



Food Processing:

Sonoma County's Emerging Center of Innovation

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A Report Prepared by the
Sonoma County Economic Development Board

Ben Stone, Director

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This report highlights several opportunities that could increase mutually beneficial collaboration among industry members and other organizations. The Economic Development Board stands ready to offer assistance toward fostering this collaboration whenever possible.

Ben Stone
Executive Director, EDB

I. EXECUTIVE SUMMARY & OVERVIEW

Sonoma County's Food Processing Industry is Well-Positioned to Take Advantage of Emerging Shifts in the Agricultural Marketing Sector

The recent decline of the apple industry and ongoing concern about the viability of long-term dairying in Sonoma County has been well-documented. At the same time, agricultural specialization and growth in the local food processing industry have given notice that a number of opportunities for new directions are inherent in Sonoma County's agriculture sector.

Food processing, with the growth of organic and natural food products as an important component, has made important strides in Sonoma County and its trade area in recent years. The Sonoma County Economic Development Board, in an effort to identify issues and opportunities facing food processors in the area as well as formulate some feasible approaches to dealing with those issues, conducted a survey during 2001 of local processors, and conducted on-site interviews with several businesses that have successfully met the challenge of adapting to changes in the market. The EDB surveyed 178 food processors in Sonoma County and received a 34% response rate.

The face of agriculture in Sonoma County is indeed changing. Years ago, when settlers first moved to the area, wheat, potatoes, butter, cheese and hay were primary commodities for the growing San Francisco market. Then, eggs, apples, and other produce shored up the local economy. Slowly, the County grew into a world-famous wine-producing region. The development of the wine industry continued for decades to where it now stands as one of the leading employers and revenue makers in the county. Now, there is a new section involving agriculture developing: food processing, with organic and all-natural foods being a major component.

Two recent nationwide studies underscore the importance of this emerging sector:

- Organic farming has been one of the fastest-growing segments of U.S. agriculture during the 1990s. The USDA estimates that the value of retail sales of organic foods in 1999 was approximately \$6 billion. The number of organic farmers is increasing by about 12% per year and now stands at about 12,200 nationwide, most of them small-scale producers. According to a recent USDA study, certified organic cropland more than doubled from 1992 to 1997. Two organic livestock sectors, eggs and dairy, grew even faster. (<http://www.usda.gov/news/releases/2000/12/0425.htm> USDA News Release, no. 0425.00, Dec. 20, 2000)
- Nationally-certified organic cropland more than doubled during the 1990's, and eggs and dairy grew more rapidly. Markets for organic vegetables, fruits, and herbs have been developing for decades in the U.S., and organic grain and livestock markets are emerging. Under USDA's new proposal for regulating organic production and handling, purchasers of organic foods would be able to rely on uniform national standards for defining the term "organic." (Agricultural Outlook (4/00))

Key Findings

- Food processing is an emerging sector in Sonoma County, and employment has increased by 15% from 1997 to 1999. Estimates place employment in local food processing upwards of 3,000 persons.¹
- California Certified Organic Farmers (CCOF), one of the top certifiers in the state, estimates 1999 statewide acreage at 96,878 acres, up 38 percent from 1997.²
- In tune with the natural foods trend, many of the local food processors now offer natural and/or organic foods. In fact, 47% percent of the respondents produce foods that are certified as “organic.”
- 60% of the survey respondents forecast *increased demand for organic products* as an important trend to look out for in the food-processing industry.
- 77% of the survey respondents indicated that they plan to hire within the next 12 months.
- 79% of the survey respondents felt that Sonoma County offers a high to medium potential for the future growth of the food processing industry.
- Sonoma County is home to the largest organic bread bakery in the nation.
- The *2000 Sonoma County Agriculture Crop Report* indicates 2,532 acres of organic farmland in the region. There are also 83.5 acres pending certification and another 287 new applicants. The report also estimates 184 registered organic growers in the County.

Key Opportunities

- **Job Creation** – As the industry continues to expand, there will be an increase in the number of workers needed who must have specialized skills to fit into the workforce. The Workforce Investment Board (WIB) should be actively engaged with food processors in workforce development efforts.
- **Innovation** – encouraging and aiding small processors to develop new products, or getting producers to look at new methods or techniques of growing.
- **Growth of Sector** – What market trends will continue over the next 10 years, and how ready are Sonoma County food processors to face these changes?
- **Regulations** – One of the greatest obstacles in becoming certified as "organic" is the time lag necessary between the application and the certification. The North Bay Permit Assistance Center could provide leadership in this process.
- **Exhibitions** - Food processors could cooperatively display their goods to the public and marketers. This could highlight the innovative organic and all-natural goods being produced in Sonoma County.
- **Best Practices Guide** – A guide to help food processors develop beneficial methods of becoming organic or creating new and interesting food products. Highlighting innovative companies offers direction to others and suggestions for methods they might employ in finding new uses for agricultural commodities.
- **Partnerships** - With the help of Select Sonoma County, new partnerships could be created between processors and growers.

¹ Information from the Bureau of Labor Statistics and the Labor Market Information Department

² Agricultural Outlook/April 2000 Economic Research Service/USDA 9

II. DISCUSSION

Local processing adds value to local raw agricultural products

The 2001 Food Processing Survey, conducted by the Sonoma County Economic Development Board (EDB), contains a summary of the findings and a set of strategies that the region can use to target its business expansion, retain existing jobs, create opportunities for upward mobility of existing workers, provide new job entry possibilities, and help foster vitality in the industry. The information and strategies described in this report are designed to identify ways in which the region can work in the most effective manner to retain and expand the local food-processing sector. This work and recognition of is important, as the sector has grown by almost 30% over the past four years. At the national level, food processing has grown to an estimated \$500 billion in annual revenues.

Current estimates place the number of organic growers in Sonoma County at 184. This number is derived from a combination of information from the Sonoma County Agriculture Commissioners' Crop Report, the California Certified Organic Farmers, and the California Department of Food and Agriculture.

Other cities and counties are also exploring the growth of the food processing industry. Napa County, for example, is in the beginning stages of developing a food processing incubator project. The Arcata Economic Development Corporation went as far as developing and heavily funding an incubator project that provided rental kitchens for entrepreneurs. For Sonoma County, a local food processors group could review model programs started around the State and create a plan to remain competitive with challenging counties and trends. It is not necessary to create an in-depth and financially impactful program to facilitate entrepreneurial growth in Sonoma County, but recognition of such programs in competing counties is important.

The continued growth of the food-processing sector is essential if Sonoma County residents are to continue benefiting from the employment opportunities created by the industry. Without action, food will continue to be made to supply consumer demand; however, the question remains whether or not it will be processed locally and distributed, as the food processing industry enters a new cycle of business growth and development.

Following this survey and extensive research, it became apparent that innovative organic and all-natural food processing was an emerging sector of great importance to agriculture in Sonoma County. Almost half of the survey respondents reported that they are involved in the processing of organic or all-natural foods. A shift to organic food processing can help diversify the agricultural industry and increase the productivity of the sector.

To face competition from larger outside companies, local food processors are altering their operations to remain competitive. Products such as olive oils and specialty cheeses are examples of innovative local agricultural products. These goods are satisfying the important emerging market for organic and natural foods. Recently, the United States Department of Agriculture recognized the proliferation of the organic market by developing a standardized certification process.

As an example of the most frequent changes coming in the next 5 years, survey respondents cited more consolidation, increased competition, more reliance on technology in all phases of business operations, and increased emphasis on quality of product and food safety. Consolidation is indeed a growing factor in the U.S. More than 600 merger transaction deals were recorded in the year 2000, and about 2,200 have occurred over the last three years. The driving force behind this consolidation trend is to create efficiencies and reduce costs.

