



Council on Metro Economies
and the New American City



THE INITIATIVE FOR A COMPETITIVE INNER CITY AND THE U.S. CONFERENCE OF MAYORS' COUNCIL ON METRO ECONOMIES AND THE NEW AMERICAN CITY ARE PARTNERING TO ENCOURAGE BUSINESS INVESTMENT IN URBAN AREAS. USING ICIC'S RESEARCH, THE COUNCIL AND ICIC WILL TACKLE TOPICAL ECONOMIC DEVELOPMENT ISSUES WITHIN CITIES, WHICH YIELDS NEW JOBS AND STRONGER BUSINESSES.

GROWING HEALTHY ECONOMIES:

LEVERAGING AMERICA'S URBAN FOOD CLUSTER

INTRODUCTION *Iron Chef* was already a cultural phenomenon, and a craze for artisanal cheese and locally grown produce had long since spread beyond California. But since March 2009, when First Lady Michelle Obama broke ground on the White House vegetable garden, the country has been on notice that the importance of fresh, healthy food is being taken more seriously — and at the highest levels — than it has been in decades.

The sudden interest in food has the potential to bring more than high-quality meals and, perhaps, better health: It could also be the catalyst to create impressive employment growth in our cities, including our most distressed neighborhoods. **[continued]**

That's not just because the food industry is booming, accounting for about 11% of the U.S. economy and employing 17 million people. It's because the food cluster is ideally suited to become a linchpin of inner city economic development. Here's why:

- Food is important in every geography. Everybody eats, which gives each city the opportunity to draw up a job-creating food strategy uniquely suited to its own priorities and self-image.
- Inner cities are home to disproportionate numbers of universities, hospitals, sports stadiums and cultural venues — all large buyers of food and all increasingly interested in sourcing fresh, locally produced goods.
- The diversity and density of the urban population provides a chance to cater to multiple niche markets that are underserved by traditional producers.
- Inner cities' central locations, access to multi-modal transportation hubs and even under-utilized manufacturing and warehouse space can all be leveraged by companies in the food cluster.
- About 60% of workers in the food industry have a high school diploma or less, making food cluster jobs uniquely accessible to inner city residents. Some 91% of food companies have 50 employees or less.

Diverse Job Creation Opportunities in Food

It's easy to think of the food cluster as restaurants, their providers and makers of artisanal cheese for hipsters and yuppies. But the cluster is much more diverse and complex than that. With opportunities in packaging, transportation, distribution and logistics—for starters—there is a strategy to fit every city.

The Initiative for a Competitive Inner City, NextStreet and Karp Resources have conducted research on the food clusters in Boston and Detroit, which provide two very different but equally compelling examples. In Boston, incomes are relatively high, but land is scarce. In Detroit, per capita incomes are much lower, but there is ample underused land. In each city, food cluster performance is better than overall employment growth.

The cities do share some strengths in food processing and in market infrastructure, with active, busy terminal markets. Boston has additional advantages in fish and seafood, wholesale and retail and restaurants. Detroit's most obvious advantages are its ample land and extensive transpor-

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tation infrastructure. It also has a strong history of food processing and support from local foundations for food-related initiatives. Its public and private institutions are embracing guidelines to enable increased local purchasing.

In Boston, recent growth has been driven by new ways to distribute food in the retail and service sectors and to institutions such as colleges and universities. A new food incubator, Crop Circle Kitchen, has helped launch more than 100 businesses. The city has announced a new \$70 million seafood processing facility and auction house to be located on its waterfront, and Boston's restaurant scene has grown substantially over the past 10 years.

In Detroit, under-used land is being converted into manufacturing and processing plants and incubator spaces for food companies. The "Source Detroit" initiative has brought several of Detroit's institutional buyers together to increase their spending with local food producers. And Detroit public schools are working with companies in the Eastern Market to source regionally produced fruits and vegetables.

Tailoring a Unique Food Strategy

As with any economic development strategy, there are hurdles and considerations unique to food. Financing is perhaps the most salient: Food production companies need equipment, but they aren't a good fit for traditional lenders. Non-traditional sources of capital are beginning to come online, with targeted subsidies for startups and access to low-cost capital.

