

Distribution Challenges and Opportunities for NYC's Small, Specialty Food & Beverage Manufacturers

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Report commissioned by Council Speaker
Christine Quinn, New York City Council

Executive Summary

Overview

New York City's specialty food and beverage sector has gained widespread attention from consumers leading to increased demand for local products and, in turn, economic opportunities. Fueling this consumer attention is the proliferation of food markets, food blogs and test kitchens that have made it easier for new food and beverage manufacturing firms to open in the city and quickly make their presence known to customers.

The number of food and beverage manufacturing firms has grown significantly in New York City: the sector saw growth of over 11% between 2008 and 2012, notably higher than the 7% increase for all businesses in the five boroughs¹. In the past year alone, the number of NYC food and beverage manufacturers has increased by almost 40 firms, for a total of 1,097 in 2012², and this growth shows no evidence of slowing down.

While increasing consumer demand is of obvious importance to both growing a business and overall economic growth, it does not automatically translate into new business and jobs unless products are placed on shelves and actually purchased by consumers. To make this happen, producers need access to markets. A critical step to gaining access to more and larger retail outlets for specialty food and beverage manufacturers is securing a contract with a third party distributor that can increase sales volume and company visibility. Having a third party distributor to manage transportation logistics also enables manufacturers to more fully focus on production and sales, another key factor for growth. However, transitioning from self-distribution, which almost all firms begin with, to third party distribution is challenging for most new, small, specialty food and beverage manufacturers.

The Pratt Center for Community Development was commissioned by New York City Council Speaker Christine Quinn to assess the major distribution challenges facing these firms and identify strategic interventions the City could implement to better position the sector collectively for growth. To this end, Pratt Center interviewed over 25 stakeholders in the specialty food industry including manufacturers, distributors, food brokers and food consultants.

Study Findings

New food companies almost always start out distributing their products themselves to local stores and markets. While companies can self-distribute indefinitely, this practice will ultimately limit their sales and growth, and therefore generate only a few jobs to manage production.

In order to grow, a company must eventually transition to a third party distribution model for two main reasons:

1. Distributors offer greater access to larger retail accounts across a wider geographic range and demonstrate to retailers a manufacturer's ability to fulfill orders on time.

¹U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages, 2012

²Ibid

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2. Distributors enable manufacturers to focus on production and sales full-time without the distraction of managing transportation-related logistics for multiple accounts.

Despite the need to make this critical transition, it is one that is challenging for most new, small specialty food and beverage manufacturers in New York City. Specific challenges these manufacturers face include:

- Uncertainty of the distribution market and required terms
- Inadequate cash flow and financial backing to meet distributors' timeframes
- Limited marketing capacity to attract distributors and/or to leverage distributors' marketing services
- Difficulty finding adequate, affordable space to scale production

Recommendations

While the private market has addressed some of these gaps, there is still a need for the City to intervene with discrete, distribution-related strategies to support the maturation of young firms into mid-sized companies with a larger workforce. Specific recommendations include:

1. Creating a Specialty Food Industry Development Corporation to address sector-wide challenges and opportunities by delivering educational, marketing, exporting and cooperative services.
2. Providing financial assistance, education and investment connections tailored to companies transitioning to third party distribution such as a modified Food Manufacturers loan program available for smaller firms.
3. Promoting land use policies and real estate development projects that bolster the city's food distribution infrastructure, such as a co-packing facility.

Conclusion

NYC's specialty food and beverage manufacturing sector is growing but many small companies still struggle making the critical transition to third party distribution. As a way to support this growing sector and accelerate its development, the City can provide targeted assistance for the sector to connect manufacturers, distributors and retailers and ensure more successful partnerships.

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I. Introduction

All-natural, handcrafted soda syrups. Vegan, organic chocolate spread. Healthy, uniquely blended spices. These are just a few of the growing cadre of specialty food and beverage products manufactured in New York City. Whether it's on the shelves of Whole Foods, at a weekly food market such as Smorgasburg or in a profile on a local food blog, New York City's specialty food products are gaining widespread attention leading to increased demand, and in turn, economic opportunities.

The number of food and beverage manufacturing firms has grown significantly in New York City: the sector saw firm growth of over 11% between 2008-2012, notably higher than the 7% increase to notably higher than the 7% increase for all business in the five boroughs¹. In the past year alone, the number of NYC food and beverage manufacturers has increased by almost 40 firms, for a total of 1,097 in 2012², and this growth shows no evidence of slowing down.

Most early stage firms begin by distributing and selling their product themselves but must eventually transition to a third-party distribution model in order to gain access to larger retail outlets as well as to enable manufacturers to more fully focus on production. While this transition is a critical step, it is one that is very challenging for most firms. Recognizing the distribution obstacles that each small firm faces individually, New York City Council Speaker Christine Quinn commissioned the Pratt Center for Community Development to identify strategies city government could implement to better position the sector collectively for growth.

