Designing an Inner City Food Cluster Strategy

Presentation to the Inner City Economic Summit
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next street

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Initiative for a Competitive Inner City

KARP RESOURCES

WHY FOOD?

Major segment of US economy

- More than 700,000 US food establishments (9%) employing nearly 14M people (12%)

Concentrated in small business

- Over 40% of all companies in the food cluster have between 1-4 employees; another 50% of companies have between 5-49 employees

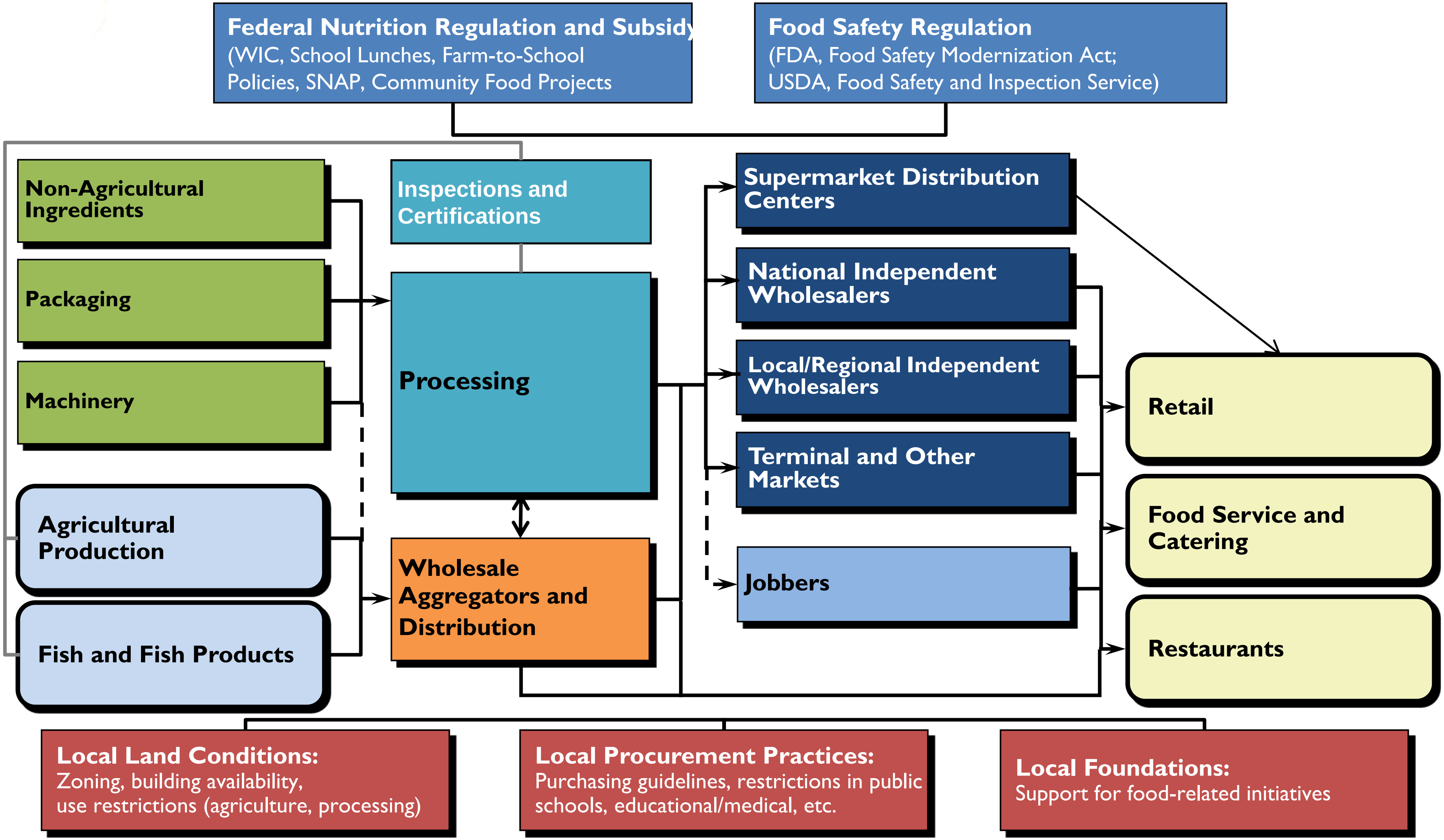
Low educational requirements

- 60% of cluster workers have high school diplomas or less versus 44% for the rest of the economy

TODAY'S DISCUSSION

1. **Food cluster overview and city context**
2. Job growth opportunities
3. Developing a city food strategy

