

FOOD PROCESSING

EXECUTIVE SUMMARY

Food processing in Kansas is a broad sector encompassing milling, slaughtering, processing and manufacturing, and consists of large-scale processors as well as small, locally owned operations. Kansas offers efficiency to food processing companies, both in its central location and in its strong transportation infrastructure. These logistic advantages, combined with a growing demand for food sourced locally, create a positive environment for new business growth within the state.

Future success in the food processing sector may be impeded by challenges that exist in the current market. One of the most difficult is the ever-increasing food safety expectations from the consumers and, as a result, from government regulations. This can impact facilities, equipment and workforce as existing companies must make changes to accommodate additional regulatory burdens. Although transportation is a strength for Kansas, improvements to some freight and storage options would expand opportunities for many businesses. Some specific segments of the industry (e.g. meat processing) are subject to some federal regulations that serve as barriers to some businesses.

There is significant potential for growth in the food processing sector, and a coordinated strategy for long-term economic growth could make a major impact. Strategies can work to enhance existing businesses as well as attract new companies to Kansas. Opportunities exist in the field of mobile processing as well as fixed-location processing. Research and education, particularly compliance education, can play a role in the future of food processing. It will require collaboration between private and public entities in the development of this strategic growth plan.

STATUS

According to estimates prepared by the Kansas Department of Agriculture and based on the Implan economic data model, the food processing industry (milling, slaughtering, processing and manufacturing) in Kansas has a direct output of over \$20.2 billion and creates 30,876.1 jobs in the state. Through indirect and induced impacts, the industry supports a total of 122,457.0 jobs and creates a total economic contribution of approximately \$36.7 billion.

Central location and freight options create a logistics advantage for Kansas to not only add value to those commodities produced in the state, but for products that are shipped in from other states for further processing before moving on to their next destination.

Kansas is home to large-scale food processors as well as small, locally owned processors. The opportunities to expand food processing in Kansas are evident in the quantity of commodities leaving the state without any processing and in the quantity of products coming into Kansas already processed.

OPPORTUNITIES

In order to develop a strategic growth plan for the food processing sector, it is important to understand the areas where Kansas has a comparative advantage and the best opportunities for growth or expansion.

Factor	Implications for Growth and Development Opportunities
Demand	Tremendous demand exists for meat, eggs, fruits and vegetables sourced directly from the farmer particularly in major urban areas. Major grocery chains want to offer three lines of product: national brand, regional brand and a local option.
Entrepreneurship	Having an attractive environment for value-added facilities — including raw ingredients, processing expertise at the university and being business-friendly — make it more likely that innovation will happen in Kansas.
Export Infrastructure	Maintaining and improving export infrastructure will help ensure demand for Kansas food products around the world. Good roads for trucks and plenty of rail access across the state along with a state-of-the-art intermodal facility are key to a strong export infrastructure along with a central location in the United States.
From the Land of Kansas	The state trademark program offers a wide variety of services to Kansas companies with a range of membership levels that vary in cost and benefit options. With 359 member companies, an online marketplace and a great brand, being part of <i>From the Land of Kansas</i> could be an asset for any food processor.

OPPORTUNITIES

Factor	Implications for Growth and Development Opportunities
Policy Environment	<p>Kansas tax law allows sales tax exemption for farm machinery and equipment and various ag-based inputs. These state tax code provisions make Kansas a more attractive state for growth or expansion.</p> <p>At the federal level, Kansas is fortunate to have elected members of Congress who strongly support the agriculture industry. The Kansas congressional delegation will play an important role in influencing positive changes related to federal regulations or legislation, including a national traceability system, international trade, federal taxes, transportation rules, natural resources, and more.</p>
Supporting Institutional Infrastructure	<p>Kansas State University and KDA house expertise to guide food processors looking to get started or expand in Kansas. They can help businesses be successful in the regulatory environment as well as offer some unique start-up and marketing assistance. The Kansas value-added lab offers expertise on preparation and storage for processed foods.</p> <p>This attracts owners and managers of food processing businesses to Kansas for training and exposure to the great business environment the state offers and plants the possibility for expansion or relocation to Kansas.</p>

SUCCESS STORIES

Develop bulleted list of key successes in the industry:

- A processing company in Lyon County brings partially processed meat in from other locations and does further processing at the Kansas location before shipping it out.
- A national company has a bratwurst and sausage patty plant in Holton that makes and distributes product for the whole western half of the United States based on the strategic location.
- There were 51,470 meat animals processed in local meat processing facilities in 2016.
- A national confectionery company chose Topeka as the best location for a new manufacturing facility.
- A regional meat processing company is expanding in Emporia.
- A food processing company in Scott City is on the cutting edge of sorghum processing for food.
- There are 167 processor/manufacturer members in *From the Land of Kansas*.

CHALLENGES

While Kansas is poised for major expansion in the food processing sector, the following factors represent challenges serving as barriers to achieving the objective of the strategic growth plan.