The food cluster is particularly highly regulated, with multiple and overlapping oversight from city, state and federal agencies. For many companies, difficulty lies not just in the cost and effort required to comply with the tangle of laws and regulations, but in understanding them in the first place.

And on a large scale, it's difficult to influence demand for food. There's only so much a city needs to eat, so demand is defined mostly by population size and density and income levels. Still, affluent customers have shown they're

willing to pay up for fresh, locally made food, and institutions are realizing they can make a big impact by putting a premium on locally-sourced food.

While each city's food strategy will be unique, there are certain factors all cities should consider, even in the earliest phases of planning. Among them:

- How robust is the city's market infrastructure? Does the city have vibrant terminal markets? Are farmers' markets widespread and well-trafficked? Markets provide entry points for local, regional and national producers. They make it easier for retailers and wholesalers to get to market at low cost. And a busy market can encourage processors and other related businesses to set up shop nearby. Once a terminal market becomes distressed, unused or irrelevant, it's very difficult to revitalize it.
- How does the city see itself and its relationship to food? In Detroit, the prevailing view is that no jobs "win" is too small. Any food initiative that creates jobs is by definition good for the city. In Boston, there is more focus on health and community-building within neighborhoods. Each city's food cluster development has to fit within a different framework and answer the questions raised by that positioning.
- What tax incentives are available to help food companies, and how friendly is the current zoning policy to unconventional land uses such as urban agriculture? In New York, the city has adopted "no net loss" provisions with regard to industrial land and has identified sites that may be suitable for urban agriculture. Seattle has adopted a highly coordinated strategy for its food cluster, including guidelines and standards for community gardens.
- Are government and other institutional buyers able to express preferences for local sources? Governments and institutions are often required to award contracts, even those for food, to the lowest bidder, even if sourcing locally would create benefits of real value, financial and otherwise.

Making it Work

A number of case studies, drawn from across the country, show how different cities and entrepreneurs have been successful with food strategies that leverage their unique assets. Each of these ventures successfully addresses the challenges listed above and reflects each city's unique relationship with food, health and industry.

Oakland, California: Revolution Foods

Revolution Foods, an Inner City 100 company, is one of the most dramatic examples of the food cluster's ability to create jobs. The company does so in an area that is at once one of the least promising and most in need of change: school lunches. Almost every parent wishes school lunches were both healthier and more appealing, but school districts' hands are often tied by strict financial requirements, with predictable results.

In 2006, Kristin Groos Richmond and co-founder Kirsten Saenz Tobey set out to serve healthy food that kids would actually eat, while still being cost-effective for school districts. Revolution Foods' first contract was with the city of Oakland Calif., where it served 1,000 meals a day, 80% of them going to students on a reduced-price or free-lunch plan. Revolution Foods is now a \$50 million company, serving more than 120,000 meals a day to students in cities, such as Oakland, Washington, D.C., Houston, Newark and Denver, and sourcing locally and organically whenever it can.

Revolution Foods employs more than 750 people, all in the communities it serves. When Revolution Foods begins work in a new market, the company doesn't transfer employees from Oakland or another established program to staff it. Instead, it partners with local workforce development programs to hire and train people in the new community.

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Jobs at Revolution Foods are often accessible to people without a high school diploma. The company pays sustainable wages, offers healthcare benefits, enrolls employees in profit-sharing after one year on the job and works hard to promote from within.

Detroit's Edibles Rex, also an Inner City 100 honoree, benefits from schools' desires to serve healthier meals to students. Founder Tammy Tedesco started Edibles Rex as a side business from a restaurant she had opened in 1992. Now, the 76-person company caters corporate and private events and also serves breakfasts and lunches at Detroit charter schools, which don't typically have their own kitchens.