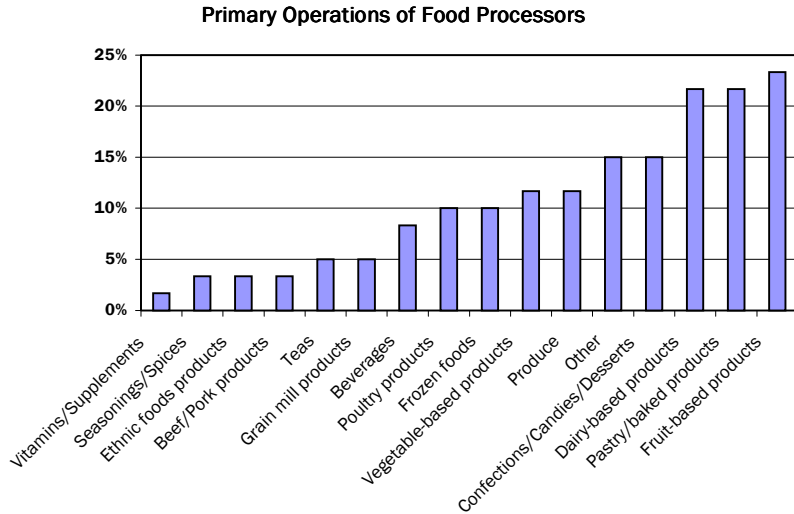
This industry is clearly in transition due to large-scale consolidation, automation of plants, and increased competition—and an opportunity exists to help the local industry with its future development. The existing labor force needs to be ready with new skills to meet the demands of a technology-driven food industry and, over time, new workers will need to be ready to join their ranks. The industry has a strong history of on-the-job training that, when coupled with local government-sponsored initiatives *under the guidance of local industry leaders*, can help prepare employees to meet these challenges.

The ability of agriculture to remain an integral component of the county's economy helps preserve the distinctive nature of the area. Promoting the development of innovation in food will help ensure that agriculture in Sonoma County will remain competitive, and thus help preserve the natural character of the area.

III. SURVEY RESULTS

1. Primary Operations of Food Processors

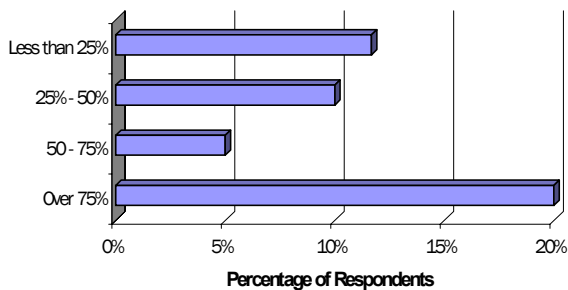
Of the survey respondents, 67% of local food processors produce dairy-based products, fruit-based products or pastry/baked goods. Some other reported categories include tortillas, olives, eggs, seafood, cooking oil, organic coffee, vinegar, condiments, and specialty gourmet.



■ Natural/Organic Foods

In tune with the natural foods trend, many of the food processors offer natural and/or

Percentage of Company's Products that are Organic



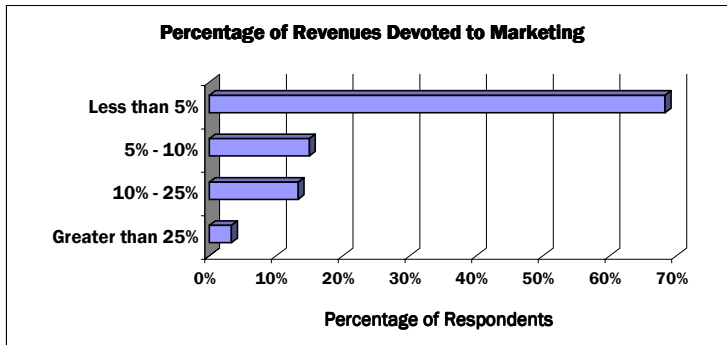
organic foods. In fact, 47% of the respondents reported they produce foods that are certified as “organic.” Amongst the businesses that do produce organic products, 20% report that more than 75% of their products classified as organic, which indicates that their businesses focus primarily on natural and/or organic foods.

Forms of Distribution for Product Sales

90% of the responding businesses utilize wholesale for their distribution. 53% depend on national retail stores for product sales. Overall, 50% of the respondents utilize local and/or regional retail sales. Other valuable methods of distribution include internet (40%), mail order (38%), and on-site sales (37%). Respondents also listed having a sales team, delivering directly to restaurants, and direct distribution as “other” methods of product distribution.

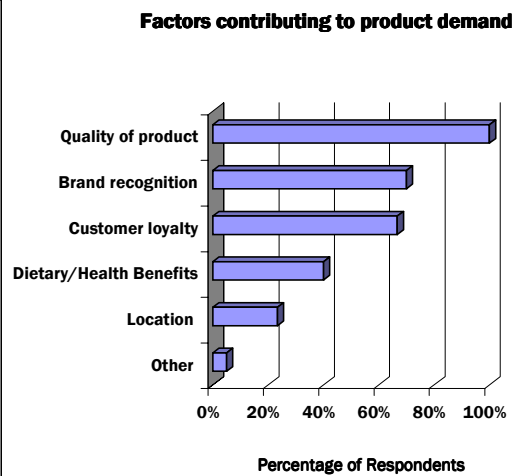
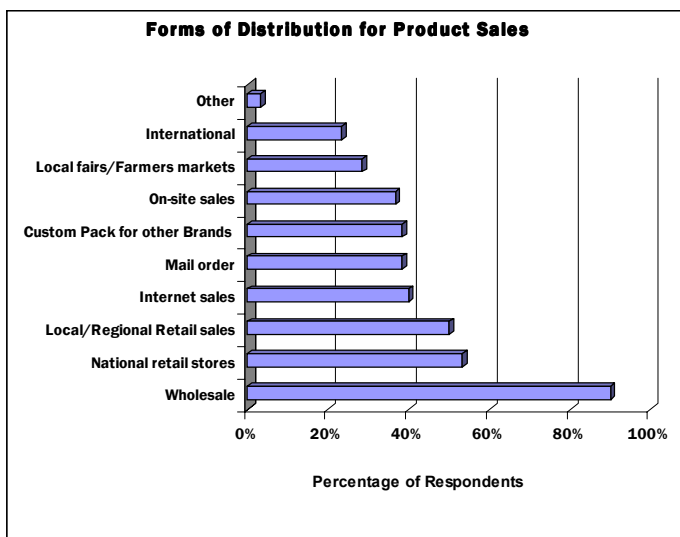
Advertising

There is a strong indication that responding food processors do not allocate very large portions of their revenue to advertising. 68% allot less than 5% of their firm's gross revenue to marketing. Less than 16% of the firms spend more than 10% of their revenue on advertising.



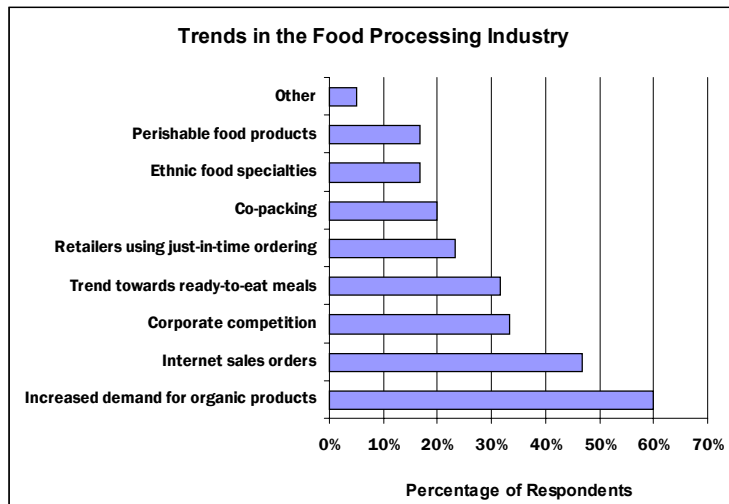
Product Demand

Unanimously, the respondents believed that *quality of product* is the number one factor that contributes to the demand for a particular product. *Brand recognition* (70%) and *customer loyalty* (67%) were cited as the next two factors that contribute to product demand. However, we again see the influence of the "health/natural" foods trend, since 40% of the respondents acknowledge that demand for a particular product can be linked to its *dietary and/or health benefits*.



Trends in food processing

Expectations for future trends within the food processing industry are skewed towards healthier diets as well as more convenient methods of obtaining them. 60% of the respondents forecast *increased demand for organic products* as an important trend to look out for in the industry.



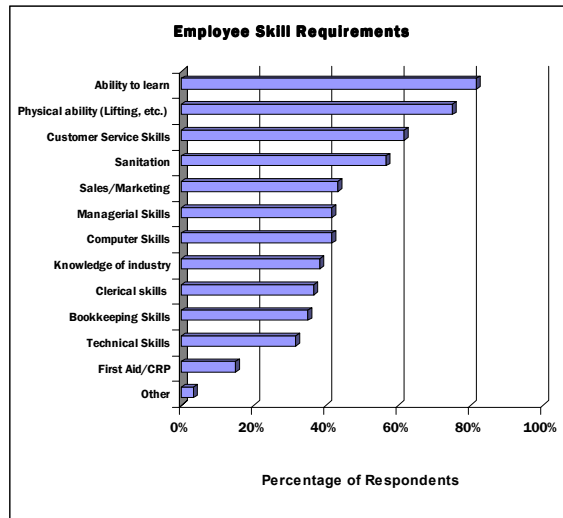
At the same time, consumers also want to simplify the process by which they obtain their foods. 47% of the respondents perceived increased internet sales as another significant trend. Consequently, food processors that offer products online will benefit from having access to a larger customer base, as well as lower operating costs than conventional “brick and mortar” producers.

