Community Food Enterprise

Local Success in a Global Marketplace

A project of the Wallace Center at Winrock International and the Business Alliance for Local Living Economies

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Community Food Enterprise:
Local Success in a Global Marketplace

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Introduction

Any doubts about the significance of the local food movement in the United States were dispelled in May 2007, when the cover of Time magazine proclaimed "Forget Organic, Eat Local." Barbara Kingsolver's book Animal, Vegetable, Miracle, describing her family's efforts to embrace a 100-mile diet, became a national bestseller. Also in 2007, the Oxford Dictionary called "locavore" one of the most important new words of the year. Today, anyone who walks through an American city, suburb, and town will find at least one restaurant, supermarket, or farmers market advertising "local food sold here." This movement is spreading worldwide. Slow Food International, for example, boasts more than 100,000 members in 132 countries.

Yet the local food movement is still not very well understood. To many, local food is exclusively about proximity, with discriminating consumers demanding higher-quality food grown, caught, processed, cooked, and sold by people they know and trust. But an equally important part of local food is local ownership of food businesses. Indeed, without well-designed small enterprises, local food would be an oxymoron. Proximity and ownership, of course, are naturally related to one another—locally owned food businesses tend to focus on local markets, and locavores tend to favor these businesses—but not always. As locally owned food businesses grow, they often reach into global markets. This report is about the full range of locally owned businesses involved in food, whether they are small or big, whether their focus is local or global markets. We call these businesses community food enterprises (CFEs).

Many of our readers thinking about CFEs might conjure up images of roadside stands selling bruised apples, of food cooperatives with industrial sized bins of dry grains for self-service, or of fancy restaurants with meals affordable only by the rich. Even though these scenes are contradictory—it's hard, after all, to be simultaneously proletarian and praetorian—they are consistent in suggesting a movement that operates on the fringe.

This report aims to provide a more nuanced, comprehensive, and accurate field report on CFEs. Through 24 case studies—half inside the United States and half outside—we show a range of CFEs that suggest a huge diversity of legal forms, scales, activities, and designs. We explore four questions in depth:

- What strategies are community food enterprises deploying to heighten their competitiveness?
- What are the major challenges facing these enterprises and the ways they are overcoming those challenges?
- How well are these enterprises meeting the triple bottom lines of profit, people, and planet?
- To what extent are successful CFE models capable of being replicated worldwide?

The success of CFEs is often measured against their larger competitors, many of which are realizing greater economies of scale and decidedly not locally owned. Yet our case studies reveal 14 powerful strategies CFEs are deploying to compete effectively. Moreover, and less well appreciated, is that larger companies also are encountering growing diseconomies of scale. Long supply chains, for example, are especially vulnerable to rising oil prices. It's true that CFEs face special challenges—in leadership, finance, secession, and technology, to name a few—but even here they are developing impressive ways of overcoming them. And many CFEs are making these strides without compromising their social performance—indeed they have turned their superior social performance into compelling competitive advantages. Together, these innovations, once they are fully known, appreciated, and communicated, suggest that CFEs might be capable of explosive growth in the years ahead.

Our Case Studies

Below, we briefly introduce our 24 case studies through the best known part of their business. Although we've provided the list below to give readers an at-a-glance overview, we should note many of our CFEs actually have multiple businesses and occupy multiple links on the supply chain.

Primary Food Producers and Harvesters:

- Anna Marie Seafood is a sole-owner limited liability corporation based in Dulac, Louisiana, whose founder, Lance Nacio, has developed methods for freezing shrimp onboard his ship and markets his shrimp directly to retailers across the country.
- Kasinthula Cane Growers Limited is a limited liability company in Malawi, formed through a public-private partnership and owned by a smallholder farmers' trust, which helps 280 farmers grow and sell sugarcane at fair trade prices.
- Kuapa Kokoo, Ghana's largest producer cooperative, represents 45,000 cocoa farmers and helps them produce and sell raw cocoa. The farmers also co-own the Divine Chocolate Company, which markets products that incorporate Kuapa Kokoo's cocoa.
- Panchakanya Agriculture Cooperative Limited enables three dozen women farmers in Nepal to profitably sell organic fruits and vegetables for markets in Kathmandu.
- Swanton Berry Farm is a for-profit corporation in Davenport, California, with a fully unionized workforce

that has demonstrated how to grow organic strawberries, manufacture value-added jams and pies, and sell them directly to the public.

