

# Indy's Kitchen



## Economic Impact Study

Researched and Prepared by:

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## Executive Summary:

This report on the economic impact of Indy's Kitchen on the City of Indianapolis was commissioned by the Indiana University Research and Technology Corporation. Construction of this report was the responsibility of Santiago Hope, MBA intern at Indy's Kitchen.

Work on the study commenced in May 2014, culminating with this report in July 2014. Data was gathered from 60 current customers and 9 alumni customers of Indy's Kitchen using a combination of face-to-face interviews and e-mail surveys on the topics of employment, payroll, and revenues. Responses were used as data for the analysis which is the basis for this report.

An input-output model was used to calculate the economic impact of Indy's Kitchen, its current customers and its alumni. This model accounts for direct and indirect economic impacts of Indy's Kitchen current customers and alumni. Salaries paid to employees of customers and alumni are considered to be those entities' direct impact on Indianapolis economy. Indirect impacts result from Indy's Kitchen customers and alumni selling to the public and purchasing goods and services within the community.

Indiana's economy is shifting from manufacturing to a service economy. Its citizens are receiving higher incomes but are having less time to do other things like preparing a meal. Fast food is a cheap option but more people are trying to eat healthier, fresher and with more variety but without sacrificing convenience. Given these trends, the market share from the big Quick Service Restaurant (QSR) chains is declining and is creating new opportunities for fast casual venues, food trucks, catering and specialty artisans. Many of these needs can be satisfied by startup food entrepreneurs, which with the help of Indy's Kitchen can much more easily get off the ground and steadily continue to grow.

In May 2014, Indy's Kitchen had 60 current customers and 9 alumni. These businesses:

- generate yearly revenue of \$5,077,211
  - Current customers generate \$1,473,611 and alumni generate \$3,603,600.
- generate economic activity by acquiring goods and supplies from other local businesses for an estimated yearly amount of \$2,483,528
- provide a total of 256 direct jobs with combined annual salaries of \$1,939,208
  - 44% are full time and 56% are part-time
  - of the total workforce 60% are low-income residents, 29% are minority and 54% are women.
- generate \$529,252 in State sales tax revenue
- generate \$574,426 in income tax revenue from salaries and wages
- net profits from customers also generate income tax revenue for the State of IN
- alumni occupy around 27,221 square feet of commercial space in the City of Indianapolis

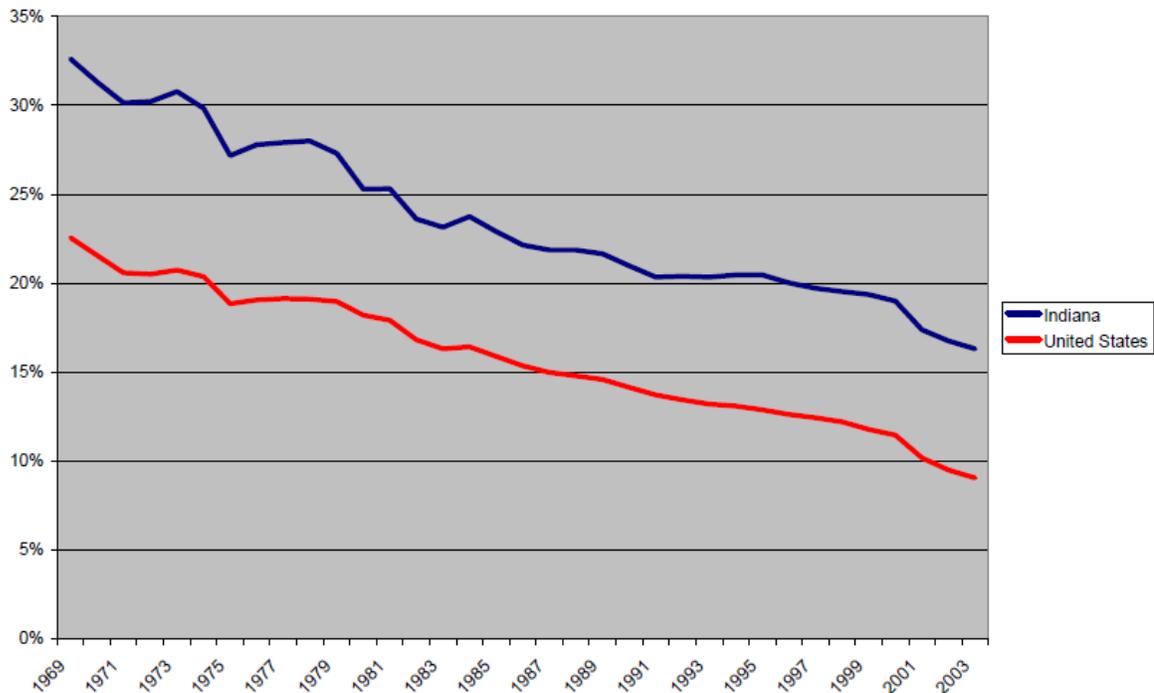
# Overview:

