



Home Cooking

The buy-local movement gains steam – and impacts plant location decisions – as food processors wrestle with rising costs of commodities and fuel.

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From farm to fork, the challenges confronting food processors have never been greater. Escalating commodity prices, rising transportation costs caused by skyrocketing fuel charges, concerns among consumers over dietary health and food safety, and new environmental regulations all add up to one thing for corporate executives in the food-processing business: headache-laden nights of little sleep.

According to Jim Doyle, vice president of corporate real estate for ConAgra Foods Inc., the fifth-largest food processor in the U.S., rapidly climbing energy costs are the driving factor today behind site selection decisions.

"There really is not much change in the site selection issues that come to mind as far as the basics, but there will be a big impact on energy going forward," Doyle tells *Site Selection*. "There has been a lot written on the impact of energy costs on the overall economy, but those also change the rankings or weighting of the traditional factors for site selection."

For example, Doyle says, "in my world it would be rare that a location choice would have been made other than in the order of transportation, work force, energy costs, and then building costs and incentives. Energy touches all of those areas."

With oil at record prices, almost every aspect of a major food-processing operation is a lot more expensive than it was just one year ago. Whether it's buying grain or corn, trucking raw product into a facility, shipping it out to distribution centers, or simply paying the electric bill to power the manufacturing plant, the cost of virtually every step in the supply chain has risen dramatically.

Energy costs are affecting where plants locate and how they are built, explains Doyle.

"You will see a tightening of the geographical areas that are reviewed for available work force or the added factor of adjacency to public transportation far more than you would have seen in times past," he notes. When employees are faced with "a doubling or tripling of the raw gasoline costs," employers will have to tighten their radius from which they expect to draw workers.

"You also may see longer lead times on building construction and initial costs for LEED buildings," Doyle says. "It has been assumed that there was a 10- to 15-percent surcharge for LEED buildings, and that was a tough sell in some parts of corporate America.

"With oil at \$135 a barrel, you are not going to see any buildings that are done going forward where energy usage is not on the top of the list of building considerations," he says. "That assumed surcharge gets covered rather quickly in the new buildings."

'Build Local' May Be the Rule

Interestingly, the buy-local food movement, a byproduct of environmental and health concerns, may morph into a "build-local" movement among food processors, driven largely by many of the same concerns.

"Companies will be considering all aspects of production and distribution costs when selecting a place for their operation," says Ed Burghard, a former Procter & Gamble marketing executive who now runs the Ohio Business Development Coalition.



Buy local, build local? One byproduct of the locovore movement is the advent of retailers becoming their own manufacturers and distributors. Lakeland, Fla.-based Publix Supermarkets now operates its own 298-acre (121-hectare), 2.3-million-sq.-ft. (213,670-sq.-m.) industrial complex in Lawrenceville, Ga., where the Southeast's largest grocer makes everything from ice cream and sherbet to iced tea and organic milk. The products are then shipped to stores, mostly in North Georgia, the same day.

Top Food-Processing Plant Locations

New and expansion projects in 2007

| STATE | TOTAL |
|----------------|-------|
| New York | 30 |
| Illinois | 24 |
| Ohio | 22 |
| Texas | 20 |
| Minnesota | 17 |
| Iowa | 17 |
| Pennsylvania | 17 |
| North Carolina | 16 |
| Indiana | 15 |
| Kentucky | 15 |

Source: Conway Data New Plant Database

"The old adage of location, location, location applies. The closer you can be to the supply chain and your consumers, the lower your delivered costs."

For food processors, which comprise a \$1.16-trillion industry in the U.S. and employ more than 705,000 workers, the stakes have never been higher. After all, this industry feeds not just most Americans, but a good portion of the rest of the world.

The question, in the face of mounting pressures caused by higher costs and slimmer margins, is how to adapt.

Already, many companies are showing signs of tapping into the buy-local, build-local momentum. And there's nothing like a shared history to cement a deal.

A case in point is the new \$124-million manufacturing plant being built by **Beech-Nut Nutrition Corp.** in Florida, N.Y. The baby-food maker broke ground May 21 on the 650,000-sq.-ft. (60,385-sq.-m.) facility that will retain 356 jobs in Upstate New York and create another 135 positions when it opens in fall 2009.

The new plant replaces capacity at a 100-year-old plant in nearby Canajoharie that was damaged by Mohawk River flooding in 2006, as well as at another plant in Fort Plain. Beech-Nut has produced baby food in Canajoharie since 1931.

Beech-Nut was acquired by Switzerland's Hero Group in 2005. Hero, seeking to gain U.S. baby-food market share from fellow Swiss giant Nestlé (which recently claimed 70 percent of that market), announced the project is the largest single capital expenditure project undertaken by the Group, as it aims for 25 percent of that market by 2011.

For Beech-Nut executives, staying close to home was the driving consideration in the entire site selection process. The Upstate location provides key logistical advantages in supplying New York buyers and other major Northeastern markets. Adding to the buy-local flavor, Beech-Nut will also continue to source a majority of its fruits and vegetables within New York State.

"Hero/Beech-Nut has an over 100-year history in Montgomery County and Upstate New York," says Edouard Feller, vice president at Hero/Beech-Nut. "It was important to our company to maintain this tradition. Secondly, we were able to identify a shovel ready site in one of New York State's Empire Zones that would allow us to build a state-of-the-art infant food manufacturing facility that would give us the opportunity to grow and expand our innovative line of infant food products."

Local Ties Boost Instead of Bind

The plant groundbreaking coincides with a relocation of the company headquarters – and 37 positions – from St. Louis to the Florida Business Park in New York.