Value-Added Food Production:

- The Ajddigue Women's Argan Cooperative helps 60 women in Morocco extract oil from native argan trees, and then sell oil-based food and cosmetic products to buyers worldwide at fair trade prices.
- Akiwenzie's Fish is a Native American, family-run business in Cape Croker, Canada, that catches, smokes, and sells directly high-quality fish to farmers markets in Toronto.
- Cooperative Regions of Organic Producer Pools (CROPP), better known as Organic Valley and Organic Prairie, has become one of the largest and most influential producer cooperatives for marketing organics in North America, representing 1,300 farmers who are involved primarily in dairy but also in eggs, soy products, orange juice, fruits, vegetables, and meat.

- Lorentz Meats, based in Cannon Falls, Minnesota, is a multi-species meat processing plant that has demonstrated the viability of a "mid-scale" company in linking small meat producers with larger markets. It also processes meats for larger companies including CROPP.
- The Mavrovic Companies have popularized local organic bread and meats in Croatia through its organic farms, a bakery, a marketing apparatus, and a research center.
- Sunstar Overseas Limited, in India, has developed certified rice products, including conventional and organic basmati, and has partnered with thousands of small-scale farmers in northern India in fair trade agreements.

Food Product Aggregation and Distribution:

- Appalachian Harvest Network, an entrepreneurial nonprofit program based in Abingdon, Virginia, has helped nearly 70 former tobacco farmers transition to growing organic fruits and vegetables. It provides them with the capacity to sell to regional supermarkets and other buyers.
- Indian Springs Farmers Association is a producer cooperative that enables three dozen primarily African American farmers from rural Mississippi to wash, aggregate, and package fresh fruits and vegetables, and then truck them to markets across the United States.
- The National Onion Growers' Cooperative Marketing Association (NOGROCOMA) in the Philippines helps its 200 members market their onions domestically, and imports and sells onions from neighboring countries to provide added income to members.
- The Oklahoma Food Cooperative is an Internet-based producer and consumer cooperative in the state of Oklahoma, run by a small part-time staff and an army of volunteers. It links buyers and producers throughout the state and mobilizes delivery of thousands of products to 38 sites one day each month.

Food Retailers:

- Cargills (Ceylon) PLC, founded in 1844, is best known as a chain of 138 supermarkets in Sri Lanka (though it also includes processing facilities and restaurants) that buys raw foodstuffs from 10,000 smallholder farmers at fair trade prices.
- Greenmarket, an entrepreneurial nonprofit program in New York City, is the largest farmers market system in North America. It runs 49 market locations, many year-round, and caters to low-income residents using the Supplemental Nutritional Assistance Program, or SNAP (formerly the Food Stamp Program).
- Weaver Street Market is a 12,000-member worker and consumer cooperative near Research Triangle, North Carolina, which runs not only three grocery stores but also a commissary, bakery, and restaurant.
- Zingerman's Community of Businesses is a network of for-profits based in Ann Arbor, Michigan, which includes a delicatessen, bakery, creamery, catering and events business, a mail order company, a coffee roastery, a restaurant, and a consulting business.

Restaurants:

- Cabbages & Condoms is a chain of twelve for-profit restaurants and resorts in Thailand, all specializing in local cuisine and local food production, which are designed to finance the public health and environmental programs of the country's oldest NGO.
- Sylva Professional Catering Services Limited has spread appreciation of local food throughout Zambia and internationally through its catering services, a restaurant, and training programs.
- The White Dog Café, based in Philadelphia, Pennsylvania, features local and organic fare at moderate prices and has become ground zero for local food system development and buy-local movements across the United States.

Food Business Incubation:

- Fundación Paraguaya's Financially Self-Sufficient Organic Farm School, based in a rural region of Villa Hayes, Paraguay, teaches CFE entrepreneurship to low-income high school students through local enterprises that defray the costs of running the school.
- The Intervale Center, based in Burlington, Vermont, is a nonprofit that has transformed an abandoned parcel of land into successful organic farms, value-added food businesses, local-food education programs, and a county-wide composting program.

