



Local Food Processing White Papers

---

# THE CULINARY INCUBATOR BUSINESS MODEL

---

January 2018

*Farm to  
Institution*  
NEW ENGLAND

---

# THE EQUIPMENT QUESTION



**Author:** Nathaniel Brooks **Design:** Kathleen Nay

## FARM TO INSTITUTION NEW ENGLAND

Farm to Institution New England (FINE) is a six-state network of nonprofit, public and private entities working together to mobilize the power of New England institutions to transform our food system.

Since its inception, FINE has focused on developing cross-sector connections between K-12 schools, colleges and universities, hospitals, and other institutions. Today, FINE serves those at the forefront of the farm to institution movement in the region, providing a forum to connect and share ideas, models, resources, and support.

FINE leads projects related to key issues identified by farm to institution leaders and acts as the backbone organization for farm to institution work in the region: we strengthen the network, convene stakeholders, conduct research, develop tools and resources, and communicate with key audiences.

## NEW ENGLAND FOOD PROCESSORS COMMUNITY OF PRACTICE

The New England Food Processors' Community of Practice has provided a forum for processors of local food to share information, visit each other's facilities, and develop collaborative solutions to common problems. The group has helped representatives from seven New England food processing facilities become better equipped to meet and overcome their challenges, and share what they are learning with other processors in New England and beyond.

The major goals of the group were to help existing processing facilities become more efficient at processing local produce and meat for institutions and share best practices with new facilities. Participants have learned valuable information about topics like processing equipment, plant design, and food safety.

This publication is part of a series of four white papers, which complements our suite of seven case studies featuring members of the New England Food Processors' Community of Practice.

Download these publications and watch an introductory video about the group:

[www.farmtoinstitution.org/processors](http://www.farmtoinstitution.org/processors)



[www.farmtoinstitution.org](http://www.farmtoinstitution.org)



Employees at Farm Fresh Rhode Island's Harvest Kitchen show off their products.

# INTRODUCTION

Culinary incubators face an interlocking set of issues: a challenging revenue model, high fixed costs, difficulty in maintaining facility utilization, and complex scheduling and operational logistics. Similar to other business incubators or accelerators, to help their clients succeed they must possess deep expertise and a robust network of industry contacts. Unlike incubators or accelerators in other industries, however, culinary incubators must also be conversant with the complex and overlapping regulation governing food processing, little of which was written with shared-use facilities in mind. They may even be required to obtain licensing and inspection just to provide the space for clients to pursue their businesses. Despite these challenges, demand for their services is driving a rapid growth in multi-user culinary facilities.

Multi-user culinary facilities vary considerably in terms of both users and services. The aggregator Culinary Incubator, targeted at food entrepreneurs looking for shared production space, lists more than 700 shared-use kitchens in the US. These are user-submitted, however, and may include community kitchens and rental spaces with limited or no support for entrepreneurs. A 2016 national survey conducted by Econsult Solutions divided multi-user facilities into four types, based on services offered, member type, and business growth stage (see Figure 1 below). The same survey found over 200 facilities fitting the definition of incubator or accelerator, an increase of more than 50% from 2013 (“An Industry Update” p2). Because the challenges are similar and the lines between each type are subjective, for simplicity’s sake the term “culinary incubator” will hereafter be used for any multi-user facility targeted at culinary businesses.