Trends cited by respondents include ready-to-eat meals (32%), retailers using just-in-time ordering (23%), co-packing (20%), and ethnic food specialties (17%). Self-reported trends include health orientation, nutritional labeling on bakery items, and retailer consolidation.

All of these expectations correspond with national trends toward healthier lifestyles with greater preference given to organic/natural foods. These foods must also be conveniently accessible.

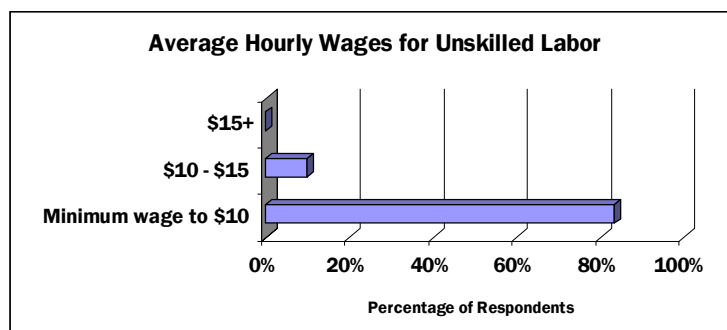
Employment

Ability to learn tops the list of employee skill requirements. 82% of the respondents felt that it is a critical quality in all employees. Physical ability (57%), customer service skills (62%), and sanitation (57%) are other characteristics deemed necessary by employers. Approximately 40% of the respondents consider computer, managerial, and sales marketing skills important. Given their skill expectations, many of the responding firms (40%) have a difficult time finding *skilled* employees.



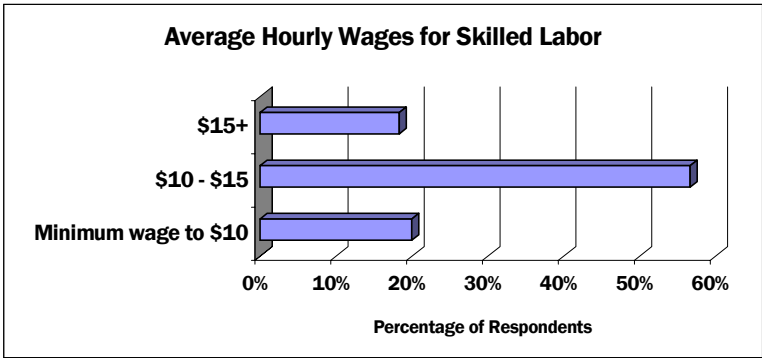
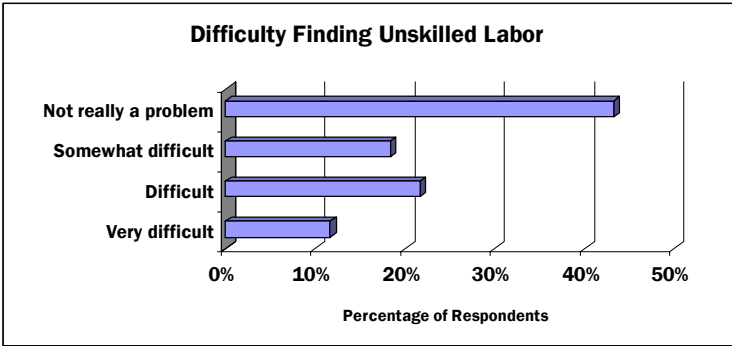
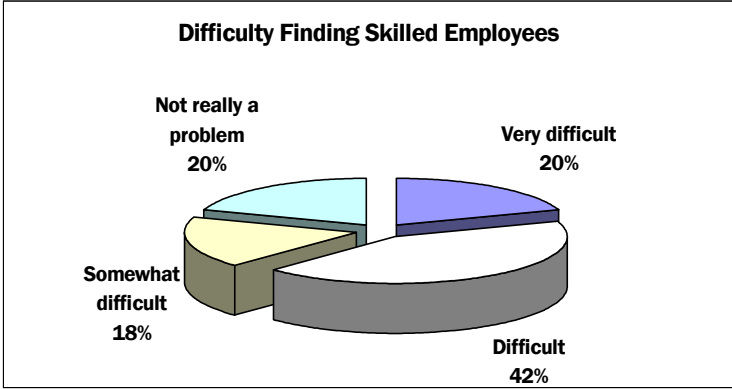
■ Unskilled Labor

A majority of the respondents (43%) have no problem finding *unskilled* employees. The approximate wage scale for unskilled employees is from minimum wage up to \$10 per hour. 83% of the responding employers pay within this range. Only 10% of the respondents pay \$10 - \$15 per hour for unskilled labor. None of the companies reported their pay higher than \$15 per hour for unskilled labor.



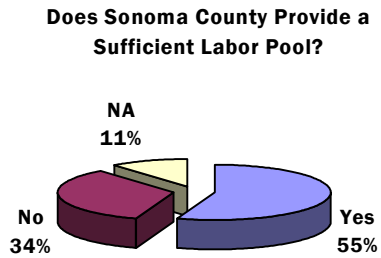
■ Skilled Labor

Food processing firms report they have more difficulty finding skilled labor. 62% of the firms report that finding skilled labor is either difficult or very difficult. Skilled labor, on average, earns a wage of \$10 - \$15 per hour. 57% of the respondents pay in this range for skilled labor. 20% of the employers pay below this range and 18% pay above \$15 per hour.

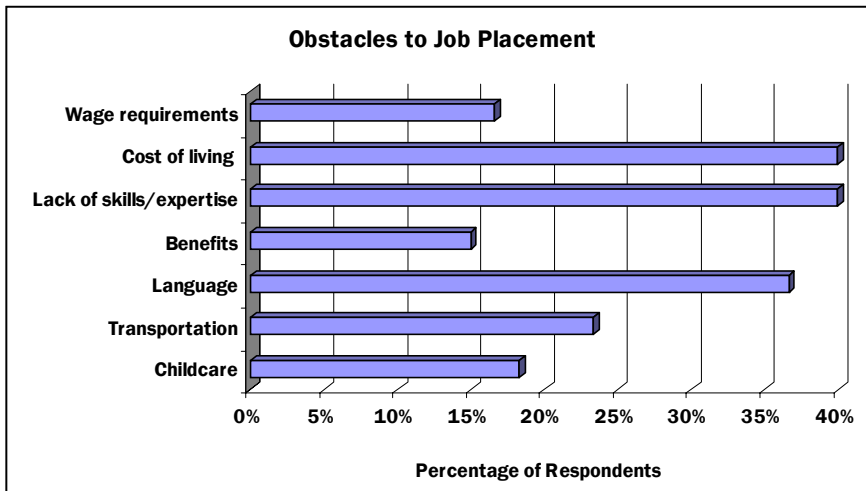


■ Labor Pool

Overall, 52% of the responding firms feel that Sonoma County provides a sufficient pool of skilled labor to meet most of their employment needs. At the same time, however, a significant percentage (34%) of the respondents indicated that Sonoma County does not provide a sufficient labor pool of skilled labor.



Within this latter category, respondents identified several factors that contribute to their difficulty in finding employees. Lack of skills/expertise, cost of living, and language issues were cited as three of the largest obstacles to job placement within the food processing industry. Transportation was also seen as a challenge to job placement. Childcare (18%), wage requirements (17%), and benefits (15%), are other possible factors affecting job placement.