Defining Community Food Enterprise

What exactly do we mean by CFEs? The businesses studied in this report meet four basic tests:

- *Enterprise*—A CFE must be capable of achieving a positive cash flow. We did not include nonprofit projects that, by design, are perpetually dependent on grants and government subsidies. We were only interested in self-financing businesses, whether for-profit or nonprofit, that can plausibly grow local economies through the marketplace. The nonprofits that we included, such as Appalachian Harvest Network in Virginia and Fundación Paraguaya, meet this test.
- *Food*—A CFE must be involved in the growing, harvesting, processing, packaging, marketing, distributing, wholesaling, retailing, or serving of some kind of foodstuff. Some of our case studies feature enterprises with one or more departments running non-food businesses, but each makes food a central part of its identity. The Weaver Street Market in Carrboro, North Carolina, for example, has linked housing and public radio broadcasting businesses, but everyone in the community knows they are primarily a food cooperative with three big grocery stores.
- *Local Ownership*—A CFE must be more than 50% owned by people residing in the immediate geographic community. The owners can be individuals, shareholders, partners, proprietors, or cooperative members, and they also can be local institutions such as other businesses, banks, investment funds, churches, or charities. Some ownership in a CFE can even be held by a public agency—as long as it's not a controlling interest.[1] In the one public-private partnership we examine, Kasinthula Cane Growers Limited in Malawi, the government played an important role in starting the business but today is a minor player and has no financial stake in the enterprise.
- *Local Control*—A CFE must place most of the legal rights and responsibilities of running the company in local hands. It can therefore include franchise operators as long as they have some ability to shape the business. A good test of a locally controlled franchise is whether the operator is permitted to source foodstuffs locally. A CFE also can include regionally proximate chains, where the owners of the parent company live close to all the links in the chain. Cabbages & Condoms in Thailand is an example of both. It runs a chain of restaurants and resorts in Thailand, all owned by Thais, but has begun to loosely franchise its business model and name to partners in France and Japan.

Admittedly, these do not fully resolve questions about whether certain businesses are CFEs. The term "locally owned," for example, means that more than 50% of the ownership is held by people who live proximate to a company. But what exactly is proximate? A neighborhood? A city? A metropolitan region? A state? A country? For our purposes, we generally consider a firm local if a majority of the shareholders live within 100-200 miles of the company. When the owners live no farther than three or four hours drive from the company, they probably have more than a passive relationship to their investment. They are likely to know the managers, inspect the company, and take personal responsibility for its success and failure.

Several of our case studies are of businesses that are quite large, which underscores that locally owned does not necessarily mean small. Zingerman's Community of Businesses in Ann Arbor, Michigan, for example, represents eight separate enterprises with annual sales over $27 million, yet each enterprise, by design, is owned by partners residing in or near Ann Arbor. Larger still is Cargills in Sri Lanka, a chain of 130 food markets linked with 10,000 smallholder farmers and 2,000 small businesses involved in processing and distributing its food products. Even though Cargills employs 5,600 people, has annual sales of $112 million, and has become publicly owned, we considered it local because it's still majority family-owned in a country the size of West Virginia.

Tricky questions are also raised by large producer cooperatives. The Cooperative Regions of Organic Producer Pools (CROPP), better known by its Organic Valley and Organic Prairie brands, has more than 1,300 farmers spread over 32 U.S. states and one Canadian Province. Its annual sales exceed $500 million. Yet the real

power of the enterprise resides in the farmers, who each own their own farm. While CROPP sets high standards for the raw foodstuffs they buy, each farmer retains independence in how the standards are achieved. They are welcome to buy cheap supplies, seeds, equipment, and other inputs from the cooperative, but they are not required to. They can quit the cooperative whenever they choose. CROPP also ensures that local raw and value-added products are marketed within the region they are grown. We concluded that producer cooperatives, even very large ones, are best understood as institutions created by and for local businesses, and therefore qualify as CFEs. And, as it happens, most of the day-to-day management of CROPP also occurs in LaFarge, Wisconsin, where the cooperative was started 20 years ago.