¹ U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages, 2012

² Ibid

Methodology

Leveraging its established presence as a leading food manufacturing advocate and service provider, Pratt Center interviewed over 25 industry stakeholders for this study including:

- Food and Beverage manufacturers: 12 small, specialty food and beverage manufacturers in business for 5 years or less that are located at the Organic Food Incubator in Long Island City, Queens and the former Pfizer building located in Williamsburg, Brooklyn. 3 larger food manufacturers were interviewed as well.
- Distributors and buyers: 4 private distribution companies that operate in the NYC region, 1 food broker and 1 buyer from a major, national retailer.
- Other stakeholders: 2 food production incubator managers, a food export assistance provider, a food market coordinator, a business loan program representative and a representative from a small food trade association.

Scope

This study focused on young (in business for 5 years or less) food and beverage manufacturers that self-identify as part of the artisanal or specialty food market and sell to grocery retailers and markets. While some specialty manufacturers sell to restaurants, the vast majority sell primarily to grocery retailers. This study therefore emphasizes the distribution of products to retail outlets.

While small food and beverage manufacturers face many challenges that are shared by start ups in other sectors, this study is focused on the distribution challenges specific to the NYC food and beverage industry.

At the time of the study's commission, McClure's Pickles, a manufacturer of pickled products and potato chips, had begun to explore the concept of cooperative distribution. Its founder, Bob McClure, saw similarly situated manufacturers making many small repeat trips to the same retailers and recognized an opportunity to combine these trips into a shared, cooperative model. McClure's concept for a cooperative distribution model that would aggregate these trips sparked the interest of the City Council and brought issues related to distribution to the forefront of the policy discussion.

Cooperative distribution gained a foothold in the 1970s and 1980s, but its member-owners were comprised of cooperative grocery stores (primarily natural food stores) that were trying to secure affordable prices for their own retail sales, as opposed to manufacturer-owner members. As the organic and natural food retail and distribution sectors consolidated in the 1990s, the cooperatively-owned distributors had difficulty maintaining competitive prices and began to close or sell to larger, independent distributors. Today, only a few remain.

Pratt Center researched cooperative distribution as an option for NYC manufacturers but concluded that there are more viable short-term alternatives for the City to pursue that will support growth of local food and beverage manufacturers. Pratt Center concludes that the City's resources are best directed toward helping small manufacturers work with third party distributors.

II. NYC's Specialty Food and Beverage Manufacturing Sector

For the purpose of this study, specialty food and beverage manufacturers are defined as producers of high-quality products, often incorporating artisanal and natural ingredients. Specialty products are also often produced in small batches and in some cases, handmade.

New York City's specialty food and beverage manufacturing sector has gained widespread attention in recent years with the advent of several local food markets (e.g. Smorgasburg, New Amsterdam, La Marqueta, etc.), food related events (e.g. Great GoogaMooga, Madison Square Eats), and food related blogs (e.g. Eater NY, Grub Street) that have all placed a major spotlight on New York City's specialty food culture. The consequent awareness and increased demand for locally produced goods, especially for foods that are made with natural and artisanal ingredients, has fueled the launch of many specialty food and beverage manufacturing companies. With the opening of new test kitchens and incubator spaces and a growing hobbyist-turned-maker environment, a wave of food entrepreneurs have

set up shop in NYC. New retail outlets, such as the many daily and weekly food markets as well as the availability of e-commerce channels, have also facilitated the entry for new products to the marketplace. Where historically retail grocery stores were the only viable option for companies to get in front of consumers, today companies have several avenues available to reach consumers for a relatively small upfront investment.

As Figure 1 shows, according to the U.S. Bureau of Labor Statistics, the number of food and beverage manufacturing firms has increased by over 11% in the past five years compared to only 7% for all businesses. While manufacturing overall has declined, food and beverage manufacturing stands out as a growth segment. However, the number of employees working at food and beverage manufacturers has not increased at a similar rate, indicating that the industry is restructuring into firms with smaller workforces, a trend seen across the manufacturing sector. The federal data does not distinguish between specialty food products and the food and beverage manufacturing sub-sector overall and as a result it is not possible to conclude that the growth is specifically coming from the specialty market. However, Pratt Center has identified 34 specialty food and beverage manufacturing firms that have begun operations in the last five years, 23 of which opened since 2011 and anecdotal evidence overwhelmingly indicates the emergence of more and more of these types of firms.

For this study, Pratt Center interviewed 12 small, specialty food and beverage manufacturers located in Brooklyn and Queens:

- All have been in business for 5 years or less; 8 of which have been in business for less than 2 years.
- 8 have annual revenues less than \$200,000, 2 have annual revenues between \$250,000 and \$500,000 and 2 have revenues between \$500,001 and \$1 million.
- 10 employ 5 full-time staff or fewer; 2 employ between 10-20 full-time staff.
- 4 firms self-distribute only, 5 self-distribute and use a third party distributor and 3 use only a third party distributor.

