I know about my competitors and how they do business? Are their businesses growing? What are their strengths and weaknesses? How will my business be different from theirs? How can I compete with them?
- How much do I know about the customers I want to attract? How big is my target group of customers? Is the group growing? Is their need for my product or service increasing? Where do they live? What are their incomes? Is this target group big enough to support my business?
- How much do I know about the economy and its impact on my business? Is the local economy growing, steady or weakening? How will its condition affect my business? Are their national or international economic changes that will have an impact on my business? How will I deal with economic changes, local or international, that might hurt my business?

Reach Out to Customers

A marketing plan is the part of your business plan that explains how you will attract and keep customers using pricing, advertising, and promotion. You may have the best business in the world, but it will fail if prospective customers don't find out about it. The marketing section also includes sales projections, which are you best estimates of how many products or services you expect to sell under a variety of conditions. Answer these questions to gather information for you marketing plan:

- What's the best way to reach people I want to be my customers? Can I reach them through television, radio, or newspaper advertising? Can I mail them information about my business? Can I join forces with another business that sells a different product, but deals with my target customers? For instance, a child-care provider might market his or her services with a diaper service or a toy store. What will these different strategies cost? What option or options reach the most people for the best price?
- How will I portray my product or services in order to attract customers?
- Do I have a catchy, memorable name for my business?
- What prices will I charge for my services or products? Why will these prices be attractive to my target customers? Will these prices cover my costs and allow me to make a profit? How will my prices compare to my competitors' prices?
- How many sales do I expect to make in a year? Typically, you forecast sales for the "best case," "most likely case," and "worst case" scenarios you'll encounter, with the explanations of what factors would lead to each case.

Research Marks the Spot

There's no quick commute for the Tee Tanaka. The former banker opened his Japanese restaurant Moshi Moshi in Boulder, Colorado, about 35 miles from his Denver home. His marketing research told him it was the place to be.

"I thought I would fit into the Boulder niche," said Tanaka, a native of Japan who has lived in the United States for nearly 40 years.

With help from his daughter, who works in the University of Colorado's School of Entrepreneurship, Tanaka researched the Boulder market. He found that residents of Boulder, thanks to CU's presence, are largely young, active, and health-conscious. Tanaka visited other successful Boulder restaurants, including Noodles & Co., a restaurant that sells international pastas that has expanded to several states from its Colorado roots. Tanaka's findings helped him refine his mother's traditional recipes for his target customers: college-age and health-conscious diners. For instance, he moved to a higher quality, low-fat beef for his beef and noodle bowl rather than the traditional fatty beef. He dropped deep-fried dishes, such as tempura, and uses only a little sesame oil in food preparation.

Tanaka also put Moshi Moshi—the name is Japanese slang for "quick"—on what he called a "strict business approach." He looked for every possible way to cut costs, even spending Sundays going over financials and taking care of details. "That comes from my business background," said Tanaka. His partners in his limited liability corporation (LLC) are former colleagues from his 30 years in banking. They also have know-how and "great ideas," Tanaka added.

The LLC was formed in 1999, but Moshi Moshi didn't open until February 2001 after 14 months of intensive work. The partners met with restaurant and kitchen consultants and other experts to refine Tanaka's concept. Finding the right space took the most time. Tanaka had hoped to convert existing space for the restaurant, but nothing he found was quite right. He finally settled on a building under construction on Boulder's downtown pedestrian mall.

The location turned out to be a more expensive choice, but a good one. Tanaka had considered locating adjacent to the university. One fact his research had missed: Boulder's restaurant business drops off in the summer when CU has fewer students on campus. The mall, though, is less affected by student population changes. "Sometimes, it's just a matter of luck," Tanaka said of his location choice."

Hard work and attention to the bottom line have gotten Moshi Moshi through difficult economic times. "I probably would not have existed through those obstacles if I had not taken the austere business approach I did," Tanaka said.

He still hesitates to call Moshi Moshi a success, although business is good. He'd like to add other locations in the Boulder-Denver area, but, at age 62, he wants to find someone who will take over the day-to-day responsibilities. Still, he's happy to realize his dream, even if it comes with ups and downs.

"It's a 'cry one minute, laugh the next' sort o f business," Tanaka said.

