Local Food Promotion Program (LFPP)
Final Performance Report

The final performance report summarizes the outcome of your LFPP award objectives. As stated in the LFPP Terms and Conditions, you will not be eligible for future LFPP or Farmers Market Promotion Program grant funding unless all close-out procedures are completed, including satisfactory submission of this final performance report.

This final report will be made available to the public once it is approved by LFPP staff. Write the report in a way that promotes your project's accomplishments, as this document will serve as not only a learning tool, but a promotional tool to support local and regional food programs. Particularly, recipients are expected to provide both qualitative and quantitative results to convey the activities and accomplishments of the work.

The report is limited to 10 pages and is due **within 90 days** of the project's performance period end date, or sooner if the project is complete. Provide answers to each question, or answer "not applicable" where necessary. It is recommended that you email or fax your completed performance report to LFPP staff to avoid delays:

LFPP Phone: 202-720-2731; Email: USDALFPPQuestions@ams.usda.gov; Fax: 202-720-0300

Should you need to mail your documents via hard copy, contact LFPP staff to obtain mailing instructions.

Report Date Range: *(e.g. September 30, 20XX-September 29, 20XX)*	September 30, 2014-Feb 19, 2015
Authorized Representative Name:	Jennifer Beckman
Authorized Representative Phone:	703-585-3676
Authorized Representative Email:	jen@redonionfoods.com
Recipient Organization Name:	Red Onion Foods
Project Title as Stated on Grant Agreement:	Drafting a Business Plan for a Local Produce Processing Plant in Northern Virginia
Grant Agreement Number: *(e.g. 14-LFPPX-XX-XXXX)*	14-LFPPX-VA-0165
Year Grant was Awarded:	2014
Project City/State:	Falls Church, VA
Total Awarded Budget:	$20,590

LFPP staff may contact you to follow up for long-term success stories. Who may we contact?
X Same Authorized Representative listed above (check if applicable).
☐ Different individual: Name: _____; Email: _____; Phone: _____

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1. State the goals/objectives of your project as outlined in the grant narrative and/or approved by LFPP staff. If the goals/objectives from the narrative have changed from the grant narrative, please highlight those changes (e.g. "new objective", "new contact", "new consultant", etc.). You may add additional goals/objectives if necessary. For each item below, qualitatively discuss the progress made and indicate the impact on the community, if any.

i. Goal/Objective 1: Produce Stream Sourcing

Working with Ellen Polishuk, our farmer liaison, we reached out to six Virginia farmers to assess their interest in growing for wholesale to a freezing processor. We documented that that most are satisfied with selling the bulk of their harvest at retail prices, through farmers markets, CSAs, and food hubs. Several farmers indicated interest in access to a freezing facility, but unanimously wanted to retain control over their produce, contracting with a freezing facility as a co-packer and then selling their own source-identified produce through their established channels.

We believe that discourse helps to spur innovation. While we did not identify producers who were interested in working with our model, we started a conversation between several farmers who may work together to find a co-operative way to freeze their produce and sell it directly to their customers through existing channels.

ii. Goal/Objective 2: Market Development

We designed and circulated via social media a survey to collect consumer preference and price sensitivity data from our target market, defined as consumers in Northern Virginia who sometimes, frequently, or always chose local or organic produce when shopping. After compiling 187 responses, we learned that the unmet market demand for local produce is very focused on the freshness aspect of buying produce close to the source, and that demand diminishes once the produce is frozen. Only 14% of respondents would chose local frozen produce over local organic produce at the same price point, while 62% of them would opt for fresh local over fresh organic. When the price of frozen local produce was higher than the frozen organic produce, only one respondent would choose local. That may have been my mother.

We asked questions about canned and dried produce as well. Respondents were more enthusiastic about these products, with 47% indicating that they would pay a premium for local canned or dried produce over similarly priced organic canned or dried produce. Taken as a whole, our data indicates that the target market is less likely to pay a premium price for frozen local produce than they are for local fresh, dried, or canned produce.

We believe that discourse about local food production helps to grow the local food market. Despite the disappointing data regarding consumer interest in frozen local produce, we believe that the act of participating in our survey likely caused some participants to seek out locally sourced foods already in the market.

iii. Goal/Objective 3: Financial Modeling

A feasibility study is ultimately an exercise in breaking a financial model. If the model withstands challenges by real-life numbers, it becomes a business plan. If not, the smart entrepreneur takes a step back and reconsiders. We find ourselves in just that spot, having found that our initial model for a profitable business does not stand up when challenged with firm cost estimates determined by our research.

Much of our time during the planning period was spent getting hard numbers to manipulate in our financial models. In doing so, we focused not only on facility build-out costs, but also on the production, storage, and distribution costs of frozen local produce. After developing a detailed specification, we received firm estimates from service providers and

vendors. Some of these numbers were significantly higher than the ballpark estimates floated in preliminary conversations. In discussions with potential retailers and distributors, we learned that our initial cost and volume projections for frozen storage were low, and that the cost of frozen product distribution was higher than we had initially modeled. To distribute year round, frozen local produce must be stored in expensive-to-run freezer units. In modeling cash flow and revenue of our proposed freezing facility, we found that adding these variable costs to the already-high production costs resulted in a product unit cost too high to compete with other premium options in the retail freezer case, such as frozen organics.

Our group's mission in drafting a business plan was to help open the market for frozen local produce, providing local farmers with an alternative business model. We hoped that we could offer simplified production planning, and potentially forward contracting, to area farmers, ultimately helping them to maximize production on their acreage. Unfortunately, our analysis of the market forces at play does not indicate that we can compete with the existing players in the frozen foods space.

