



South Suburbs Food Processing Innovation Center

Proposed Facility Concept Paper

Prepared by:

John Geocaris, New Food Strategies

In partnership with:

South Suburban Economic Growth Initiative (SSEGI)

RW Ventures, LLC

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Contact information:

John Geocaris, New Food Strategies (JGeocaris@newfoodstrategies.com)

Matt Schuneman, RW Ventures, LLC (matt@rw-ventures.com)

A NOTE ON THIS DOCUMENT: This concept paper has emerged from a design process to create a food manufacturing-related development in the South Suburbs of Cook County, tying into and leveraging the existing food and beverage activity in that area. The structure and operations of the facility described here are still open to discussion and modification and are not intended to limit other potential development opportunities.

Introduction/Summary

The South Suburban Economic Growth Initiative (SSEGI)¹ is developing a Food Processing Innovation Center (“the Center”) in Cook County’s South Suburbs (see pg. 8 for reference map). This facility will leverage the unique opportunity presented by the South Suburbs’ assets and mix of industrial activity, creating a hub for food innovation and firm growth. The Center will provide a suite of products and services primarily targeted to two customer segments: (1) small, growing firms emerging from the area’s incubators and shared kitchens, and (2) established, mid-sized firms adapting to a rapidly changing food industry. Some of the facility’s offerings will be place-based – dedicated, built-to-suit production spaces; co-packing operations tailored to support production of smaller batches by emerging companies; shared back office and distribution services; etc. An additional set of business support services will be delivered either on- or off-site, through the Center’s staff or other partners, and may include prospective worker training on basic industry skills, incumbent worker training and education on advanced processing equipment, consulting services for technology adoption or operational improvements, etc. The Center’s products and services will also draw tenants and customers beyond the two segments mentioned above, such as equipment manufacturers seeking small production facilities where potential customers can test new technologies. This concept paper provides a high-level outline of the facility with enough definition to reflect the market opportunity and anticipated design, but also with the anticipation that details will evolve and be refined as developers, partners and tenants are identified and engaged in building and launching the Center. The finalized concept will translate in time into the Center’s business plan and pro forma capital and operating budgets.

Why the South Suburbs?

Cook County’s South Suburbs have historically been at the heart of the regional economy, serving as a major hub for the region’s industrial activity.² In the mid-1800s, the area emerged as a center for steel manufacturing, attracting other types of heavy industry, including agricultural processing and distilling operations. Manufacturing remained strong in the South Suburbs for much of the twentieth century, and while the area has experienced some contraction in manufacturing employment in recent decades,

¹ SSEGI is a cross-sector partnership encompassing the business, political and civic leadership of dozens of suburbs in South Cook County. Participants in SSEGI are collaboratively creating a new development authority and undertaking a major, comprehensive effort to transform the economy of the Southland, reestablishing the South Suburbs as prosperous, vital communities that participate in and drive growth in the regional economy.

² See “South Suburban Economic Growth Initiative Phase 1 Report,” June 2017, https://www.cookcountyil.gov/sites/default/files/ssegi_full_phaseonereport.pdf for more detail on the South Suburbs and SSEGI.

reflecting national trends, several manufacturing sectors maintain a substantial presence in the area, including metals, chemicals, and food and beverage.

Changes in the economy have created an opportune moment to leverage and expand upon the South Suburbs' strengths in manufacturing. The South Suburbs possess many assets that make it an excellent location for manufacturing, including easy access to the region's rail and road networks; abundant industrial land and buildings; and a large, underutilized workforce, including many workers with prior manufacturing experience who can be readily retrained for production roles. The quality of these assets is reflected in several pockets of concentrated manufacturing activity in the area, including industries and sectors out-performing other parts of the region.

Local and regional leaders have coalesced around a concerted effort to reinvent the South Suburbs as leading places to do business in the next economy. The South Suburban Economic Growth Initiative (SSEGI) is currently managing the design and launch of a suite of initiatives in industrial and commercial development, workforce training for middle-skilled workers, housing finance programs to revitalize the residential real estate market, and more. To catalyze and drive this work long-term, SSEGI is leading the creation of a new development authority – the Southland Development Authority (SDA). The SDA will combine the resources and authorities of the South Suburbs' municipalities to promote transformative development projects; create and attract new, innovative financial resources and tools; provide a nimble, market-driven conduit between the public and private sectors; and launch and manage programs in workforce and housing development.

