

2012

Salt Lake City Kitchen Incubator Feasibility Study

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Division of Sustainability

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I. The Story of the Kitchen Incubator

Definition and History

A Kitchen Incubator is a licensed commercial shared-kitchen facility that provides kitchen space for the producers of food products. As the name suggests, the objective of a kitchen incubator is to help hatch new food businesses and promote the culinary industry. The idea of kitchen incubators has been traced back to the 1970s community canning kitchens for the preservation of fresh produce for home use.ⁱ By the 1980s, East Washington University in Spokane became one of the first universities to study and apply the business incubator concept to the culinary world when it converted an old army barracks kitchen to provide the food industry many of the benefits available for traditional business start-ups.ⁱⁱ Outside of academia, when Idaho's Bonner Business Center discovered that their local farmers and berry growers needed a place to manufacture their special food products, Bonner Business Center eliminated two industrial bays and pioneered our nation's oldest rural kitchen incubator in 1992.ⁱⁱⁱ Today, the kitchen incubator business has proliferated to over 230 incubators that are listed on cullinaryincubator.com.

The Culinary Conundrum—Finding a Commissary

Due to health regulations and legislation, culinary artists (including but not limited to farmers market vendors who produce specialty food products, chocolatiers and candy makers, mobile food entrepreneurs, restaurants and catering businesses) who hope to sell their products must prepare all food in a licensed commercial kitchen. An average small sized commercial kitchen with second-hand equipment could require a start-up capital ranging from \$50,000 to over \$250,000.^{iv} For many aspiring culinary entrepreneurs, that price tag is far beyond their means.

The traditional alternative methods of meeting the commercial kitchen requirements by getting a cottage kitchen license at home or finding an existing commissary to rent from are unreliable and inherently exclusive. For a cottage license, some of the requirements that restrict many potential users include prohibiting free roaming pets and necessitating separate storage facility (including separate refrigeration) of personal food consumption from the commercial food products. Many lower income entrepreneurs either have pets and or are renters who cannot afford or adjust to the cottage law requirements.

Furthermore, finding a willing commissary is an arduous and often impossible task. Ruby Snap bakery explains that the lack of storage space, the need to protect their secret ingredients, and sanitation concerns influenced them to constantly turn many eager commissary seekers away. It takes lots of networking and luck to find a suitable commercial kitchen. For example, culinary student Kit Krajewski has over five years of restaurant experience and is well connected to the local food community. He was inspired by the mobile food movement and decided to pursue his own crepe cart business operation. After weeks of searching, the biggest obstacle to his business

plan is finding a commissary space. Even Adam Kreisel, a veteran food industry leader who had a comprehensive culinary network had to spend over seven months of constant phone calls before he was able to find a commissary to help launch his catering business.

For those entrepreneurs lucky enough to locate a proper kitchen space to use, they have to compromise on work hours, production capacity, and quality control. Many of them have to work around the clock— prepping and cooking the food during late after business hours, making deliveries during early morning hours, and responding to customers during normal business hours. Often they have to work in less than ideal environments when vegetarian, meat, and gluten free vendors must share limited kitchen and storage space while doing their best to keep their food products from mixing. Also, limited storage space caps their production and expansion possibilities; without business expansion, their professional livelihoods are trapped in a harsh and vicious cycle of external commissary dependency. Even with a strong community network, there is very little support, direction, or guidance to meet the basic commissary requirements.

Kitchen Incubator Benefits

A proper kitchen incubator program has significant economic, political, and cultural impacts. First, a kitchen incubator sponsors a huge source of job creation and economic growth. Dawn Sweeney, the president and CEO of National Restaurant Association (NRA), best describes the economic potential of fostering the culinary industry in the 2012 NRA Forecast, “We expect the nation’s nearly one million restaurants to post sales of \$632 billion this year. Combine that with the fact that restaurant job growth is expected to outpace the overall economy for the 13th straight year and it’s clear that the restaurant industry is once again proving to be a significant economic stimulant and strong engine for job creation.” In addition many kitchen incubators have witnessed inspirational and influential social economic developments. For example, since San Francisco’s famous non-profit kitchen incubator La Cocina’s was founded in 2005, it has helped launch over seven successful independent businesses and is helping over 30 more budding culinary enterprises.^v La Cocina’s passion to help lower income women and minorities to become successful in the culinary world not only creates jobs and directly contributes to economic growth and transforms poverty into possibilities. Jerry Davis, executive director of Alabama’s Shoals Entrepreneurial Center best describes the significance of a kitchen incubator program, “...it’s an extremely feel-good project. People love it!”^{vi}

Second, besides the benefit of economic growth and development, the 2012 NRA forecast shows the trend in the culinary world is leading up to the perfect storm of sustainability— the moment when a healthy environment and a healthy economy becomes synonymous. Because of the ramifications of the modern fast food culture on our nation, the U.S.’s alarmingly high rate of diabetes, extreme allergies, and childhood obesity all of which have finally hit the tipping point and forced the culinary trend to revert back to locally grown, good nutrition, and sustainability.^{vii}

Thus, now is the best time to promote and support the culinary leaders of our future in the healthy and sustainable direction to which they are returning.

Finally, this trend extends far beyond economics and political benefits; it's about people and culture. A healthy food industry reflects a healthy community. The fastest way to understand the people, culture, strength of the local economy is to taste it. The diversity of restaurants, cafes, farmers markets, mobile food carts and trucks, breweries, and local eateries reveals a delicious blend of the local and the global. Take a stroll around the Salt Lake City's Farmers Market on a lovely Saturday morning and randomly sample Brazil's jalapeño cheese bread, Argentina's empanadas, Bahama Mama Pudding, Mexican Salsa, Mississippi Peanuts, Middle Eastern Falafel, and Utah's honey spread on French bread and croissants. You will also meet a delightful and interesting group of local culinary artists who have made Salt Lake City their home. You will smell their colorful stories, hear the delicious melodies, and savor their community's unique past, present, and future connections with each diverse and flavorful bite. In addition, Utah is the only state in which Whole Foods grocery stores have a designated local Utah section. Salt Lake City would be a great location for a kitchen incubator which would serve as an additional culinary community networking center.

Kitchen Incubator Challenges

A Kitchen Incubator program is a great idea, with substantial social, political, and economic benefits. However, it's not easy to manage a successful kitchen incubator program, especially a nonprofit or an ambitious culinary community center. Many Kitchen Incubator pioneers have struggled with three major challenges: sufficient community support, sustainable funding, and legislative red tape.

First, community interest and support are necessary for launching and sustaining a successful kitchen incubator program. The lack of community support and response are key reasons why Dr. Cameron Wold's 1997 feasibility study for Salt Lake City Community and Economic Development Capital Planning and Programming did not result in Salt Lake City joining the earlier kitchen incubator pioneers. However, today in Salt Lake City we have the market demand, community support, and business leaders ready to take ownership in launching and sustaining a kitchen incubator program. For example, Jackie Noble, the owner of Jackie's Creative Catering already operates a catering/ kitchen incubator LLC in Florida. Next year she is planning to move her business to Salt Lake City to be near her son. They have already started shopping for potential business locations. Adam Kreisel, owner of Salt Lake's Chaia Cucina Catering and Consulting also has independently started researching his own kitchen incubator business plan. And this month-long survey includes a list with over 30 local culinary leaders who are eager to volunteer, invest, or become involved in a Salt Lake City's kitchen incubator program.

Second, sometimes nonprofit or development center kitchen incubators focus so much on helping other people launch their culinary business plans that they forgot to ensure their own business plan is self sustainable. For example, after a positive market research, Shoals Entrepreneurial Center in Alabama launched the 6,000 square feet Shoals Commercial Kitchen in 2001 with a starting capital of \$200,000. However, after two years in operation, the kitchen was only bringing in 44.57% (\$41,000 out of \$92,000) of their annual operating budget^{viii}. Similarly, although La Cocina is one of the most successful kitchen incubator nonprofits in the US and had their building and a million dollar start-up capital donated, it still depends heavily on sponsors and donors. Only last year were they able to afford 4 full-time staff to manage the workload. Below market price rental fees, sporadic seasonal usage, and large utility bills contribute to their financial woes.