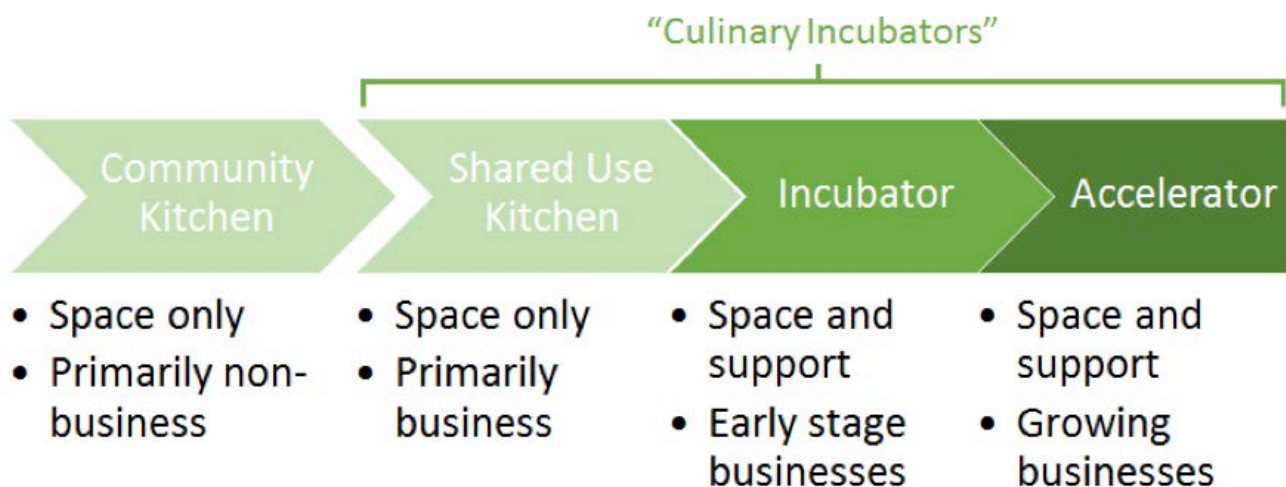


Figure 1. The spectrum of multi-culinary facilities.



# A CHALLENGING REVENUE MODEL

The financial realities facing culinary incubators are difficult for a number of reasons. First among them is that unless they are supplemented by grants or other outside funding, incubators rely on earning revenue from new or small-scale food businesses. There are three structural factors that make this a challenging proposition:

1. **New food businesses are often low margin.** US cultural norms have accustomed consumers to cheap food. Measured as a percentage of income, the amount spent on food has fallen steadily for the past fifty years (“Food Expenditures”). As a share of income, US consumers currently spend less on food than any of the 85 other countries for which data is tracked (ibid). This perception, that food is and should be cheap, poses a major challenge for many new food businesses.
2. **New businesses are more likely to be run by entrepreneurs with limited experience.** While some culinary incubator clients have run other businesses, many are either new to food business, or new to business entirely.
3. **Most new businesses have limited financial resources.** The businesses that launch with an abundance of financing (if such mythical entities exist in the world of food entrepreneurship) are less likely to try to conserve resources by using a culinary incubator. The typical incubator client, by contrast, is trying to stretch every dollar to the utmost as they find markets, ramp up production, and grow their business. A conventional rule of thumb is that most new businesses don’t break even for at least 18 months. The limited and sometimes erratic cash flow during the early days of a business is one of the reasons that one in five fail within the first year of operations (“Entrepreneurship and the Economy”).



*CommonWealth Kitchen, Boston, MA.*

The fact that many new food businesses are entering low-margin markets with limited resources and experience is part of what makes the knowledge, resources, and connections that a culinary incubator can supply so important. Nevertheless, it can make earning revenue from these businesses challenging.

## FACILITY UTILIZATION IS KEY, AND IT’S DIFFICULT

The success of their client businesses is the goal of the culinary incubator. Unfortunately, successful growth typically leads to a client’s exit from the facility as they expand production beyond what the shared-use space can support. Unlike other B2B businesses that gain repeat business from serving

customers well, incubators thus periodically lose their best customers. This leads to an ongoing struggle to maintain high facility utilization and makes pipeline management a critical and never-ending challenge. Rather than keeping happy clients satisfied, incubators must continually attempt to recruit, onboard, and grow new client businesses.