Figure 1: Growth In NYC's Food & Beverage Manufacturing Sector



Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages, 2012

The twelve companies produce a variety of specialty products including cookies, cupcakes, frozen desserts, juices and ethnic specialty foods.

III. Options for Specialty Food and Beverage Distribution

Companies can either manage their own transportation to retailers (self-distribution) or hire a separate distribution company (third party distribution) to manage it on their behalf. Along the way, there are several players involved in transporting a finished food or beverage product to the ultimate consumer. These players include:

- **Manufacturer:** a producer that transforms ingredients into finished product. Production can take place in a shared space or incubator, a single-company factory or at a co-packing facility.
- **Co-packer:** an independent company that, via contract with a manufacturer, will produce the manufacturer's product based on a specific recipe and package the finished product on behalf of the manufacturer. Some co-packers are manufacturers themselves that will produce products for other manufacturers as well (i.e. private label production).
- **Distributor:** a third party company that transports the finished product from the manufacturer (or co-packer) to a retailer. Some distributors also offer sales and marketing services to manufacturers.
- **Food Broker:** an intermediary between manufacturers, distributors and/or retailers that helps increase and coordinate sales as well as open new accounts.
- **Retailer:** a store selling finished products. Stores often have dedicated purchasing staff engaging with manufacturers, brokers and distributors.
- **Individuals:** the ultimate consumers of finished products that purchase goods at stores, markets or direct from the manufacturer (often through a manufacturer's web site).

Figure 2 illustrates the interaction between these players and the various routes a manufacturer can take to transport a finished product to the consumer.

The decision to self-distribute or to work with a third party distributor is an important one for specialty food manufacturers but is a decision that usually is made after a few years in business. Most firms follow a typical pathway that follows a particular growth pattern (see Figure 3). In the first phase, most firms distribute their products in their own vehicle or through a standard shipping service such as UPS or FedEx. This first phase is usually when the manufacturer is just starting out and sales are limited to the local area. Companies then often move to Phase 2 when they will have a third party distributor distribute their products to particular stores but they will also maintain their own distribution efforts. By working with a distributor, new sales opportunities may open up which can help increase revenues and widen the manufacturer's geographic presence. Phase 3 is when a company is exclusively relying on a third party distributor to deliver their products.

It is important to note that not every manufacturer wants to transition to third party distribution. For example, companies that are operating primarily as side businesses or fulfillment of an owner's personal interest may be very comfortable with a small, manageable set of orders that he/she has complete control over and is able to retain 100% of the profits. However, for the companies that do want to grow, maintaining a self-distribution model is very difficult.