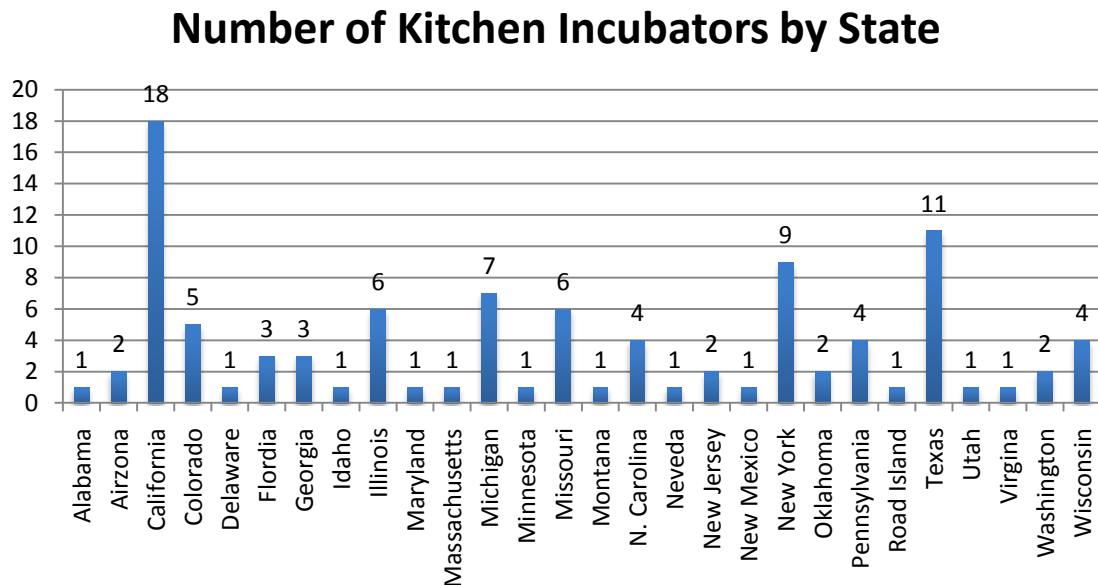
Because this is a business of passion and community service, ownership and personal investment can ensure quality management. Not surprisingly, most kitchen incubators in our nation are private LLCs because most of the sustainable business models are operated by independent business leaders. Following successful LLC examples, if a kitchen incubator cannot generate enough income from rental fees alone, then they need to earn other revenue from sales—events, storefronts, online stores, classes, workshops, photo sessions, etc. Their generated income limits their expenditures, especially hiring more staff. A good indication of a sustainable business model should pass the test of enticing local angel investors.

Finally, the tragic story of Logan Square Kitchen in Chicago illustrates the third roadblock that can hinder the success of a well-intentioned kitchen incubator program—legislative red tape. Zina and Nick Murray built the first Gold LEED Certificated (Leadership in Energy and Environmental Design) sustainable kitchen incubator. Since commercial kitchens have one of the highest carbon foot prints, they wanted to lead the sustainability culinary movement in every aspect of their business as they moved towards a zero-waste facility and tried to inspire their users to become the next generation of green food businesses. However, on June 28th, 2012, they shut down their business. They did not close because they lacked clients, community support, or a proper financial plan. They shut down because they exhausted their savings after “winning” a year-long legal battle over legislative regulations. Since they were the pioneers in their area, they originally registered their business under the restaurant licensing category. Later, because they had event space as well, the city changed their category to banquet, which under Chicago’s law they needed to have a certain number of parking spaces but which was impossible in terms of space and budget. Complicated licensing requirements and issues with mix messages from the health department’s inspectors eventually shut down this great company. Several other kitchen incubator businesses, especially when they are the first in their area, have mentioned similar stories in which the biggest challenge to the success of their businesses is legislative hiccups. Salt Lake City’s involvement in the planning phase of kitchen incubator businesses and in advocating for clear regulations would significantly increase the number of successful kitchen incubator businesses.

II. Kitchen Incubator Business Analysis

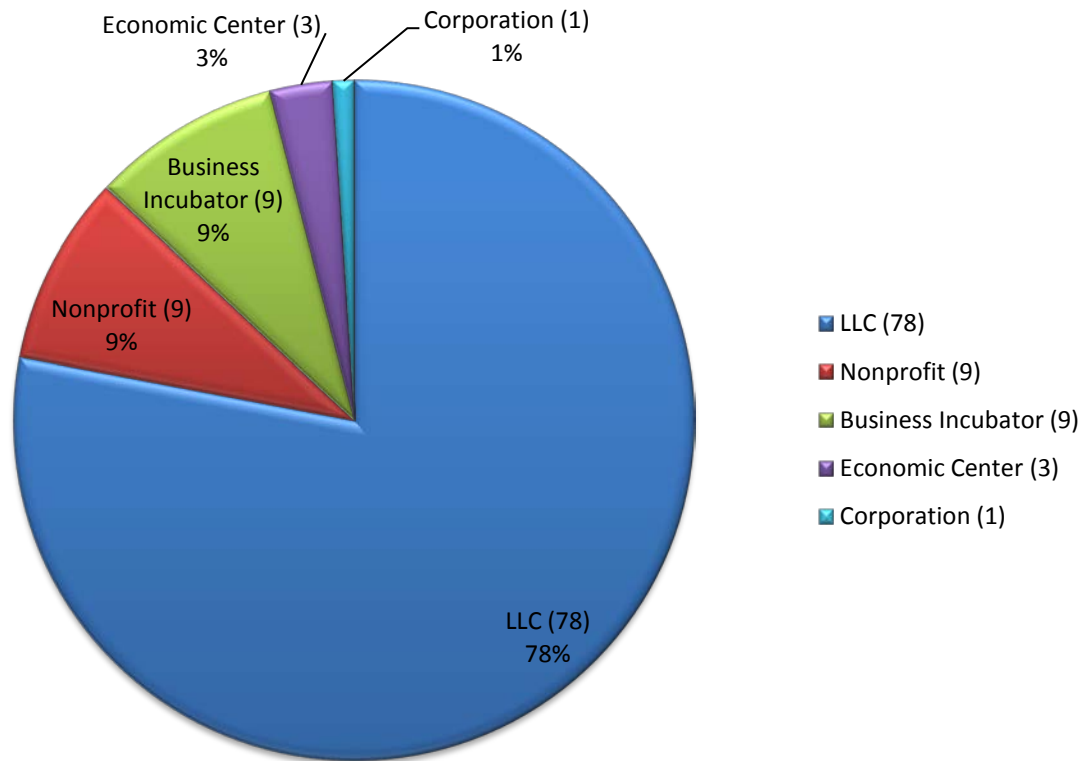
A. General Business Data

There are over 230 kitchen incubators listed on cullinaryincubator.com. However, some of them are out of business, some are restaurants leasing their kitchen for afterhours, and others only share their business information with clients. I was able to collect 100 basic profiles after emailing, calling, and searching different professional websites. Eighteen companies replied to a detailed business survey and are willing to provide additional professional consulting for a potential Salt Lake City Kitchen Incubator Project.