FOOD CLUSTER OVERVIEW



Source: Project team

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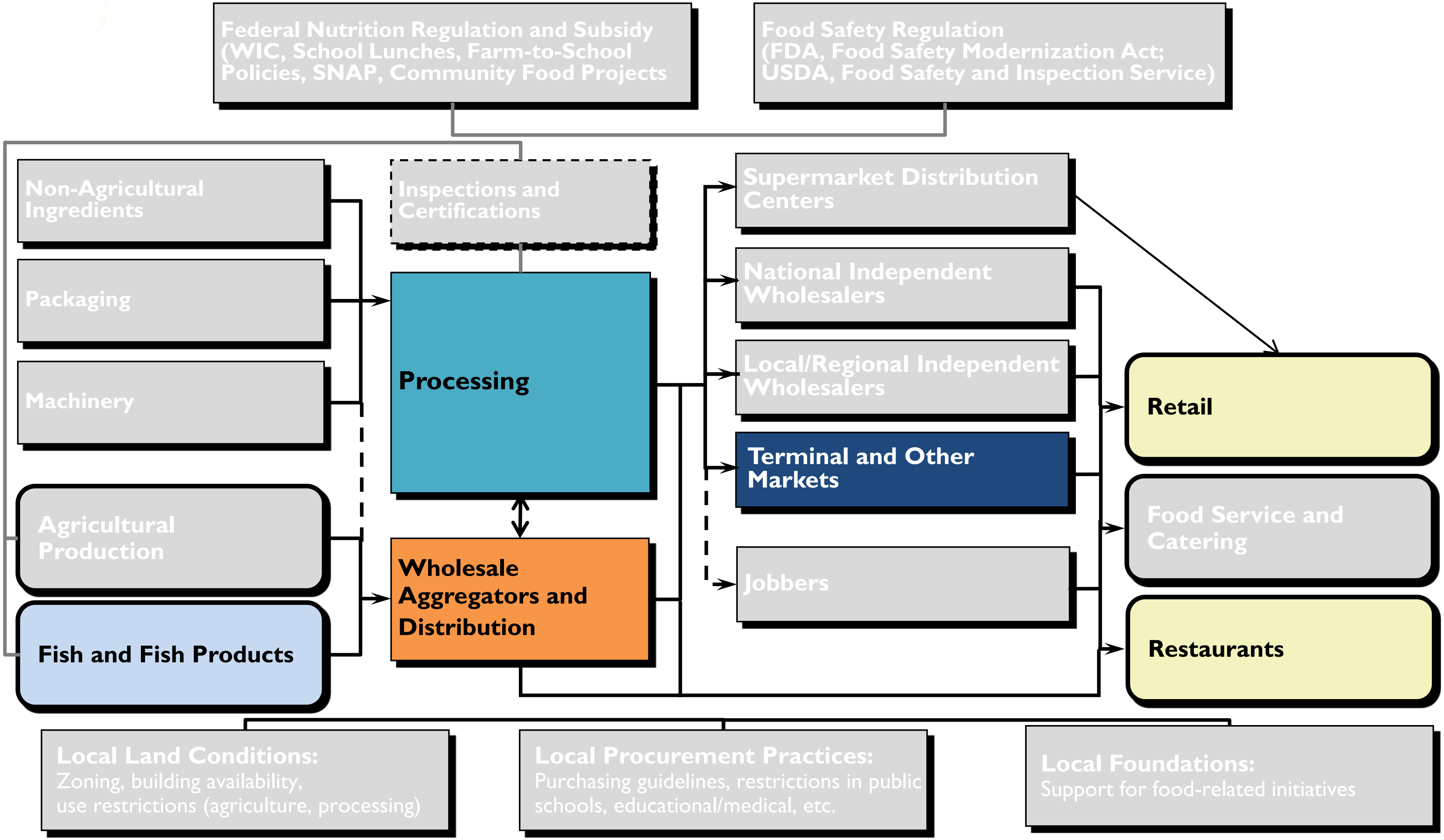
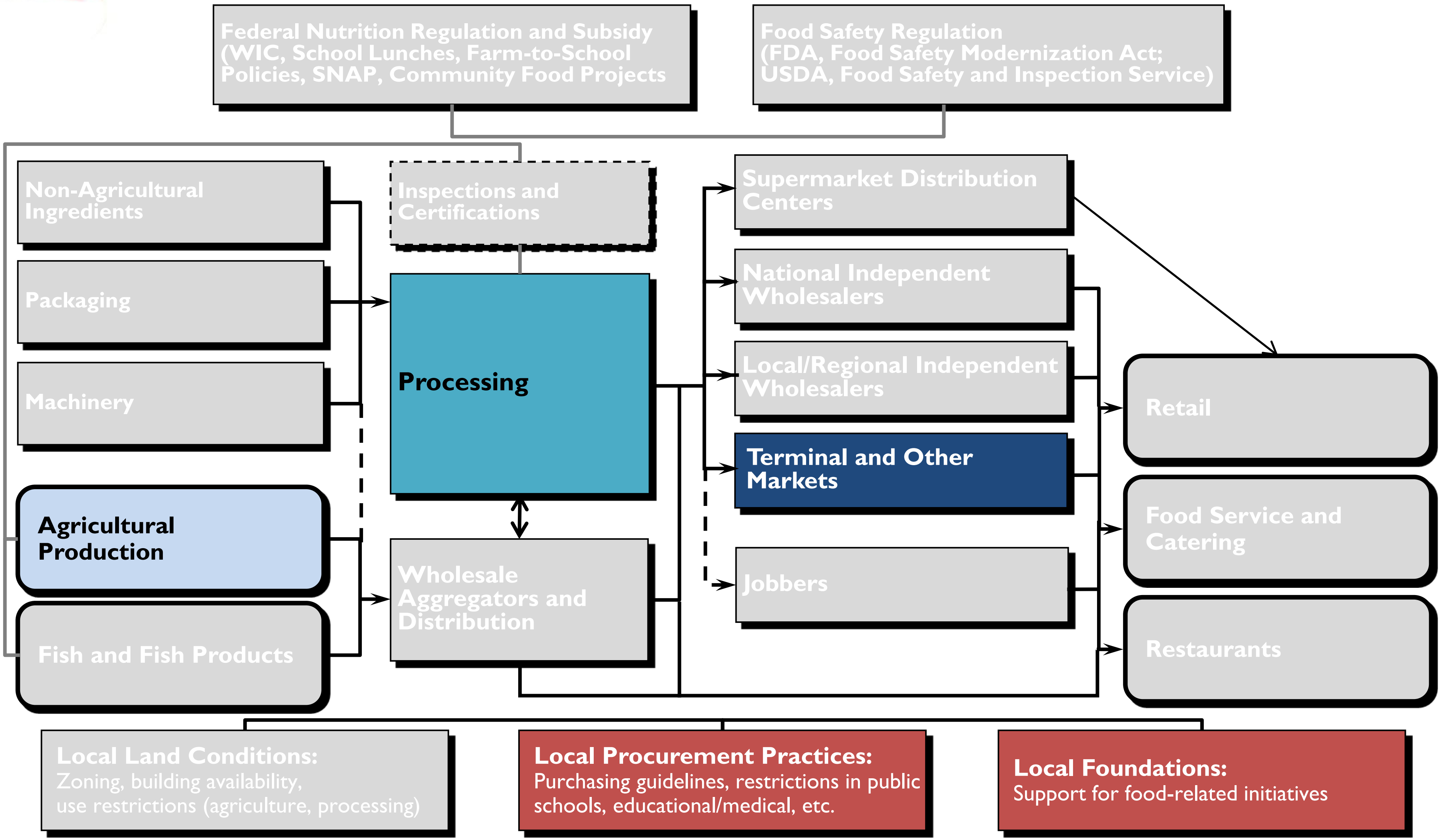
FOOD CLUSTER HIGHLIGHTS: BOSTON