The challenge of losing successful businesses as they “graduate” is shared by all types of incubators. It is particularly difficult for culinary incubators, however, because of the large amount of capital invested in facilities. The Commonwealth Kitchen facility in Dorchester, MA, for example, cost approximately \$15 million for a 36,000 square foot facility, or more than \$400 per square foot. The estimated cost to build a similarly sized office building, by comparison, ranges from \$100-200 per square foot (“Construction Estimating”). Charging to cover the entire facility cost (rental, mortgage, etc.) at a low level of utilization would result in high user fees, placing an additional burden on new food entrepreneurs and decreasing their chances of success. To maximize the likelihood of client success, incubators want to charge as little as possible, meaning they need to keep utilization as high as possible to cover overhead.

Interestingly, the importance of high utilization and the challenge of building and maintaining a healthy user pipeline is significantly different depending on facility location. Rural incubators can take advantage of cheaper real estate, meaning less overhead to cover and affordable fees even at lower levels of utilization, but may also attract fewer client businesses. Urban locations are able to draw on a large population of prospective clients, but typically face far higher overhead costs. Regardless of where the balance point is for a particular facility, the challenge of managing facility utilization is key to long-term success.

## COMPLEX SCHEDULING AND OPERATIONAL LOGISTICS

Scheduling clients is an important component of demand and the complexity of determining when users can be in the kitchen simultaneously makes it a challenging feat. Many users may want access at the same time, and incubators must balance reliable scheduling for existing clients with the ability to bring in new clients by offering access to the shared kitchen at times they desire. The median number of clients for incubator kitchens is 20-29 (“An Industry Update” p12). To maximize revenue, incubators often try to schedule multiple users in the kitchen when possible. In contrast to many other business incubators, culinary incubators can’t simply match client headcount to available office space. The need for specific equipment, the potential for allergen cross-contamination and traffic flow constraints in the shared kitchen, dry-, and cold-storage space must all be taken into account. Even then, product quality concerns may still arise. In some cases, such as two caterers prepping vegetables, sharing space isn’t a problem. In others, even if the physical space is sufficient, different users can’t be scheduled simultaneously because of the potential for one’s product to negatively impact the other’s. Pastry makers, for example, don’t want to work

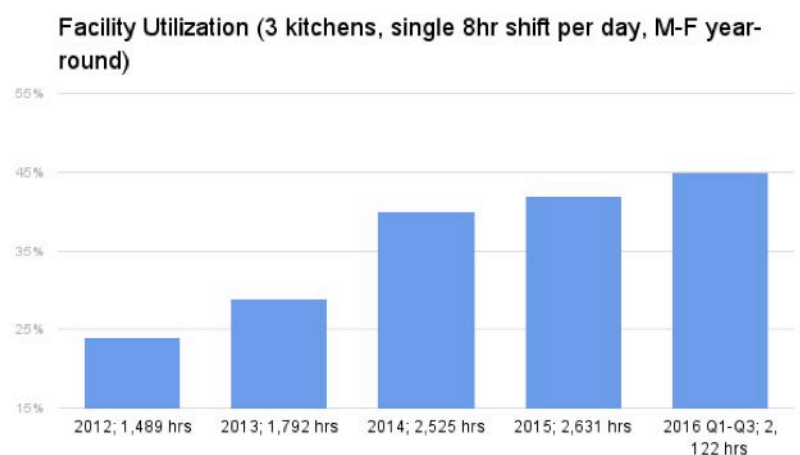


Figure 2. Utilization at the Vermont Food Venture Center, located in rural Hardwick, VT.

alongside producers of smoked meat for fear of smoky-tasting product. Ice cream makers don't want the heat of a ovens running while they're adding mix-ins on a cold slab. And nobody else wants to be in the kitchen when hot sauce is being made, which can result in so much capsicum in the air that production staff has to wear respirators (Buxton).

