

# BUSINESS INSIDER

## The demand for 'local' food is growing — here's why investors should pay attention

Oran B. Hesterman, PhD and Daniel Horan, Contributors

Apr. 25, 2017

Everyone needs food—and we can tell you something that American consumers want with increasing fervency: local food.

They want to know where their food comes from, how it was made and by whom. They want the transparency that is required to know its source.

They're even willing to pay a little more for the confidence that their food purchases help to create jobs and promote local economies; safeguard the environment, protect groundwater and preserve American farmland; and support proper animal treatment.

As a result, there's a huge investment and business opportunity sitting right under everyone's noses.

Investors that deploy patient capital in successful food and farming enterprises are in a position not only to garner financial returns but also to create value for other stakeholders, making positive social impacts supporting healthy communities, strong local economies, and environmental resilience.

But no one's talking about this opportunity, so we have to.

Some investors have already recognized the potential. Investment funds in the food sector have proliferated, as have incubators and accelerators, like Food-X, backed by venture firm SOSV, and crowdfunding projects.

In 2016, venture capital funds made 66 food-and-beverage deals, up 20 percent from 2015, according to Dow Jones VentureSource. Meanwhile, the list of food and agriculture business accelerators, including initiatives sponsored by universities and corporations, continues to grow.

Admittedly, farms and food processors might not be the trendiest places to put money.

The fact is that producing food remains hard work. The room for error is slim. Many traditional agriculture businesses and family farms have taken hits; others have already disappeared.

In 2017, net farm income across the entire sector is expected to decline for the fourth consecutive year, according to the USDA. Yet, at the same time, there's been a wave of demand for healthy, locally grown food. And that wave is building.

Local food sales in the U.S. grew from \$5 billion to \$12 billion between 2008 and 2014, according to food industry research firm Packaged Facts. The same study predicted local food sales would jump to \$20 billion in 2019, outpacing the growth of the country's total food and beverage sales.

Meanwhile, the 2013-14 school year saw nearly \$790 million worth of local foods purchased by primary and secondary schools, and by 2015, nearly 8,500 farmers markets had sprung up across the nation, an increase of more than 380 percent in 20 years.

Entrepreneurs and innovators are jumping in to meet that demand.

It's not as simple as it should be. In many regions across the country, the infrastructure that connects family farmers to the growing demand for local product—the aggregators, processors, distributors, and marketers—no longer exists to serve regional markets.

Access to healthy food has dwindled in both rural and urban communities. Today's food entrepreneurs have the passion and the commitment to fill these gaps. What they need is financing and strategic assistance to help them accelerate their growth, scale their businesses, and achieve long-term success.

Take the two of us, a case study in the making. Oran Hesterman launched Fair Food Network in 2009, to increase access to healthy food for families who need it most while creating opportunities for American farmers and stimulating local economies. The organization's Fair Food Fund, which provides financing and mentorship to food entrepreneurs, has committed more than \$2 million to enterprises across the Northeast since 2013.

Last year, it invested in Five Acre Farms, a company founded by Dan Horan in 2010 that brings great-tasting local milk, egg and apple products to more than 150 grocery stores and 75 restaurants and coffee shops in New York, New Jersey and Connecticut.

The approach: find outstanding sustainable farmers—within a 275-mile radius—pay them fairly and make their products accessible to average Americans.

Over the past few years, Five Acre Farms has grown its network of partner farms from two to 25. Five Acre Farms is now the official milk of Kellogg's NYC cereal café in Times Square, and its products are featured on more than 50 Delta Air Lines flights.

Each product is fully traceable to the land and people that produced it. Since 2014, Five Acre Farms has paid a total premium of more than \$700,000 above market price back to the farmers that produce its milk, eggs and apples. And in the process, its business has helped strengthen local economies while preserving farmland, protecting the environment and ensuring that animals are treated humanely.

It's precisely these kinds of diverse returns that deserve the attention of investors.

Investing in food has multiple leverage points: sustainable agriculture practices and boosted farmer income; increased access to healthy food; economic development and job creation all along the value chain; and revitalization of previously struggling rural and urban communities.

Fair Food Network has also seen these benefits as a partner in the Michigan Good Food Fund—a \$30 million public-private partnership that provides financing and business assistance to good food entrepreneurs that are benefiting underserved communities in Michigan.

The fund recently invested in Ken's Fruit Markets, a family-owned grocery chain in Grand Rapids focused on affordable, healthy food, including many Michigan grown and produced products. It's a boon not only to area consumers, but also to local growers and the surrounding rural communities. Good food has the power to change everything.

Making astute investments in it can not only reap personal gains, but also lead to reliable incomes for family farmers, all while building stronger local economies, more stable communities, and a healthier environment.

Warren Buffett famously cautioned, "Never invest in a business you cannot understand."

Everyone understands food. And now, investors increasingly understand the power of local food entrepreneurship to deliver meaningful returns.

*Oran B. Hesterman, PhD, is President and CEO of Fair Food Network in Ann Arbor, Mich. Daniel Horan is Founder & CEO of Five Acre Farms in Brooklyn, New York.*