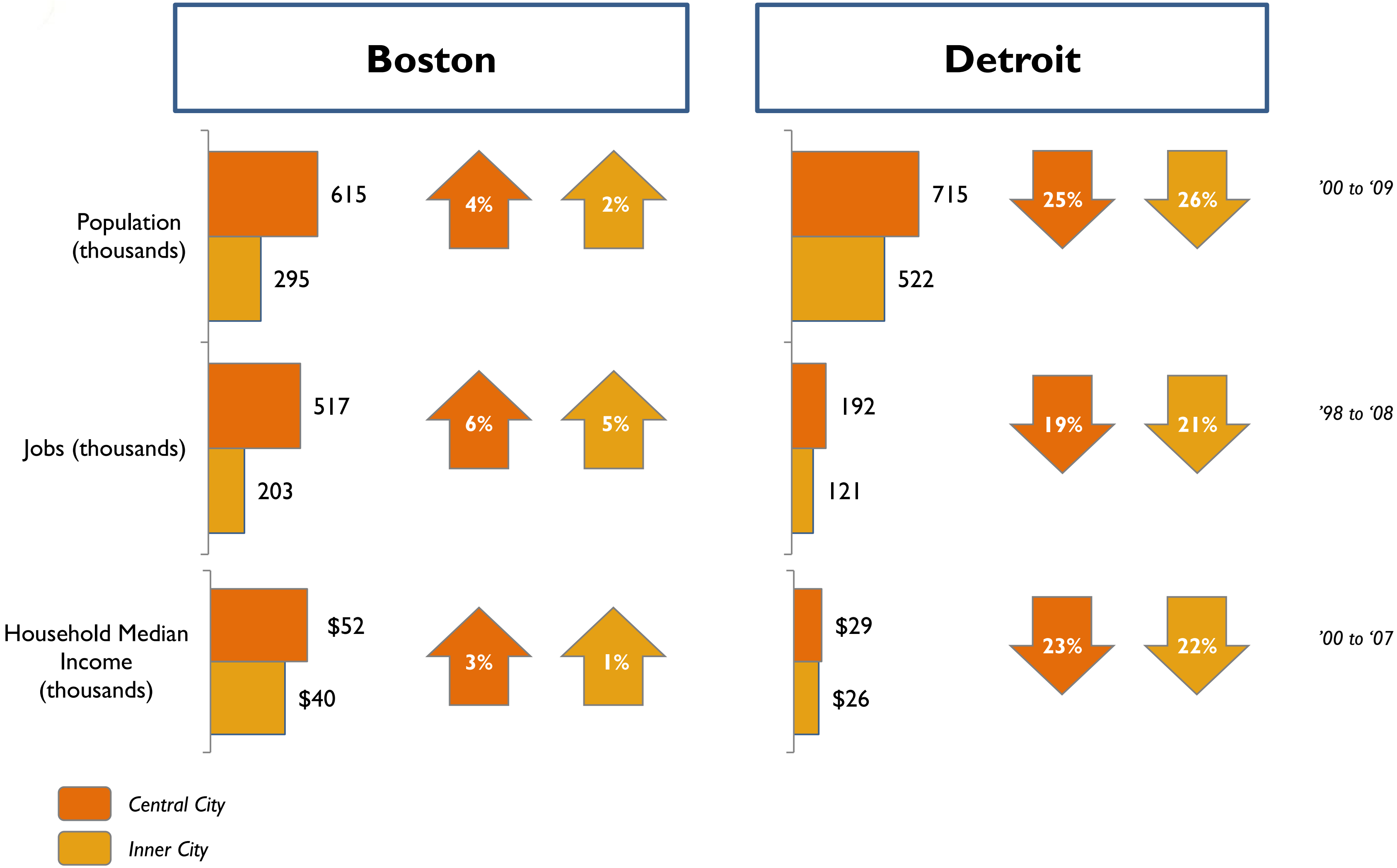
Source: Project team

FOOD CLUSTER HIGHLIGHTS: DETROIT



Source: Project team

CITIES DIFFER ON KEY DIMENSIONS



Source: U.S. Census