## Indiana in the New Global Economy:

The state of Indiana has long been an integral part of the United States' economy. It has provided food for the nation through its numerous farms, it has served as the "crossroads" of America, and it has been a powerful and necessary cog in the manufacturing based economy. But times have changed, and the economy is rapidly moving away from the old line manufacturing in which Indiana excelled. The increasingly interconnected world has allowed American manufacturing companies to tap into an international labor pool that is willing to work for wages substantially lower than the United States' minimum wage, and without benefits. At a time when one major American auto manufacturer is spending \$1,500 per vehicle that rolls off its assembly lines on health care, the value of an out-of-country manufacturing facility to the bottom line of many traditional American manufacturing companies is readily apparent.

Although the standard of living in many of these counties is rising rapidly, manufacturing plants are unlikely to return to the United States; rather they will migrate to other underdeveloped countries, as evidenced by the recent spurning of China for lesser developed countries by companies looking to off-shore their manufacturing facilities. This trend shows no signs of abatement in the near future, and although Indiana has a long manufacturing based history and a very capable workforce the national trend towards lowered dependence on manufacturing will continue, with Indiana incapable of fully avoiding its impact.

Manufacturing Employment as a Percentage of Total Employment



Indiana is advancing itself swiftly and adeptly into this new economic paradigm. Its service industry is rapidly growing and also more and more women are joining the workforce, so this means its citizens are increasing their spending power at the cost of having less time to do other things, like preparing their meals. Fast food is still an affordable option, but we can see a trend where people are willing to pay more in exchange for **fresher, healthier and more diverse options**, while still maintaining convenience and reasonable prices. This can clearly be illustrated in the following megatrends:

### **1) America's Increasing Interest in Fast-Casual Food:**

Fast-casual food is the fastest growing segment in American's food industry.. It is a relatively fresh concept, positioned somewhere between fast food restaurants and casual dining restaurants. Technically, being the hybrid of the two concepts, they offer a more customized, freshly prepared and higher quality food than traditional Quick Service Restaurants (QSRs), all in a more upscale presentation with a typical cost per meal ranging from \$8 to \$15. Food trucks represent a great example of fast casual food venues.

In modern QSRs, fast food is highly processed and prepared in bulk using standardized cooking procedures. However, fast casual restaurants have started gaining market share from leading QSR chains for the last couple of years. QSRs consider the growing fast casual segment a major threat due to:

- **A Shift in Customer Traffic.** - The traffic growth in the fast-casual segment surpassed every other segment for the fifth consecutive year. The fast casual segment saw an 8% rise in the guest count in the 12 month period ended in November of 2013, whereas traffic count was flat for quick service restaurants. This consumer shift is primarily due to the fact that people with higher disposable income are inclined more towards quality and hygienic food, unlike the less nutritious junk food served in most of the quick service outlets.
- **Higher Average Customer Spend per Visit.** - The price of meals ranges from \$3 to \$6 on average in leading fast food restaurants, whereas in any casual dining restaurant the price of meals is no less than \$13. Fast casual lies between the two segments with a typical cost per meal ranging from \$8 to \$15. The average ticket per restaurant has been rising consistently for leading fast casual brands, due to commodity price fluctuations being passed on to customers. Nonetheless the sector still maintains its rising traffic count indicating its customers prefer quality, variety and hygiene over a rise in item prices.