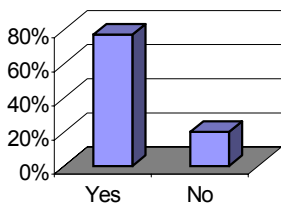


Employee Recruitment

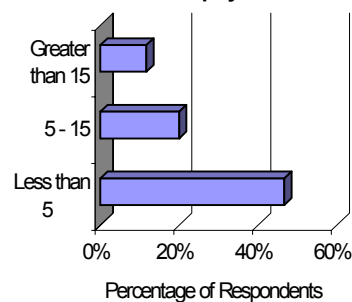
77% of the respondents indicated that they plan to hire within the next 12 months. Within this

category, 47% of the companies expect to hire less than 5 new employees. 20% will hire between 5 and 15 employees. A small

Plans to Hire within Next 12 Months

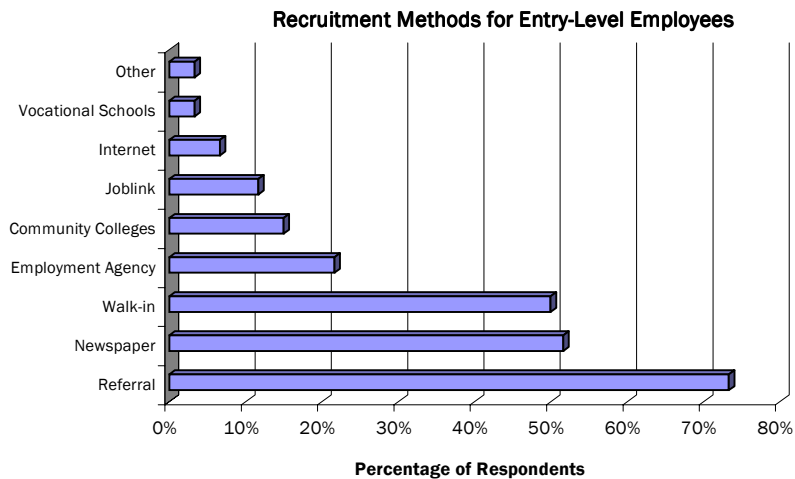


If Yes, Number of Expected New Employees



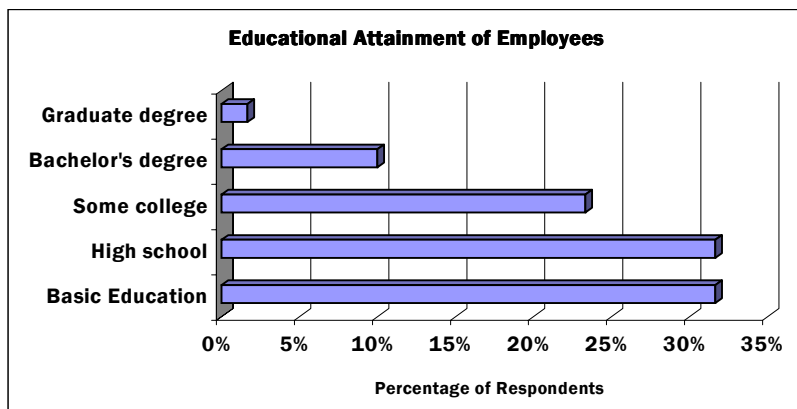
percentage (12%) of employers expect to hire more than 15 employees.

Food processing companies responded they utilize a variety of methods for employee recruitment. 73% percent use referrals. Newspapers (52%) and walk-ins (50%) are also popular methods for finding potential employees among food processors. To a lesser extent, the responding firms also seek out the help of employment agencies (20%), community colleges (15%), Joblink (12%) and the Internet (7%).



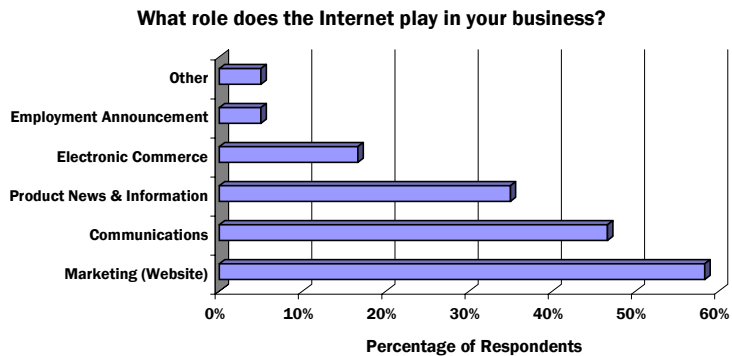
Education

In terms of educational attainment, most of the responding companies' employees have either a basic or high school level education. Around 23% of the employees have taken some college-level coursework. Only a very small percentage (10%) have degrees from four-year colleges and an even smaller number (2%) have advanced/graduate degrees.

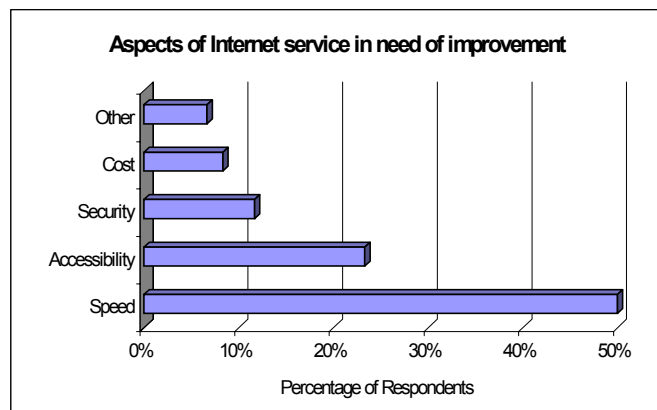


Role of Internet

When they use the internet, many firms primarily utilize it for communications (58%) and marketing (47%). Some firms also use the internet to provide product news and information (35%) and electronic commerce (17%). Some firms also use the internet for research and education. 50% of the firms felt

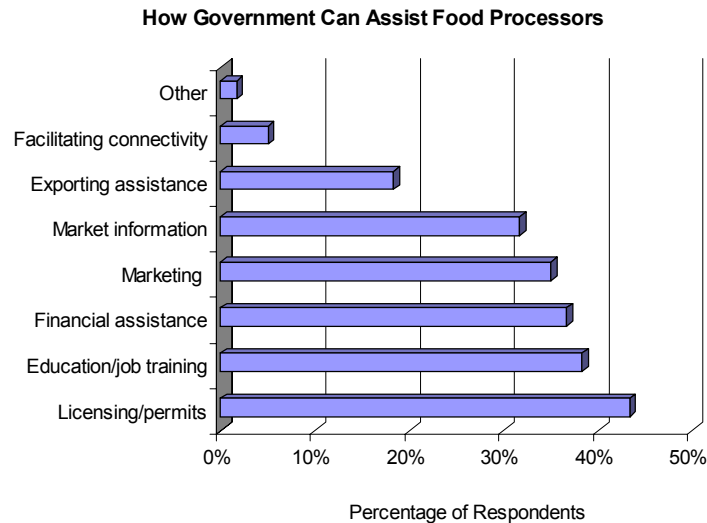


that the *speed* of their internet service can be improved. Accessibility (23%) and security (12%) are two other major internet concerns for food processors. Some of the “other” concerns include reliability, customer service and updates.



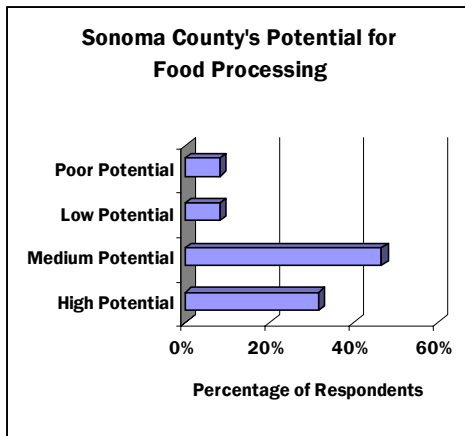
Government assistance

Food processors indicated that they would like government help in terms of improving tax, licensing, and permits processes. Education and job training (38%) and financial assistance (37%) are also preferred ways in which local government can help the food processing industry.



Forecasts for the Food Processing Industry

79% of the respondents felt that Sonoma County offers a high to medium potential for the future



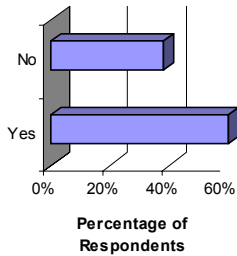
growth of the food processing industry. Positive explanations included availability of raw materials, good image of the County, and the area's relatively high level of growth.

16% of the respondents felt that Sonoma County has only a low to poor potential for sustaining the food processing industry's growth. Explanations for this low rating include difficulty getting land-use permits, too many regulations, lack of low-cost housing, general high cost of living, and a small labor pool.

Environmental restrictions, traffic congestion, and a lack of transportation were also cited as factors that detract from the food processing industry's potential to expand in Sonoma County.

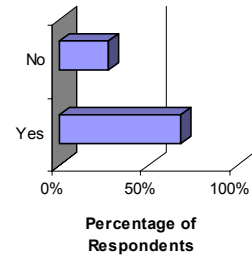
Despite the extensive list of possible obstacles to continued growth, a significant percentage of the respondents (36%) expanded their businesses within the last 12 months. An even larger proportion

Did you expand your operations within the last 12 months?