Figure 2: The Food Distribution System

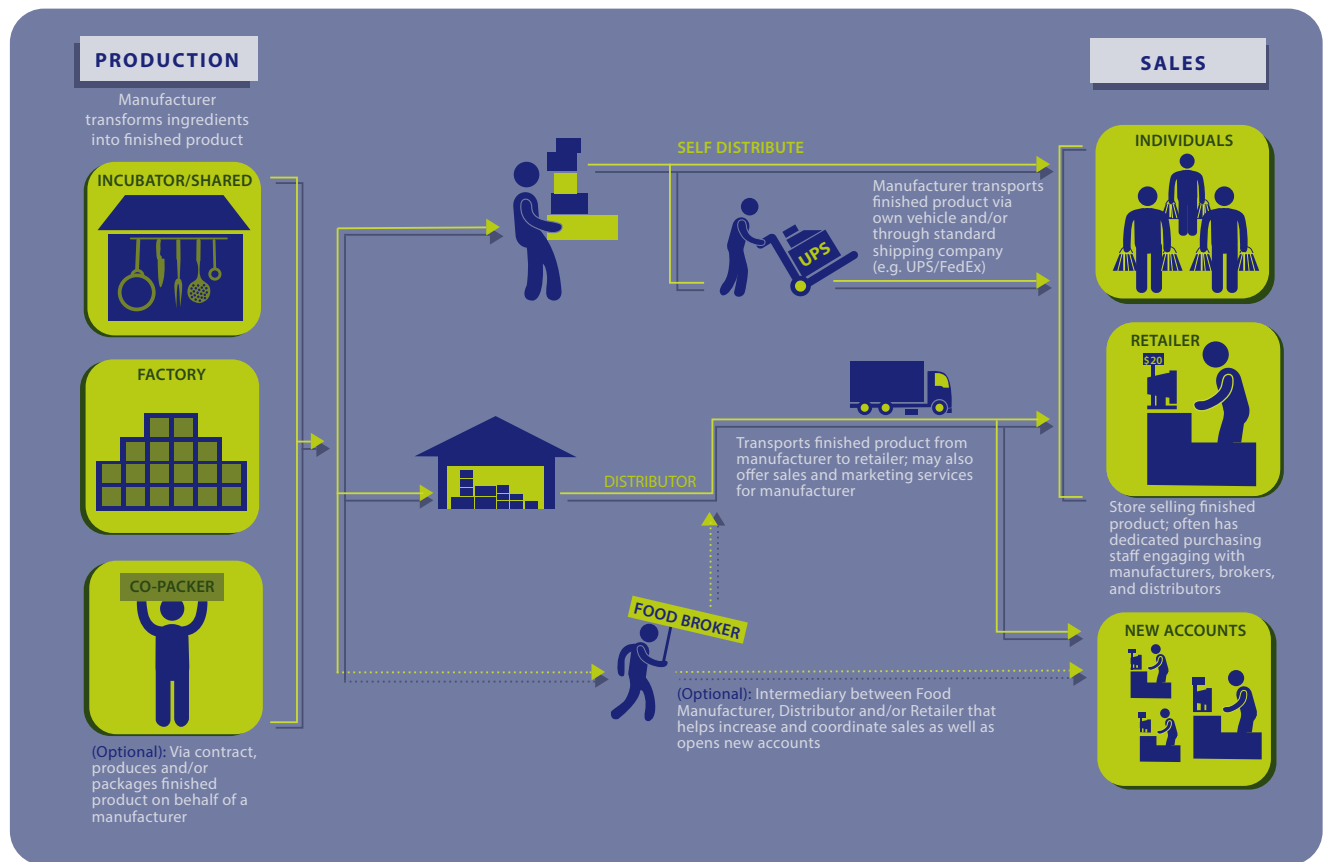
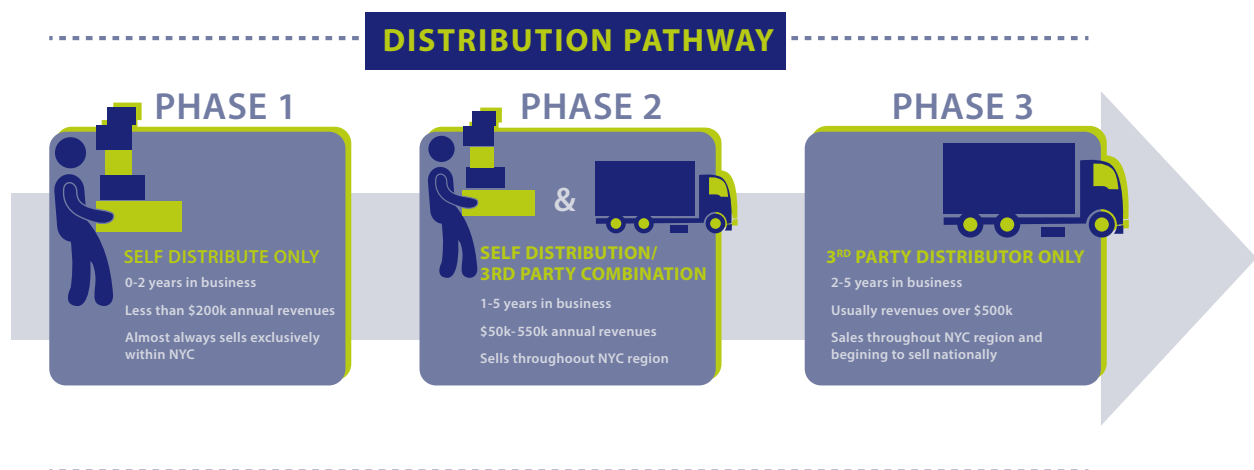


Figure 3: Specialty Food & Beverage Distribution Options



Distributor Services and Terms

All distributors will deliver products from their warehouse to the retailer or restaurant and handle payment transactions (i.e. the retailer pays the distributor and then the distributor pays the manufacturer). However, some distributors offer additional services that can significantly benefit a manufacturer such as:

- Transport: picking-up products from the manufacturer's production or storage facility (as opposed to having the manufacturer deliver it to the distributor) which can save time and fuel costs.
- Sales assistance: taking/placing orders from existing retail accounts and maintain sales staff to open new retail accounts which can be the key relationships needed to increase sales. Additionally, some distributors will provide sales reports that detail the sales frequency, wholesale price to the retailer and other key sales data (most distributors do not provide these reports).
- Marketing assistance: listing in a distributor's catalog, coordinating in-store demonstrations and dispensing product samples which can boost sales (specialty food retailers are increasingly requesting large quantities of free samples to give to shoppers as a way to differentiate themselves from more traditional grocery stores that are starting to stock specialty items often at a lower price).
- Merchandising: visiting stores and negotiating for better shelf placement and conducting visual shelf inspection to maintain set stock levels.

"Half of my clients are driven out of business because they couldn't adjust to a distributor's terms. Companies need to know what to expect from the start so they can make that transition."