Projecting Sales: An Example

Imagine you want to start a home computer repair business. Using census data, you determine there are 1,000 residences within five miles of your business. Further research shows 80 percent, or 800 homes, have home computers. Your research shows that 75 percent of owners nationally need their computers repaired or upgraded during a year. That means 600 (.75x800) homes in your marketing area might need services each year. You have found only one competitor in your marketing area. Because you have priced your service lower than the competitor and plan an aggressive marketing campaign, you believe you could attract a third of the potential market, or 200 computer owner's, during the first year—your "most likely case" scenario. You believe the average customer will require $100 of your services, so your income before expenses will be $20,000 a year. Your "best case" scenario envisions your marketing efforts being more successful and attracting half the potential market, or 300 computer owners, for a gross of $30,000. In your "worst case" scenario, you estimate what will happen if people have stronger-than-expected relationships with your competitor. In that case, you estimate you will capture only a sixth of the market, or 100 customers, to make $10,000.

Organize the Day-to-Day Operations

The operations and management parts of your business plan explain who will be involved in your business and how you will produce the goods or services to sell. Answer these questions to gather information for these parts of the plan:

- If you are making a product, what materials and supplies will you need? What tools, machines, facilities, or furniture do you need? Where will you get them? What do they cost? How much inventory (extra materials) will you need to keep on hand?
- If you are offering a service, how will you provide the service? What materials or equipment, if any, do you need to provide the service?
- How will you be certain you are giving customers quality goods or services? What warranties or guarantees will you make on your products? How will you handle customer service, complaints, repairs, and returns?
- How many people will be involved in your business? What will each person do? What role will you take? What special skills or training do you or your employees have to help the business succeed? Do you have advisors who are going to help you? Who will take responsibility for the business? (This probably will be you.)

Business plans also include financial analyses and detailed examinations of startup and expansion costs, including cash-flow projections for several years. We will look at these parts of your business plan in the next chapter.

Set a Course with a Business Plan

Beaulah Williams, who lives in the Maryland suburbs of Washington, D.C., first learned to sew at age 8, and made beautiful clothes for herself and her children for many years. It was only after she learned business skills, however, that she was able to turn her sewing know-how into a thriving business.

In 1984, she and her husband separated and she began raising their four children alone. By 1995, she was struggling financially on part-time work, government benefits, and child support. She happened to read a newspaper advertisement about the Foundation for International Community Assistance (FINCA), a microenterprise program, in nearby Washington. There, she learned the skills to help her develop her business idea. Learning to write a business plan was her most valuable lesson, Williams said.

"In doing a business plan, you have to do research," she said. "I came to understand you will not want to do the same business that other people are doing." Williams narrowed her business idea. She decided to concentrate on making custom clothing for individuals and dropped her plans to also make wedding dresses and children's clothing, which were areas in which she found she would have the most competition. "The business plan makes you focus," she said.

Her home-based business, B.B. Design, opened in 1995 with a $500 loan from FINCA for a new sewing machine. Williams offered both African-inspired and American clothing. The business grew and she was able to take a larger owner's draw by 1997. Her success story was told in major newspapers and on network television, and she was invited to speak at the United Nations General Assembly in 2000 about the benefits of microcredit. As she became better known, her business began selling clothes all over the country.

A few years later, however, Williams decided to put her business on the back burner while she completed a degree in divinity. She continues to do some alterations and sewing, but primarily designs and makes unusual minister's robes, which she prices at $900 to $1,000 each. "Each summer, I'll be sewing for tuition," she said.

Williams has shared her hard-earned business knowledge as well as her sewing skills with disadvantaged women in homeless shelters. Several of the women have started their own sewing businesses.

Appendix IV

Are You Ready to Start A Business?

Do you have a clear idea for a business?
Do you have experience in your chosen business?
Are you motivated and determined to develop this idea?
Are you realistic about the potential your idea has for growth and income?
Are you familiar with basic financial tools such as bank accounts?
Are you a good communicator?
Do you have the self-confidence to sell yourself and your idea?

Are You Ready to Expand a Business?

Are your competitors growing their businesses?
Do you plan to expand your current line of business or branch into an associated field?
Have you examined the financial benefits and risks of expanding?
Can you show you will gain economies of scale if you expand? That means expansion allows you to sell more of your goods or services, resulting in lower costs per unit and more profit.
Can you get the money, either internally or through loan sources, to fund expansion?
Can you keep your customers happy while you go through “growing pains”?
Do you have or can you find the human resources necessary for expansion?
Do you have the people skills to direct more employees and are you willing to turn over partial control of your bigger business to others?

Source: Association for Enterprise Opportunity and the National Endowment for Financial Education