(41%) reported they plan to expand their businesses within the next 12 months.

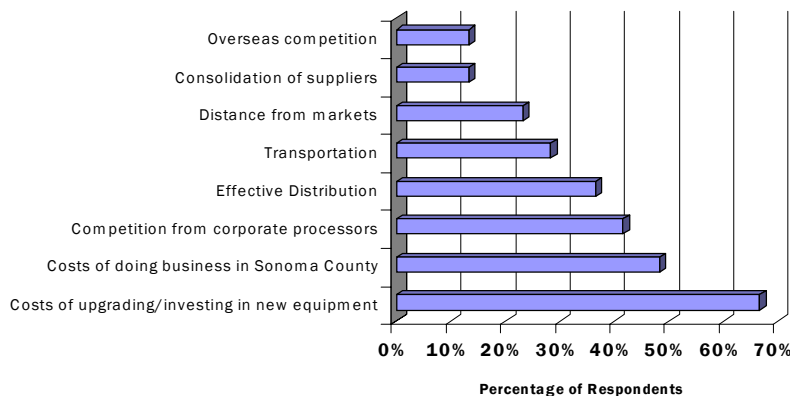
Do you plan to expand your operations within the next 12 months?



Challenges facing local food processors

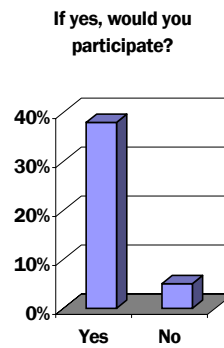
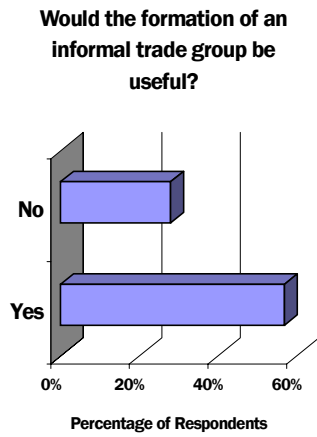
In order to continue operating successfully, food processors must overcome a variety of challenges that apply not only to the food processing industry but to the general business community as well. The cost of upgrading and investing in new equipment is a problem faced by 67% of the firms participating in this survey. 48% of the respondents felt that the general costs of doing business in Sonoma County represent a significant challenge for their company. 42% cited competition from corporate processors as an issue, and 37% felt that distribution methods can be more effective. Problems with transportation (28%) and distance from markets (23%) also pose some difficulties for participating food processors.

Challenges faced by firms



Formation of a trade network

A large percentage (57%) of food processors indicated an interest in the creation of an informal trade network of food processors. Amongst those favoring the creation of such a network, 38% affirmed that they would participate in such a group.



IV. DETAILED OPPORTUNITIES

Given the lack of detailed information that is available on the local food processing industry, a strategy needs to be developed whereby more interest will be vested in the food processing industry. More extensive efforts should be devoted to identifying and emphasizing the benefits provided by the food processing industry. At the same time, attention should also be given to understanding the potential concerns and challenges that are faced by food processors.

Partnerships

In this report, the EDB identified several opportunities available to the food processing industry, based on feedback from local employers. By forming strategic partnerships with the Workforce Investment Board or other organizations, companies could collectively address a variety of issues that pertain to food processing in Sonoma County. The following list outlines potential topics that merit attention in any attempt to promote greater economic growth for the food processing industry.

1. Job Creation

- The food processing industry could develop a strategic partnership with the Workforce Investment Board (WIB) in addressing labor pool and workforce issues.
- Appropriate agencies should explore ways to facilitate connecting food processing-related businesses with laborers.
- There should be stronger partnerships among community colleges, vocational schools, and government services with the food processing industry. It should be determined whether the challenge of employment is one of marketing students to the potential employers, whether it is a problem of preparing students for potential food-related jobs, or both.

Given that many of the food processors believe that Sonoma County provides an insufficient pool of skilled labor, there needs to be greater coordination between the food processors and local schools and job training centers. The educational and training centers can help prepare potential employees through programs that focus on the specific skills required for the food processing industry. In addition, schools can work to upgrade the skills of current employees within the food processing firms.

Local food processors could also work with the Workforce Investment Board and other employment/training organizations to explore development of a “Certification for Basic Skills”

program for welfare-to-work training. The food industry could be a source of employment for a portion of the individuals making a transition from welfare to work.

Simplifying and consolidating the administrative structure for hiring and training programs would be a way to make government training programs more attractive to this industry. Indeed, a labor pool that already has basic job skills would, of course, best serve the local food processing industry. Sonoma County training programs could help provide such skills. For example, the East Bay Conservation Corporation (EBCC) is a useful program for training of new and inexperienced workers. They combine an education component with work experience. They also develop a "soft job skills" base, as well as a more technical skills base. Most importantly, the type of jobs the EBCC participants do instills a message to the participants that the job is valuable and their contribution is worthwhile.

Local employers could work with business assistance providers and employment trainers to encourage training/placement programs and educational institutions in the County to adopt the skills assessments, and use them to evaluate and train prospective job applicants for positions in the food industry.

2. Innovation

Food processing is rapidly developing industry. To continue such growth, new ways to further the use of innovative processing and marketing methods need to be found. This report highlights several companies that exemplify innovation. They are leaders in food processing, and some are start-up companies less than a year old. These firms are examples of creativity and ingenuity in developing new and different products. Clover Stornetta Farms, McEvoy Ranch, the Point Reyes Farmstead Cheese Company, Kozlowski Farms, and Alvarado St. Bakery are discussed in specific case studies found in the Appendix of this report. An industry group could look at the plethora of companies developing innovative agricultural products and, using existing companies as models, encourage other food processors to consider new and different goods to be processed.

3. Growth of Sector

In order to facilitate the growth of the food processing industry, a partnership of local companies or business assistance groups could develop a means of helping both new and existing firms with important information on the industry.

For example, a website might be constructed with the following features:

- An information clearinghouse for *start-up* food companies. The first step would be to make new food companies aware of appropriate agencies and entities, both public and private, which are available to assist them. The next step would be to provide information in areas such as business assistance services, financing, regulatory requirements, site assistance, and employment training programs.
- An information clearinghouse for *existing* food companies. As companies grow, they are at risk of leaving the County or relocating. Assisting growing companies to ensure that they expand at their existing sites or, if this is not possible, relocate within the County, would be a useful service.

4. Enhanced collaboration between food processors and agricultural producers

Opportunities exist to enhance collaborative efforts between food processors and agricultural producers. With a greater understanding of the needs of food processors, local agricultural producers can better accommodate their needs. By working together more closely, agriculture producers and food processors can identify common concerns and possibly explore a partnership that would be mutually beneficial.

Some of the ideas that this partnership might want to develop include sustainable business practices that take into account environmental factors as well as the changing demographics of Sonoma County. An industry group could work closely with various local agricultural groups to determine strategies for greater collaboration among food processors and agricultural producers.

Additionally, employers could look into a partnership with the *Select Sonoma County* as a viable means of strengthening Sonoma County's reputation for high-quality food products. Locally processed foods benefit from having the *Select Sonoma* seal of approval. At the same time, the credibility of *Select Sonoma* will be further enhanced through continued efforts to identify and work with local food processors.

Employers might also work with *Select Sonoma County* to develop new cooperative marketing strategies, with the end goal of selling more specialty Sonoma County products in the national market. Indeed, through cooperative marketing strategies, Sonoma County can develop greater national recognition. Methods by which to continue the development and expansion of the existing *Select Sonoma* marketing tool should also be examined.

Finally, it would be interesting to know the origin of raw commodities bought by local processors, and what factors and qualities the processors deem important in this respect. Can Sonoma County's agricultural diversity be increased by better meeting local processors' needs?

5. Regulation and government assistance for food processors

Permit Assistance Center. The creation of a partnership with the North Bay Permit Assistance Center (PAC) would assist businesses seeking to obtain or renew permits for business operations that directly contribute to processing in the County.

Food processors can play an important role in communicating industry needs to local business assistance agencies. As a result, these agencies and other organizations can continue to address the concerns of food processing firms. An information clearinghouse that would enable local firms to easily locate other businesses such as equipment or packaging supplies manufacturers that contribute to the food production process might be helpful. Local organizations should also look at policies and regulations that are conducive to the establishment of food processing companies.

The County should also strive to emphasize the importance of food processing to the local economy. Sonoma County can continue to add “quality” food products to its already impressive list of major exports including agricultural crops, wine, and high-tech innovations. The critical point that needs to be recognized is that food processing is an industry that can significantly benefit the community through job and revenue generation. With sufficient support, local food processors can have a growing and positive impact on the local economy.