In addition to conflicting demand for kitchen time, clients inexperienced with producing at scale, supply chain hiccups, and equipment or labor issues also means a certain degree of buffer time is required to avoid having issues cascade across client reservations. The burden on incubator staff is exacerbated by the fact that the most common means of scheduling time remains by phone and email (59% of respondents reported each method; "An Industry Update" p17). Even online scheduling and other automated systems (reported by only 54% of respondents) still require staff oversight/management (ibid).



*Mad River Food Hub, Waitsfield, VT*

achieve distributor order minimums and the wholesale price points each would be unable to achieve alone. Conversely, the ability to access the products of multiple small producers at a single pick-up site is a benefit to distributors and increases the likelihood that a small producer can break into distribution. To realize either of these benefits, however, requires a significant investment of coordination time by incubator staff.

Scheduling is a major, but by no means the only, operational challenge culinary incubators face. Accommodating multiple users with different products and production needs means incubators by necessity value flexibility. Unfortunately, this often means a tradeoff with efficiency for any given purpose. Just as a screwdriver will outperform a Swiss army knife in driving screws, a production line optimized for a particular type of product will typically be more efficient than the general-purpose equipment of an incubator. Even when dedicated equipment is purchased for a particular product, because space is at a premium it may need to be kept in storage until required by a client. Of course moving equipment in and out of storage and reconfiguring the kitchen space adds additional time and management complexity. [For an in-depth discussion of the issue of equipment selection, please see the companion paper *The Equipment Question*.] Similarly, one of the potential benefits an incubator offers is the opportunity for clients to pool orders to

## REGULATORY RED TAPE

The operational complexity of working with clients aside, culinary incubators may also face unusual challenges in terms of food safety. Food safety is always important, but for culinary incubators the stakes are even higher than for traditional food processors: any issues or delays potentially impact the reputation and production schedules of all incubator clients. Because their clients are producing food, and food safety is critical for public health, culinary incubators are typically subject to local, state,



and federal regulatory jurisdiction. Depending on location and the products being produced, the culinary incubator may even be the primary point of contact for regulators. The Mad River Food Hub, in Waitsfield, VT provides a good example. Many of its clients use the shared processing facility to make meat products, which fall under the jurisdiction of the United States Department of Agriculture (USDA) Food Safety Inspection Services (FSIS). Because FSIS inspects and certifies facilities, Mad River Food Hub is the inspected entity and must hold Hazard Analysis and Critical Control Point (HACCP) plans, and the associated liability, for all its clients. Culinary incubators may also face restrictions imposed by local public health authorities. For example Commonwealth Kitchen, in Dorchester, MA, is required by the Boston Inspectional Services Division to have a staff member present any time clients are using the shared-use kitchen. This imposes an additional cost and prevents Commonwealth Kitchen from offering second or third shift use as extended kitchen hours would greatly increase staffing costs (Freeman). [For an introduction to the complex regulatory environment for food producers, please see Food Safety Regulation: An Introduction for Entrepreneurs.]