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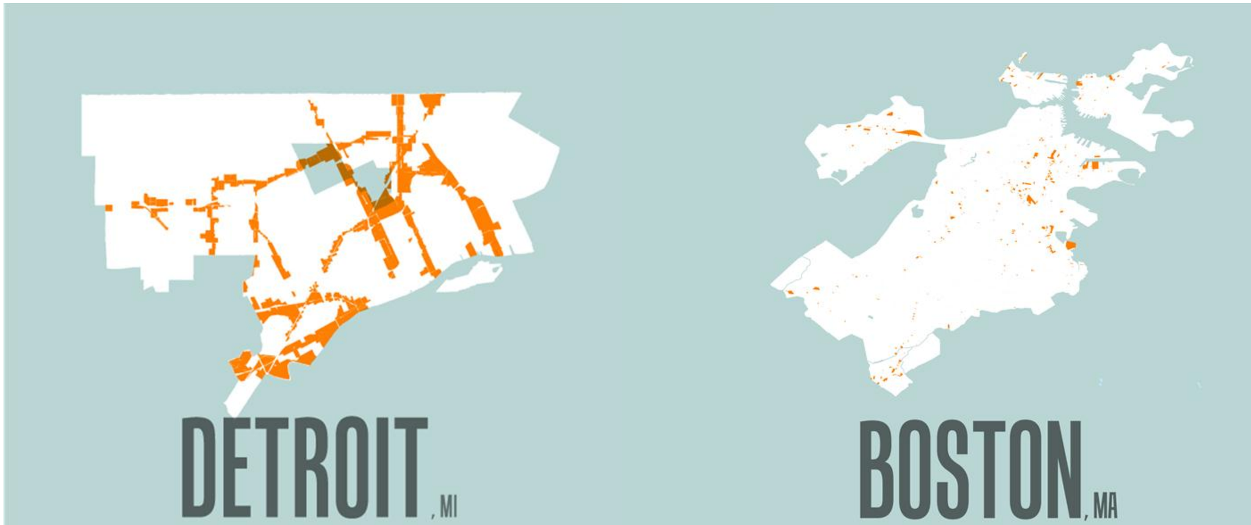
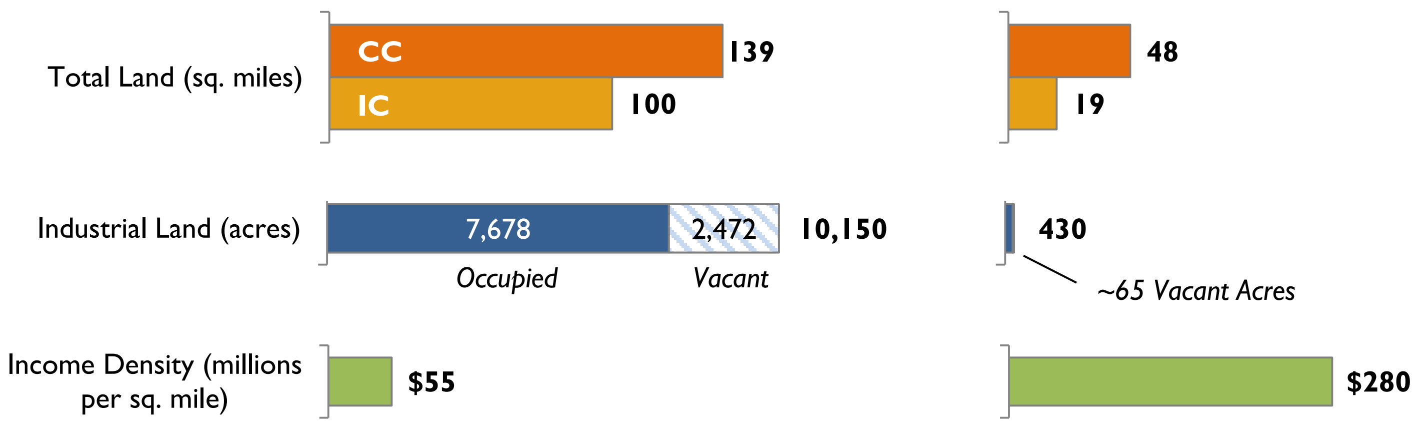
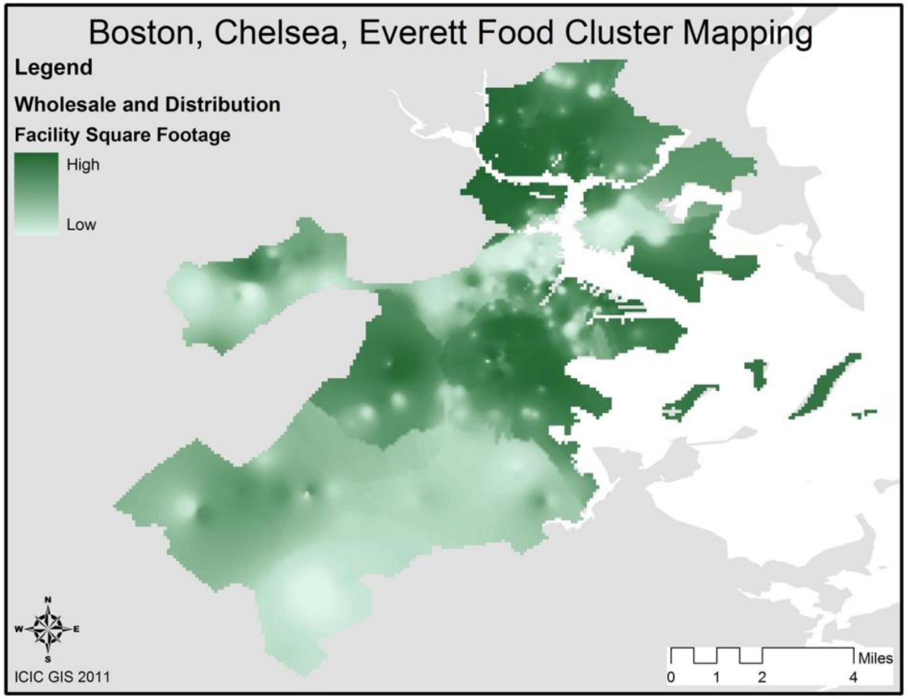