Through the development of an “Innovation Best Practices Guide,” innovative leaders and their operations could be highlighted and publicized as new direction for the emerging industry. Such a guide, modeled after that of the BEA’s “Environmental Best Practices Guide,” (www.sonoma-county.org/bea) would offer recognition to the leading companies while recommending their techniques to other companies in the industry.

At this time, there are a multitude of diverse government and non-profit groups working on issues affecting the food processing industry. Most of the food processors reported they have limited time to spend away from their businesses. A short-term, coordinated, and targeted effort among all the organizations and entities working to assist the sector would ensure greater communication and, as a result, greater effectiveness. A few companies are contacted many times by government and non-profit organizations, but many companies are still unaware of the work being done, and the resources available to assist them.

6. Link to BEA

Voluntary adoption of sound environmental practices that enhance financial performance are promoted by the Business Environmental Alliance (BEA) in Sonoma County. In that food processors typically use substantial water in their activities, local companies might benefit from closer involvement in BEA activities.

V. CONCLUSION

As the food processing industry continues to change, so must the model for business-government relationships. In the past, local, state, and national governmental entities have been more likely to place limitations on new business growth through regulations and taxing mechanisms. In the future, health and human safety standards governing day-to-day operations are likely to become more rigorous.

As companies continue to make marked shifts toward organic and all-natural processing to keep pace with new industry demands, local government will need to have a greater understanding of and flexibility for the changing food industry practices and operations. If changes happen more rapidly, it will be incumbent upon governmental entities to make an on-going commitment to track and support new developments within this industry.

Local government can help support the local food processing industry, but individual companies must be equal participants in the process. As trends in consumer demand continue to drive new business formation, there is a unique opportunity for local food processing businesses that are able to respond to changing markets. Research and interviews show that many of Sonoma County's food processing businesses have already begun to serve this new market for organic and all-natural products. Sonoma County provides the diversity of consumers that innovative companies need to develop new product lines. A prepared workforce and a government working in partnership with the industry will be key to helping local food processing firms to continue to succeed.

This report is only the first step in a series of concerted efforts that can be taken to identify the progress of local food processors. The findings of this report represent the only known effort to present some information about the food processing industry other than standard SIC classification data. There still exist many aspects of the food processing industry that need to be tracked, such as number of employees, sales, revenues, and the like that are generated by local food processors.

The findings of this report also indicate that local food processors have a variety of concerns, ranging from employment needs to keeping up with market trends. Increased cooperation between local producers and governmental organizations will help ameliorate these concerns—and inevitably lead to increased economic vitality for Sonoma County.

VI. METHODOLOGY

Food processing, as in industry, includes all activities related to the manufacture of foods and beverages. Under the Standard Industrial Classification Code (SIC) system, the food processing industry is classified collectively under code 20. This broad category is broken down into more defined sectors that include Dairy Products, Cheese, Preserved Fruits & Vegetables, Canned Fruits & Vegetables, Meat products, Sugar & Confections, Cookies & Crackers, Grain Mill Products, Bakery Products, and Fats & Oils.

With that understanding, the EDB then compiled a list of local businesses that would fall under this rubric. A survey was then sent out to 178 of the local food processors in Sonoma County. Sixty of the firms responded, generating a response rate of 34%. The survey questionnaire follows in Attachment 1 of this report.

Please note that all data contained in this report is based on the information received from survey respondents. The responses were gathered into a database for analysis. Due to the fact that survey respondents may provide no responses to some questions, the category percentages indicated in the graphs for those questions may not sum up to 100%. Where replies are mutually exclusive, percentages may be slightly off due to rounding. Where replies are not mutually exclusive, percentages may total to more than 100%.

It was our intention to obtain averages that provide a general “snapshot” of the non-profit cultural arts sector in Sonoma County. Consequently, the averages have not been weighted by any factor or interest, including company size.

Area Development magazine, in its August 2001 issue, provided information on consolidation trends at the national level.

VII. ACKNOWLEDGEMENTS

The 2001 Food Processing Report would not have been possible without the contributions of the many companies, organizations, and individuals.

Most of the credit belongs to the local food processing businesses that participated in the survey. Their responses created the foundation upon which the food processing industry could be studied and analyzed.

The staff at the Economic Development Board contributed a significant amount of secretarial work. Much gratitude goes to Colette Thomas and Catherine Harper for their coordination of the survey tasks. Without their relentless work, the survey response would not have been so high.

In addition, many thanks go to the Alameda County Economic Development Alliance for Business (EDAB). The EDAB's Food Processing Study, conducted in February 1998, provided information on national trends in the food processing industry.

A very special thanks also goes to Jasmin Nguyen for her excellent work in tabulating the survey results. Jasmin contributed significantly to the overall report through his compilation and organization of the survey findings. The bulk of this report is a testament to her research and analytical skills.

Special thanks are also due to Dan Benedetti, Michael Coon, Bob Giacomini, Perry Kozlowski, and Joseph Tuck for their time and cooperation in developing an understanding of and vision for the food processing industry.

Thanks to Don Bennett, consultant to the EDB, for his initiation and contributions to this report. His knowledge of the industry helped begin and shape this report.

Finally, Elliot Kadar, a summer intern with the EDB, developed the final draft report. He brought together the research started by Jasmin, combined it with additional research, analyzed the results and recommendations, and presented the final report. Elliot's diligence, dedication, and maturity were remarkable throughout this project.

Ben Stone

VIII. APPENDIX

**2001 SONOMA COUNTY
FOOD PROCESSING INDUSTRY SURVEY**

Business name: _____
Address: _____
Phone: (____) _____ Fax: (____) _____
Email: _____ Website: _____

Name and Title of person completing survey:
Name _____ Title _____

Year Operation began in Sonoma County: _____
Approximate number of employees in Sonoma County: _____
What percentage of employees is considered part-time? _____ %
If the firm relocated to Sonoma County, why did it move here?
_____ Location _____ Workforce _____ Raw Products _____ Other: _____

Total square footage of your industrial space during your fiscal 1999: _____

1. Which of the following area(s) best describes the primary operations of your business in Sonoma County? (Check all that apply)

- | | |
|---|---|
| <input type="checkbox"/> Dairy-based products | <input type="checkbox"/> Vitamins/Supplements |
| <input type="checkbox"/> Pastry/baked products | <input type="checkbox"/> Seasonings/Spices |
| <input type="checkbox"/> Grain mill products | <input type="checkbox"/> Teas |
| <input type="checkbox"/> Confections/Candies/Desserts | <input type="checkbox"/> Ethnic foods products |
| <input type="checkbox"/> Fruit-based products | <input type="checkbox"/> Poultry products |
| <input type="checkbox"/> Vegetable-based products | <input type="checkbox"/> Beef/Pork products |
| <input type="checkbox"/> Produce | <input type="checkbox"/> Beverages |
| <input type="checkbox"/> Frozen foods | <input type="checkbox"/> Other (specify): _____ |

2. Are any of your products certified as organic? _____ Yes _____ No

If yes, what percentage of your products is organic?

___ Less than 25% ___ 25% - 50% ___ 50 - 75% ___ Over 75%

3. What forms of distribution do you currently use to sell your products? (Check all that apply)

- | | |
|---|---|
| <input type="checkbox"/> On-site sales | <input type="checkbox"/> National retail stores |
| <input type="checkbox"/> Local fairs/Farmers markets | <input type="checkbox"/> Mail order |
| <input type="checkbox"/> Local/Regional Retail sales | <input type="checkbox"/> Internet sales |
| <input type="checkbox"/> Custom Pack for other Brands | <input type="checkbox"/> Wholesale |
| <input type="checkbox"/> Other: _____ | <input type="checkbox"/> International |

4. Approximately what percentage of your firm's gross revenue is spent on marketing?

- Less than 5% 5% - 10%
 10% - 25% Greater than 25%

5. What factors help contribute to the demand of your product? (Please check up to three top choices)

- Brand recognition Quality of product
 Dietary/Health Benefits Customer loyalty
 Location where products grown or processed
 Other (specify): _____

6. What trends do you see in the food processing industry in the next three years? (Please check up to three top choices)

- Corporate competition Co-packing
 Trend towards ready-to-eat meals Retailers using just-in-time ordering
 Internet sales orders Perishable food products
 Ethnic food specialties Increased demand for organic products
 Other (specify): _____

7. What types of skill do you require from your employees? (check all that apply)

- Knowledge of industry Clerical skills (typing, filing, etc.) First Aid/CRP
 Physical ability (Lifting, etc.) Customer Service Skills Sales/Marketing
 Bookkeeping Skills Computer Skills Ability to learn
 Technical Skills Managerial Skills Other: _____
 Sanitation

8.a. How difficult is it for your firm to find **skilled** employees?