Challenge	Details of Challenge
Consumer Demand	<p>A growing demand for fresh products as opposed to dried or frozen is a challenge for processors in an interior state such as Kansas. Consumers are also increasing their demand for a wider variety of products that suit their preferences for the story behind the food.</p>

CHALLENGES

Challenge	Details of Challenge
Critical Infrastructure	<p>Transportation infrastructure is critical for food processing. Access to processing facilities with roads that can handle tractor trailers and access to rail for receiving raw commodities is important. Processors rely heavily on the freight network to move their products to those areas of higher population primarily in states around the exterior of the country. Refrigerated shipping capabilities are also a key component in which Kansas has room to grow.</p> <p>Refrigerated storage capacity at the Edgerton intermodal facility will open another door of opportunity to move Kansas products around the world in a refrigerated condition.</p> <p>For smaller operations, taking advantage of back haul opportunities and other freight sharing options can dramatically reduce the cost of moving goods. There is a need for a way to easily connect those businesses that could work together on freight.</p>
HRI Scale Requirements	<p>It is challenging for local, farmer-direct suppliers — whether it be individuals or organized efforts such as coops — to meet the demands of hotel, restaurant and institution requirements for quantity and consistency.</p>
International Trade	<p>There is a need to continue to build an international awareness of all that Kansas has to offer and create an appreciation for those products grown and processed in Kansas. <i>From the Land of Kansas</i> has a role to play in building the international brand recognition for Kansas.</p>
Meat Inspector Access	<p>It can be challenging to get U.S. Department of Agriculture meat inspectors to rural meat processing operations on a schedule that matches the needs of all parties.</p> <p>There are also some regulatory limits on trading particularly in the area of meat. Only those facilities inspected by USDA are allowed to sell meat outside of the Kansas borders even though state inspected facilities must meet the same requirements for food safety.</p>
Policy	<p>Ever-increasing food safety expectations from the public and the government result in a growing regulatory burden on food processing businesses to implement processes, upgrade equipment, sample product, document activities and hire additional employees to complete all of this work.</p> <p>Though not unique to Kansas, there exist significant challenges due to federal laws and regulations, including: food labeling, dietary requirements, Waters of the U.S., the Endangered Species Act, burdensome Occupational Safety and Health Administration regulations and more.</p>

CHALLENGES

Challenge	Details of Challenge
Policy (cont'd)	Government assistance to the unemployed makes it too easy not to work. It's easy to compare unemployment income and other assistance to jobs paying minimum wage or even jobs paying \$10-\$13 per hour and choose to stay unemployed.
Water	Water efficiency and conservation is important in all business sectors
Workforce Development	<p>The level of education for employees in food processing is typically not as challenging as finding employees who have the desire to do the work and appreciate the work environment in which the work is done. Hiring and maintaining a workforce particularly in the rural communities is a challenge. Basic life skills are required, such as showing up to work on time and calling if you aren't going to make it in. Employers in this sector are comfortable training for the job specific skills.</p> <p>Schools need to provide options for students to work in the fields where local businesses need them through partnerships with local employers. A processing sector that connects with high school agriculture education programs and hires graduates with an agriculture certificate would have access to a larger workforce.</p> <p>There is a shortage of housing options in rural communities.</p> <p>For locally owned processing businesses, such as meat lockers, succession planning and attracting the next generation of ownership into the business is an area of concern.</p>

NEXT STEPS IN STRATEGIC DEVELOPMENT

Leaders from throughout the Kansas food processing industry will continue to collaborate in the development and implementation of a long-term strategic growth strategy with input and discussion among key partners. Industry-identified desired growth outcomes, initially developed in 2016, will be implemented by industry and key partners and updated annually at the Kansas Governor's Summit on Agricultural Growth.

FOOD PROCESSING INDUSTRY OUTCOMES



Growth Objective:

Increase the number of facilities accessible for small, medium and large food processing companies, and expand opportunities for existing companies to increase sales and profitability.

The following outcomes will be the result of industry collaboration and effort to grow the Kansas food processing industry:

Phase 1 (Begin within two years)

- Strong reputation among the national industry as a state with great potential for food processing companies to expand or move their business.
- Increased amount of food processing in Kansas facilities, from small to large scale operations. Co-packers capability available to small processors to produce or package items.
- State-sponsored economic development incentives which meet the needs of food processing enterprises.
- Kansas communities identified that express acceptance to and interest in understanding the economic benefits of food processing facilities and are open to welcoming businesses into their region.
- The benefits of living in Kansas are widely known and understood by food processing corporations and can be used in the employee recruitment process.
- Housing is a recruitment aid rather than a concern, and food processing employers don't struggle with adequate employee housing in the communities in which they do business. State-sponsored incentives for processors which assist in securing employee housing.
- Increased number of commercial kitchen locations available for use across the state for local food processing.
- Mobile processing capabilities available to small processors with necessary food safety guidelines.
- Training for small to medium-sized companies through webinars or workshops on various topics (e.g. food safety, workforce management and marketing). Delivery through K-State Research and Extension or industry associations would be well-received.
- Expanded benefits and marketing potential for food processors through the From the Land of Kansas trademark program.
- Increased export opportunities for Kansas food processors, including increased participation in export programs and other sales experiences (e.g. Food Export Midwest programs).
- Regulations that allow products from state-inspected meat facilities to be sold across state borders. Current law prevents meat from being sold across state lines unless it is from a federally-inspected plant but does not recognize state inspections as equal to the federal inspections.

FOOD PROCESSING INDUSTRY OUTCOMES

Phase 1 (Begin within two years)

- Competitive utility rates in Kansas that do not create a competitive disadvantage with other states and allows Kansas to maintain existing enterprises and grow industry in the future.
- Food processors have an industry-influenced pipeline of college graduates from Kansas State University to hire into management, engineering, research and quality areas of their businesses.

Phase 2 (Begin within 2-4 years)

- Research to develop methods for phosphorus elimination in waste water.
- Evaluation of cold storage needs for processors to identify potential for building a new facility.