2. Quantify the overall impact of the project on the intended beneficiaries, if applicable, from the baseline date (the start of the award performance period, September 30, 2014). Include further explanation if necessary.

i. Number of direct jobs created: 0
ii. Number of jobs retained: 0
iii. Number of indirect jobs created: 3
iv. Number of markets expanded: 0
v. Number of new markets established: 0
vi. Market sales increased by $0 and increased by 0%.
vii. Number of farmers/producers that have benefited from the project: 0
    a. Percent Increase:

3. Did you expand your customer base by reaching new populations such as new ethnic groups, additional low income/low access populations, new businesses, etc.? If so, how?

No.

4. Discuss your community partnerships.

In contrast to the frustration generated by the financial aspects of the project, an unexpected highlight has been the generosity and transparency of the local foods community. We've spoken with several freezing processors in other regions, each of whom has been very open about their business methods, funding sources, and strategies. We've engaged with a group in Charlottesville Virginia, working on building essentially the same freezing facility for the same market. This group is also a recipient of a USDA LFPP grant, "Virginia Produced: Developing New Markets for Lightly-Processed and Flash-Frozen Virginia-Grown Produce." From our first meeting, they have been cooperative and forthcoming about their own strategy. This group, consisting of respected and seasoned members of the Virginia local food community, is struggling with the same roadblocks in their own model, reinforcing our conclusion that issues of supply, consumer perception, and storage costs all stand in the way of profitably operating a freezing facility for local food in Virginia.

Working with this like-minded community, the Red Onion concept has evolved. We now are exploring a more collaborative pathway to increasing the market for local produce, utilizing existing infrastructure to process unsorted or cosmetic second local produce, allowing farmers

to bring more of their harvest to the wholesale market and giving consumers locally-grown options in the value-added retail market.

5. Are you using contractors to conduct the work? If so, how did their work contribute to the results of the LFPP project?

The contributions of contractors Ellen Polishuk and Jennifer Krondon were invaluable to this project. Ellen's perspective as a sustainable farming advocate and farmer/owner of a large CSA brought real-world expertise to the team's vision. Her access to farmers, and her status as a trusted member of the farming community, resulted in a level of candor in our conversations that couldn't have been reached in conversations with community outsiders. Additionally, her personal commitment to expanding the local produce market produced creative brainstorms that will impact the next steps Red Onion Foods takes as a group.

Jennifer brought a keen understanding of cost projecting and modeling to the financial aspects of the project. In addition to expertly working with the financial model, she served as an educator to the rest of the team, demonstrating the paradoxes of scaling enterprises.

6. Have you publicized any results yet?* No.
   i. If yes, how did you publicize the results?
   ii. To whom did you publicize the results?
   iii. How many stakeholders (i.e. people, entities) did you reach?

   *Send any publicity information (brochures, announcements, newsletters, etc.) electronically along with this report. Non-electronic promotional items should be digitally photographed and emailed with this report (do not send the actual item).

7. Have you collected any feedback from your community and additional stakeholders about your work?

Our primary feedback was generated through the consumer interest survey, as discussed above. Additionally, though, work with the Charlottesville group, we have shared our ideas and research, and discussed the potential for future collaborations.

8. Budget Summary:
   i. As part of the LFPP closeout procedures, you are required to submit the SF-425 (Final Federal Financial Report). Check here if you have completed the SF-425 and are submitting it with this report: X
   ii. Did the project generate any income? No.
      a. If yes, how much was generated and how was it used to further the objectives of the award?

9. Lessons Learned:

The greatest positive that came out the feasibility study was the connection and collaboration with other like-minded advocates working to change the regional food system. Working with Ellen Polishuk in Northern Virginia and the ad-hoc Charlottesville flash freezing group, we built institutional knowledge and shared competencies that will improve all of our work moving forward.

The negative lesson was, for the most part, the reinforcement that the marketplace is not willing to pay the true cost of food. We came to this project with interested investors willing

to build a facility if we could demonstrate the long-term profitability potential. Our exercise demonstrated that the unit cost of a locally sourced, regional product in the temperate Mid-Atlantic is necessarily higher than one that can be set by a large-scale national producer. We gathered data indicating that for most consumers, the perceived value of frozen local food does not warrant the premium price.

Once we had quantitative data demonstrating that the Northern Virginia market is not willing to pay for frozen local produce, we began discussions with USDA about repurposing our grant funds in a way more likely to open a new market. Ultimately, we agreed with the USDA to terminate our project early, forfeiting a portion of our budget, and not complete the siting, build-out, and food safety portions of the project for a facility that we no longer planned to build.

10. Future Work:

We plan to move forward in a new direction, still focused on the goal of opening new markets for locally sourced produce. Rather than focusing on a new facility, we plan to work with existing infrastructure to develop a line of premium canned local products. We are exploring several options for procuring unsorted and cosmetic second produce at wholesale prices, both direct from farmers and via regional food hubs. We believe that by facilitating a value chain between local producers, food distributors, and value-added processors, we can not only provide a stable market that will allow producers to build capacity, but a market for produce that otherwise would not be harvested, increasing the production efficiency of existing farm infrastructure. By focusing on a shelf-stable product line, we hope to keep costs low enough to compete in the premium foods market with organic and other specialty products. We are taking the lessons learned during this project period, and putting them to work in a model that has more potential for profitability.

To the extent that we continue working in the frozen local space, we hope to work with the Charlottesville freezing group on developing their value-added products.

Despite our disappointment in the outcome of our project, we are grateful to the USDA-AMS-LFPP program for providing funding to gather the necessary data for assessing feasibility. Moreover, we are excited about repurposing the information we have gathered into a new venture aimed at making an impact on the markets served by local produce.