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Southland Food Processing Innovation Center
Proposed Facility Concept Paper

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A NOTE ON THIS DOCUMENT: This concept paper has emerged from a design process to create a food manufacturing-related development in the Southland, 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 Southland Development Authority (SDA)¹ is developing a Food Processing Innovation Center (“the Center”) in the Southland, a collection of 45 municipalities in southern Cook and northern Will Counties.² This facility will leverage the Southland’s assets and industrial activity to build a hub for food innovation and firm growth. The Center will offer flexible space that can be tailored to each tenant, with dedicated, built-to-suit production spaces as small as 2,500 sf and up to 30,000 to 40,000 sf. In addition, shared on-site services performed by Center staff – such as warehousing, maintenance, and logistics – will provide companies these crucial functions at below-market costs, achieved through economies of scale. These services are designed to primarily target two customer segments: (1) small, growing firms emerging from incubators and shared kitchens, and (2) established, mid-sized firms adapting to the rapidly changing food industry. The Center will also attract large firms operating pilot lines or equipment manufacturers showcasing new technologies. Finally, this Center will coordinate with the SDA and other food industry partners to design and manage additional business support services (e.g., workforce training, basic business consulting), delivered either on- or off-site, that will support food companies across the Southland.

This concept paper describes the market opportunity and anticipated facility design, but also anticipates that details will evolve and be refined as developers, partners and tenants are engaged in building and launching the Center. A more comprehensive draft business plan, supported by detailed pro forma capital and operating budgets, is in development.

Why the Southland?

The Southland has historically been at the heart of the regional economy, serving as a major hub for the region’s industrial activity. Starting 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 Southland for much of the twentieth century. While the area’s manufacturing jobs have declined in recent decades (as they have across the U.S.), several manufacturing sectors have a substantial presence in the area, including metals, chemicals, and food and beverage.

¹ The Southland Development Authority emerged from the South Suburban Economic Growth Initiative (SSEGI), a cross-sector partnership encompassing the business, political and civic leadership of dozens of suburbs in South Cook County. Participants in SSEGI collaboratively created this new development authority, which is now leading a major, comprehensive effort to transform the economy of the Southland, reestablishing the area as one with prosperous, vital communities that participate in and drive growth in the regional economy. For more information, see <https://www.ssegi.com/about-sda>

² These 45 municipalities represent the members of the South Suburban Mayors and Managers Association (SSMMA). See <http://ssmma.org/sample-page/member-municipalities-2/>.

The Southland possesses 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. Several substantial pockets of concentrated manufacturing activity in the area, including industries and sectors out-performing other parts of the region, speak to the quality of these assets.

To generate the resources needed to expand the Southland's manufacturing activity – as well as grow the economy of the Southland as a whole - local and regional leaders have come together to create the Southland Development Authority (SDA). The SDA is currently managing, designing, and launching several initiatives across industrial and commercial development, workforce training, housing finance programs, and more.

A lead SDA strategy is to make the Southland a hub for innovation and growth in the region's food industry. One of Chicago's largest, most concentrated industries is the food and beverage manufacturing and packaging cluster, the second largest such cluster in the U.S., after Los Angeles.³ The Southland has a substantial presence of food and beverage firms, oftentimes out-performing other regional firms. These strengths point to the Southland's unique opportunity to become a go-to location for food firms looking to grow and innovate.

Why this facility?

Even before the COVID-19 pandemic, the food industry was undergoing significant upheaval. Smaller companies are increasingly driving product innovation and cutting into the market share of traditional, large CPGs. New markets have emerged with growing demand for organic, free-from, local, craft and ethnic food and beverages. New processing and packaging technologies are making production more efficient and enabling the create of more innovative, added value products. These technologies, along with heightened food safety requirements, are driving the need for a food and beverage manufacturing workforce with new and expanded skills.

Now the current pandemic is further disrupting the entire economy, with specific effects on the food and beverage industry.⁴ The economy as a whole is coping with high unemployment,⁵ a dramatic decline in consumer spending,⁶ and reduced productivity.⁷ Meanwhile, the shift to remote work and learning has upended where and how people eat and drink. Bar and restaurant sales have plummeted, as have

³ At a regional level, the Chicagoland food and beverage cluster is actively organizing to make the region a 21st century, global hub for food and beverage manufacturing and packaging. The creation and growth of the Chicagoland Food & Beverage Network (CF&BN) is a prime example, as it becomes a 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>.

⁴ 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 Southland and SSEGI.

⁵ As of September 4, 2020, the United States unemployment rate was 8.4%.

⁶ Consumer spending dropped by 12.6% in April 2020; see US Bureau of Economic Analysis - <https://www.bea.gov/data/consumer-spending/main>

⁷ U.S. industrial production dropped approximately 10% in April 2020; see World Bank's June 2020 Global Economic Prospects report.

the markets for foodservice at large institutions where employment and attendance have been greatly curtailed. On the flipside, grocery sales – in-person and online – have increased tremendously, driving growing demand for processed food products.⁸ While some of these pandemic-driven trends may be temporary, there will be some lasting, long-term changes in shopping and consumption patterns. Some of these immediate changes, such as the increased reliance on e-commerce and food delivery, are just accelerations of trends that were already underway pre-pandemic.