Models of Local Ownership

One of the key messages of this report is that CFEs are a lot more common than most people think—and are more critical to an economy's well-being than most economic developers appreciate. Common statistics about food can be misleading. In the United States, for example, many economists trivialize the role of agriculture by pointing out that less than 1% of the workforce is involved in agriculture. In fact, a better sense of the role of food in the economy comes from looking at consumer expenditures. The typical American family spends 10% of its budget on food.[2] Many other expenditures not in this category also are tied to food, such as purchases of refrigerators and microwaves, college tuition payments that include room and board, and retirement savings that contain allocations for future food expenditures. And then there are the many indirect benefits that good local food systems can contribute to an economy, including less sickness, more productive working lives, more tourism, and more productive ecological resources. A fair accounting of these factors could reasonably conclude that one-fifth or more of the U.S. economy was tied, directly or indirectly, to food. In the developing world, where far more of the people live closer to the land and are growing their own food, the percentage of the economy tied to food is far greater.

Most food businesses right now are actually small and local. Again, start with the developed economy of the United States. Roughly half of the private economy, by jobs and output, rests in small businesses according to the U.S. Small Business Administration, which defines a business as "small" if it has fewer than 500 employees. Drill deeper into the data about food businesses and the presence of local ownership gets larger still. For example, the North American Industrial Classification System contains 1,100 categories, roughly 100 of which relate to food.[3] In most of these categories, most employees work for local businesses. All agriculture services provisions are dominated by local business. Two-thirds of the food wholesale categories are local. The only one of a dozen food retail categories dominated by chains is supermarkets (like Kroger or Safeway). All food services are local, except cafeterias and food-service contractors (like the Compass Group or Sodexo). Even in the 53 categories of food manufacturing, which one would expect to be made up of large companies, at least 40% are small and local. Again, in developing countries, the greater presence of subsistence and family farming would suggest their food sectors have a higher percentage of CFEs than the United States does.

Local ownership is the norm in almost every legal form of business organization. The exact contours of business organization depend on the laws of the country—or of a sub-national unit of government (for example, in the United States each state has its own laws on creating businesses). Worldwide there are probably thousands of such forms. But under closer scrutiny, nearly all these structures fall into five broad categories:

- *Proprietorships*—Sole proprietorships and partnerships are for-profit enterprises typically governed by people who actually run the business. These are the most basic forms of local enterprise. Typically one person, a family, several friends, or a small number of individuals are the owners. They choose these business forms because they are the simplest ones available for starting, reporting, and filing taxes. Many represent hobbies, experiments, or second jobs, but that does not mean they are unprofitable. In fact, in the United States, sole-proprietorships are three times more profitable than C-Corporations.[4]

- *Limited Liability Companies*—As entrepreneurs become more successful and serious, they seek more formal structures. Many become corporations to legally shield themselves, and outside investors, from liability, and the vast majority are privately held by a small number of shareholders who elect an overseeing board. Blends of partnerships and corporations can be found in limited liability corporations (LLCs) and limited liability partnerships (LLPs).

- *Nonprofits*—While many nonprofits do not qualify under our definition of "enterprise," a growing number have sought to escape their dependency on gifts and grants by launching "social enterprises." These businesses must remain consistent with the social mission of the nonprofit. Their surplus revenue is reinvested in other mission-related activities of the nonprofit. Because nonprofits are technically owned by no one—even membership nonprofits must be careful not to funnel gains to their members—a "local" nonprofit is defined instead by those who control it. If the majority of members and board members of a nonprofit reside in the community in which a nonprofit operates, we consider it local.

- *Public-Private Enterprises*—As the book Reinventing Government underscored, governments increasingly are launching enterprises that they own themselves or co-own in public-private partnerships.[5] If the governmental entity is local, we consider the enterprise locally owned. In the United States, for example, the state of North Dakota runs its own network of savings banks.

- *Cooperatives*—Cooperatives are essentially voluntary associations that engage in business for the benefit of their members. The members can be consumers, workers, businesses ("producer co-ops"), or a combination of all three. Unlike for-profits, where control is usually based on the principle of "one-dollar-one-vote," cooperatives are based on the principle of "one-member-one-vote."[6] Surplus revenue is distributed to members as "patronage" payments based on how actively each member uses the cooperative business.