—national food business consultant

Terms vary by distributor but most work on a "net 30" payment plan (i.e. the distributor will pay the manufacturer 30 days after product delivery). However, payments are often delayed but manufacturers are still expected to fulfill any pending or new orders that are placed which can put considerable stress on a manufacturer's cash flow.

Most distributors work on a 20-30% margin. [Understanding and incorporating this margin into a product's price is the number one challenge small firms face when working with distributors.](#) Most companies price their product when they are self-distributing and all profits flow to them.

When a company decides later to contract with a third party distributor, it will need to factor in a distributor's "cut" into its revenue model. Most manufacturers have trouble absorbing that loss and are forced to increase their retail price, which can negatively impact sales. Depending on the original price, a manufacturer may end up losing money on a product after factoring in a distributor's margins. A manufacturer may choose to lose money on a sale if they believe the account provides important market exposure but this approach is not sustainable over the long-term. If a business accounts for the distributor's margins when they first set their price during the self-distribution phase, they can avoid "being squeezed" later as well as generate extra revenue at the critical, early stage of the company (see Figure 4).

The difference between margins and mark-ups: *Margins* refer to the percentage of the final selling price that is profit. *Mark-ups* refer to the percentage of the initial cost price that is added on to get the selling price.

Figure 4: How Do Margins Work?

Example: It costs a chocolate bar manufacturer \$1 to produce one bar. Factoring in a profit of 20¢/bar and a retailer's 40% margin, that bar is then sold at a local store for \$2. He then gets an account with a retailer that requires a third party distributor. He can either raise his retail price, which may impact sales, or maintain the price but operate at a loss.

If the manufacturer accounted for a future distributor's margins when self-distributing and always had a retail price of \$2.67, he would have made 67¢/bar, a significant profit at a time when investment was critical to grow the business. While his profits/bar decrease after contracting with a distributor, the added benefit of increased accounts and sales will hopefully raise profits overall for his business.



Specialty Food and Beverage Distributors Serving the NYC Market

Nationally, the specialty food and beverage distribution sector has experienced significant consolidation over the past several decades. Today, the sector is dominated by two major distributors of organic and natural foods, United Natural Foods (UNFI) and Kehe. Smaller distributors still operate but tend to be focused on particular regions and/or niche markets (e.g. cheese and related charcuterie or restaurant food service). In New York City, there are a handful of these smaller distributors that service the types of firms highlighted in this study. These distributors tend to balance their portfolios with a mix of the small, specialty firms that have limited track records but high future sales potential with more well-known, larger established brands. In addition, some of these smaller distribution firms differentiate themselves from the larger national distributors by adding in flexibility in their terms and by offering a larger array of services.

Specifically serving small, specialty food and beverage manufacturers is a growing niche for local distributors. Rainforest Distribution, for example, is a four-year old firm that focuses on these types of products as is NYC Market, a brand new company that identifies itself as a “distribution incubator” (see sidebar).

NYC Market, a newly formed distributor, aims to bridge the gap between self-distribution and third party distribution by offering same day pickup and delivery services for emerging food brands. Rather than setting a fixed margin like a traditional distributor, NYC Market charges a percentage of the cost of a retailer’s order, a more cost-effective option for the manufacturer. NYC Market offers sales assistance and brand representation as part of their services in an effort to grow businesses to the scale where they are able to hire a larger third party distributor. As a result, they describe their model as a distribution incubator with the expectation that firms will “graduate” within 1-3 years to traditional third party distributors.

“Companies that are positioned to succeed have at least three people—one focused on production, one on sales and one on the company’s finances. This is in addition to a distributor. One person can’t do all those functions and be successful.”

–buyer from a major retailer

IV. The Importance of Third Party Distributors

Transitioning to third party distribution is a critical milestone in a specialty manufacturer’s growth. Companies can continue to self-distribute indefinitely but this decision will likely limit their sales to the local area they can cost-effectively travel to with their own vehicle or through a standard shipping company (e.g. UPS, Fed Ex). Sales will also likely be limited to smaller retailers or small accounts, as most large stores require the use of a third party distributor once an account grows to a certain size to help manage their own purchasing logistics. Retailers also often view (unfairly or not) companies working with distributors as more likely to meet a retailer’s orders in a timely fashion. Additionally, managing distribution logistics is time-consuming and if a manufacturer is self-distributing this can take valuable time away from production and sales, further limiting growth opportunities.

Therefore, in order to grow, a company must eventually transition to a third party distribution model for two main reasons:

1. Distributors offer greater access to larger retail accounts across a wider geographic range, and demonstrate to retailers a manufacturer’s ability to fulfill orders on time.

- Distributors enable manufacturers to focus on production without getting distracted by transportation-related logistics for multiple accounts.

Despite the critical role a third party distributor plays in a manufacturer’s success, there are drawbacks to working with a third party distributor. Figure 5 outlines the key benefits and drawbacks at each phase of a manufacturer’s distribution pathway.