One of the SDA's lead strategies is to make the South Suburbs a hub for innovation and growth in the region's food industry. This strategy grew from an assessment of where the area's strongest concentrations of industrial and commercial activity align with the Chicago region's primary sectors. One such alignment is in the food and beverage manufacturing and packaging cluster. This cluster is among Chicago's largest, most concentrated industries, and is second only to Los Angeles' food manufacturing cluster in size.³ The South Suburbs have a substantial presence of food and beverage firms, out-performing regional firms. This sub-regional and regional alignment of strengths points to the South Suburbs' unique opportunity to become a go-to location for food firms looking to grow and innovate.

Why this facility?

The food industry is undergoing significant upheaval. Smaller companies are increasingly leading the way on product innovation and cutting into the market share of traditional, large CPGs. New markets are emerging with growing consumer demand for organic, free-from, local, craft and ethnic food and beverages. New processing and packaging technologies are opening further opportunities for more efficient production and added value product innovation. At the same time, these technologies, along with heightened food safety requirements, are driving the need for new training programs for food and

³ Chicagoland's food and beverage cluster is actively organizing to collectively make the region a 21st century, global hub for food and beverage manufacturing and packaging. The Chicagoland Food & Beverage Network (CF&BN) exemplifies this activity, providing a growing forum for the industry to collaboratively build products and services that will drive greater firm growth, innovation and employment. See "Chicagoland FOOD: Seizing the Opportunity to Grow Chicagoland's Food Industry," May 2015, http://rw-ventures.com/wp-content/uploads/2017/01/Chicagoland-FOOD-Report_Final.pdf and <https://chicagolandfood.org>.

beverage manufacturing workers. To respond to these emerging opportunities and challenges, companies would benefit from production spaces and business support services that can help them scale and retool their operations.

The resources available to food firms to adapt to these changing market conditions are uneven. An explosion in shared kitchens, incubators and accelerators has created ample shared production space and associated business services to assist startups. Large food firms, though in some cases slow to respond to market trends and change course, generally have the resources to evolve on their own. This leaves a gap in the market of services – place-based and otherwise – that focus on two other segments of the market: small, high-growth firms and established, medium-sized firms.

Small, high-growth firms are those that are “graduating” from incubators and shared kitchens, with approximately \$1M to \$5M in annual sales. These companies are ready to scale but can find it difficult to make the leap in production volume needed to serve a next tier of customers, given the size of contracts that co-packers typically require and the challenges of affording their own production space. Established, medium-sized firms, with around \$20M to \$300M in annual sales, are older companies, often family-owned, that have made a consistent set of products with generally the same processes for generations. For these companies, the primary opportunities are to update their recipes and product offerings to move into new markets, incorporate new processing technologies to increase efficiency, and develop succession plans.

The Center described below is designed primarily around the opportunities and barriers for these small, high-growth firms and established, medium-sized firms, providing the right mix of shared and individual product spaces and on- and off-site shared services to take these firms to the next stage of growth.

Current Center Concept

The Center’s current design consists of two primary components, one focused on production and one focused on business support services (e.g., prospective worker training on basic industry skills, incumbent worker training and education on advanced technologies, consulting services for technology adoption or operational improvements, etc.). With a focus on the small, high-growth firms and established, medium-sized firms described above, this state-of-the-art facility will help level the playing field between big food companies and small/mid-size food companies, creating a one-stop shop with the resources to apply emerging technologies and business practices and create modern food processing operations.

Production Space

To effectively address the growth opportunities of the targeted firm segments, a set of place-based operations will be offered. The current production space concept contains a combination of the following spaces:

1. A state-of-the-art co-packing operation focused on a to-be-determined product group

Some small, high-growth firms struggle to scale given the lack of certain production facilities. For companies looking to contract out their product processing and packaging, there are few available

co-packers willing to accept the smaller contracts these companies offer. Co-packers tend to operate at high volume and low margins and generally obtain extended contracts for established companies. The Center will identify a product type that is more amenable to the lower volume contracts that small, high-growth companies have to offer, while also supplementing revenue with some number of larger contracts, or through taking equity stakes in smaller clients.