While there are examples of businesses in the five categories above that are not locally owned, probably 99% are. The only corporate form that is inherently not local is a publicly traded corporation. A company that "goes public," where millions of tiny shares are dispersed globally and can move thousands of miles instantly at the click of mouse, is the antithesis of local ownership. But even among publicly traded companies, there are intriguing models for some localization. In the United States, when Ben & Jerry's Ice Cream Company first went public, investors had to be residents of Vermont to buy the shares, and the stocks further bore the stipulation that they could only be sold to residents of Vermont or back to the company itself. These so-called "direct public offerings," which typically involve small companies traded intrastate, are possible in every one of America's 50 states. Generally, however, small public offerings are expensive and complicated, and the absence of any local stock exchanges means that local securities are hard to sell and therefore relatively unattractive to investors.

Although they may be out there, we were unable to find examples of food business in the United States or abroad that employ a local stock model (Ben & Jerry's ultimately became a globally traded company that was taken over by another public company, Unilever). One company we studied, Cargills in Sri Lanka, had two tiers of ownership, one of which was publicly traded. Because the publicly traded tier was only 10% of the shares of the company (the founding family holds the rest), the company remains locally owned.

Not surprisingly, the founders of each CFE we studied thought the business model they selected was the best. Why else, of course, would they have chosen it? And over time many became evangelists for their model. Sole proprietors love the simplicity and flexibility of their companies. The captains of corporations cannot imagine any other way of preserving their independence while limiting their liability. Nonprofit leaders see their enterprises as the only kind that can pursue true social missions and the public interest. And cooperative managers are convinced that their model engages shareholders in the most democratic way possible.

Significantly, however, we could find no compelling evidence that any one model is absolutely superior to another either in its financial or social performance.[7] Far more decisive to the success of a business are critical choices about products, scale, markets, and management. If anything, the choice of business model really reflects two factors: the underlying philosophy of the founders, and their hard-nosed calculation about where sufficient initial capital can come from. If the founders believe their best source of capital will be themselves, they will form a sole proprietorship or a partnership. If funds are coming from foundations or wealthy contributors, they will form a nonprofit. If the most promising capital source is public money, they will become a public-private partnership. If they see funds coming from committed consumers, they will form a consumer cooperative. In most other instances, they will form some kind of company in which they can limit their liability.

The Case Study Overview Table breaks down our examples by corporate categories. We had no difficulty finding thriving

CFEs in all but two of the business model categories. Given that every country's food sectors, as noted above, are primarily made up of CFEs, their ubiquity was to be expected.

One exception was public-private partnerships. Except for the CFE example from Malawi, we could not find good examples of public investment. Governmental involvement in CFEs tends to be through subsidies, loans, guarantees, and regulation rather than direct enterprise participation.

The other exception was sole proprietorships. Plenty of CFEs are sole proprietorships, and many were brought to our attention. But in formulating the criteria for which enterprises to study (elaborated below), we decided only to include CFEs that were prepared to share three years of financials with us. Within three years, most sole proprietorships go out of business, and by then the few that are successful usually seize the advantages of incorporation. Nevertheless, we do include one case study of a sole proprietorship, Akiwenzie's Fish, in which the founders, a Native American couple in Ontario, Canada, have decided to keep their CFE small and informal.

Why Food Is Localizing

As noted earlier, the spread of the local food movement represents changes in demand, with growing consumer interest in eating locally, and changes in supply, as CFEs expand or form to take advantage of shifting consumer demand. Price is a factor, of course, and as more CFEs enter the marketplace, local food prices are trending downward. CFEs themselves are learning how to bring down their costs through greater volume, through smarter distribution techniques, through the better use of technology, and through collaboration with other CFEs. The next section of this report elaborates the learning that is occurring on the supply side of the equation.

For a moment, though, it's worth elaborating the demand side. Consumers are not only looking for the lowest priced food but also the best value for a given price. And in many ways, consumers are finding that local food, even if it's nominally pricier, delivers better value. Specifically, consumers are finding special value in local food in five ways:

