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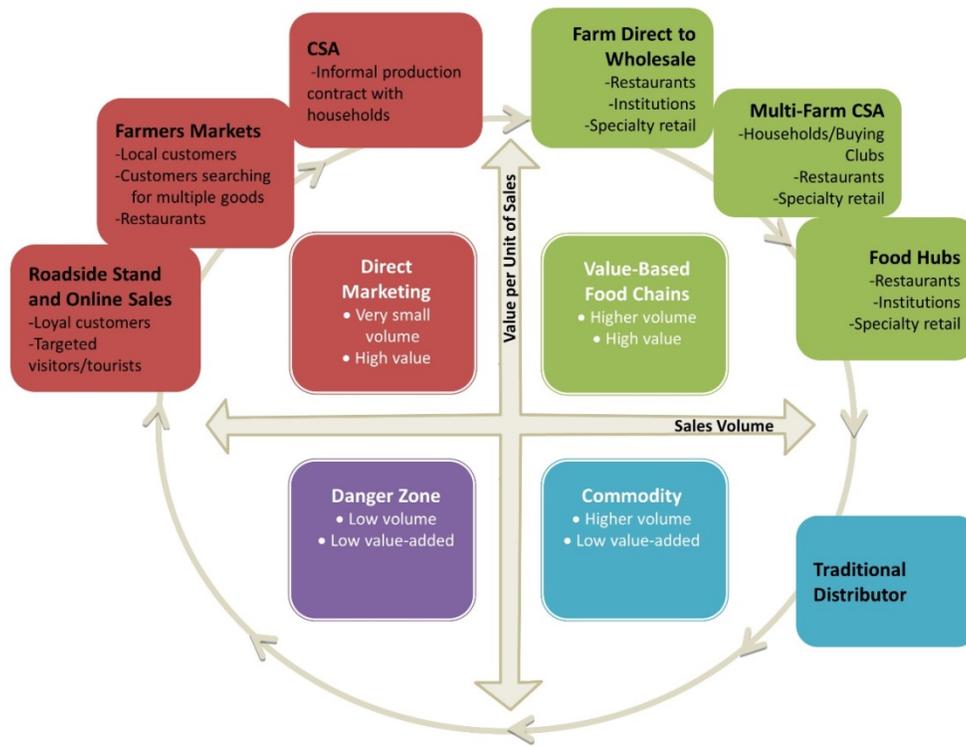
An Overview of Emerging Business Models in the Local Foods Landscape

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In response to growing public interest in regionally-focused food systems, a proliferation of business models for expanding sales into these markets is occurring. In a recent U.S. Department of Agriculture (USDA), Economic Research Service (ERS) report, the most recent data and findings on several aspects of local and regional models were shared, but even that report noted that the concept of localness may vary by the audience, purpose and data of the food system dimension where local is applied (Low, et al., 2015). Given that some of the growth in regional food systems is anchored in the idea of increasing the share of food dollars retained by farmers, if not their allied business associates and communities, it seems important to better understand how different models address those goals. We propose a typology of local/regional food system business models, employing representative categories to help small and medium sized farmers learn how their operations best fit the changing food marketing landscape.

Figure 1 represents a variety of the most common food system enterprises, both local and non-local. The typology can be divided into four quadrants using the sales volume as the horizontal dimension and the value-added (operating profit margin) per unit of sales as the vertical dimension. The types of models are ordered, and connected by arrows, to represent common evolutionary steps that operations may take if their current marketing choice or portfolio evolves with plans to expand or decrease in scale, as new marketing opportunities appear or financial challenges arise. The top two quadrants (and their subcategories) will be the focus of this article, as they correspond most directly to the business ventures found in local and regional food systems, and as Low, et al. (2015) reported, these intermediated sales may also be the future for growth in these markets.