Preliminary analysis has identified potential market opportunities for the co-packing product line. One option is to fill gaps in the current Chicagoland co-packing market. There is insufficient capacity in the region for aseptic bottling; certain “free-from” categories, such as gluten-free and allergen-free; frozen specialty foods; High Pressure Pasteurization (HPP) tolling; and flash pasteurization. Alternatively, the co-packing line could be an expansion opportunity, either for regional companies who are reaching capacity in current facilities or for national co-packers looking to move into the Chicago market. Additional analysis will identify the primary product types produced by the region’s small, high-growth firms looking for co-packing facilities, and how those products overlap with the general co-packing market opportunities.

2. Production space consisting of 5,000- and 10,000-square-foot dedicated units

The second component of the Center will be dedicated production spaces that will be segmented and built-to-suit for either small, high-growth food companies looking to expand (should they prefer their own space to obtaining a co-packer) and for larger companies piloting new products and processing technologies. This portion of the facility will mimic aspects of the incubator model by co-locating firms’ production operations in a common space, allowing for the cross-fertilization of ideas and talent, but will do so for companies too large for traditional incubators. By providing the basic infrastructure for food processing, this production space can reduce build out costs for smaller companies, lowering the hurdles to scaling. These units will also allow larger companies to assemble test lines for limited runs of new products, piloting innovations in recipes and technology in a temporary arrangement.

This production space may also attract processing and packaging equipment manufacturers looking to build showrooms for new equipment or pilot plants for customers to test more advanced production technology (e.g., robotics, packaging equipment). Through demonstrations, training sessions and pay-per-use arrangements, these showrooms and pilot plants would facilitate the introduction and adoption of new product and process innovations by both tenant companies and other companies nearby.

3. Shared tenant services

Part of the benefit to firms locating in the Center’s dedicated production spaces will be shared services provided by the Center’s operators. By centralizing certain operational functions, small, high-growth food companies can further reduce operating costs, increasing their margins and improving their opportunity to scale.

A key shared service will be shared warehouse and distribution space, along with logistics services to facilitate shipments. Given the lower volumes of small, high-growth company contracts, an added value of this facility will be the ability to aggregate LTL shipments into larger deliveries, lowering distribution costs. A portion of the Center will be dedicated to the storage of tenants' products, along with docks for loading and unloading.

Additional shared services will require office space for facility staff who can provide quality assurance, sales and marketing, and general administrative functions (e.g., permitting, insurance).

It remains to be determined how the primary components of the Center are distributed across the development site. Certain uses may generate efficiencies and synergies by being located within a single structure. Other uses, such as office space for tenant companies and the facility operator, could be placed in separate buildings with minimal impact on the facility operations (and potential savings in build-out or renovation costs). Ideally, a property could be obtained that allows for the scaling of the Center's operations over time, expanding to accommodate more tenants and larger production spaces. A property with excess capacity could also accommodate the co-location of separate companies that wish to place operations near the Center and benefit from proximity to its services and tenants.

While these facility design questions remain to be answered, preliminary figures of the minimum amount of necessary space are being used to assess South Suburban industrial properties as potential Center locations. With co-packing requiring approximately 100,000 square feet (inclusive of storage and distribution space to be shared with other tenants) and dedicated production space another 50,000 square feet, the concept currently has a baseline of 150,000 square feet for an initial build out, which would require a parcel of 7.5 to 10 acres. This size is close to the facility's minimum, and depending on what the Center ultimately manufactures, the space requirements could expand considerably. For instance, bakery products would require significantly more production space (though would come with the benefit of lower construction costs). And as mentioned, a larger property is preferable to provide more flexibility to scale over time or locate complementary companies and facilities.

These space figures are also translating into initial estimates for development costs. Construction costs will vary based on what products are produced and whether an appropriate existing building can be found. For a new building, overall non-equipped construction costs are estimated to be \$100-\$150 per square foot,⁴ or \$15M to \$22.5M based on the 150,000 square foot baseline for the initial facility.

Business support services

In addition to the Center's place-based services, the Center will offer a broader suite of sophisticated business support services to companies on site and across the region to help them seize emerging growth opportunities in the industry and address new challenges. The specific suite of services the Center will provide is being developed through on-going market analysis and firm interviews, and is likely to include some combination of the following:

1. Basic skills training and workforce development for food processing staff looking for a career in food processing. Training programs could include GMP's (Good Manufacturing Practices), food safety and quality monitoring, along with maintenance and manufacturing IT systems

⁴ Note that per foot costs may be significantly higher if a substantial amount of freezer space is required.

