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Selling Farm Products Through Online Food Hubs

In response to market changes, many local farmers have started selling their farm products directly to customers through local food hubs. Farm produce and local value-added products go right from the farmer, cook or baker to a delivery hub where orders are assembled and prepared for delivery or pick-up. Before you sell your products through a local food hub, you need to understand what may be required of you. This legal guide discusses:

- Pros and cons of participating in a food hub
- Vendor agreements with a local food hub

What is a food hub?

Food hubs are middlemen that connect producers (farmers and local food vendors) with institutional buyers (restaurants, hospitals, schools, etc.) or consumers. They help make a direct connection between local farmers and the communities they serve. Farmers gain access to markets beyond farmers' markets and farm stands and reduce the amount of time spent on marketing and distribution. Buyers also benefit as they can access a range of produce in one place. Because food hubs are highly localized businesses, they often create a personal connection by sharing where and how the food they offer was produced. Local food hubs typically are established through readily available online sales platforms.

The food hub:

- works with producers and vendors to establish a reliable and varied supply of local produce
- creates an online platform for buyers to view and purchase products
- arranges for delivery or pickup of purchased goods to buyers
- is primarily responsible for marketing and business development

In some instances, the food hub purchases the food that is sold by the food hub. In other cases, the farm retains ownership of goods and produce until sold to the customer. While the comments below apply to this type of food hub, they may be relevant to other food hub models.



Pros and cons to joining a food hub

Joining a food hub is not right for every business. Here are some points to think about before signing on to a food hub.

Advantages

- food hubs provide an expanded market base
- opportunity to sell to institutional and restaurant buyers who prefer one-stop purchasing
- your farm will benefit from the marketing and educational efforts of the food hub
- sales can be made to food hub without credit card fees
- food hub is responsible for collection and payment of sales tax
- low/no touch sales system reduces health risks to both farm employees and customers
- less time-intensive and potentially higher volume sales than farmers' markets

Disadvantages

- use of new software used for online sales, which can take time to get up to speed and may require additional skills for your farm team
- food hubs usually have their own set of rules for participation, which may not be consistent with the practices on your farm or which may impose an additional layer of practices that are cumbersome and/or add costs to food production
- may require membership fee for participation
- transportation to food hub aggregation site may be required
- price mark-up taken by food hub may make produce too expensive for the market
- cottage food sales may not be permitted on-line in some states

Considerations when selling through on-line food hubs

If you choose to sell your products through an online food hub, you will likely be asked to enter into some form of subscription or service agreement. It is important to read these agreements carefully and to consider both the short- and long-term goals of your operation as you do so. Particular attention should be paid to terms related to fees and pricing, timeframe of agreement, delivery procedures, food and safety protocols, customer interaction, non-compete guidelines and termination. Standard terms that will likely be included are:

Required Product Information

The agreement may set product specifications for participating farmers/vendors. Consistent product labeling helps buyers in making purchasing decisions and provides product traceability. Possible requirements include:

- Product description
- Volume/weight/count
- Farm/business name and location

- Packaging; e.g., require products to meet appropriate state and federal packing and labeling requirements

Quality Standards

The agreement may require compliance with quality assurance (QA) guidelines to ensure a uniform, high-quality product. The agreement may also require evidence of certification before claims can be made on the on-line sales platform.

- QA guidelines should be objectively verifiable
- Qualifications may relate to food safety or organic certification.
- QA guidelines may be prepared internally by the food hub or the food hub may rely on established guidelines such as GAP certification and/or compliance with USDA Food Safety Modernization Act requirements.

Payment Details

The agreement should set out terms for pricing, placing orders and payment processing and timing.

Delivery and Shipment

The agreement should set expectations for delivery of product and establish consistent and timely communication regarding forecasted product volumes and availability, including prior notice of any shortfalls or gaps in supply.

- Notification procedures if anticipated delivery date and time are no longer accurate
- Delivery mode – do farms deliver or does the food hub pick up?
- Who bears risk of loss during transit? (Note: make sure potential loss is covered by insurance.)

Term of Agreement and Procedures for Cancellation and Changes

Although entered into with the expectation that everything and everyone will behave as expected, situations change, and it may be necessary to modify or end the agreement. The agreement should specify:

- Start and end dates of the agreement
- Process and conditions for early end to the agreement

Other issues to consider addressing in the agreement:

Quality Issues

How will the food hub maintain product consistency? The food hub should provide a clearly defined set of quality requirements. While it is expected that the food hub has the right to reject product it considers non-compliant with their quality requirements, farmers should have the opportunity to correct.

Limit to on-farm products

Will the food hub require that products sold to it be produced, grown or raised on the farm?

Market-based Price Changes

How are prices set? If the food hub sets prices, how will the food hub and farmers manage unexpected price fluctuations? If farmers set prices (and the food hub passes cost with a mark-up to buyers), prices may be too high for buyers. You may want a process in place that provides market-based price adjustments so the food hub can remain competitive and producers are compensated fairly.

Volume/Supply Issues

What happens if the food hub can't sell the expected volume? What happens if a farmer doesn't deliver the expected volume?

New Business

How will new business be acquired? How will farmers handle new direct inquiries from customers in the target market? Will the food hub have any exclusive distribution rights for the farmers' products? Will farmers have obligation to actively support the food hub on their website and marketing materials?

Customer Contact

While many farmers will know which customers are purchasing their products, the agreement should specify in what instances the farmer may contact the customer directly. The hub can request to be copied on any such communication.

Agreement Breach

The agreement should include the process for how breaches (violations of the agreement terms) will be managed. Be sure to provide some flexibility so that each situation can be addressed appropriately instead of following a rigid process.

Additional Resources for Food Hubs

For assistance in reviewing and/or drafting a form agreement between you and a food hub, reach out to the Conservation Law Foundation's [Legal Food Hub](#).

If the arrangement you have with the food hub will require you to deliver your products, you may want to consult our lightning guide: [Home Delivery of Farm Products](#).

If you are looking to operate a food hub as part of your business model, you may want to review our lightning guide: [Running a Farm Operated Food Hub](#).

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Looking for legal help?

*Contact the Legal Food Hub to see if you qualify for **free** legal assistance!*

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