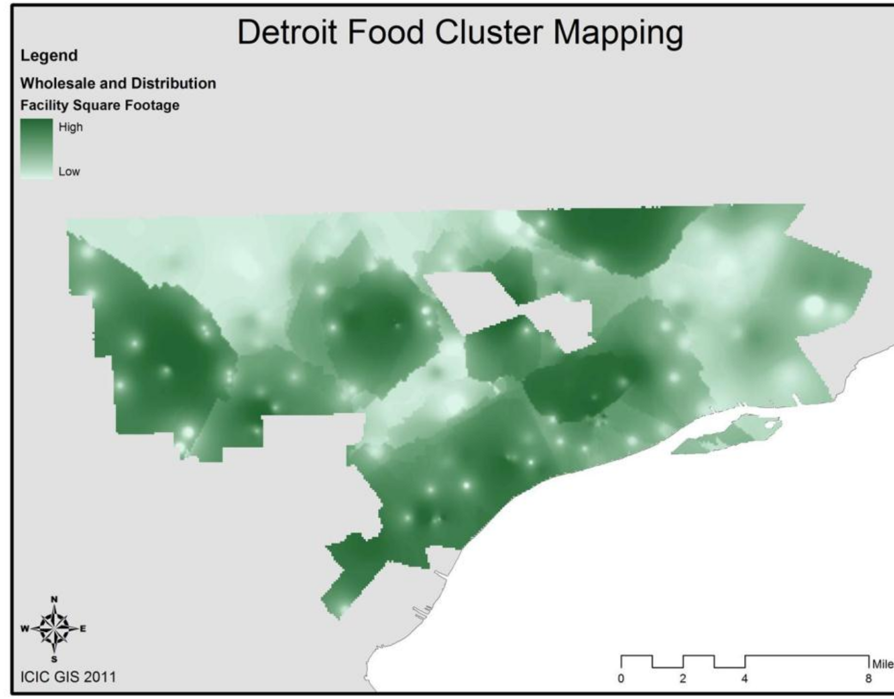


Sources: U.S. Census, ICIC, State of the Inner City Economy (SICE) database

DISTRIBUTION SYSTEM - LOCAL

Concentration of Wholesale and Distribution Facility Square Footage





Location Quotient	Boston LQ: 0.4 Chelsea/Everett LQ: 3.5	Detroit LQ: 1.3

Sources: U.S. Census, ICIC (SICE Database)

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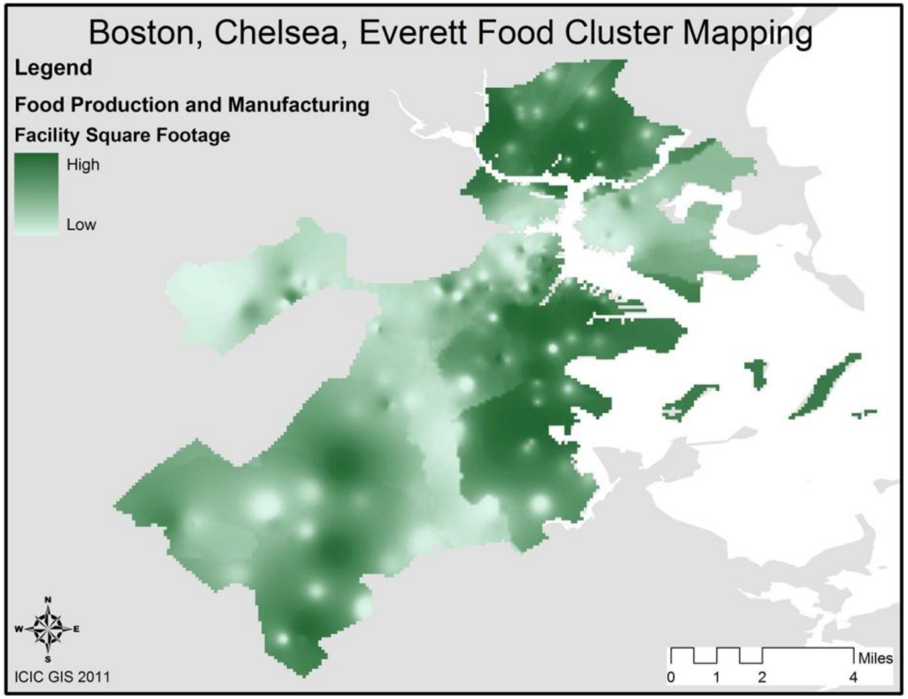
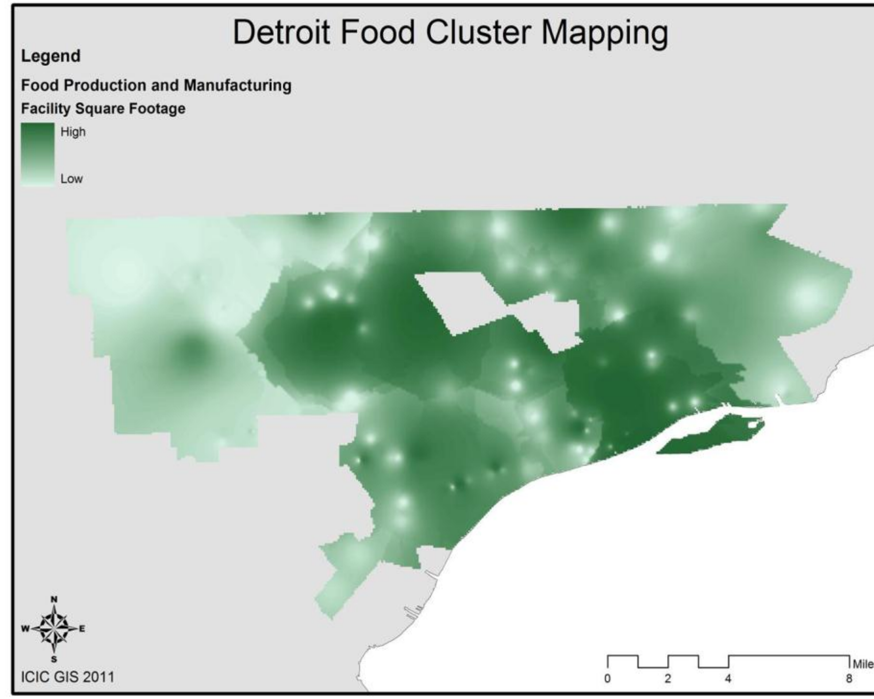
FOOD PROCESSING AND MANUFACTURING