### **2) America's search for Healthy Food:**

Years of warnings by health officials appear to finally be having an impact on Americans eating habits. While there is no sign that high levels of obesity have fallen, Americans say they are consuming fewer calories and cutting back on fast food, cholesterol and fat. This trend has pressed the nation's restaurants and food manufacturers to offer more healthful items on their menus.

Working-age adults consumed an average of 118 fewer calories per day in the 2009-2010 period than four years earlier, according to a study done by the USDA. These latest findings add to growing evidence that suggests the eating habits of Americans may be taking a more healthful turn. Other studies also have found that caloric intake has declined in recent years. More than one-third—36%—of U.S. adults were obese in 2009-10, up from an estimated 15% in 1980, according to the Centers for Disease Control and Prevention (CDC). But the rate remained level in 2012 compared with the prior year in every state except Arkansas, according to an August 2013 study by two nonprofit groups. And the CDC found the same month that certain childhood obesity rates were declining in many states.

Nutrition and public health experts caution that the tide hasn't turned on the problem of obesity and the health risks that come with it, such as diabetes and hypertension. But a range of trends may be contributing to modest yet promising shifts in behavior, including greater public awareness and pressure on food manufacturers and the restaurant industry to produce more healthful offerings.

### **3) America's Craving for Local, Ethnic and Artisan Options:**

Across the country, farmers markets are spreading. The number of farmers markets rose from 1,755 in 1994 to 8,144 in 2013 or more than 350 percent, according to the USDA. And the trend has gone viral, as consumers are having a profound influence on the nation's food systems. Their enthusiasm has led suppliers, grocers and restaurants to change and adapt by adding locally produced food. The National Restaurant Association found the lust for local foods dominated its 2014 "Top Food Trends" survey.

Additionally, the growing influence on America's palate of the influx of immigrants from Latin America and Asia has become a reality in America's foodservice industry. Fruit flavors, hotter spices, different textures and grains are becoming common products in the American diet. From 2010 to 2012, sales of ethnic, local and organic foods rose 4.5 percent, to \$8.7 billion. The Mintel Group, a market research firm, estimates that between 2012 and 2017 sales of these foods in grocery stores will grow more than 20 percent.

Finally, artisan food is also a big trend in America that, in many cases, combines the local and ethnic food trends in one. Artisans produce things in limited quantities often using traditional methods. They try to stand out from mass produced items by creating products that are substantially different. Artisan products range from beer and cheeses, to chocolate and salsa. Artisan food production offers people the possibility to start a small part-time food business on the side and earn extra revenue while they continue to work full-time and maintain regular paychecks. There are numerous sales channels available to food artisans from big box grocery stores to specialty shops, online retail, farmers' markets or wholesale distribution to restaurants and the foodservice industry. If successful, they create new companies and new jobs with all the economic benefits that these bring along for the community.

### **Benefits of Small Businesses:**

Small businesses are the backbone of the American economy and remain a strong fiscal constant, especially in times of economic downturns and recessions. Small and microenterprises contribute significantly to job creation in addition to fostering the entrepreneurial spirit and encouraging community investment in rural and urban communities across the county.

- More than 80% of all businesses in the US are microenterprises (5 or fewer employees)
- Microenterprise employment represents 18.2% of all private employment in the United States (U.S.Census Bureau and U.S. Department of Commerce data source)
- On average, microenterprises are responsible for an annual 900,000 new jobs created in the United States Microenterprise development is a strong public investment with an estimated return of \$2.06 to \$2.72 for every \$1 invested, and returns sales, income and property taxes to local and state coffers
- More than 80% of small businesses fail within their first five years –through lack of money, skills or both (U.S. Small Business Administration)

- Nearly 87% of business incubator graduates remain in business (1997 U.S. Department of Commerce study)

## **The Ideal Environment for Developing Food Entrepreneurs:**

As a general rule, food production does not require high levels of academic skill; therefore a kitchen incubator can help benefit target populations with comparatively low levels of educational attainment, while growing and fostering an entrepreneurial spirit in the community which can translate beyond the food sector.

A kitchen incubator makes it financially feasible for small and home-based food businesses to take advantage of a professional, licensed kitchen to develop and grow.. Many small food-based enterprises begin in home kitchens but as these businesses grows, the residential kitchen is no longer appropriate for large scale production with quality control and the safety standards required to mass market products to consumers. Often these small enterprises do not have enough capital to invest in their own commercial kitchens and, unless they can rent a space, they cannot develop to their full potential.