Figure 1. A Classification Scheme of Local Food Business Models



Direct Marketing

As a broad category, direct marketing encompasses several marketing models that have emerged as a growing segment, but with slowing growth in most recent years (Low, et al., 2015). This category represents high-margin outlets with low sales volumes, high input costs (including labor) and limited ability to scale up due to seasonality and low share of consumer dollars spent in these markets. Online sales and roadside stands allow for the higher margins desired in direct markets but do not allow producers to “leverage” the power of more collaborative markets, thus they are relatively low on the vertical axis of Figure 1.

Farmers’ markets, a fast growing sector of local/regional food systems whose growth has plateaued in the past few years in terms of total numbers across the U.S., have been one of the central business models for direct marketing enterprises. Although commonly cited as a great start-up marketing choice and one that improves farm gross sales (e.g., Hunt, 2007), there is some agreement that potential sales volume may be limiting to vendors, and in some cases may not cover the additional inputs required by farmers’ market sales (i.e., packaging and labor requirements) (Hardsety and Leff, 2010; LeRoux, et al., 2010). An increasing number of farms provide their products directly to their consumers through community supported agriculture agreements: a model that provides more stable profit margins with an ability to scale up in areas near urban consumer centers. For this reason, it is placed higher on the vertical axis of Figure 1.

Value-Based Food Supply Chains

As illustrated in Figure 1, value-based food supply chains serve as one potential mechanism to scale food enterprises up while retaining some marketing control. Within this larger category, several models have emerged with varying organizational and marketing strategies which may influence whether producers and their communities will benefit from their existence.

Farm direct to wholesale, where farms sell products directly to specialty retailers, restaurants, and institutions, may allow for long term relationships and informal contractual supply chains. Although long-term, cooperative supply chains may allow the prices paid to the farmer to be sustainably higher than commodity counterparts, some tension does arise in finding a price that works for both the buying and selling businesses (King, et al., 2010). Similarly, multi-farm CSAs allow the farmer to retain control over their products (in terms of setting production levels and/or prices), but farmers use a collectively-owned centralized system to market, sell and distribute their products. The model can provide favorable returns to producers, but one of the main challenges faced is maintaining equity among producers given the wide variety of volume and product type (Schmidt, et al., 2011).

Finally, food hubs are where the producer leaves all elements of the supply chain to a central organization, similar to a mainline distributor, but with governance aligned with collaborating producers' missions. Fair pricing is a key distinguishing characteristic of this value chain model, but also a challenge as the organization and the producer both aim to maximize profits while working in an environment of small margins. Table 1 summarizes the advantages and disadvantages of each category of the typology.

Table 1. Market Typology Advantages and Disadvantages

Market Orientation	Customers	Managerial Control	Pricing Power	Market Volume Potential
Roadside Stand and Online Sales	Local, traveling and national households	Full control	High	Low to high
Farmers Markets	Local households, travelers	Full control	High	Low to medium
CSA	Local households	Full control	Medium	Low
Farm Direct to Wholesale	Local, independent businesses, institutions	Full control	Medium	Medium
Multi-Farm CSA	Local households and businesses	Shared control	Medium	Medium to High
Food Hubs	Local businesses and institutions	Shared to limited control	Medium	Medium to High
Traditional Distributor	All buyers	Limited control and pricing power		

Conclusion

A generalized typology of marketing choices and the associated advantages and disadvantages will assist small and medium-sized farmers respond to their own desire to grow or respond to future innovations in their local economy and/or market linkages in the future. The categories outlined in Figure 1 are necessarily broad, but may help enterprises identify their current position(s). And, as they move forward with future planning, this summary may direct them to the most relevant case studies, literature and market players so effectively compiled in a number of directories and bibliographies developed by key food system organizations.

For a more detailed discussion please see our full article on the eXtension website titled [An Evolving Classification Scheme of Local Food Business Models](http://www.extension.org/pages/70544/an-evolving-classification-scheme-of-local-food-business-models#.VOaQNC6Hyug):

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