Figure 5: Benefits and Drawbacks for Distribution Options

BENEFITS & DRAWBACKS FOR DISTRIBUTION OPTIONS		
	BENEFITS	DRAWBACK
SELF DISTRIBUTION ONLY	<ul style="list-style-type: none"> Retain all profits Have personal connections with retail accounts Keeps business to a manageable size (attractive to entrepreneurs who are producing as a hobby or not as full-time job) 	<ul style="list-style-type: none"> Cost of shipping/delivery Time consuming: takes time from other key functions (i.e. sales, marketing, production) Logistics of driving in the city (i.e. traffic, parking tickets) Not sustainable if looking to grow businesses Some retailers will not buy unless working with a distributor
SELF DISTRIBUTION & 3RD PARTY DISTRIBUTION COMBINATION	<ul style="list-style-type: none"> Opens access to stores that don't accept self-distribution Brings in new accounts through distributor's marketing capacity Enables greater focus on sales and production Helps gain market visibility 	<ul style="list-style-type: none"> Distributors margins cut into profits and may require an increased retail price Steady cash flow required to cover delayed payments from distributor while simultaneously needing to fill next order Lack of transparency from some distributors (e.g. distributor sale price to retailer, location of retailers) Pressure to give sample products for free Time still required to meet self-distribution clients
3RD PARTY DISTRIBUTOR ONLY	<ul style="list-style-type: none"> Greater focus on sales, marketing and production Broader retail reach 	<ul style="list-style-type: none"> Similar drawbacks to above Potential for weaker relationships with retail clients

What Distributors Are Looking For In A Product/Manufacturer

The choice to work with a third party distributor is not always the choice of the manufacturer—the relationship must be beneficial to the distributor as well. As mentioned above, most manufacturers start to utilize a combination of self-distribution and third party distribution after a few years in business, but there are ways that timeline can be

accelerated to the benefit of both the manufacturer and distributor. Factors that can lead to a manufacturer transitioning more quickly to third party distribution include the manufacturer:

- Securing a retail account that requires working with a third party distributor.
- Producing a product with specific distribution needs such as frozen goods that must remain at a very low, consistent temperature. These products are difficult to maintain at a reasonable cost by the manufacturer.
- Filling a specific, niche market demand such as products meeting certain dietary restrictions (e.g. gluten free, kosher).
- Creating a well-branded product (usually as a result of having significant financial backing) that has gained rapid and wide market attention.
- Hiring a food broker to assist with establishing relationships with distributors and large retailers.
- Having a product that simply tastes great! There is still nothing that trumps a high-quality product especially if it is well-branded.

“One of the reasons we were able to attract a distributor and go national within two years of starting our business is we invested a ton of money in our branding and marketing efforts.”

– Local food manufacturer

There are also factors that can make it much harder/longer for a manufacturer to find a distributor that is willing to carry a particular product, especially if the product is:

- Too specialized for a distributor to market to a wide range of retailers.
- Has a short shelf life that limits the amount of time a distributor can store the product in the warehouse before transporting to the retailer/customer.
- Packaged in an inefficient manner (i.e. not easily stackable) or has flimsy packaging.
- Has significant market competition and/or the distributor already carries a number of similar products.

V. Challenges With Transitioning to Third Party Distribution

Regardless of the product, most small, specialty food and beverage manufacturers struggle with four key challenges when transitioning to partial or sole third party distribution.

1. **Small food and beverage manufacturers do not understand how to work with distributors and do not factor in a distributor’s margins from the beginning when pricing their products.** Many specialty food and beverage manufacturing entrepreneurs begin with a great idea for a product and are focused on the ingredients and the process. Few have a viable business plan in place that includes a long-term distribution strategy. As a result, many companies price their products in a way that squeezes them when they make the transition to third party distribution and are unprepared to work with distributors.

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2. **Small food and beverage manufacturers do not have the cash flow necessary to work with distributors and/or are not well funded to support growth to the next stage.** Despite the condition for “net 30” terms, most distributors do not pay 30 days after delivery placing considerable cash flow pressure on manufacturers that are still expected to fulfill the next order on time. Companies without adequate financial backing are often hard-pressed to meet these demands.
 3. **Small food and beverage manufacturers do not have large marketing budgets to attract distributors/larger clients or to leverage distributors’ ability to schedule demonstrations, samples, etc.** When companies are just starting out, they rarely have dedicated marketing staff or large marketing budgets. Investments are usually focused on production. However, without adequate marketing, manufacturers have difficulty garnering the attention of distributors and retailers and even when they do they often have trouble maintaining the marketing efforts that those relationships require.
 4. **Small food and beverage manufacturers do not always have the ability to scale to meet distributors’ needs (outside of cash flow challenges).** Most manufacturers begin in small production spaces or in shared facilities such as incubators. As manufacturers transition to third party distribution and the frequency and quantity of sales grow, there is often a need for larger production space. In NYC’s tight real estate market with an increasingly limited supply of land zoned for industrial uses, this space can be difficult to acquire, especially at an affordable rate.

