How One Colorado Local Food Distribution Company Used Alternative Funding Methods to Fund Their Business

Elizabeth Mozer loves local food, but in 2010 she was driving way too much to get it. “I was running to Greeley to meet the farmer’s daughter from Fort Morgan, and then somewhere else to get crackers and somewhere else to get cheese, all for our little theater that doesn’t even have a real kitchen,” she recalls.

Elizabeth and her husband Ben own the independent Lyric Cinema Café in downtown Fort Collins, Colorado. They wanted to stock it with local foods. But that meant a lot of time behind the wheel. Coincidentally, Larimer, Weld and Boulder Counties had conducted a study that quantified Elizabeth’s problem on a larger scale: there were willing buyers and sellers of local food, but nobody was connecting them well. That got the Mozers thinking.

“We just said, ‘nobody’s doing this, there are these studies, let’s try it,’” Elizabeth says of the February 2011 launch of LoCo Food Distribution, based in a small Fort Collins warehouse.

Financing wasn’t going to come from a bank. “When you try to go get a new loan for a business, you have to have two years of actuals [income statements],” Ben says, “and if you’re new and you’re still getting it together, it’s even harder.”

They wanted to start with $150,000. They cobbled together $85,000 from family members and an inheritance. Weld County Health Department threw its weight behind their effort with a $19,000 grant to pay for an online ordering system, without which the business couldn’t function as efficiently. (By the end of 2012 LoCo, which sources within a 400 mile radius, was handling approximately 3,000 items from more than 100 vendors, and selling to 120 clients.)

Elizabeth and Ben got the Weld County grant in part by knowing all the players in their field, from farmers to chefs to purchasing agents to researchers and grant makers. “It’s connection and networking,” says Elizabeth, “but it has to be far more than for investment, it’s across the board.”

Their networking led them to two other sources. They knew the folks at Transition Colorado, an organization working to localize food production, who connected them to a Slow Money group in Boulder. (Slow money is an investment philosophy built around making patient investments designed to return more than financial gain.) The Boulder group provided $12,000 at 3 percent interest for three years as working capital. “That was fabulous, because that’s what we really need,” said Elizabeth. “We needed five times that, but it was still great.”

The loan helped pay the bills. LoCo’s average margin on their products is about 20 percent. That’s in line with industry standards but it means LoCo has to move a lot of product. Break-even will happen when they’re selling about $1 million annually, a rate they plan to hit by late 2013 (starting with $66,000 in gross sales in 2011, they sold $440,000 in 2012).
In their continuing quest, the couple turned to an unconventional source: crowdfunding, in which donors contribute funds online in exchange for various “premiums” — a branded t-shirt, for example. Ben had raised $150,000 through the popular national website Kickstarter to renovate the Lyric Theater. A Fort Collins-oriented crowdfunding website, Community Funded, had popped up, and the Mozers thought they could raise $25,000 through it. But they only managed to collect $4,000.

Successful crowdfunding requires carefully planning and executing a fundraising campaign around a product or service that lots of people understand and want to support. That campaign requires ongoing investment in building and maintaining excitement and energy around what you’re doing; Ben and Elizabeth discovered that local food distribution wasn’t as well understood or as exciting to their audience as renovating a beloved old theater. Moreover, LoCo’s audience is other businesses, not individuals. “It’s so much work,” says Ben. “You earn it. It’s a huge commitment. Everybody thinks it’s just free money lying on the street. It’s not.”

“Funding a business right now is so hard to do,” says Ben, but he adds “we’re both really cheap and we kind of figure out how to do things on a small budget.” The couple remains in active conversations with investors, both current and potential, and those conversations paid off with a $75,000 investment in early 2013. Looking back on the way they approached funders in the past, Elizabeth wishes she’d been more polished. “We’d say about our numbers, ‘I think that’s pretty right, it’s close.’ You can’t do that. You have to say, ‘these are our numbers, this is what we’ve done, this is where we’re going, this is what we project.’ It needs to be a lot more cut and dried. We do know what we’re doing—we just have to make it clearer.”

Adds Ben, “You have to say, ‘these are the problems we’re having, these are the good things that are happening, these are the solutions we’re working on’ — you just have to lay it all out.”