"To be able to consolidate all of our North American operations into a state-of-the-art manufacturing facility and administrative complex simply made good business sense," says Feller.

He also likes the skills, training and experience that will fill the new positions, citing many workers who are second or third generation of families who have worked for Beech-Nut.

"Our work force is critically important to our future growth," he says.

The company is benefiting from some \$104.5 million in state and local incentives, grants and other tax breaks.

Empire State Development Corp. is kicking in \$18 million in financing for construction, machinery and equipment. The Montgomery County Industrial Development Agency is providing another \$38.5 million in tax incentives. And the project is located inside the Amsterdam Empire Zone, which makes the company eligible for up to \$42 million in other incentives.

National Grid is extending electric and gas infrastructure to the site and providing a grant from the utility's economic development fund to partially offset the cost, says Joe Russo, director of economic development for National Grid in Syracuse.

"I think the most important thing Hero/Beech-Nut did was simply to engage the local community, including local officials and our work force," says Feller. Asked what he'd tell other corporate executives about the area, he mentions the excellent location of the company's soon-to-be-former facilities in Canajoharie, which he says are well situated for other food processing, transportation warehousing or other commercial or industrial re-use.

"While there are challenges to doing business in the Northeast, there also are many benefits, including highly skilled and trained workers, excellent transportation infrastructure and access to abundant supplies of natural resources," he adds, "including water and the agricultural products that are key ingredients to our infant food products."

Even retailers are cashing in on the build-local trend. Lakeland, Fla.-based **Publix Supermarkets** continues to expand its manufacturing and distribution operations in the Atlanta area, according to company spokesperson Maria Brous.

"Our Atlanta distribution and manufacturing center is one of eight operated by our company," says Brous. "From this facility we service over 250 stores covering four states."

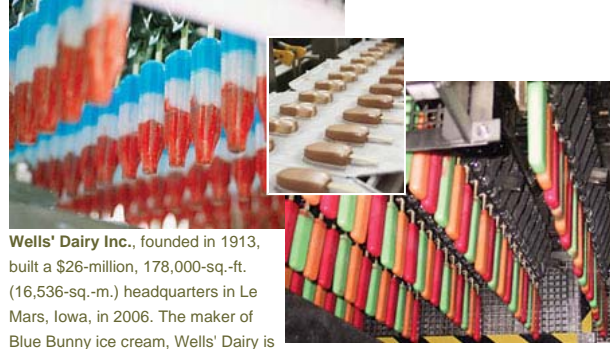
The company employs 185 workers in manufacturing and 1,350 in distribution at its 298-acre (121-hectare) complex in the Gwinnett Progress Center Industrial Park in Lawrenceville, Ga.

From a small grocery warehousing operation in 1994, the Lawrenceville complex has grown to 2.3 million sq. ft. (213,670 sq. m.). The two most recent expansions were a frozen-food facility in July 2005 and a "super velocity" logistics center in September 2007.

Among other products made at the plant for distribution to local and regional markets are ice cream, sherbet, chocolate milk, iced tea, orange juice and organic milk.



This rendering depicts the \$124-million manufacturing and headquarters complex that Hero/Beech-Nut will build in Florida, N.Y., retaining 356 jobs and creating another 135, including 37 positions from the transfer of Beech-Nut headquarters from St. Louis.



Wells' Dairy Inc., founded in 1913, built a \$26-million, 178,000-sq.-ft. (16,536-sq.-m.) headquarters in Le Mars, Iowa, in 2006. The maker of Blue Bunny ice cream, Wells' Dairy is the largest family-owned and managed dairy processor in the U.S.

Old Site Criteria Are Obsolete

Bob Adey, a nationally known site consultant who has handled many food-processing location searches, says there is another trend that is quickly gaining speed – the quest to produce more handheld snack food. One recent report estimated that the world snack foods market will reach \$278 billion by 2010.

"People don't sit down and eat meals together anymore. They are eating on the run," Adey says. "More and more convenience type foods are becoming popular. I know, because I have worked on these kinds of food-processing plant location projects."

For these projects, he notes, the health and other regulatory requirements are quite stringent. "In order to receive USDA ready-to-eat [RTE] certification, there must be an inspector on the premises, and it requires very expensive construction," Adey says. "There can be no square corners. The drains must be so far apart. From the freezer into your mouth, the entire process is subject to very high requirements."

As a result, the construction costs on USDA-RTE buildings can range from \$70 per sq. ft. to over \$100 per sq. ft., he says.

Secondly, he notes, the electric power requirement is substantial. "It takes a significant amount of uninterrupted, quality power that is delivered within certain tolerances," he adds. "Electric power is a major consideration. And with the rising cost of diesel fuel, these plants must be located within 5 miles [8 km.] of an Interstate highway. You can't afford to have trucks cutting through a neighborhood and chewing up time and money."

The reality of the new demands on food processors, says Adey, is that "it really does cut out a lot of communities. A community may be on a four-lane highway that leads to an Interstate, but there will still be a high discomfort factor regarding the location on the four-lane highway versus the Interstate. Food processors must be market oriented, and the old location criteria are no longer good enough."

Another factor that has risen in importance, says Adey, is the ability to at least partially offset the much larger investment costs with favorable tax rates and incentives.

"The investment required into modern food-processing plants today is much greater," he says. "The machinery is much more complicated. While the investment into a building of 100,000 sq. ft. (9,290 sq. m.) may be \$7 million, you can easily get up to \$40 million to \$50 million in costs for just the equipment alone. That plays into taxes and incentives."

Because of that concern, says Adey, corporate executives should "look at the bonded indebtedness per capita in the states you are considering. Eventually, somebody is going to have to pay for this, and it will be the companies that are already there."

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