2. Advanced food processing training in IT, automation, ingredient traceability, packaging, quality certifications (e.g., SGF, BRC, etc.) and other state-of-the-art technologies applicable to established small- and medium-sized food processing companies
3. Innovation support, including product piloting and testing, technology implementation consulting, demonstration space for new processing equipment, etc.
4. General business services such as financial and cost controls, basic business financing, social media use, e-commerce, certifications, supply chain management, sustainability measures and organization development support
5. A vehicle for collaboration on best practices among non-competing food companies, such as peer forum groups (e.g., YPO, Vistage, or Share groups common in the grocery industry)

Determining the suite of business support services the Center will provide or facilitate will help inform where those services are delivered and the implications for the design of the facility. Certain services, such as general business consulting or TA, will require no more than meeting or classroom space. Other services, especially those related to worker training and innovation that require access to new equipment or test kitchens and labs, will call for more specialized spaces and have a significant bearing on the facility design.

Determining where the Center's business support services are delivered will occur in tandem with deciding who will deliver those services. The Center may provide some of these services with its own staff, though it will likely partner and contract with existing partners and service providers as possible, based on the availability of relevant expertise and capacity. In this respect, the Center will benefit from being a lead initiative of SSEGI, which has deep engagement from several high-capacity South Suburban economic development organizations (e.g., SSMMA, CSEDC, OAI). In addition, the Chicagoland Food & Beverage Network is also a key partner in the Center, and can bring to the table its members who can offer high-quality services (e.g., IIT-IFSH, IMEC, etc.)

Process and Status of Concept Refinement

The SSEGI team is currently undertaking several activities to further refine this concept and move toward a full business plan and pro forma budget. These include further interviews with industry experts, regional and South Suburban food firms and potential developers and investors; additional market analysis on industry trends, and the composition and status of South Suburban food firms; and similar facilities' characteristics. The team is also assembling a comprehensive inventory describing the South Suburbs' full complement of assets, including available sites, workforce, training and support programs, financial resources, government incentives, etc.

The key topics to be addressed as the project moves from concept to full business plan include:

- Customer Profile
 - 1) Industry trends (e.g., increasing consumer demand for certain products, ingredients; new packaging technologies) that inform which firms to target as customers and what services the facility will provide
 - 2) The sub-sectors most represented in the South Suburbs and surrounding areas
- Facility Design/Location