Concentration of Food Production and Manufacturing Facility Square Footage



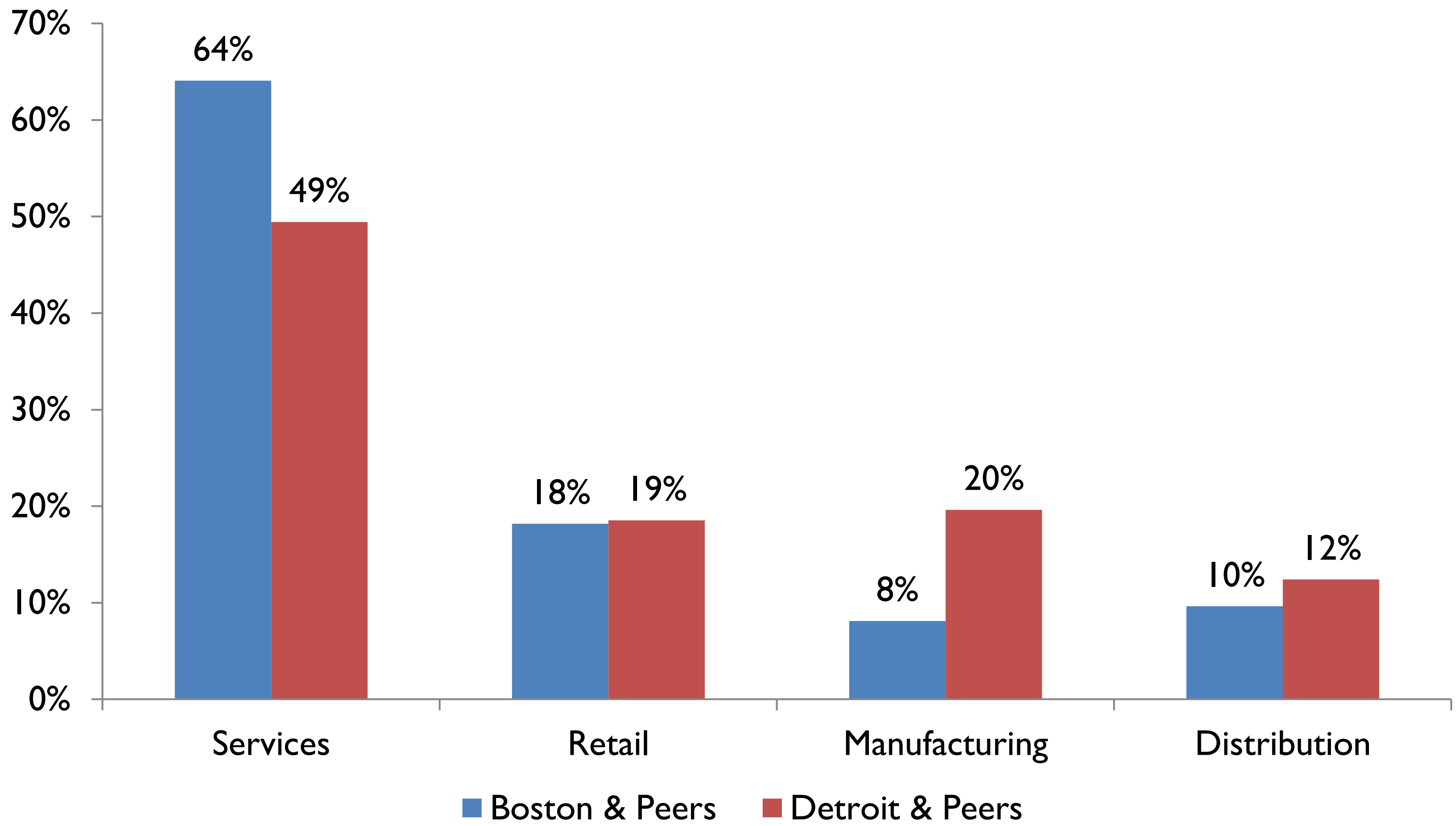


Location Quotient	Boston LQ: 0.2 Chelsea/Everett LQ: 2.7	Detroit LQ: 0.8

Sources: U.S. Census, ICIC (SICE Database)

DISTRIBUTION OF CLUSTER JOBS BY CITY TYPE

Food Cluster FTEs, Boston and Peers v. Detroit and Peers, 2009



Sources: U.S. Census, ICIC (SICE Database), ICIC Analysis

CHALLENGES FOR URBAN FOOD SECTOR JOB GROWTH

Space

- Production requires affordable small spaces to start up and larger growth options in cites with limited, costly real estate

Distribution

- Concentration and sophistication of key channels
- Challenging economics of small volume distribution

Cost

- Higher wages and unionization
- Heavier tax burden
- Rising utility and input costs

Income Density

- Consumer demand is largely pre-defined based on population size/density and income levels

Financing

- Production requires sizable up-front investments in facility and equipment, but poor fit for traditional lenders

Complexity

- Oversight by multiple city and federal agencies requires detailed understanding of regulations, ability to navigate and comply