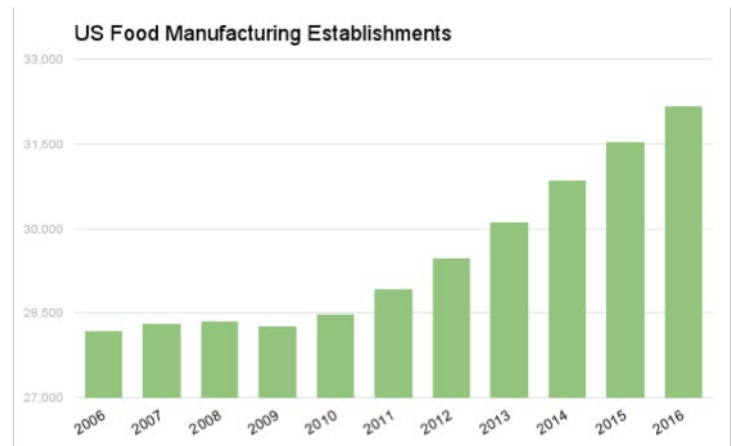
*CommonWealth Kitchen, Boston, MA*

## STATE OF THE INDUSTRY

The 2016 report jointly produced by Econsult Solutions, American Communities Trust, and Urbane Development, “U.S. Kitchen Incubators: An Industry Update” highlights a number of important characteristics of the emerging culinary incubator industry. Not surprisingly, most incubators are positioned near large population centers (52% identified as urban, 27% suburban; p4). More than half (61%) operate as for-profits, but industry-wide there is a high degree of mission focus, with more than 50% citing “assisting early-growth businesses” as their primary goal; a response more than three times as common as “making money” (p5). Incubator facilities are generally small, with more than half operating in less than 5,000 square feet of space (p8). They are also generally small in terms of staffing and budget, with 90% reporting five or fewer full-time employees (p10) and half operating on budgets of less than \$100,000 per year and only 2% reporting budgets above \$1M (p10). Only 20% of culinary incubators are USDA inspected (p6), and most are relatively new, with 63% having opened since 2010 (p5).

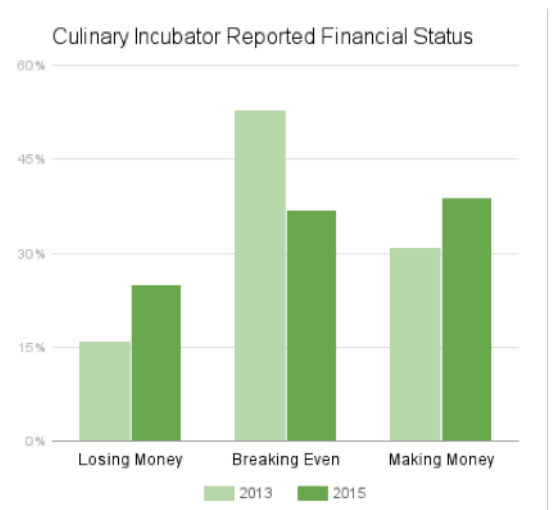
Despite the many challenges they face, culinary incubators are growing in numbers, and the majority appear to be successful or on the path to success. Of the 61 facilities surveyed for “U.S. Kitchen Incubators: An Industry Update” in 2016, 82% reporting increasing revenue and 84% are “breaking even or making money” (p2). This growth is the result of a number of underlying national trends, which will likely continue to generate demand for culinary incubators for the foreseeable future:

- **Continued growth in local/artisanal foods.** The ongoing growth in farmers markets (more than 8,600 nationally, up 20% in the past five years; USDA-AMS) is one indicator of this. Perhaps more telling is the increasing marketing of local foods in national retailers. The market research firm Packaged Facts recently estimated the 2014 US local food market at \$11.7 billion and projects that number will climb to more than \$20 billion by 2019. Wal-mart alone sells almost \$750 million in local food annually (Tarkan). Similarly, the US Specialty Food Association reports rapid ongoing growth, with annual sales hitting \$120.5 billion in 2015 and significant growth in both dollar sales (21.2%) and unit sales (13.7%) over the past three years (“State of the Specialty Food Industry”).
- **Continued expansion of the sharing economy.** The success of business models such as Airbnb (accommodations), Uber (transportation), and WeWork (office space) across many sectors has popularized the idea that what matters is access to the desired service, not ownership of the asset. This mentality applies equally to commercial kitchen space. The minimal cash needed to rent space in a culinary incubator, as compared to leasing and fitting out a dedicated facility, is a compelling proposition for food entrepreneurs.
- **The post-recession rebound in food manufacturing.** As the economy has recovered, the food manufacturing sector rebounded and begun to expand rapidly. The number of establishments has increased 15% since 2006.
- **Growth in entrepreneurship as a career.** The United States continues to have a high rate of entrepreneurship. The 2016 Global Entrepreneurship Monitor reports US total entrepreneurial activity is among the highest in innovation-stage economies and notes that more than two thirds of entrepreneurs reported being motivated by opportunity rather than necessity (p9). Approximately 12% of US residents are leading or trying to start a social enterprise (p9); the rate of new social enterprise creation is particularly high amongst younger generations, with 8% of 18-24 year olds and 10% of 25-34 year olds attempting to start new social enterprises (p22).