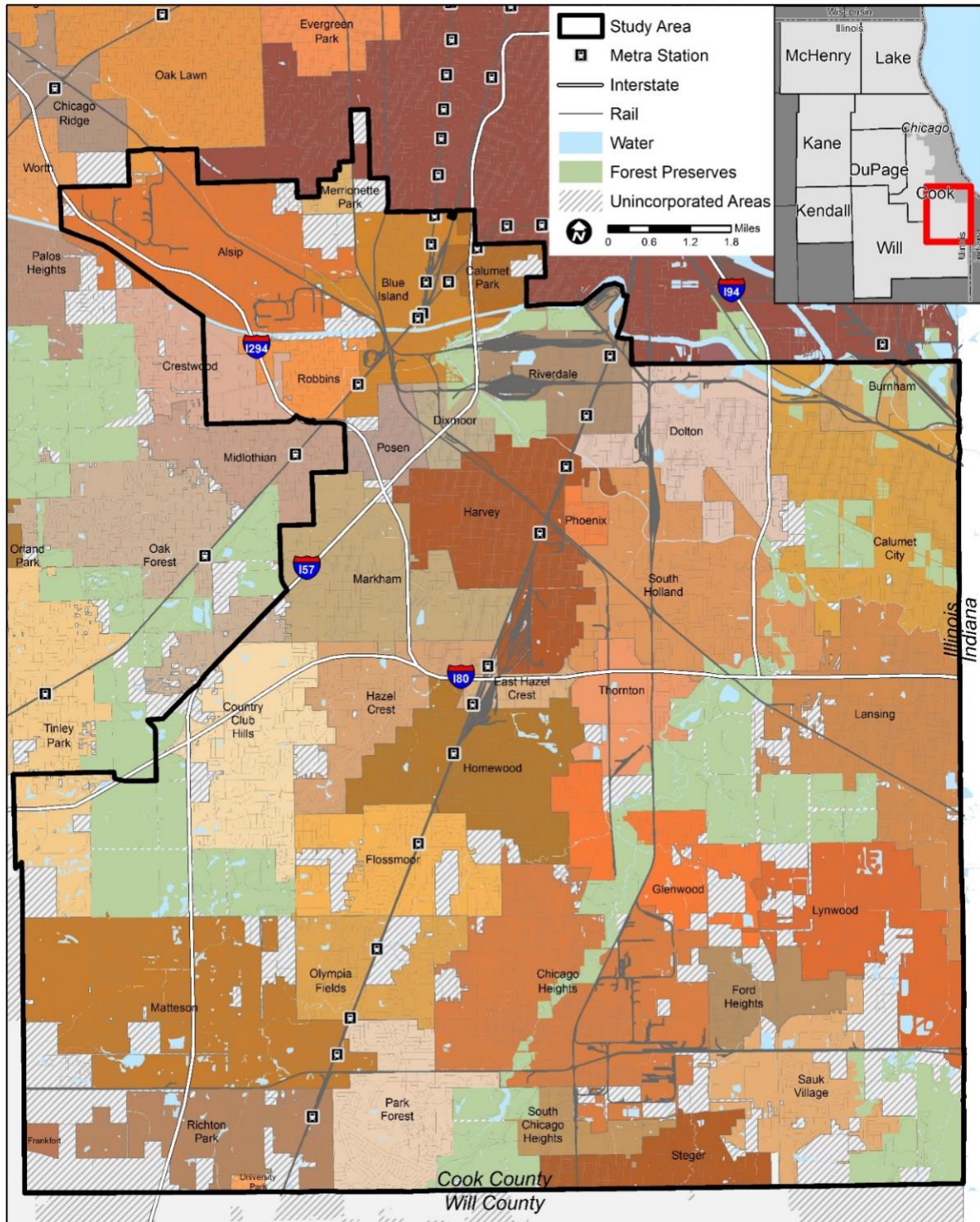
- 1) The regional and national market for co-packing of particular product and packaging types – including local market gaps and specific co-packers looking to expand/relocate – and how that informs the Center’s selection of a co-packing focus
 - 2) Identification of potential co-packing operators, from local, regional and national markets, and engagement with those co-packers to assess their interest in and fit with the Center’s anticipated design
 - 3) Assessment of potential facility sites based on ideal/preferred criteria for land/building (e.g., road and rail access, proximity to available workforce, remediation costs, utility access, etc.)
 - 4) Opportunities for expansion of the Center, or the co-location of associated food production firms, warehousing, distribution services, R&D facilities, etc., based on the size of available South Suburban industrial properties
- Financial Model
 - 1) Costs for land acquisition and preparation, construction and operations
 - 2) Revenue model for facility components, including production space rent, options for taking equity stakes in co-packing clients and production space tenants, corporate sponsorships, etc.
 - Business Support Service Portfolio
 - 1) The appropriate composition of business support services for the targeted customer segments, and how the Center will balance providing them directly through its own staff and managing their delivery by partner organizations
 - 2) Which shared services are most appropriate to provide to production space tenants, based on the efficiencies they provide to tenants and the value tenants place on their availability
 - Organizational Form
 - 1) The organizational structure for the entity, or entities, that will manage the Center and any adjacent food-related facilities (e.g., wholly owned by a private entity, separate private entities for various functions, a hybrid non-profit/for-profit form, etc.)

Conclusion

The Food Processing Innovation Center will be a transformative vehicle for seizing two opportunities in one – leveraging the South Suburbs’ excellent industrial assets to create a cutting-edge manufacturing facility and filling the market gaps in products and services that will grow key segments of the food and beverage manufacturing industry. This facility will be a key driver in making the Southland a hub for next generation food and beverage growth, attracting over time a constellation of companies in production, logistics, R&D, and more. The SSEGI team looks forward to further honing this concept in partnership with potential operators, developers and tenants, and bringing this Center to life.

Geography for the South Suburban Economic Growth Initiative

Cook County South Suburbs, Phase 1 Study Area



Chicago Metropolitan Agency for Planning, 2017.