TODAY'S DISCUSSION

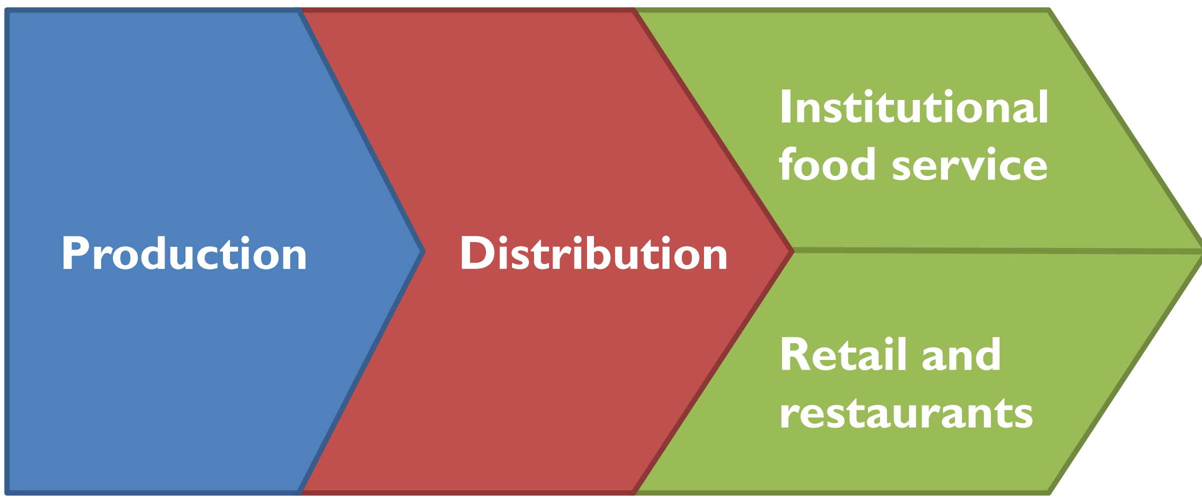
1. Food cluster overview and city context

2. **Job growth opportunities**
   a) Production
   b) Distribution
   c) Consumption

3. Developing a city food strategy

FOOD CLUSTER GROWTH OPPORTUNITIES

1. Grow small scale production and entrepreneurship
2. Attract large scale processing and production
3. Maximize the benefit of urban agriculture initiatives



6. Leverage public and anchor institutional procurement
7. Expand innovative retail and quick serve models
8. Build local commissary capabilities

4. Build a thriving public/private market infrastructure
5. Expand alternative distribution models

1. SMALL SCALE PRODUCTION

Fostering entrepreneurship

Boston

Detroit

	Incubator / Start-Up	Multi-Tenant / Scale-Up	Standalone Operation
Operational model	• 40-60 companies using shared kitchen space	• 6-8 companies, each with 24/7 dedicated space • Shared G&A (e.g., utilities, accounting, IT); potentially shared warehousing/dist.	• Independently leased/ owned real estate
Capital	• <$1 million (not including RE)	• $1-3 million (not including RE)	• Varies by type of business
Employees	• 1-2	• 8-10	• 10+
Timing	• 1-2 years	• 2-5 years or longer	• Long term

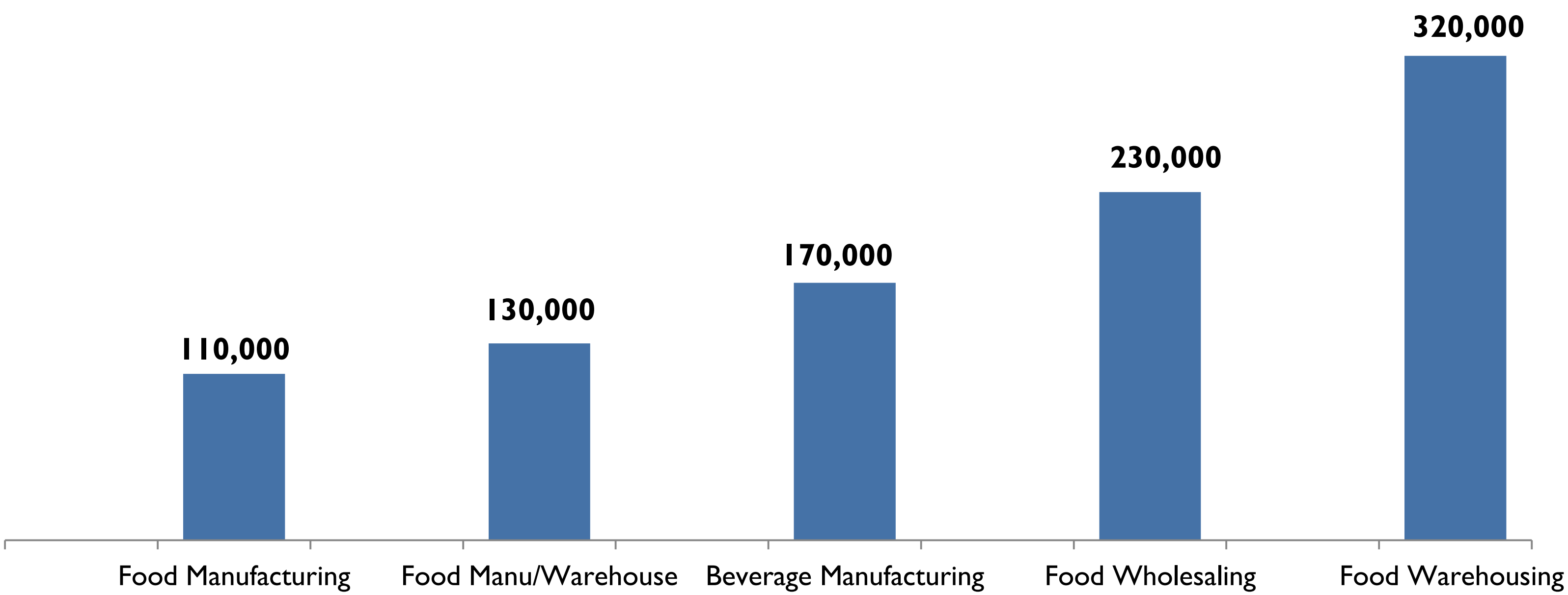
2. LARGE SCALE PRODUCTION

Leveraging Building Stock and Natural Resources

Boston

Detroit

National Average Square Footage of Food-Related Investments, 2000-2010



Detroit Parcels

Number of buildings	149	120	88	62	50
Partially vacant	40	35	29	23	14
Totally vacant	23	19	15	11	7
Initial jobs per investment	115	120	65	130	160

Sources: Project team analysis of Detroit Works Project Industrial Land Inventory