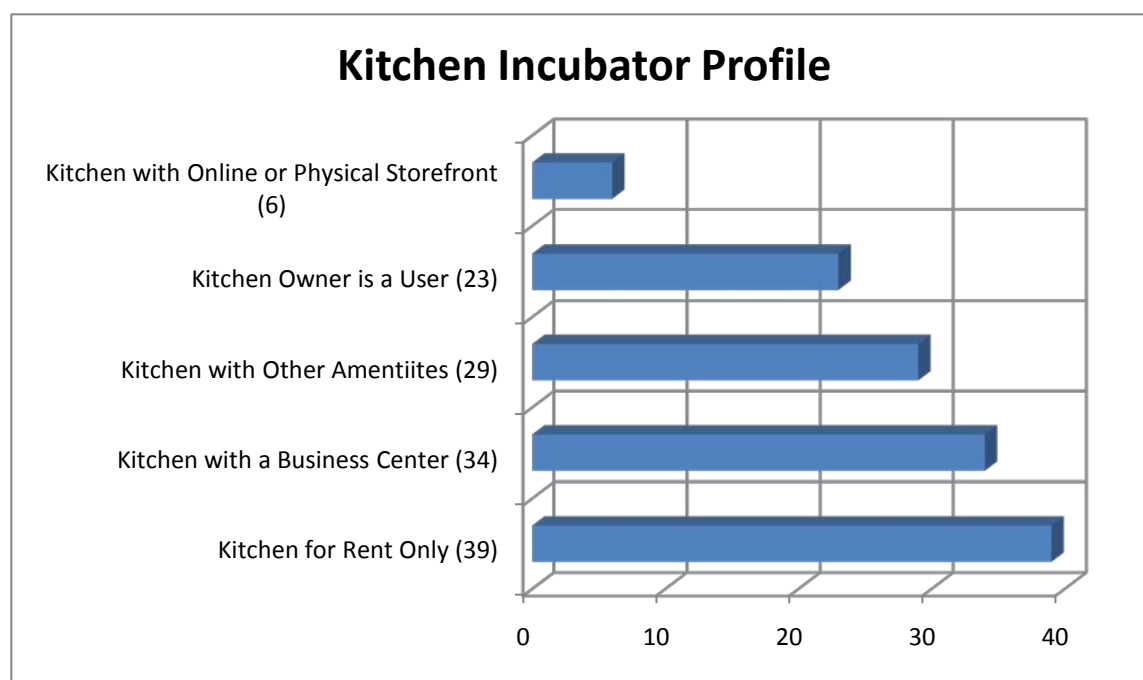


Nationally, California, New York, and Texas have the majority of the developed kitchen incubator programs. Because of these three trend-setting states' diverse and dense populations, accelerated culinary establishments, and entrepreneurial leadership, California's, New York's, and Texas' legal and business institutions quickly discovered the growing need and business opportunities for kitchen incubator programs. The rest of the states show horizontal integration as neighboring states gradually mimic successful established kitchen incubator projects.

Kitchen Incubator Business Formation



Kitchen incubators are still relatively new in the U.S. They are a unique profitable public good. Over 20% of the data consists of nonprofits, business incubators, and economic development centers which represent the “do good” nature of such programs in providing a social service for the needy. At the same time, the fact that the majority of kitchen incubators are operated as private LLCs reflects that there is a large enough nation-wide market demand for such services to be profitable opportunities for commercial kitchen landlords.



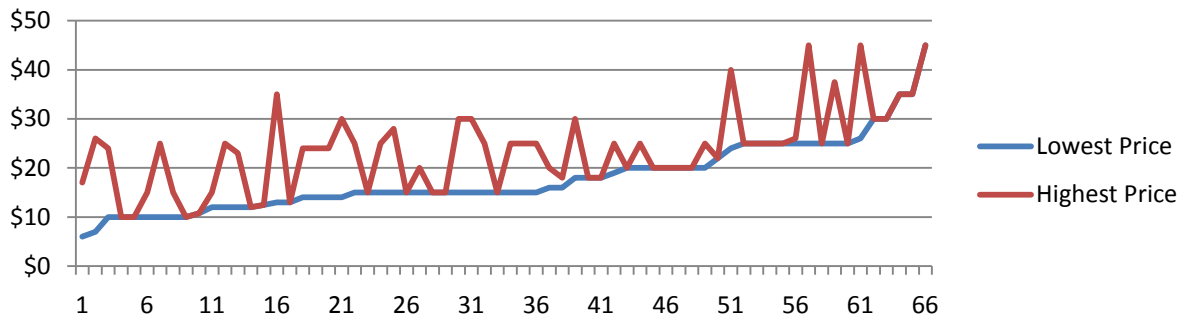
Not surprisingly, most kitchen incubators start out as just a simple commercial kitchen for rent. They offer few services or accommodations for novice culinary entrepreneurs because the kitchen incubators either cannot do more due to complicated regulations or because they do not need to due to the lack of competition.

In fact, many of our existing nonprofits or economic development kitchen incubator businesses that offer training and accommodations for a larger culinary community face financial hardships. They depend heavily on continuous support from donors and sponsors or rely on other business incubator income to subsidize the kitchen services.

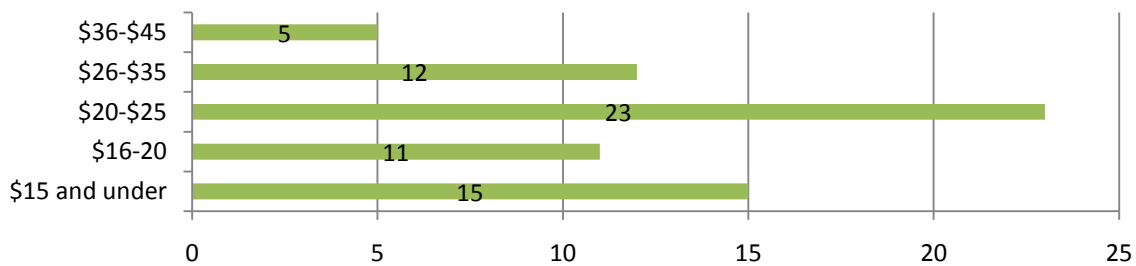
However, when we look at the California, New York, and Texas examples, we see that as competition increases, more efficient and well-rounded kitchen incubator business models develop. Even many private companies in those states offer business and marketing assistance, as well as such amenities as photo sessions, online or actual storefronts, event space rental, classes, and workshops.

Market Price

Based on 66 Companies



Kitchen Incubator Business Maximum Price Range

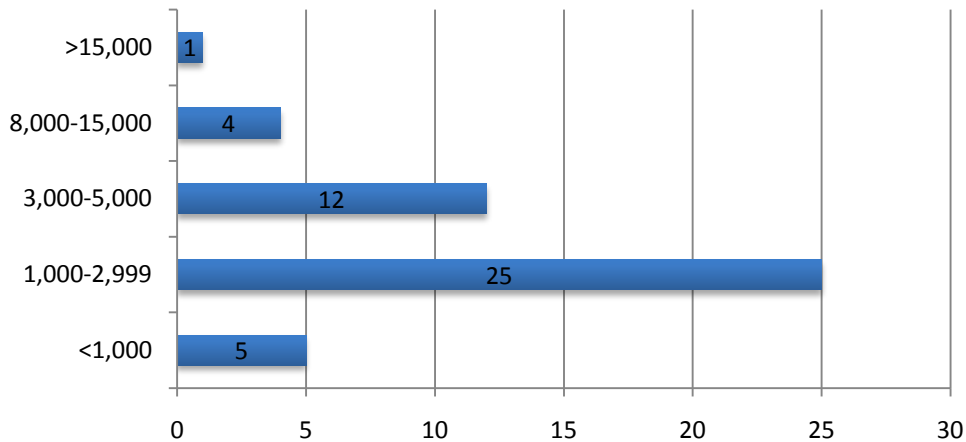


Five Number Summary		Average Market Price	
min	\$6.00	*Average High	\$26
Q1	\$15.00	*Average Low	\$15
Q2	\$20.00	*Average Price Gap	\$10
Q3	\$25.00	Average Overall	\$21
max	\$45.00	*Exclude One Price for All	

Three popular price structures are the following: one—the same price for everyone, two—differentiated membership packages with discounted hourly rates for package deals, and three—bundle schedules for sale. Many companies also have minimum hours purchase requirements and separate storage fees. Some LLCs will offer scholarship discounts for winning business plans. A fair market price (excluding New York's price) averages between \$15 to \$26 per hour for kitchen rental.