- Very difficult Difficult Somewhat difficult Not really a problem
Why? _____

8.b What is the approximate hourly wage for skilled labor?

- Minimum wage to \$10 \$10 to \$15 \$15+

9.a. How difficult is it for your firm to find **unskilled** employees?

- Very difficult Difficult Somewhat difficult Not really a problem
Why? _____

9.b. What is the approximate wage scale for unskilled labor?

- Minimum wage to \$10 \$10 to \$15 \$15+

10. What is the average level of education of employees?

- Basic Education College degree High school
 Grad. degree Some college-level coursework Other

11. Does Sonoma County provide a sufficient pool of skilled labor from which to meet most of your employment needs? Yes No Not Applicable

12. Do you plan to hire in the next 12 months? Yes No

If Yes, approximately how many?

- Less than 5 Between 5 - 15 Greater than 15

13. How do you obtain entry-level employees? (Check all that apply)

- | | | |
|---|------------------------------------|---|
| <input type="checkbox"/> Joblink | <input type="checkbox"/> Internet | <input type="checkbox"/> Vocational Schools |
| <input type="checkbox"/> Community Colleges | <input type="checkbox"/> Newspaper | <input type="checkbox"/> Walk-in |
| <input type="checkbox"/> Employment Agency | <input type="checkbox"/> Referral | <input type="checkbox"/> Other: _____ |

14. Which of the following are obstacles to job placement at your business? (Check all that apply)

- | | |
|---|---|
| <input type="checkbox"/> Childcare | <input type="checkbox"/> Cost of living |
| <input type="checkbox"/> Transportation | <input type="checkbox"/> Lack of skills/expertise |
| <input type="checkbox"/> Language | <input type="checkbox"/> Wage requirements |
| <input type="checkbox"/> Benefits | <input type="checkbox"/> Other: _____ |

15. In which areas do you feel local government could assist the food processing industry? (Check **top three** choices)

- | | |
|---|---|
| <input type="checkbox"/> Licensing/permits | <input type="checkbox"/> Financial assistance |
| <input type="checkbox"/> Marketing | <input type="checkbox"/> Education/job training |
| <input type="checkbox"/> Market information | <input type="checkbox"/> Exporting assistance |
| <input type="checkbox"/> Facilitating high-speed data transmission/connectivity | |
| <input type="checkbox"/> Other (please specify) _____ | |

16.a. Is business crime a significant problem affecting your industry? Yes No
(If No, Please disregard Questions 15b and 15c)

16.b. If yes, has your firm been a victim of business crime?

- Yes No

16.c. Which types of business crimes affect your industry?

- | | | |
|---------------------------------------|---|---|
| <input type="checkbox"/> Arson | <input type="checkbox"/> Computer Crime | <input type="checkbox"/> Embezzlement |
| <input type="checkbox"/> Fraud | <input type="checkbox"/> Shoplifting | <input type="checkbox"/> Workplace violence |
| <input type="checkbox"/> Other: _____ | | |

17. On a scale from 1 to 10 with 10 being critical, how important is the internet to your business?
Unimportant 1 2 3 4 5 6 7 8 9 10 Critical

18. What role does the Internet play in your business?

1. Marketing (Website)
2. Communications
3. Electronic Commerce
4. Employment Announcement
5. Product News & Information
6. Other: _____

19. On a scale from 1 to 10 with 10 being the highest, please rate your internet service.

- Lowest 1 2 3 4 5 6 7 8 9 10 Highest

20. What area of your internet service is in the most need of improvement?

1. Speed
2. Security

- 3. Accessibility
- 4. Cost
- 5. Other: _____

21. Will tele-commuting ever be an option for your employees?
 Yes No Why? _____

22. Would the creation of an informal trade group of food processors be useful?
 Yes No
 If yes, would you participate? Yes No

23. How would you rate Sonoma County's current and future potential for food processing?
 High Potential Medium Potential
 Low Potential Poor Potential
 Why? _____

24.a. Did you expand your operations in the past 12 months?
 Yes No Not applicable
 If you did expand, what were the reasons? _____

24.b. Do you plan on expanding your operations in the next 12 months?
 Yes No Not applicable

25. What challenges does your firm face in continuing to operate successfully? (please check all that apply)

- Costs of upgrading/investing in new equipment
- Distance from markets
- Costs of doing business in Sonoma County
- Competition from corporate processors
- Consolidation of suppliers
- Effective Distribution
- Transportation
- Overseas competition
- Other (specify): _____

26. The Sonoma County Film Office is housed in the Economic Development Board. At no cost to you, would you be interested in listing your property in their files as a possible location?
 Yes _____ No _____

Other Comments: _____

CASE STUDIES

Included in this report are specific case studies about area companies that have innovated in various ways, including the marketing of organic foods and natural food processing. These companies have been singled out as examples of ingenuity and/or leadership in this emerging field. The case studies offer some background of these companies, and relate how organic or natural food processing has figured in their success and economic viability.

There are many good examples of local innovation in agriculture. We selected the following companies to represent dairy, fruit, oil, and bread natural markets. These are some of the newer or the more publicized organic or all-natural companies. We could not, of course, include all innovative companies, and those included in no way represent the complete list of such leading companies.

Two of the companies are located just beyond the borders of Sonoma County but, because of their proximity to Sonoma County, and the fact that the lessons they illustrate could easily be duplicated by a great many Sonoma County farmers, we include these companies for their illustrative power.

Many thanks to Clover Stornetta Farms, McEvoy Ranch, the Point Reyes Farmstead Cheese Company, Kozlowski Farms, and Alvarado St Bakery for their help and cooperation in developing these case studies.

Clover-Stornetta Goes Organic



Locally owned and operated since the purchase of Clover and Stornetta dairies in 1977, Clover-Stornetta Farms is a local and national leader in the dairy processing industry. Their decision to begin processing organic dairy products has ensured their continued success.

The owners of Clover-Stornetta are constantly developing new ways to further develop their business. Recently, the processor has ventured into the market for organic products as a way to remain competitive in today's ever-changing marketplace. The leadership and renewed entrepreneurial spirit of Clover Stornetta is what has helped them emerge as the leading dairy processor in Sonoma County. The decision to diversify into organic goods has ensured that as demand and consumer tastes change, Clover Stornetta and its member dairies will remain economically viable for years to come.

The recognition of the emerging organic market enticed Clover to begin processing organic milk. In finding new goods to further their product line, Dan Benedetti, President of Clover Stornetta, viewed the organic field as one which is untapped and in great demand. "The market for organic goods will continue to develop. This is not a fad. It is a trend with 20% annual growth nationally. This growth will continue," said Benedetti. As a leader in the field of organic dairy processing, Clover Stornetta has helped encourage dairymen to look to organic production as a better way to compete. In the month of May, gross organic sales topped \$700,000, representing 10 percent of total sales. As the growth of the organic foods market continues, demand will increase and more organic raw milk will be needed.

Clover Stornetta has a unique relationship with their supplier. Not only does Clover Stornetta purchase its raw organic goods from St. Anthony's Farm, but they aided the dairy in converting to organic farming techniques. With the aid of leaders like Clover Stornetta, other small dairies can also transition to organic production, which will increase their economic viability if conventional methods are not sustaining their operation.

Watch for Clo the Cow and her friends as they lead Sonoma County into the organic market. Their success from this diversification offers examples for other processors to move into the organic and natural food processing.

All milk is rBST growth hormone free



Certified cleanest milk in the nation

Clover-Stornetta is currently the largest processor of certified organic dairy products in California.

"Sonoma County has incredible potential to return to the 'breadbasket' for the greater Bay Area with the increased processing of organic and natural goods." - Dan Benedetti

Clover Stornetta Farms
19 Lakeville St.
Petaluma, CA
www.cloverstornetta.com
707 . 778 . 8448

McEVROY RANCH

Olive Ranch in the Wine Country



The ranch is one of the most innovative uses of agricultural land in the North Bay. Land which could have been used for vineyard was planted with some of the highest quality olive trees in the world. It has made for award winning olive oil and an interesting business venture.

When Nan McEvoy decided it was time to retire, she looked for a place she could entertain her grandchildren and begin something they might be able to take over in the future. She has a love for good olive oil and saw a niche market opening. The ranch, founded in 1991, is home to organically cultivated varieties of olives including Frantoio, Leccino, Pendolino, Maurino, Coratina, and Leccio del Corno. All olive oil is estate grown, certified organic, and extra virgin.