Taking into account the previously mentioned trends and opportunities, a Kitchen Incubator is a great tool for aspiring food entrepreneurs to get their businesses started. It provides a comprehensive approach to economic development by combining resources, technical support, access to capital and marketing strategies to support local entrepreneurship and a community's economic growth and revitalization. This collective endeavor is not only a more efficient use of capital, it also adds to the support, visibility, and capacity of individual businesses, leading to the long-term sustainability and success of the projects as a whole.

Kitchen incubators are rarely self-sustaining. In order to cover high operation and maintenance costs, rental fees would have to be at levels that would discourage new entrepreneurs. In order to fulfill a mission to create small businesses and employment, the kitchen incubator has to operate at very low margins. Typical costs a Kitchen incubator incurs include:

- Staffing
- Utilities
- Maintenance
- Annual licensing and inspection expenses
- Upgrading of commercial kitchen equipment
- Marketing
- Consulting

## Indy's Kitchen Competitive Advantage:

Indy's kitchen adds numerous benefits to local entrepreneurs and the community, including:

- Cuts down the high upfront costs needed to start an individual food production business.
- Cuts down on fixed costs, allowing the entrepreneur to better weather the initial uncertainty of the demand for products.
- Lower costs allow entrepreneurs more individual capital to invest in their products.
- Provides all the amenities of an industrial-sized kitchen.
- Provides access to secure cooler, freezer and dry storage for a fixed monthly cost.
- Provides a totally flexible work schedule. 24 hour a day access, 365 days a year.
- Provides the licensing and certification necessary to produce food products for resale to the general public.
- Provides technical support and business assistance in pricing, packaging and marketing resources
- Offers a 30 seat dining area that is available for tastings, flash restaurants and meetings.
- Serves as a valuable networking platform among food entrepreneurs.

Many microenterprises (defined as 5 or fewer employees and start-up costs of less than \$30,000) are currently helping to bolster the Indianapolis economy. Indy's Kitchen has 60 current customers and 9 alumni who continue to grow their businesses. Indy's Kitchen customers and alumni consist of:

- 27 Food Trucks
- 15 Bakers
- 15 Caterers
- 10 Specialty Artisan Items (Salsa, Empanadas, Chocolates, Honey, Pizza, etc.)
- 2 Cooking Classes

Thanks to its fully equipped kitchen, to its dry and cold storage facility and to its central location, Indy's Kitchen is able to have a large impact across all the Indianapolis Metropolitan area. Its customers are spread far and wide residing in Indianapolis and surrounding communities as the following heat map illustrates.

**Indy's Kitchen Impact Area:**



## **Fostering Growth and Development at Indy's Kitchen:**

Since July 2010 Indy's Kitchen has been dedicated to serve the need of Indianapolis food business entrepreneurs looking to start a new business or to expand an existing one. It offers two fully equipped licensed commercial kitchens that rent by the hour as well as access to secure cooler, freezer and dry storage that rent at a fixed monthly rates. Prior to Indy's Kitchen, the city of Indianapolis did not have a licensed commercial kitchen facility dedicated to start-up small food businesses. Indy's Kitchen has been successful and has fostered creation of around 70 startup food companies.

Soon after Indy's Kitchen opened, the City of Indianapolis, through Develop Indy, saw the potential of a shared-use kitchen in terms of economic development and awarded \$9,000 to be used for technical assistance. This money has helped pay consultants to assist business owners in logo creation, labeling information, and business consulting on topics of pricing and marketing. This grant also paid for this Economic Impact Study conducted by Santiago Hope, a MBA Candidate of the Kelley School of Business.

In 2012, Indy's Kitchen needed to expand to serve additional entrepreneurs through kitchen reconfiguration, equipment purchases and upgrades, and expanding walk in-cooler/freezer space. To assist expansion, King Park Development Corporation and the City of Indianapolis invested \$100,000 of Community Development Block Grant Funds to meet those critical expansion goals.