Kitchen Incubator Square Feet

(47 data set)



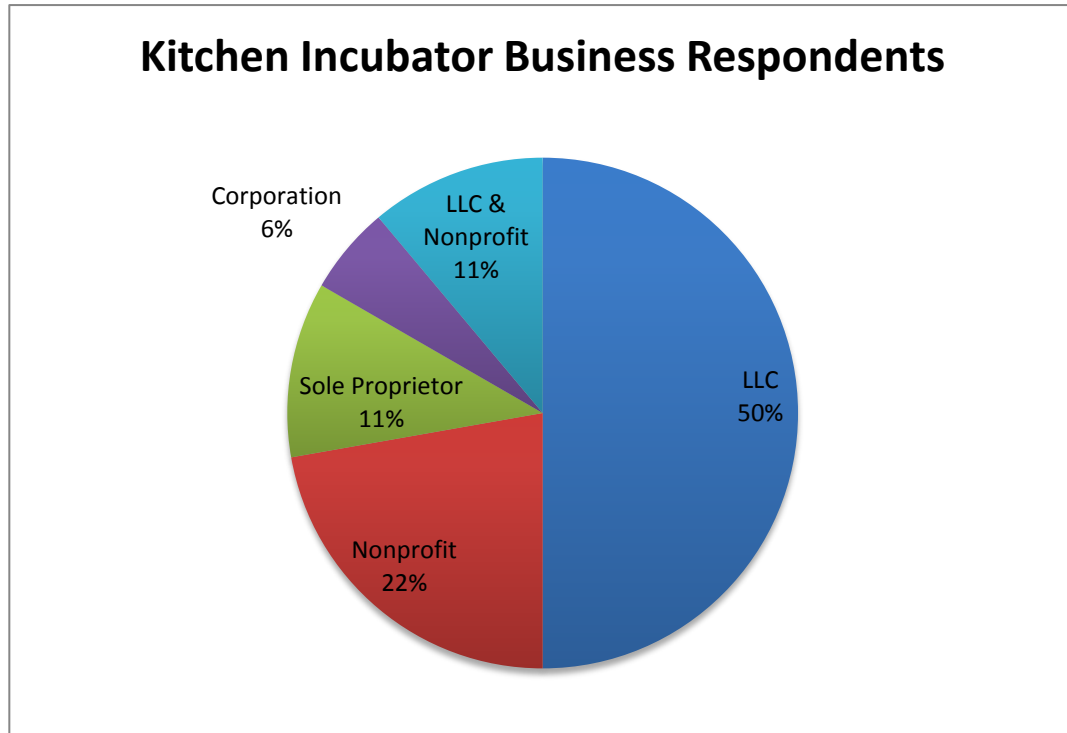
Average square feet= 3,800
Average square feet excluding outliers =3,178

Space is critical for a successful kitchen incubator operation. Storage space is even more essential. One company suggests that the storage area should be at least twice the kitchen size for a sustainable kitchen incubator operation. Indeed, the number one obstacle that many smaller LLCs face after they launch their kitchen incubator is the lack of storage.

Event space is popular and is one of the amenities in more developed kitchen incubator programs since many kitchen incubator businesses are operated by professional caterers to compliment their catering affairs. Storefronts, garden spaces, and business centers are included in some of the more advanced and creative business development models.

B. Detailed Business Survey

Eighteen companies responded to a detailed business survey that included additional information such as their start-up costs, obstacles, and advice for budding kitchen incubator businesses in Salt Lake City. Cited in the summary of the survey is a list of 18 professional contacts who are willing to provide further information and consultation for the Salt Lake City kitchen incubator project.



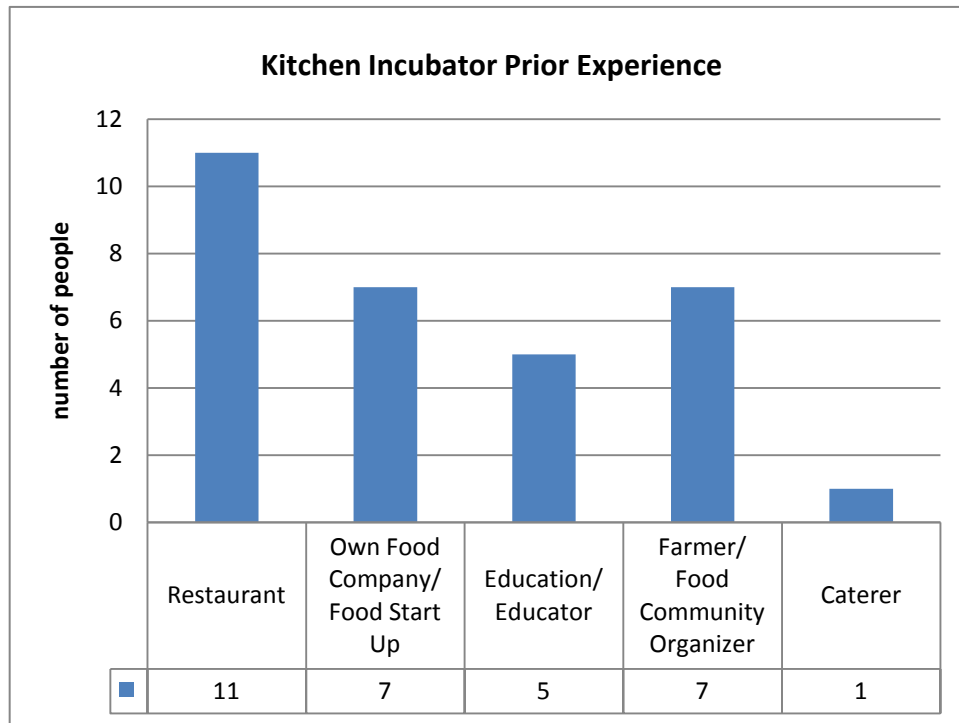
Different business models cater to different types of clients.

The respondents classified four different types of kitchen users:

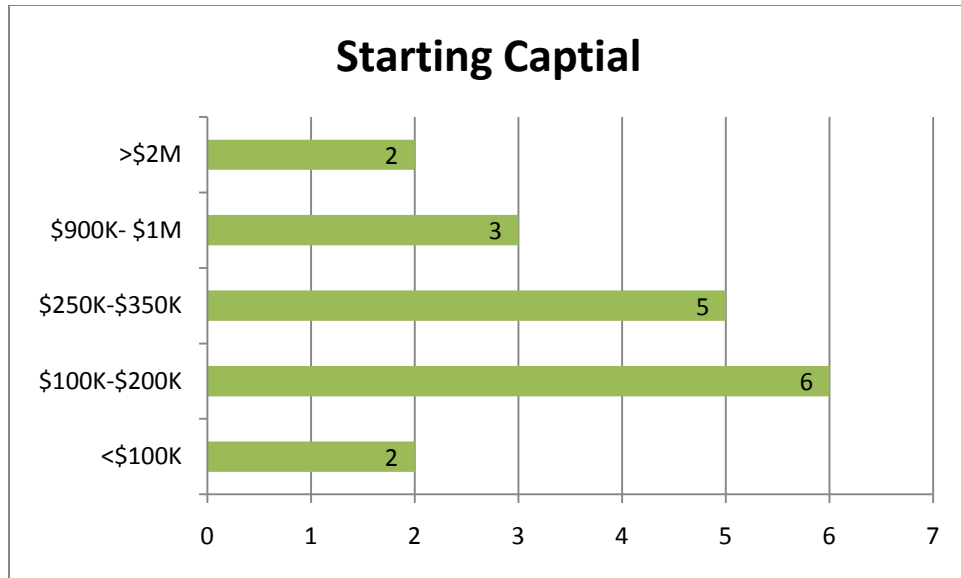
1. **Specialty Food Producers**—Farmers market vendors, candy makers, and other specialty food producers represent a steady and predictable client base for commercial kitchen landlords. Because these clients are generally better connected with the local culinary community, they help build the kitchen incubators' reputations.
2. **Mobile Food Clients**—Mobile Food clients need a prep station and a lot of storage space but cook their food in their mobile unit. So, if the kitchen has extra storage space, they are great renters who take up little kitchen usage time. Companies that include mobile clients usually have a different price plan for them that includes cheaper kitchen rental but higher storage fees.
3. **Budding Food Entrepreneurs**—These clients are the primary clients of kitchen incubators because they need a lot of resources and because they buy bulk kitchen hours while they develop their businesses. Although they come in and out, their success not only helps build the