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 might struggle to increase production volume sufficiently 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-site shared services to take these firms to the next stage of growth.

Current Center Concept

The Center’s current concept is focused on recruiting and retaining emerging food production companies as tenants, especially 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 by providing an advanced production facility for firms to expand, increase productivity, and pilot new product-lines. The physical spaces will be supported and supplemented by on-site shared services, making it cheaper and easier for companies to receive and send shipments, maintain equipment and production space, host meetings and events, etc. Through collaboration with the SDA, the Center will support the design of additional services – such as training and workforce development for food processing staff – that can be utilized by either Center tenants or food companies across the region.

⁸ For instance, fluid milk posted an increase in retail sales over the 52-week period ended April 2020 (<https://www.foodbusinessnews.net/articles/15917-dairy-back-in-demand-due-to-stay-at-home-orders>) and retail sales of frozen and refrigerated meat substitutes soared 52% from August 2019 to August 2020 (<https://www.iriworldwide.com/IRI/media/Library/IRI-Pandemic-Protein-Performance-F.pdf>).

The current facility concept is built around the ability to quickly and flexibly partition approximately 100,000 square feet of production space into dedicated units as small as 2,500 square feet and as large as 30,000 to 40,000 square feet. This flexibility allows the Center to target and attract a range of tenants:

- Small, high-growth food companies looking to expand (should they prefer their own space to obtaining a co-packer)
- Larger companies piloting new products and processing technologies
- A modestly sized co-packer
- Showrooms for processing and packaging equipment manufacturers' new equipment or pilot plants for customers to test more advanced production technology (e.g., robotics, packaging equipment).

This aspect of the facility will mimic aspects of the incubator model, 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.

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. These key shared services, provided by Center staff, will include:

- Shared warehousing space, including cold and freezer storage
- Shipping operations for in-bound and out-bound deliveries
- Equipment maintenance technicians for tenants' processing equipment

The facility will also house shared spaces for non-production functions – reception area, worker lockers, conference rooms, co-working space, demonstration kitchens – that tenants can access, providing further on-site amenities that can enhance operations and lower costs.

While certain design questions remain, the facility concept is far enough along to assess Southland industrial properties as potential Center locations. With total rentable food production space – including refrigerated and non-refrigerated space for tenants – requiring approximately 100,000 square feet, and additional spaces – staging, common (office, cafeteria), mechanical, and warehouse areas – adding another 44,000 square feet, the concept currently has a baseline of 144,000 square feet for an initial build out. This would require a parcel of at minimum 5 acres. These space figures are also translating into initial estimates for development costs. Overall non-equipped construction costs are estimated to be \$135-\$211 per square foot,⁹ or \$20M to \$30M based on the 144,000 square foot baseline for the initial facility.

The Center will also partner with the SDA and service providers across the region to help offer a broader suite of sophisticated business support services to companies across the region. Given the broader

⁹ Note that per foot costs may be significantly higher if a substantial amount of freezer space is required.

scope and customer base of these services, the involvement of the Center will likely focus on advising and coordinating with partners, who will conduct much of the work. Leading concepts for these broader services include:

- Basic food processing skills training (e.g., GMP's (Good Manufacturing Practices), food safety and quality monitoring, maintenance), possibly coupled with placement services for training graduates
- Advanced food processing training: IT, automation, ingredient traceability, packaging, quality certifications (e.g., SGF, BRC)
- Peer forum groups (e.g., YPO, Vistage, or Share groups common in the grocery industry) to promote collaboration among non-competing food companies

The access to these shared services, and the ability to guide their design, reflects one of the benefits the Center will get from being a lead initiative of the SDA, which has deep engagement from several high-capacity Southland 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.) Besides these partnership connections, the SDA is taking a lead role in bringing the Center to fruition, devoting considerable staff time to the Center design, raising of capital, engagement of partners, and so on.

Next Steps

The SDA is currently undertaking several activities to move towards breaking ground on the Center. These include applying for pre-development funds from DCEO, engaging regional and Southland food firms, and contacting potential developers and investors. The steps underway as the project moves from concept to full business plan include:

- Socializing the concept with investors
- Identifying and securing contracts with prospective tenants
- Identifying a primary developer

Conclusion

The Food Processing Innovation Center will be a transformative project seizing two opportunities in one – building on the Southland's excellent industrial assets to create a cutting-edge manufacturing facility and filling the market gaps in services for 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. Over time, the activity of the Center and its tenants will make the Southland increasingly attractive to other companies in production, logistics, R&D, and more. The SDA looks forward to further honing this concept in partnership with potential operators, developers, and tenants, and bringing this Center to life.