Early-stage companies are rarely at a point of financial maturity that would allow them to invest in their own facilities nor do they possess large enough customer bases that could secure them a steady monthly income. It is at this crucial point of their business life cycle, a time of extreme need and miniscule means, that a Kitchen incubator can have its largest impact on food entrepreneurs. The incubator offers a fully equipped cooking facility at flexible rates plus technical assistance. Technical assistance includes support in finance, marketing, pricing, packaging, labeling and general business principles. These favorable conditions allow the entrepreneurs to improve their businesses acumen and help them maintain low fixed costs and to spend resources only when they have sales.

Additionally, Indy's kitchen has created a community of like-minded entrepreneurs. The clustering effect of being around entrepreneurs in a similar stage of existence is also a unique benefit of an incubator, as many of the issues faced by early-stage companies are not unique to one company, and previous resolutions experienced by one could also apply to another.

All of these things combine to allow a company to have financial stability while it continues to improve its products and increase its customer base. When the business reaches an appropriate size and maturity, it can expand and graduate from the incubator into its own facilities to continue growing.

### ***Indy's Kitchen: A community of food entrepreneurs***



### **Indy's Kitchen economic impact in the city of Indianapolis:**

Indy's Kitchen has had a major impact on the economic outlook in the city of Indianapolis in the 4 years since it opened its doors. It's been the growth engine for 69 businesses that provide 256 direct jobs and combined annual salaries of \$1,939,208. Part-time jobs represent 56% of the total jobs and full-time jobs represent the remaining 44%. These businesses generate estimated yearly revenue of \$5,077,211 and generate additional economic activity by acquiring goods and supplies from other local businesses in an estimated yearly amount of \$2,483,528. Finally the alumni businesses occupy in total around 27,221 square feet of commercial space in the city of Indianapolis.

Its 60 current customers' businesses generate 137 direct full-time and part-time jobs and yearly salaries of \$697,208. Part-time jobs represent 74% of the total jobs and full-time jobs represent the remaining 26%. Since joining Indy' Kitchen, the number of jobs in the client companies has increased by 128%. They have a combined yearly income \$1,473,611. Finally current customers at Indy's Kitchen generate around \$1,583,888 of economic activity with local business suppliers.

Its 9 alumni companies generated 119 direct full-time and part-time jobs and yearly payroll of \$1,242,000. Full-time jobs represent 63% of the total jobs and part-time jobs represent the remaining 37%. Since joining Indy' Kitchen, the number of total jobs in the alumni companies has increased by 200%. They have a combined yearly income \$3,603,600 which has grown by

374% since graduating from Indy's Kitchen. Finally, alumni of Indy's Kitchen generate around \$899,640 of economic activity with local business suppliers.

Indy's Kitchen offers a fantastic opportunity for the most disadvantaged members of the community. Of its total customer workforce, 60% are low-income residents, 29% are minority and 54% are women. Also the fact that 56% of its positions are part time allows many people to have second jobs to further increase/supplement their monthly incomes. This brings terrific benefits to the community because it allows its members to substantially improve their quality of life.

Tax wise, Indy's Kitchen customers and alumni generate around \$529,252 of sales tax at a 7% sales tax rate for the state of Indiana, \$355,404.79 from their direct activities plus \$173,847 from their purchases from local businesses. The annual income tax collected from their employees' salaries is estimated to be \$574,426.

## **Methodology:**

All information from client and alumni businesses was gathered by Santiago Hope at the Indiana University Research and Technology Center (IURTC). It was collected thru an individualized online survey done in Qualitrics. Once attained, the data was organized and presented in an aggregated fashion in order to protect the confidentiality of each business. The response rate for client businesses was 74% and for alumni businesses 55%. The missing data was extrapolated for the missing number of business based on the data that could be gathered. The completed data was then analyzed to find relevant information regarding revenues, employment, salaries and general economic activity within the local community.