reputation of the kitchen incubator but also establishes potential future business sponsors and partners.

4. **Caterers or Established Food Owners**—When these clients try out new products, create innovations, or organize an event for their current businesses, they can bring experience and prestige to the kitchen while they rent the kitchen. Also, caterers usually take up less storage space but are great brand building clients.



Experience is the key to successful business operations. Most of our kitchen incubator business respondents have prior restaurant industry experience, have owned their own food company, have launched a food start-up, or are culinary community leaders. Although only one caterer replied to our survey, caterers operate the majority of the private LLCs models as a compliment to their original career.



Many of the businesses operate on a limited budget. The average starting capital of our respondents is \$571,944. The average starting capital for companies that rent their location and purchase second-hand equipment is \$288,929. The average starting capital for companies that built or bought their location with newer equipment is \$1,562,500.

Lessons from Existing Businesses

Biggest Challenges

1. Legislative and Heath Department Compliance
2. Sustainable Funding
3. Efficient Operational System (Management, Security, Marketing)

Best Successful Program or Operational Methods

1. Networking (event space, banquet room, volunteer marketing)
2. Technology (online schedule and payment, security system with pin access, social media)
3. Efficient Operation System (Training Package, Min Hour requirement, Clean Up Deposits)

Best Advice

1. Location: Next to freeway, large market share, & LOTS of storage
2. Operation: Security Camera, Online scheduling, Business Resource Package
3. Final Remark: Flexibility, Finance, and Friendly with the heath department

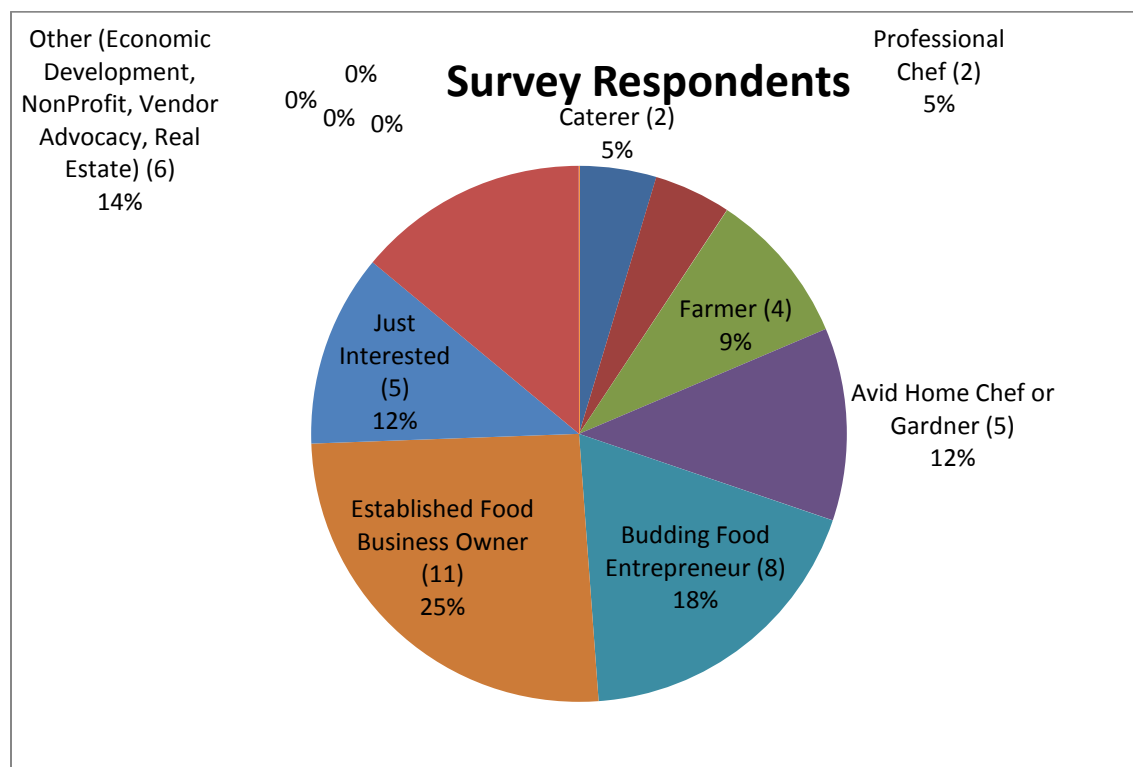
III. Kitchen Incubator Market Analysis

The Market Survey

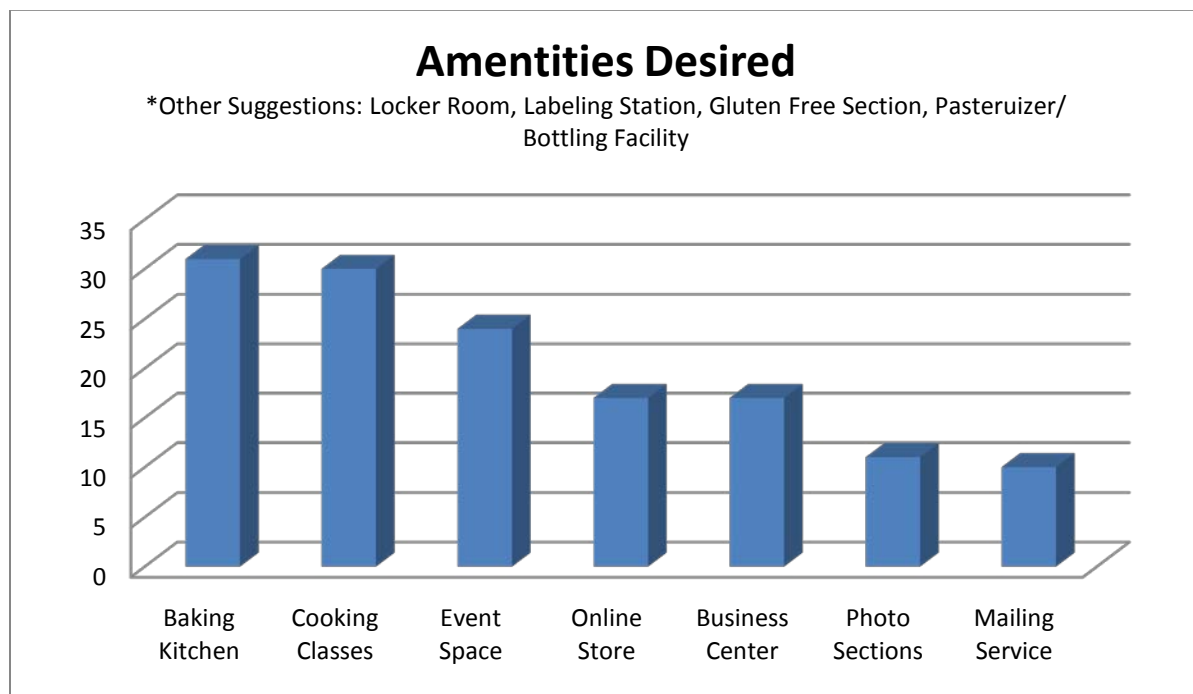
In 1997, 450 kitchen incubator user surveys were mailed out to the Salt Lake City's community. Only six surveys were returned. The two community meetings following the earlier feasibility study yielded 21 and 10 attendances respectively. At that time, the idea of a kitchen incubator was still new and communication was slow, so many people probably didn't even open the survey.