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3. URBAN AGRICULTURE

Boston

Detroit

Job creation currently low to moderate, but other social or community value

- Fresh food access
- Health outcomes
- Greening
- Youth training

Key challenges

- Zoning/clear policy approval
- Concerns about most productive use of land
- Go-to-market model for very small volume

City policy and support is critical for urban agriculture

- Access to city-owned land, responsive zoning and inspectional services support
- Providing linkages to social services for labor
- Creating opportunities within existing distribution outlets, including farmers markets, local access initiatives

4. MARKET INFRASTRUCTURE

Public and Private Markets

Boston

Detroit

	Public market	Private market
Boston	**Boston Public Market** • Initially retail only, with limited transport access • Public land • Leadership to be determined through RFP process	**Chelsea Market** • Private businesses with no coordinating entity • Wholesale only; hub for national supply to meet local distribution • Some experimentation (e.g., Corner Store Initiative)
Detroit	**Eastern Market** • Both retail and wholesale • On public land with non-profit leadership of a coordinating group • Has become hub of food activism	**Detroit Terminal Market** • Wholesale only market • Congregation of private businesses • Rail infrastructure and ample truck access are essential for successful terminal markets

5. ALTERNATIVE DISTRIBUTION MODELS

Boston Examples

Boston

Detroit

Barriers to small producers

- Economics of small volumes
- Consistency of supply
- "Layers of margin"

Small producers

- Farms
- Processors
- Specialty foods

Food Exchange

- Owns trucks/ warehouses

Red Tomato

- Brokers with trade buyers
- Coordinates logistics

Direct delivery

- Example: Clear Flour Bread/ Aramark

Small buyers

- Restaurants
- Small retailers

Large buyers

- Major retailers
- Food service contractors
- Institutions
- Distributors

6. INSTITUTIONAL PROCUREMENT

Boston

Detroit

Institutions have buying power…

- Institutions represent nearly ¼ of food spend
- Heavily concentrated in major food contractors

…but new information and coordination are required

- Familiarity with supply base and distribution economics
- Aggregation of purchasing across multiple institutions
- Changing internal purchasing culture

Examples

"Buy in Detroit"

- DMC, Henry Ford and WSU
- Collectively focused on increasing local portion of $1.6b total spend, with food as key target
- DEGC providing support

MA "Farm to School"

- >$1.3m in food procured from ~50 MA farms by ~150 public and private schools and colleges

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7. INNOVATIVE RETAIL AND QUICK SERVE

Boston

Detroit

Key challenges

- Access to fresh and local food at affordable prices
- Ability for smaller local producers to access retail outlets cost-effectively, and to scale over time to meet retail demand

Example approaches

- Expansion of urban farmers markets and public retail markets
- SNAP matching programs
- Small format grocery/superstore
- Co-op grocery stores (e.g., twin cities)
- Mobile markets and fruit carts (e.g., Peaches & Greens in Detroit)
- Corner store initiatives
- Food trucks

8. COMMISSARY

Boston
Detroit

Growing demand for commissary capacity
- Retail
- Quick serve restaurants
- Institutions (e.g., public schools)

…which is a natural source of local jobs…
- Labor-intensive
- Requires proximity to consumer

…but hard to produce cost-effectively
- Need significant scale
- Capacity a prerequisite for contracts

Building local commissary capacity
- City-wide awareness and coordination
- Longer lead times for food supply contracts to enable investment in capacity

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POTENTIAL ENABLERS FOR FOOD SECTOR OPPORTUNITIES

Financing

- Rise of non-traditional funding sources
- Availability of targeted start-up subsidies and access to low-cost capital

Information and communication

- Transparency of market information, including space availability and pricing and product supply/demand
- Awareness of technical assistance, funding options

Workforce support

- Access to mentoring and support for entrepreneurs
- Rise of enrollment in culinary programs, with curricula starting to reflect growing needs in food service

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EMERGING ROLE: PUBLIC INTEREST BROKER

Identify demand for specific products and volumes

- Broadline distributors and food service contractors
- Public and private institutions, e.g., school systems, universities, hospitals

Match to supply

- Small/regional producers and distributors

Key roles for public interest broker

- Represent both sides' interests, as well as community benefits
- Broker product pricing and volume, facilitate aggregation/distribution
- Typically funded by public or philanthropic entity

TODAY'S DISCUSSION

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2. Job growth opportunities
3. **Developing a city food strategy**

DEFINING TYPES OF CITIES

Boston's peers:
- Denver
- Minneapolis
- Oakland
- Washington DC

- Higher than average income
- Moderate population growth
- Limited, costly land
- Available workforce
- Many transportation options (e.g., road, rail, sea, air)

Detroit's peers:
- Baltimore
- Cleveland
- Milwaukee
- St. Louis

- Lower than average income
- Population declining
- Available and low-cost land
- Available workforce
- Many transportation options (e.g., road, rail, sea, air)

ROLE OF CITY POLICY

Land policy

- Availability of industrial land shapes options, e.g., "no net loss" provisions and creation of industrial zones (Chicago, New York)

Public procurement

- Policies, incentives for new product specifications to make food healthier, reduce packaging waste, and/or and spur local and regional food purchasing, e.g., Boston Public Schools has preference for "local product" and a Farm-to-School Coordinator

Economic development

- Recognition of the jobs-creation potential of food-related activities, e.g., designation of food as a target cluster or sector (Detroit)

Tax policy

- Use of PILOTs in return for investment and job creation (New York)
- Property tax policies shape potential uses and costs of land
- Sales taxes (soda, restaurants, food) affect demand

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WHAT IS THE NARRATIVE FOR YOUR CITY?

Who will lead?

Mayor's office

City agencies

Hospital systems

Universities

Foundations

Neighborhood groups

Social equity investors

Existing businesses

Entrepreneurs

What is the agenda?

- What motivates the major stakeholders for food today?
- How does food fit within the broader context of city strategy and politics?
- Where do sources of funding match against food opportunities?