- *Better Nutrition and Health*—Because many foods lose nutrients over time, local food means quicker delivery of foodstuffs with less loss of nutrition. Moreover, knowing a farmer or rancher tends to enhance a consumer's trust in the healthfulness of his or her products. Local foods also typically involve less processing, which means fewer chemicals and additives. Replacing processed with fresh foods, as author Michael Pollan argues, is a powerful way to improve consumer health and reduce the incidence of obesity and diabetes.[8] Every headline about a breakdown in the mainstream food system—outbreaks of e-coli in hamburger meat and peanuts from distant suppliers, for example—reinforces people's desires to re-localize their purchasing to producers they trust.
- *Better Taste*—To the extent that food is about taste, local food excels. FoodRoutes Network, one of the nation's most prominent promoters of local food over the past decade, captures this concept in its slogan, "Buy Fresh, Buy Local." Local food, whether lobsters from the coastal waters of Maine or Saska-berries from Saskatchewan, shapes local tastes, generates signature local recipes, and provides icons of local identify and pride.
- *More Civic Engagement*—Anyone who has been to a farmers market, like the Greenmarkets we studied in New York City, knows that the shopping experience is fundamentally different from that of a supermarket. A supermarket is about finding and purchasing foods as quickly and efficiently as possible. A farmers market is about consumers chatting, learning from, and developing relationships with local food producers, and about neighbors interacting with one another. An entire sociology literature has developed suggesting that communities characterized by local business results in greater civic welfare, less social strife, and greater equality.[9]
- *Stronger Community Economies*—Local food is a critical economic driver for local economies. Local food businesses provide local jobs and pay local taxes. Every loaf of bread unnecessarily imported means the leakage of dollars outside the local economy and the loss of a local bread business that could contribute to local prosperity. But the case for locally owned food businesses is even more compelling, because local businesses spend more of their money locally. Unlike outsider-owned businesses, they tend to advertise in local media, hire local accountants and attorneys, provide top-level management experience, and reinvest profits in the community. Numerous studies have documented that a dollar spent on a local business yields two to four times the "economic multiplier"—the underlying source of income, wealth and jobs—as an equivalent nonlocal business.[10] Additionally, there is a growing body of evidence that local businesses are particularly good at attracting tourists and future entrepreneurs, promoting creative economies, and stimulating charitable contributions.[11]
- *More Sustainability*—Local food is, finally, a tool for sustainability. Farmers are among the most important stewards of local land. Because agriculture accounts

for approximately 30% of the earth's land surface, environmentally sensitive production of foodstuffs is critical to maintaining healthy habitats, air, water, soil, and ecosystems that ultimately support healthy people.[12] To eat sustainably means growing and processing foodstuffs in a sustainable manner, and doing so within a local ecosystem makes the accomplishment all the more compelling. Any community on the planet that cannot sustainably feed itself necessarily places burdens on the ability of other communities to feed themselves. Put positively, business models that meet local food needs sustainably can, if shared and multiplied globally through studies like this one, teach communities in other parts of the world to feed themselves sustainably.[13] Moreover, since we know that all local businesses, including CFEs, tend to spend their money locally, their "inputs" travel less, use less energy, and thereby emit fewer pollutants and less climate-disrupting carbon dioxide.

Together, these factors suggest why millions of consumers, particularly in developed countries, are turning to local food, even when the price of local food is a bit higher than nonlocal alternatives. But for the movement to spread further—to poorer residents of developed countries and to poorer countries in general—the gap between local and conventional food, where it exists, will have to become smaller. This is on the verge of happening.

Local Competitive Advantage

Most discussions of the competitive advantage, employing phrases like "going to scale," assume that larger scale automatically increases economic performance. Were this really the case, local food and the small CFEs involved in it might seem like guaranteed economic losers. In fact, economists have long argued that steady increases in scale sooner or later lead to poorer economic performance.[14] The returns to scale inevitably diminish, and then they can even become negative. The relationship between scale and efficiency surrounding CFEs is far more complex and interesting than is widely understood.

Generalization about the competitiveness of literally hundreds of thousands of foodstuffs and food services is, of course, inherently imperfect. How does one compare—literally—not just apples to oranges but Macintoshes to Granny Smiths? Moreover, how do these comparisons shift for consumers who are committed to triple bottom line businesses, who are comparing not only price but value? There are, nonetheless, some broad observations one can make about the competitiveness of CFEs in the United States.