This year, over 200 personalized, customized email messages in a short user-friendly on-line survey were sent to farmers market vendors, leaders of Utah's Own, The Art Institute, Viking Cooking School, Edible Wasatch, Local First Utah, Slow Food Utah, Utah's Own, Downtown Alliance, and the Economic Development Corporation of Utah. After meeting some of our local culinary leaders, several of these leaders shared names of other likely contacts. Thus, 43 people completed the survey in less than a month. Of these 43 respondents, 28 are interested in becoming involved in the operational aspect of this project, 15 are interested in investing or in helping to finance this project, 36 expressed interest in volunteering for this project, and 8 have had prior experience in renting from a commercial kitchen incubator.

The Market Survey Results



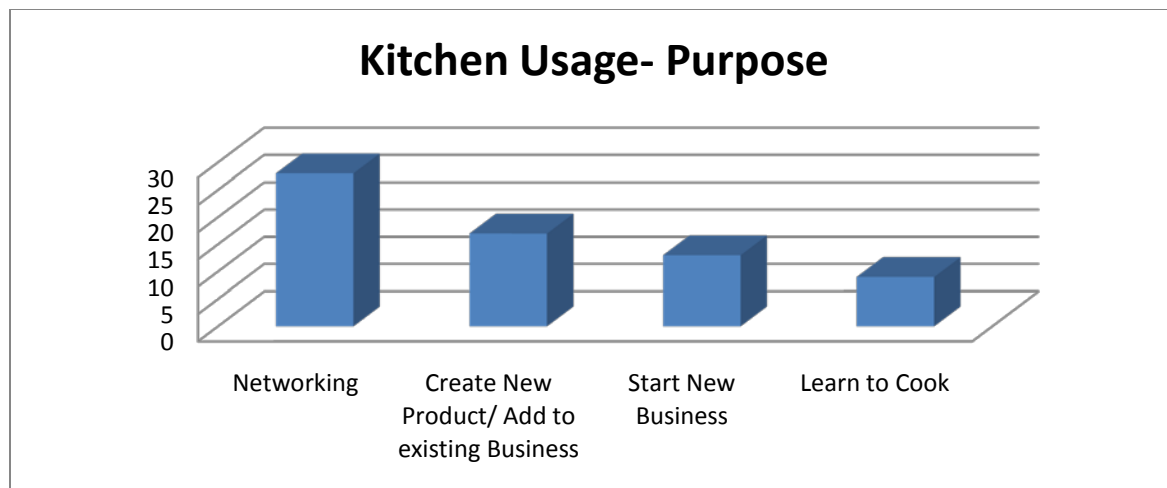
The survey includes a good sample of existing and aspiring food entrepreneurs, potential specialty food producers from farmers, home chefs, and gardeners, as well as a selection of community members interested in the development of Salt Lake City's culinary industry. The most impressive thing about our respondents is the fact that over 30 of them are either interested in being involved with the operational aspect of this project, are willing to sponsor or help finance this project, or are happy to volunteer to make sure this program is started in Salt Lake City.



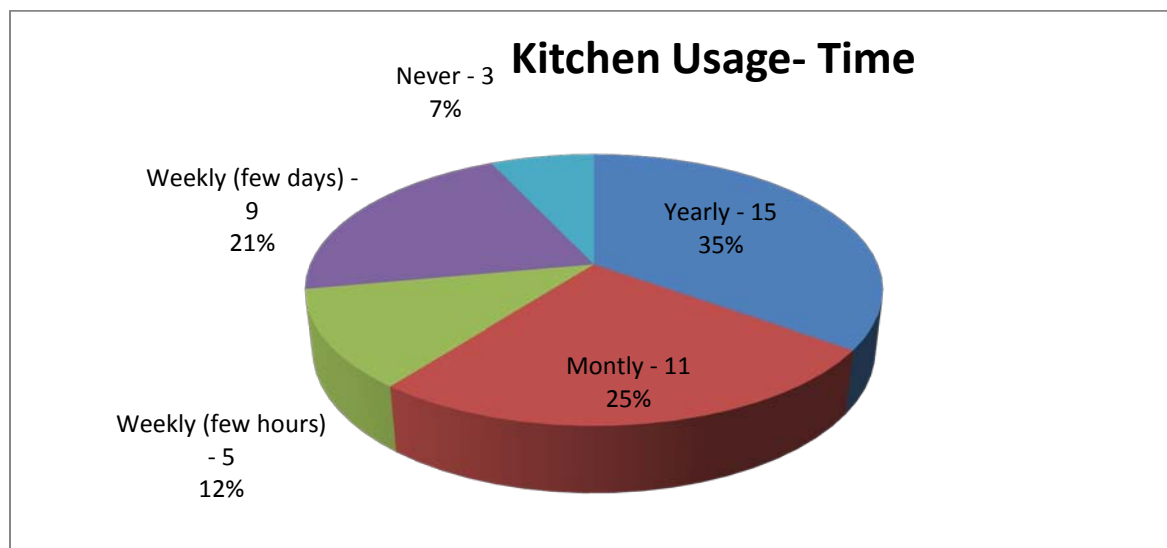
Looking at the amenities that our local respondents desire, a baking kitchen is at the top of the list. In a personal interview with a few of the farmers market vendors, Salt Lake City culinary artists are following National Restaurant Association's forecasted trend in pursuing a healthier trend of specialty goods including gluten free products, organic bakery, and vegetarian delights. Thus, gluten free and allergy sensitive accommodations would be important parts of Salt Lake City's kitchen incubator project.

Cooking classes and event space are also very popular features. This reflects a strong culinary community that would be extremely interested in networking events and community building.

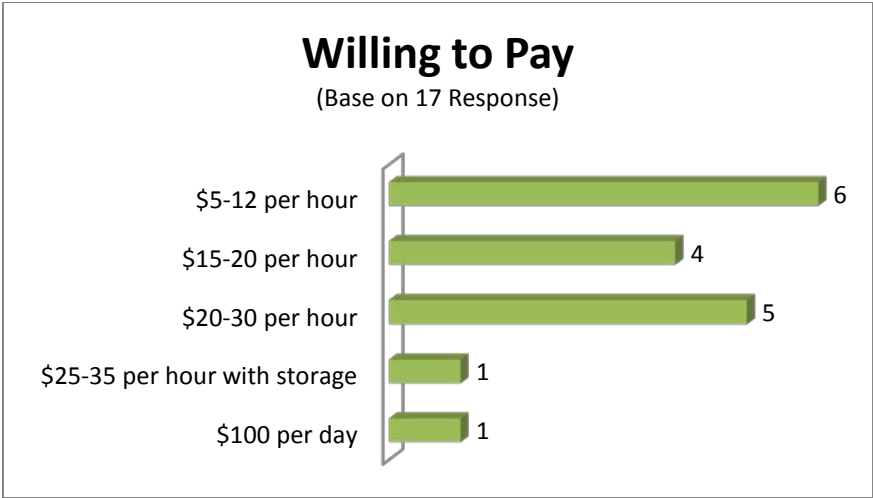
For budding entrepreneurs, even a small business center with a packaging station would be extremely helpful. Photo sections to help market new products and an online or actual store front are other popular amenities that our respondents would use.