New York City: Green Carts

In 2008, New York's Mayor Michael Bloomberg signed legislation to create 1,000 permits for so-called green carts. These mobile vendors would bring fresh produce to underserved areas throughout the city, making it easier for residents to adopt a healthy diet. The New York City Health Department designated certain neighborhoods as "high need" and therefore eligible for the carts, as determined by their rates of food-related illnesses, the locations of nearby supermarkets and the quantity of fruits and vegetables consumed by residents.

About 500 permits have been sold, creating about 750 jobs. Typically, green cart vendors don't have that many other attractive employment options, and some have only limited English. Yet a few of the initial vendors now have two or three carts that they operate with friends or family, and others have started delivering produce to delis or bodegas. At least three permit-holders are looking to open grocery stores or fruit markets, showing that the carts are serving as vehicles to allow vendors to develop the skills needed to expand their businesses.

In addition to providing entrepreneurial opportunities, the carts seem to be helping the city reach its goal of getting more residents to eat fruits and vegetables. In 2004, in the South Bronx, one-quarter of respondents to a survey said they had not eaten any fruits or vegetables the previous day. In 2010, that number dropped to 17.6%. In East and Central Harlem in 2004, 20% of residents said they did not eat any fruits or vegetables the previous day. By 2010 that number had dropped to 13%.

Community support has been key to the success of the carts. Community organizations support the carts in their neighborhoods, talking up the opportunity and helping to recruit vendors. They also get recipe cards out to the carts. Not-for-profit City Harvest has even conducted cooking demonstrations alongside the carts to entice residents to sample new healthy foods.

Another success factor: Allowing green cart merchants to accept electronic benefits transfer (EBT) transactions. This change enables residents who receive disability payments or food stamps to use a common benefits card, not unlike a debit card, to buy food at the green carts. On average, each cart does about \$25,000 to \$35,000 in EBT sales per year. One cart did \$60,000 in business in EBT alone in

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2011, says Cassandra Flechsig, the green cart program manager with consulting firm Karp Resources.

Detroit: Source Detroit

Source Detroit is a procurement initiative run by three of Detroit's anchor institutions: Detroit Medical Center, Henry Ford Health System and Wayne State University. Together, they aim to shift more of their collective spending to companies based in Detroit. The program focuses specifically on the urban core, not the region.

So far, the three anchors have moved \$16.5 in contracts to Detroit-based businesses, and many of the early successes have been within the food cluster. The anchors have purchased \$280,000 in breads and baked goods from Milano Bakery & Cafe, and those purchases are ongoing. So are those from Hacienda Mexican Products, which is now supplying the anchors' cafeterias with tortillas.

Avalon International Breads, an Inner City 100 company, has long had a high-profile retail shop in Detroit's Midtown neighborhood and has been expanding in both its wholesale and retail business. Through Source Detroit, Avalon opened a café at Henry Ford Hospital, which now brings in more revenue than Avalon's flagship location.

The anchors have found that the biggest barriers to increased local spending are personal relationships. Buyers already have a willing and able network of suppliers, and it takes extra time and effort to expand that network and to unbundle contracts so that smaller suppliers can participate. Existing long-term contracts may make it impossible to bring in new local vendors, at least in the short run. The anchors have found that buy-in at the very top of the organization is essential for long-term success.

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INITIATIVE FOR A COMPETITIVE INNER CITY

The Initiative for a Competitive Inner City is a nonprofit research and strategy organization and the leading authority on U.S. inner city economies and business development. Founded in 1994 by Harvard Business School Professor Michael Porter, ICIC supports public and private sector decision makers with analyses and programs that lead to urban investment, jobs and growth.

U.S. CONFERENCE OF MAYORS

The U.S. Conference of Mayors nationally represents cities with populations over 30,000. Within the Conference, the Council on the Metro Economies and the New American City develops strategies to increase investment in cities and their neighborhoods through sustainable development, financial empowerment and 21st Century technologies.

ICIC'S MISSION IS TO DRIVE ECONOMIC PROSPERITY IN AMERICA'S INNER CITIES THROUGH PRIVATE SECTOR INVESTMENT TO CREATE JOBS, INCOME AND WEALTH FOR LOCAL RESIDENTS.



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