First, we know that competitive CFEs are possible in every category of small-scale food business. Why? Because well-performing small businesses—nearly all of which are locally owned—appear in every one of 100 food categories of the North American Industrial Classification System (NAICS) mentioned earlier. In fact, in most of these categories, small businesses account for most of the jobs and output. But even if there were only one successful small business in a given category, it would be relevant. As the economist Kenneth Boulding once said, "Anything that exists is possible." A smart community interested in localizing its food system should look for examples of small-scale success, study the key elements of these business models, and replicate them.

Second, even if one looks at the average size of a business in each food category, some categories actually have seen increasing localization in recent years. For example, between 1998 and 2002, the average business in "food and beverage stores" and "beverage and tobacco product manufacturing" became smaller.[15] Some food categories have seen the average business become bigger too, but even here, there are many explanations that have nothing to do with their underlying competitiveness. United States public policy, for example, subsidizes larger businesses, from large farms to large exporters. Securities laws have made it largely unaffordable for 98% of the American public to invest in CFEs. Antitrust laws that once might have restrained the power of larger food businesses, such as Walmart or Tyson, have been largely unenforced. Indeed, given the degree of this unequal playing field, what seems most remarkable from the NAICS data is the extent to which CFEs have largely held their own in an era of globalization.

These arguments are relevant in a global context as well. If an entrepreneur eager to create a CFE looks for relevant models of success not just in the United States but globally, the pool of intriguing ideas expands dramatically. Because so many changes in the world economy have occurred over the past two decades—Chinese competition, the Internet, rising oil prices, the shrinking U.S. dollar, skyrocketing populations—every nation's economy has witnessed enormous upheaval. Old assumptions are crumbling, and with them many established businesses. Newer CFEs are learning how to deploy available labor, technology, and capital in just the right way for their scale.

Whatever the competeveness of CFEs today, smart CFEs everywhere on the planet will be able to increase their competitiveness in the years ahead because of number of trends. Consider five:

- *Distributional Inefficiency*—While the production costs of food can be brought down by moving farms and factories to low-wage regions with few regulations, global distribution of food is becoming increasingly inefficient. Economist Stewart Smith of the University of Maine, for example, estimates that a dollar spent on a typical foodstuff item in the year 1900 wound up giving 40¢ to the farmer, with the other 60¢ split between inputs and distribution.[16] Today, about 7¢ of every retail food dollar goes to the farmer, rancher, or grower, and 73¢ goes toward distribution. Whenever the distribution cost towers over the production cost, there are opportunities for cost-effective localization. Not just in the United States but worldwide, local distribution offers strategies for reducing the need for, and expense of, every component of distribution, including transportation, refrigeration, packaging, advertising, insurance, and middlemen.

- *Rising Energy Prices*—The distributional component will become more costly still when, as most analysts expect, global oil prices begin to rise again.[17] Adding to these market forces, political pressures in many countries will mount to tax carbon-based fuels in order to slow global climate disruption. Because foodstuffs have a relatively low value per unit weight (except for a few products like expensive wines and spices), they are disproportionately vulnerable to rising energy prices.

- *Homeland Security*—Global concerns about terrorism have focused the attention of security officials on scenarios where food supplies could be contaminated or destroyed.[18] They are recognizing that the shorter supply lines and community self-reliance that come with local food can greatly reduce these security risks. At a minimum, this will translate into a recalibration of government policies to assist CFEs and higher insurance premiums imposed on global food producers.

- *Telecommunications*—The spread of the Internet, affordable computers, and mobile phones provide CFE entrepreneurs with information about market opportunities that once was only available to larger companies.

- *Local Finance*—One of the most formidable barriers to the expansion of CFEs is the relative unavailability of local capital. The financial crisis of 2008, caused by global banks and investment funds that hid the high levels of risk in their securities, has given many people worldwide a powerful incentive to move their savings into local banks and credit unions and their investments into local business. Internet-based tools like Prosper.com and Kiva.org, which are connecting local lenders with CFE borrowers, will soon be joined by local stock exchanges connecting local investors with CFEs.

All these factors set the stage for potentially explosive growth of CFEs in the years ahead. Whether this really happens depends on how prepared existing CFEs are to expand and would-be CFE entrepreneurs are to seize new local food business opportunities. Key to their success is a roadmap of sorts that identifies models of success, and successful strategies for overcoming significant obstacles. That's where this report fits in. Greater awareness of the strategies pioneering CFEs are using can help entrepreneurs, economic developers, and community planners everywhere increase their chances of success.