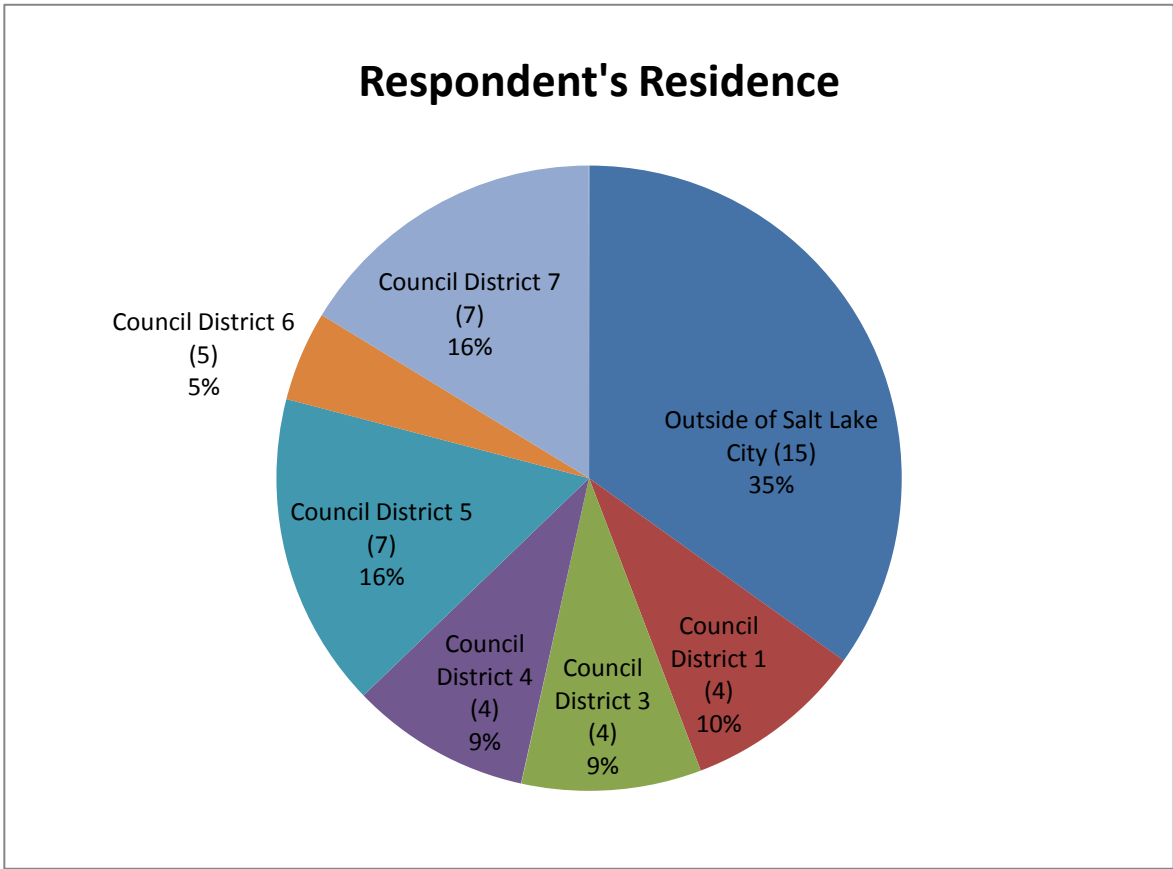
Salt Lake City has a strong local community bond. Networking is ranked as the number one service that our respondents desire illustrates the large demand for a culinary community center. Also, with the new mobile food movement awakening in Salt Lake City along with the wave of the healthy and sustainable local food establishments, this is a great time to assist the future culinary leaders of America.



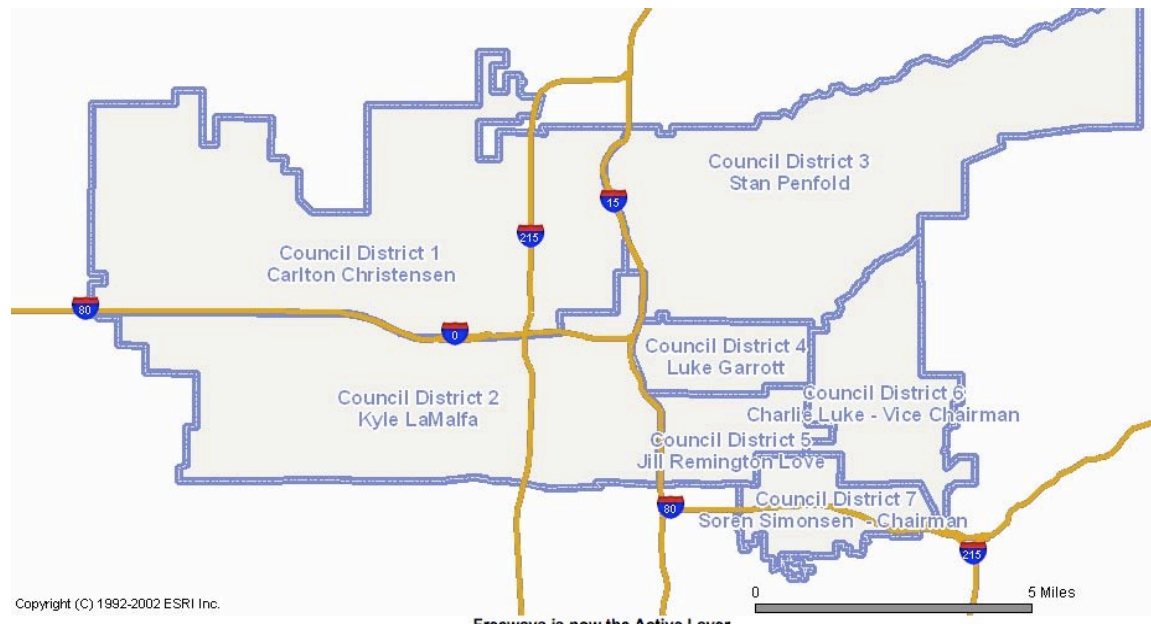
Based solely on our respondents so far, there is definitely enough interest to sustain a simple kitchen incubator program in Salt Lake City. If we take into account that many potential users may not have the opportunity to fill out the survey or ignored it as another spam mail, the level of response indicates a strong local demand for such a service.



Of our respondents, 26 do not know how much that they are willing to pay or what the market rate is. Their estimates also depend on the amenities available, but they would accept a fair market price. Based on our 17 respondents, their price quote reflects the greater national market price range of the kitchen incubator programs. A great suggestion would be to have scholarships available to help subsidize promising lower income culinary business plans.



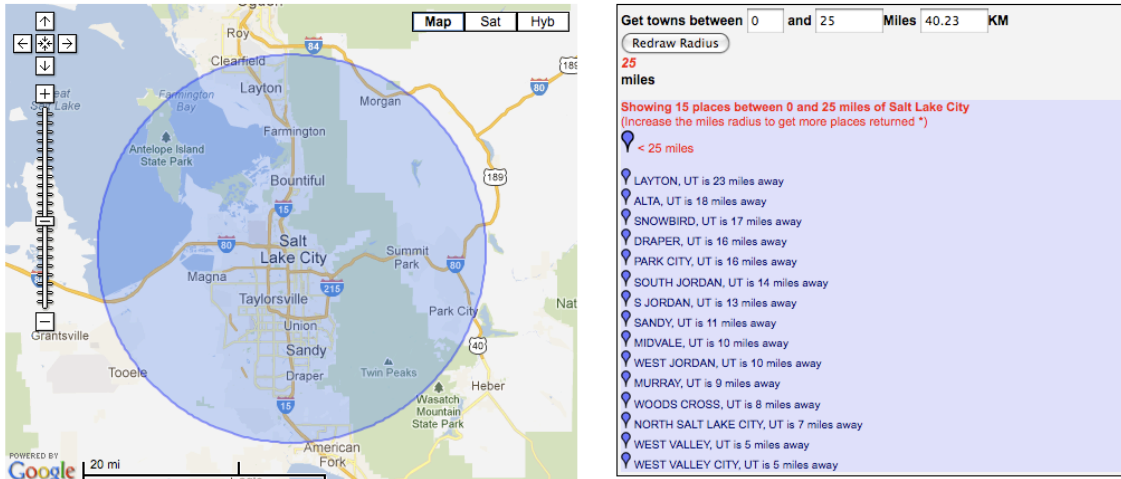
Our survey respondents are nicely spread out across Salt Lake City, and many of them are willing to commute to use a kitchen incubator service. The business location should be near a highway to not only ease commute routes but also to coordinate delivery services. Some of our respondents expressed a preference to have the location be near highway 15.