## Appendix A

### Aggregated Client Data:

	Total	Average
Total Number of Businesses	60	
Months in business before joining Indy's Kitchen?		7.03
Length of months at Indy's Kitchen		22.17
How many people were employed full-time (at least 32 hours per / week) at your business before joining Indy's Kitchen?	15.00	0.25
How many people were employed part-time (less than 32 hours per / week) at your business before joining Indy's Kitchen?	45.00	0.75
How many people currently are employed full-time (at least 32 hours / per week) at your business?	36.16	0.60
How many people currently are employed part-time (less than 32 / hours per week) at your business?	101.25	1.69
What is the dollar amount of total salaries and wages your company / the last month before joining Indy's Kitchen?	\$ 12,196.88	\$ 203.28
What is the dollar amount of total salaries and wages your company / paid last month?	\$ 58,100.63	\$ 968.34
What is the dollar amount of your company's gross revenues for the / six months before joining Indy's Kitchen?	\$ 89,986.88	\$ 1,499.78
What is the dollar amount of your company's gross revenues for the / most recent 6 months?	\$ 736,805.63	\$ 12,280.09
What is the dollar amount of your company's purchases of local / goods and services in the community the last month before joining / Indy's Kitchen?	\$ 18,515.63	\$ 308.59
What is the dollar amount of your company's purchases of local / goods and services in the community the last month?	\$ 131,990.63	\$ 2,199.84
What is the square footage of commercial space leased or owned by / your business in the community?	3641.25	60.69
Number of low-income residents employed?	76.88	1.28
Number of minority employees employed?	56.25	0.94
Number of women employed?	78.75	1.31

## Appendix B

### **Data to be collected from clients and alumni:**

*NBIA suggests that all incubators collect these basic data points on an annual basis for all clients and for graduates (at least for 5 years after they leave the program)*

#### **Questions for Indy's Kitchen:**

- 1 Number of current clients at start of incubator
- 2 Number of current clients
- 3 Total number of graduates since program inception
- 4 Number of graduate firms still in business or that have been merged or acquired

#### **Questions for clients?**

- 1 What is the name of your business?
- 2 When did the business get started? (mm/yyyy)
- 3 When did you join Indy's Kitchen? (mm/yyyy)  
How many people were employed full-time (at least 32 hours per week) at your business before
- 4 joining Indy's Kitchen?  
How many people were employed part-time (less than 32 hours per week) at your business before
- 5 joining Indy's Kitchen?
- 6 How many people currently are employed full-time (at least 32 hours per week) at your business?  
How many people currently are employed part-time (less than 32 hours per week) at your
- 7 business?  
What is the dollar amount of total salaries and wages your company the last month before joining
- 8 Indy's Kitchen?
- 9 What is the dollar amount of total salaries and wages your company paid last month?  
What is the dollar amount of your company's gross revenues for the six months before joining
- 10 Indy's Kitchen?
- 11 What is the dollar amount of your company's gross revenues for the most recent six months?  
What is the dollar amount of your company's purchases of local goods and services in the
- 12 community the last month before joining Indy's Kitchen?  
What is the dollar amount of your company's purchases of local goods and services in the
- 13 community the last month?
- 14 Square footage of commercial space leased or owned by your business in the community
- 15 Number of low-income residents?/minority?women? employed by clients

#### **Questions for alumni?**

- 1 What is the name of your business?
- 2 When did the business get started? (mm/yyyy)
- 3 When did you join Indy's Kitchen? (mm/yyyy)
- 4 When did you graduate from Indy's Kitchen? (mm/yyyy)  
How many people were employed full-time (at least 32 hours per week) at your business before
- 5 leaving Indy's Kitchen?  
How many people were employed part-time (less than 32 hours per week) at your business before
- 6 leaving Indy's Kitchen?

- 7** How many people currently are employed full-time (at least 32 hours per week) at your business?  
How many people currently are employed part-time (less than 32 hours per week) at your
- 8** business?
- 9** What is the dollar amount of total salaries and wages your company the last month before leaving  
Indy's Kitchen?
- 10** What is the dollar amount of total salaries and wages your company paid last month?  
What is the dollar amount of your company's gross revenues for the six months before leaving
- 11** Indy's Kitchen?
- 12** What is the dollar amount of your company's gross revenues for the most recent six months?  
What is the dollar amount of your company's purchases of local goods and services in the
- 13** community the last month before leaving Indy's Kitchen?  
What is the dollar amount of your company's purchases of local goods and services in the
- 14** community the last month?
- 15** Square footage of commercial space leased or owned by your business in the community
- 16** Is your company preparing to undergo a merger, acquisition or closure in the next six months?
- 17** Number of low-income residents?/minority?women? employed by graduates