In the last few years, there have been several private and nonprofit initiatives responding to the food and beverage sector’s needs. These include:

- Education and technical assistance workshops coordinated by Organic Food Incubator, East Williamsburg Valley Industrial Development Corporation, and Cornell Cooperative Extension, to name a few.
- Launch of 6th Boro Society and Fare Trade Alliance, two separate trade associations for manufacturers of specialty food and beverage products that each aim to generate a collaborative working environment and share lessons learned amongst the city’s food and beverage manufacturers.
- Formation of small distribution firms, including those with alternative business models such as NYC Market, that cater to the small, specialty food market with greater accommodations for the manufacturer’s struggles during the early stages.
- New, small-scale production space at places like the Organic Food Incubator, the former Pfizer building, Hot Bread Kitchen Incubates, and Entrepreneur Space in Queens. While some spaces have received initial city funding for start-up costs, they are by and large operating privately.

Nonetheless, NYC government assistance is still needed to support this developing sector of small specialty firms and help prepare them for increased growth.

VI. Recommendations for City Government Strategic Interventions

This study focuses on the challenges small, specialty food and beverage manufacturers face when transitioning to third party distribution, a critical step in a manufacturer's growth. While the City already provides and supports a wide range of business services and has focused a considerable amount of attention on the food sector, these recommendations identify strategies for the City to address discrete, distribution-related challenges that will support the maturation of young firms into mid-sized companies that can employ more New Yorkers.

1. Create a Specialty Food Industry Development Corporation to address sector-wide challenges and opportunities.

The City should issue a Request for Proposals for an existing or new organization to create a Specialty Food Industry Development Corporation (SFIDC) that would deliver a range of services to help food and beverage manufacturers grow their businesses, including assistance navigating distribution challenges and opportunities. The SFIDC will administer some new programs, discussed below, and help to increase access to those services that will remain with city agencies and other organizations. Under contract with the City, at least initially, the organization would facilitate activities such as:

a) Educate food entrepreneurs about distribution and build networks with food distributors

On an ongoing and rotating basis at various locations around the city, SFIDC could host workshops and panel discussions to educate manufacturers on how to work with distributors and enter key retail markets as well as host networking events to connect manufacturers with distributors, food brokers and retailers. These efforts would leverage existing educational and networking events such as those already coordinated by local industrial development organizations. SFIDC could also develop a toolkit with background information and a checklist of questions for manufacturers to ask themselves before transitioning to third party distribution as well as maintain a contact list of distributors serving the specialty food market.

SFIDC could also broker relationships and/or sponsor competitions that link start-up food and beverage manufacturers with food-sector business consultants that can help companies address the industry-specific nuances that are key to success.

b) Assist companies with marketing and export activities

Most small firms do not have large marketing budgets to promote their products and gain the attention of distributors and retailers. Leveraging existing marketing programs such as Pratt Center's MadInNYC.org, SFIDC could augment individual companies' efforts by marketing the capacity and variety of NYC's specialty food and beverage manufacturing sector as a whole. In addition to networking events, SFIDC could run promotional campaigns with local retailers, sponsor "trials" where food brokers and distributors are paid to carry local manufacturers' products for a temporary amount of time to help companies get their feet in the door and/or work with local anchor institutions to procure food and beverage products from local firms. (The

process for selecting such companies might be similar to the business plan competitions now operated by the City.)

Building off its capacity to represent the local specialty food and beverage manufacturing sector, SFIDC could also pursue export initiatives that capitalize on NYC's popular brand in other countries. While most small firms do not have the capacity to handle the legal or logistical challenges of exporting on their own, SFIDC could provide this service for multiple companies bringing greater global attention and demand for NYC's food products.

c) **Foster cooperative opportunities**

Coordinating partnership and cooperative opportunities is extremely time consuming and certainly requires more time and effort than one or two companies can handle while also tending to a growing business. SFIDC could lead efforts to identify cooperative-based strategies such as pooling manufacturers' purchasing power to help reduce costs for raw ingredients or other points in the production process (e.g. transport to a single pasteurization facility that multiple companies use) or subletting food production space during the off hours of a primary tenant (e.g. bars with small kitchen spaces renting the morning hours to a food manufacturer).

d) **Conduct research and additional program development**

By providing the services mentioned above, SFIDC would be well positioned to conduct industry research and develop additional programs as needs are identified.