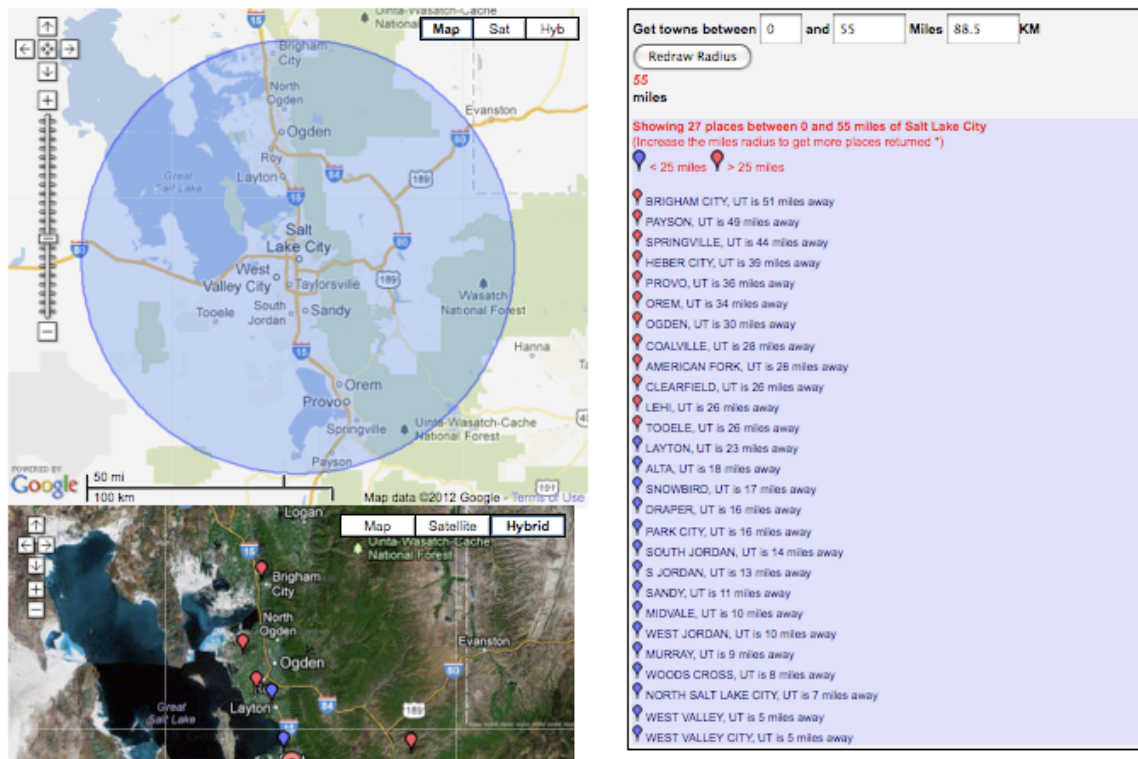
	Outside of Salt Lake City (15)	Council District 1 (4)	Council District 3 (4)	Council District 4 (4)	Council District 5 (7)	Council District 6 (2)	Council District 7 (7)
Average Distance willing to travel	51	35	20	25	22	65	25
>100 miles	6					1	
<50 miles		1		1	1		1
<30 miles	4	2	2	1	3	1	3
<10 miles	5	1	2	2	3		3

A proper kitchen incubator in Salt Lake City with sufficient amenities to cover the culinary demands would attract clients from not only the local council districts but also nearby commuters. Our respondents living within Salt Lake City are willing to travel between 10 to 50 miles to access a proper kitchen incubator. Of our respondents living outside of Salt Lake City, six of them are even willing to travel up to 100 miles to access such a service. Their willingness to commute so far demonstrates the significant market demand for such a program in Salt Lake City.

To give a better perspective of our potential market share, a 10-mile radius covers the entire Salt Lake City. Using an online distance calculator, we provide two snapshots of the areas covered by a 25 and 55 mile radius respectively.



A 25 mile radius would extend to Park City, Layton, and Tooele.



A 55 mile radius would extend to Brigham City, Payson, and Springville.

IV. Kitchen Incubator Proposal and Conclusion

Based on the above field data, kitchen incubator programs are an emerging national trend with strong local support. Salt Lake City has an incredible culinary network that is ready to further develop a sustainable local food industry. Besides local Salt Lake City residents, a well-established kitchen incubator center could also serve a large commuting clientele.

There are two potential directions in which we could precede with this project. The first possibility is to form a public-private partnership, either a nonprofit entity or an economic development center. Given the strong and diverse community interest, it seems like we have operational and financial support to launch a successful center. However, that would take a lot more time to develop, and it is a riskier investment without prior experience. If we were to form such a culinary center, we should invest in converting an industry warehouse space near a popular highway into a sustainable culinary center. The kitchen incubator should make sure that its own business plan is self-sustainable after the initial investment. Based on industry examples, providing culinary services exclusively would most likely not be financially sustainable. A great income supplement would be to utilize event space for private rentals, as well as networking events.

The other option is to support the emerging leaders like Jackie Nobel and Adam Kreisel in their private kitchen incubator businesses by making clear legislative regulations and sponsoring sustainable kitchen equipment. We could partner up with local kitchen suppliers to promote energy efficient equipment via subsidized grants. We could also offer scholarships to the low-income culinary community, to promising entrepreneurs who would use the service. Of course, a private business with experienced professionals is a faster start-up. The potential downside to just sponsoring a more sustainable business practice for private LLCs concerns ensuring enough space to serve the greater Salt Lake City culinary community. However, due to budget constraints, it is very easy to exclude the emerging mobile food entrepreneurs' commissary needs or the healthier gluten free and allergy conscious business models. On the other hand, they could test the market with a private business, and if a greater need persists, use their experience as additional resource to help develop a successful and sustainable community culinary center.

ⁱ Wold, Cameron. *Salt Lake City Kitchen Incubator Feasibility Study*. 1997.

ⁱⁱ Wold, Cameron. *Salt Lake City Kitchen Incubator Feasibility Study*. 1997.

ⁱⁱⁱ National Business Incubation Association. "Kitchen Incubation Programs: Serving Food-Related Businesses." *A Comprehensive Guide to Business Incubation 2* (2004).

^{iv} Survey results

^v Haley, Jen. "Non-profit Cooks up Aspiring Businesses." *CBSnews.com* 28 Feb. 2012

^{vi} National Business Incubation Association. "Kitchen Incubation Programs: Serving Food-Related Businesses." *A Comprehensive Guide to Business Incubation 2* (2004).

^{vii} National Restaurant Association. *2012 Restaurant Industry Forecast*. Rep. Washington DC: n.p., 2012. Print.

^{viii} National Business Incubation Association. "Kitchen Incubation Programs: Serving Food-Related Businesses." *A Comprehensive Guide to Business Incubation 2* (2004).