Not only is the ranch an innovative use for agricultural land, some of the methods used are well ahead of their time. Irrigation for the acres of trees is one of the most ingenious ideas in agriculture. The parts of the olive not used for oil are reused for fertilization and irrigation. Twenty percent of the olive is oil. Fifty percent is waste, which is removed during the crushing process and the other 30 percent is water. The waste is collected as compost and is mixed in to enhance the clay-like soil. The water is removed from the machines and used to water the plants. All other water used on the ranch is natural rain collected in the many ponds on the grounds. This makes it easier to be organic in all elements of the growing process on the ranch.

-74 Acres of Certified Organically Grown Italian Varieties of Olive trees
-1,500 Gallons of Oil produced each year
-14,000 Trees are now growing olives on the ranch

“You invest in olives for your grandchildren.”

Preservation of this scenic property was possible through creativity. McEvoy could have planted vineyards or brought in a dairy but her love for olive oil won out. There have been many hopes for the land. First off, there is the need to show oil produced in California can compete with that of Europe. There was also a deep commitment to the preservation of the land. Not only does the organic growing process help the environment, but it also increases the quality of the olive grown. Set backs to the organic growing method have been the time needed for the trees to reach maturity when they are most productive. Nan McEvoy and the workers on the ranch are committed to preserving the natural heritage of the land as well as creating a successful business from the highest quality ingredients.

McEvoy Ranch
5985 Red Hill Rd.
Petaluma, CA
www.mcevoyranch.com
707 . 778 . 2807



INNOVATION ON THE FARM



One of the few remaining dairies in the coastal North Bay area, this family owned operation recently entered into the food processing arena by making Original Blue. As the only processor of blue cheese in California, the Point Reyes Farmstead Cheese Company is filling a very niche market. When other dairymen around the Giacomini family are being forced to sell their herds, they hope the processing of blue cheese will allow them to remain in business. This is an interesting story of a family whose development for alternative uses of their land has allowed them to remain on a farm they love.



The Point Reyes Farmstead Cheese Company is the only blue cheese company in all of California. It is one of the only farmstead blue cheese companies in the nation. From a closed herd on the hills overlooking Tomales Bay, the ingredients for their Original Blue are some of the finest in the world.

The Giacomini commitment to producing superior quality, farmstead dairy products began over 80 years ago in the mountains of Italy. Today Bob Giacomini and his family continue the tradition on the coast of the North Bay. Bob began milking cows on his ranch in Point Reyes in 1959 and ventured into the art of making blue cheese in early 1999.

Point Reyes Farmstead Cheese Company was officially launched on August 1, 2000. The secret to Original Blue lies in the unique combination of 3 key ingredients: Grade A raw milk from a closed herd of Holstein cows that graze on the green pastured hills overlooking Tomales Bay, the coastal fog and the salty Pacific breezes. The cows are not hormone induced and are feed with all-natural grains.

Point Reyes Farmstead Cheese Company represents one of the most creative uses for agricultural land in the North Bay. The decision to turn from simply selling milk to the co-op to processing very high quality and specialized cheese was made by the family as a way to increase profits of their dairy. With years of experience as a dairyman, Giacomini saw increased utility for his herd and combined that recognition with his business sense and developed a new enterprise.

The first sales of their Original Blue cheese were made at the beginning of this year. There has been much support for the small processor, as their sales have begun to spread in the national marketplace. As a new business, the cheese company faces many challenges in increasing distribution, gaining recognition, and projecting the amount of cheese to be produced for the market six months from now. This is a necessary part of the aging process that grows the mold to develop the exquisite taste of the cheese.

The Giacomini Family has created a very unique product of the highest quality. Their dedication to high standards for their product and further innovation in their processing techniques establishes the Point Reyes Farmstead Cheese Company as a leader in North Bay food processing.

Point Reyes Farmstead Cheese Company
PO Box 9
Point Reyes, CA
www.pointreyescheese.com
415 . 663 . 8880



Special points of interest:

- Family owned and operated since 1951
- Opened retail store in 1969.
- Raspberry Jam first flavor developed in 1969
- 46 Acres of plantings including organic apples, and vineyards

Processing All-Natural Ingredients for Best Flavors

Kozlowski Farms is a true family business. The idea was to offer premium products from the produce of the farm. The family diversified from produce to making delectable jams, jellies, spreads, sauces, dressings, and even salsa. The decision to process their natural bounty has ensured that the family owned farm remains agricultural. As apples orchards in Sebastopol are converting to wineries to stay profitable Kozlowski Farms has also converted some land to grape growing, while continuing to farm apples organically. The continuing sale of the processed natural foods has enabled the Kozlowski's to continue farming both apples and grapes.



The retail store on the Kozlowski Family Farm

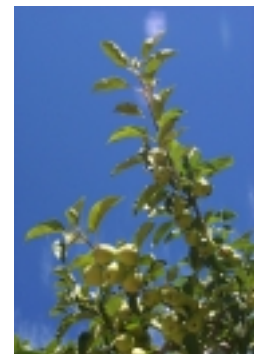
"Grapes are absolutely saving agriculture in Sonoma County."

Processing of jams began in 1969. The farm initially grew raspberries and made the decision to make jams in 1969. Carmen Kozlowski used the berries they were not able to sell on the fresh market to delectable jams. The family noticed the excessive amount of overripe berries being discarded into the field and started making jam to increase the profitability of the farm, while providing an outlet other than the traditional fresh and processing markets for raspberries. The small raspberry farm was not able to compete with the larger Wastsonville area berry growers and processing as a way to sustain the family business. With the closing of the Sebastopol Co-Op cannery, the need to process apple based products also became imperative.

Kozlowski Farms products are sold in major natural foods stores across the county. Whole Foods Markets, who have some of the most stringent requirements in the industry, accepted their product. The ingredients used in the jams, spreads, and other products are all natural. The goods are created without preservatives and other additives.

In meeting with Perry Kozlowski, he mentioned it is difficult to remain a sustainable farmer without a retail or additional method of sales. Farms find it hard to survive simply by growing apples or berries. The creation of a retail store on the farm and the extensive all-natural product line has allowed the Kozlowski family to stay in business. Their vision and ingenuity to create high quality products from their fields has ensured the farm land will remain agricultural for years to come.

Kozlowski Farms
 5566 Gravenstein Hwy. 116
 Forestville, CA
www.kozlowskifarms.com
 707 . 887 . 1587



Alvarado St. Bakery

"We are changing the way the world eats -- one slice at a time."



For over 20 years Alvarado Street Bakery has been a leader in producing healthy, organic whole grain breads. Founded on the belief of the "Food for People not for Profit" movement of the late 1970's, the bakery has flourished into a worldwide distributor of organic baked goods. Alvarado St. remains a cooperative business of more than 100 employees, their own fleet of trucks, and a production of 30 variations of all-natural goods. With the explosion of the organic product market, Alvarado St. Bakery is well positioned to reap the benefits of pioneering the natural foods market. Their refusal to compromise business beliefs has paid off as the bakery now controls a substantial percent of the organic baked goods market.

- First bread produced in 1979
 - 30 varieties of whole grain, organic and healthy bread, bagels, and pizza breads are produced
 - Distribution nationally as well as Italy, Japan, and Canada
 - Over 100 employee
 - Annual Sales: \$14.5 million
-

Alvarado St. is the largest processor of organic bread in the nation. They require sustainable agricultural practices from the suppliers of their healthy, organic ingredients. On a recent trip to Russia, Alvarado St executives offered ways to combine old, communist work ideas with new productive co-op methods.



Alvarado St's success has been noticed by other bread companies such as Safeway, Orowheat, and Earth Grains, all of whom are now entering the organic bread market. But the ingenuity of Alvarado St goes beyond simply organic products. All the products are also healthy. Only the finest healthy ingredients are mixed to create the breads. The special use of sprouts is a closely guarded industry secret. This special technique allows the bread to be frozen more effectively and thus offers greater distribution options. Distribution to Europe is currently limited to Italy but following a recent meeting in Amsterdam, Alvarado St is looking to make advances in European sales. While sales and distribution increases, the company remains tied to their philosophy of putting the interest of people before profits; the basic belief on which the company was founded. When founded, Alvarado St knew that people wanted to eat healthy. The bakery has filled the health food market for 20 years and now, as the market expands, the bakery is poised for continued development and success.

Alvarado St. Bakery
500 Martin Ave., Rohnert Park, CA
www.alvaradostreetbakery.com