2. **Provide financial assistance, education and investment connections tailored to companies transitioning to third party distribution**

The City can help firms alleviate the cash flow stress that often occurs when transitioning to third party distribution by instituting several initiatives:

a) **Create a complementary fund to the existing NYC Food Manufacturers Growth Fund that is tailored to small firms**

Since early 2013, the New York Business Development Corporation has been administering the NYC Food Manufacturers Growth Fund, which is supported by NYC Economic Development Corporation and Goldman Sachs 10,000 Small Businesses. The fund is an important tool tailored to mid-sized food manufacturing companies. Its existing terms however, such as minimum loan amounts of \$50,000, preclude many small firms from accessing this resource. Additionally, only food manufacturers, and not beverage manufacturers, are eligible for the fund. Therefore, it is recommended that the existing fund be modified or a complementary fund be created to address this gap. The new or modified fund could be set up as a revolving fund that accepts food or beverage manufacturers (NAICS 311 and 3121) with a minimum loan of \$5,000 to help bridge cash flow gaps. To avoid subsidizing "hobbyist" firms with little to no interest in growing significantly, companies could be required to have a contract with third party distributors to receive a loan.

b) **Support investment matchmaking to attract capital and financial “know how” to small firms**

Many specialty food and beverage manufactures begin with a great recipe and a passion to create but lack the financial backing or business acumen to develop into a successful business. A vast investment infrastructure exists in the tech and restaurant sectors that could be introduced to the specialty food production sector. Companies such as Food + Tech Connect and individuals such as Joanne Wilson, author of Gotham Gal who has invested in a number of local, specialty food firms, are drawing attention to the sector as an investment opportunity. The City could foster these relationships through networking events, competitions and/or “shark tank” presentations where manufacturers present their products before a panel of investors and receive immediate feedback.

c) **Educate manufacturers on emerging capitalization strategies**

Technology is opening up new ways to fundraise and capitalize projects, including food businesses. For example, the Jumpstart Our Business Startups Act, known as the JOBS Act, will allow small businesses to utilize crowdsourcing to raise up to \$1 million. Where previously companies were restricted to investments by family, friends or accredited investors, the new legislation offers an opportunity to raise money from many, smaller sources. However, most manufacturers are not aware of these opportunities or the strings that may be attached to them.

Therefore, the City should work to alert and educate manufacturers on these developments as they occur. These efforts could also be coordinated by the Specialty Food Industry Development Corporation, referenced above.

3. **Promote land use policies and real estate development projects that support necessary food distribution infrastructure**

To better support the growth of specialty food and beverage manufacturers in New York City, the City should strengthen its food-related infrastructure with several land use initiatives:

a) **Maintain the availability of industrial real estate for food manufacturing as well as distribution**

Over the past decade, the City has approved numerous rezoning actions that have dramatically decreased the amount of land zoned for industrial uses, such as food production and distribution. As a result, when companies need to grow, affordable production space is difficult to find. Similarly, distributors require large footprints for food storage as part of their daily operation but because of their low job density (jobs/sq. ft.), these spaces are often undervalued from a public policy perspective. The City’s land use policies must recognize the critical importance of an adequate supply of affordable food production and distribution space that is needed for this sector to flourish in the five boroughs.

b) Foster non-profit development of affordable, mid-sized production space for growing companies

One successful model for maintaining affordable industrial space in a tight real estate market is through non-profit management and ownership, demonstrated by the success of the Brooklyn Navy Yard, the Greenpoint Manufacturing and Design Center, Entrepreneur Space in Long Island City, Queens and most recently by space developed by the East Williamsburg Valley Industrial Development Corporation. A mission-driven organization is more apt to provide affordable rents on an ongoing basis than a private developer in a rising market. However, a lack of adequate financial tools makes this type of development difficult to originate.

The City has taken several important steps toward building a non-profit industrial development sector, including support for the City Council Small Manufacturing Investment Fund. Creating this capacity is a long-term process and the City should make a commitment to helping organizations develop this capability. For example, the City should explore expanding its non-profit industrial development fund as well as preference non-profit management partners when selling city-owned land for redevelopment.

c) Utilize City-owned land to develop a co-packing facility

While there are several co-packers currently operating in New York City, the rise of small, specialty firms signals the potential for more co-packing services. For manufacturers struggling to find adequate production space, co-packing is a viable option either as a temporary or permanent solution. To encourage the development of a co-packing facility, the City should identify an appropriate city-owned parcel and issue a Request for Proposals for a co-packing developer and operator.

VII. Conclusion

New York City's specialty food and beverage manufacturing sector continues to grow, serving as a solid bright spot in NYC's economic landscape. As demand for locally produced food items made from natural and artisanal ingredients increases, more and more entrepreneurs are opening up shop in New York City.

The time is right for the City to help start up food and beverage entrepreneurs navigate the local distribution network and position companies for growth. Young companies face several challenges when transitioning to third party distribution—from basic relationship-building to cash flow to marketing to scaling—that prevents many otherwise viable businesses from growing and hiring more workers. However, as this report demonstrates, these challenges can be addressed with discrete, strategic interventions by city government. While a great recipe does not always translate to commercial success, the City can help bolster a sector with significant growth potential and one that embodies the vitality and diversity of NYC's entrepreneurial spirit.