Source: US Bureau of Labor Statistics

All of these trends support the continued growth of food entrepreneurship and additional demand for culinary incubator services. Although the two industry snapshots captured by the EConsult surveys hardly form the basis for long-range trend analysis, the direction of change between 2013 and 2015 is positive on many fronts. The shift towards larger facility sizes (“compared to 2013, there has been a decrease in facilities less than 3,000 square feet and an increase in those 3,000 to 10,000 square feet;” “An Industry Update” p8) indicates a healthy increase in the variety of incubators. More larger facilities are able to better support client businesses as they scale up. With the notable



Source: “An Industry Update”



exception of rural incubators (none of which reported making money), incubators also appear to be doing better financially, with 82% in reporting an increase in revenues (ibid, p7) and more reporting making money in 2015 than in 2013 (ibid). Most (84%) respondents reported an increase in tenants, and many noted they are receiving more inquiries than in the past (ibid p13). Other positive changes included a greater variety of products, more high-end products, and more professional tenants with a better understanding of the benefits of a commercial kitchen (ibid p20). All of these point to continued demand, allowing different operators to experiment with the culinary incubator model and find workable solutions to its many challenges.

## SUMMARY

Culinary incubators face a challenging revenue model, high fixed costs, difficulty in maintaining facility utilization, and complex scheduling and operational logistics. Despite this, a growing number of facilities are opening to serve increasing demand from nascent food entrepreneurs. A number of national trends support the continued growth of new food businesses. To succeed in their mission of supporting these businesses to grow into profitable enterprises, culinary incubators must assure their own financial sustainability. While there are many steps that incubators can take on their own, there are important roles for funders, nonprofits, and government officials to play.

## RECOMMENDATIONS

### *Culinary Incubators*

- **Support clients at all stages of business development.** For new entrepreneurs, basic business planning and specific food industry information can be helpful in determining business viability and career suitability prior to launch. For existing businesses, technical assistance related to food safety, recipe development, nutrient analysis, labeling, and regulatory compliance are invaluable. Connections to subject matter experts with experience in the food industry (accountants, lawyers, etc.) are also extremely helpful. Offering contract manufacturing services via a commissary kitchen can help growing businesses bridge between small-scale production and the volume necessary to finance a dedicated facility or begin working



*Western Mass Food Processing Center, Greenfield, MA*

with traditional co-packers. [For an in-depth exploration of integrated service offerings, please see End to End Support Drives Incubator Success, a case study featuring CommonWealth Kitchen.]

- **Develop a diverse set of revenue streams.** The appropriate mix will depend on opportunities specific to the location and the needs of incubator clients, but might include a mix of the following: leasing dedicated space to anchor tenants, offering distribution for incubator clients, hosting farmers markets or “makers markets” that feature incubator clients, repurposing space to host classes, events, or pop-up restaurants, developing an in-house product line, or (when capacity allows) taking on contract manufacturing for outside businesses.
- **Build and maintain a robust client pipeline.** Having prospective clients in the pipeline and existing clients at different stages of growth is important to ensure ready absorption of kitchen capacity when later-stage clients leave the incubator.
- **Partner with other organizations to support incubator clients.** There are many external organizations that may have the expertise (and funding) to deliver training or other technical assistance to incubator clients. Finding and partnering with these organizations avoids duplication of effort and maximizes incubator resources.
- **Build and maintain strategic partnerships with institutions.** Because the decisions of a small number of buyers impact consumption by a large number of consumers, institutions are a high-leverage point for food system change. Institutional buyers are feeling the same national trends that support the rise of culinary incubators; partnering with a culinary incubator represents an easy way for them to help satisfy growing demand for local/artisanal products. Doing so may also surface opportunities for institutional expertise to benefit incubator clients (e.g., via collaboration with the culinary arts or nutritional sciences program at a university, or through conversations with dining services procurement specialists) or even lead to desirable wholesale accounts.