Methodology

This study is essentially a field report on innovative CFEs throughout the world. To answer our four main questions—about the strategies, challenges, triple bottom line performance, and replicability of CFEs—we decided to undertake 24 case studies, 12 in the United States and 12 internationally. Literally hundreds of thousands of businesses, perhaps even millions worldwide, could qualify under our definition. Our challenge was to choose a handful of CFEs that were in some sense exemplary. Specifically, we wanted our examples to show:

- a range of ownership types, including private companies, publicly traded companies, various types of cooperatives, nonprofit enterprises, and public-private partnerships;
- a range of supply chain positions, including primary food growing and production, manufacturing and processing, distribution, marketing, retail sales, and restaurants;
- geographic diversity, which meant that no two U.S. examples could come from the same state, and no two international examples from the same country.

Additionally, because of our own interest—and that of our funders—in businesses with strong triple bottom lines, we looked for CFEs committed to fair food, which means that they aspire to embrace strong standards around labor, health, safety, and community responsibility. For us, an inherent part of fairness is inclusiveness. So we also sought examples that modeled the involvement of women and people of color as owners and leaders. To whittle down our list further, we added two other criteria. We tried to find unfamiliar case studies that deserved wider visibility, and good stories about interesting entrepreneurs.

We e-mailed requests for candidate businesses that met these criteria to 10,000 contacts, primarily people involved with local business development in the United States (the networks of the Training & Development Corporation and BALLE) and with development projects globally (the networks of Winrock International). Many recipients, to our surprise, treated our invitation as essentially an award nomination, and eagerly sent us their short list of “top” CFEs. We were deluged with hundreds of suggestions from over 60 countries.

Based on our preliminary research, we then approached our top CFE candidates and asked if they would be willing to be studied. No savvy businessperson, of course, turns down free publicity. But we also let each business know that we would be asking three potentially burdensome things from them: two or three extensive interviews, three to five years of their financials, and a filled-out survey that would assess their socially responsible behavior. In other words, we were asking for 20-40 hours of an entrepreneur’s time, and a disclosure of their company operations to a global audience. Some candidates, as they reflected on these requests, declined to participate. But, remarkably, most agreed to our terms. We should note here that this study would not be possible were it not for the generous donation of time by each enterprise covered. We sincerely thank them, and hope our readers will too.

We ultimately interviewed the founders and leaders of each CFE, primarily by telephone. For our international case studies, to bridge cultural and language barriers, we commissioned local researchers to perform on-site interviews. Each CFE profiled had an opportunity to read a draft and offer corrections or additions. We also commissioned independent reviewers to “ground truth” four of our international case studies. Finally, we circulated our draft report to our funders—the Bill & Melinda Gates Foundation and the W.K. Kellogg Foundation—and to select staff within Winrock International for final review.

Caveats and Next Steps

One of the challenges throughout this research has been not to bias our conclusions. We wanted to understand how well CFEs were competing, what challenges they were encountering, and how well they were meeting their triple bottom line objectives. This would mean studying failures as well as successes. Yet a failed CFE often leaves very little behind, including meaningful financial records. So we decided, instead, to focus on businesses still operating and to capture honestly their historical successes and challenges. This choice, however, necessarily meant our looking at better than average performers, since the average small business (and the average CFE) fails within 5-10 years. And yet in each story, we found, and share, moments—and sometimes years—of setbacks, failure, and even disaster.

Those looking for a simple verdict—CFEs can or can't compete, for example—will not find a satisfying answer. We believe this is the wrong question. What readers will find instead is a more honest, nuanced, and useful reflection on three more helpful questions: What are the circumstances under which CFEs can compete? And what are the main obstacles that a successful CFE must overcome? To what extent can successes be replicated in other communities and other countries?

We should add here that many of the businesses we didn't study still deserve study. We sincerely hope that this project inspires others to come forward with similar business profiles. Our longer-term mission is to create a virtual, open-source library of promising small business models, not just of food enterprises but of all kinds of local businesses. In the short-term we hope that this work: builds a global network among community food practitioners and thinkers; raises awareness among development specialists worldwide in government, industry, or philanthropy about the promise of local food businesses; and informs entrepreneurs in rich and poor counties alike of successful (and unsuccessful) local business models.