### ***Funders and Nonprofits***

- **Support investment in upgrading incubator infrastructure.** Having the right equipment to help clients produce their products at cost-effectively is an important part of the service a culinary incubator offers. Given the expense and complexity of much food processing equipment, this is often a challenging investment for incubators to make on their own. [For an in-depth discussion of the issue of equipment selection, please see companion paper The Equipment Question.]
- **Help incubators connect to information and training.** The culinary incubator industry is relatively young and still rapidly evolving. Given the complexity of the business model, and often tight budgets, many operators end up “putting out fires,” with little time left for organizational development and long-term strategic planning. Helping incubators access relevant information, as well as bringing them together to share best practices and learn from one another, is thus important to helping build the understanding and systems needed for long-term success.

### ***Government Officials***

- **Ensure equitable enforcement of food safety regulations while supporting the goal of culinary incubators to grow new food businesses.** Assume good intent and work with incubators to ensure the safety of clients’ food products while acknowledging that existing regulations were not necessarily written with multi-user facilities in mind.
- **Celebrate the role of culinary incubators in economic development and food system change.** As shown by the recent EConsult survey, culinary incubators typically have a strong mission focus on helping new food businesses succeed. This makes them potential engines of local economic development, and a uniquely valuable member of the local business community.

# REFERENCES

Bureau of Labor Statistics. "Industries at a Glance: Food Manufacturing: NAICS 311." <http://www.bls.gov/iag/tgs/iag311.htm#workforce>. Accessed 11/30/2016.

Buxton, Elizabeth. Personal Interview. October 31, 2016.

"Construction Estimating." BuildingJournal.com. <http://www.buildingjournal.com/construction-estimating.htm>. Accessed 11/30/2016.

Culinary Incubator. [www.culinaryincubator.com](http://www.culinaryincubator.com). Accessed 11/30/2016.

Econsult Solutions "U.S. Kitchen Incubators: An Industry Update." March 2016. <http://www.econsultsolutions.com/report/us-kitchen-incubators-industry-update/>. Accessed 11/30/2016.

Econsult Solutions "U.S. Kitchen Incubators: An Industry Snapshot." August 2013. <http://www.econsultsolutions.com/experience/our-projects/food-incubator-study/>. Accessed 11/30/2016.

"Entrepreneurship and the Economy." US Census Bureau of Labor Statistics, Business Employment Dynamics. April, 2016. Web. [http://www.bls.gov/bdm/entrepreneurship/bdm\\_chart3.htm](http://www.bls.gov/bdm/entrepreneurship/bdm_chart3.htm). Accessed 11/30/2016.

"Food Expenditures." USDA Economic Research Service. <https://www.ers.usda.gov/data-products/food-expenditures.aspx>. Accessed 11/30/2016.

Freeman, Roz. Personal Interview. November 7, 2016.

Kelley, Donna J. et al. "Global Entrepreneurship Monitor: 2015 United States Report." Global Entrepreneurship Monitor. <http://www.gemconsortium.org/>. Accessed 12/2/2016.

Tarkan, Laurie. "The big business behind the local food." Fortune. August 21, 2015. <http://fortune.com/2015/08/21/local-food-movement-business/>. Accessed 12/2/2016.

USDA Agricultural Marketing Service. "Farmers Markets and Direct to Consumer Marketing." <https://www.ams.usda.gov/services/local-regional/farmers-markets-and-direct-consumer-marketing>. Accessed 12/2/2016.

US Specialty Food Association. "The State of the Specialty Food Industry 2016." <https://www.specialty-food.com/news/article/state-specialty-food-industry-2016/>. Accessed 12/2/2016.