

# 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 \$18.4 billion and creates 31,374.3 jobs in the state. Through indirect and induced impacts, the industry supports a total of 113,725.4 jobs and creates a total economic contribution of approximately \$33.8 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
<b>Demand</b>	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.
<b>Entrepreneurship</b>	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.
<b>Export Infrastructure</b>	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.
<b>From the Land of Kansas</b>	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 300 member companies, an online marketplace and a great brand, being part of From the Land of Kansas could be an asset for any food processor.

# OPPORTUNITIES (cont'd)

Factor	Implications for Growth and Development Opportunities
<p><b>Policy Environment</b></p>	<p>Recent changes to the Kansas tax code have reduced state tax burdens on the Kansas agricultural community. Some of the key changes include a state income tax exemption for partnerships, LLCs, Limited Liability Partnerships, Sole Proprietorships and Subchapter-S Corporations and a 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>
<p><b>Supporting Institutional Infrastructure</b></p>	<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 45,000 meat animals processed in local meat processing facilities in 2014.
- 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 144 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
<p><b>Consumer Demand</b></p>	<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 (cont'd)

Challenge	Details of Challenge
<p><b>Critical Infrastructure</b></p>	<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>
<p><b>HRI Scale Requirements</b></p>	<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>
<p><b>International Trade</b></p>	<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. From the Land of Kansas has a role to play in building the international brand recognition for Kansas.</p>
<p><b>Meat Inspector Access</b></p>	<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>
<p><b>Policy</b></p>	<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 (cont'd)

Challenge	Details of Challenge
<b>Policy (cont'd)</b>	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.
<b>Water</b>	Water efficiency and conservation is important in all business sectors
<b>Workforce Development</b>	<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

The development of a long-term growth strategy will require input and discussion among key partners. The following strategies have been identified as next steps in developing a strategic growth plan for the food processing sector.

Focus Area	Solution
<b>Add Value in Kansas</b>	Determine why commodities are leaving Kansas and look for ways to complete that processing step in Kansas.
<b>Assess Capacity</b>	Determine what the value-added food processing capacity of Kansas is and where it's located. Do we have existing capability to do more? Do we have existing facilities that aren't being operated?

# NEXT STEPS IN STRATEGIC DEVELOPMENT (cont'd)

Focus Area	Solution
<b>Cross Border Meat Sales</b>	Work with the federal delegation on possible options for state-inspected meat processors to sell their products out of state.
<b>Freight Connection</b>	Explore options for connecting processors shipping product to or receiving product from the same regions such that freight can be shared.
<b>Industry Advisory Group</b>	Build a list of industry leaders and top processors to gain better insight into the needs of the sector.
<b>Mobile Processing</b>	A processing sector that is more nimble and that can better meet the demand for local food is important to future growth — for example, having the ability to be local in different locations with something such as a mobile poultry processing unit that provides locally grown and processed chicken to farmers’ markets and local restaurants. Develop plans for processing units that have all the critical capability of a fixed processing plant and meet all the necessary regulatory requirements which can be moved from one location to another.
<b>Proactive Outreach</b>	Engage in proactive outreach to established processors to work on challenges and help in areas of possible growth.
<b>Succession Planning</b>	Work with local processors to create a plan for staying in business. Many local food processors are family-owned businesses with little or no succession plan in place for when the current owners stop working in the business. Those processors who wish to stay in operation and don’t have the next generation of owners/operators lined up need help. Consider a partnership with K-State and other schools to identify those students interested in specific fields of work in specific locations and connect them with the local businesses looking to establish a succession plan.

# OPPORTUNITIES TO EXPAND PRESENCE

Initial list of potential opportunities:

- Mobile processing: Rather than fixed-location processing facilities, there is a need for mobile specialty processing units that could be used for poultry and game species such as rabbits and quail as well as larger animals such as sheep and goats.
- Compliance education center of excellence: Establish programming making Kansas the recognized leader in compliance education training and certification. Good opportunities for local, farmer-direct suppliers who can also boast strong food safety protocol and results.
- Move processing to Kansas: Entice the processing entities that Kansas commodities are destined for when they leave the state to relocate to Kansas or expand into Kansas such that Kansas commodities can be processed in Kansas.
- Increase extension resources in food science particularly in value-added food resulting from activities such as dehydration, sterilization, thermal processing and high-pressure processing.
- Increase the food research done at K-State.
- Refrigerated storage at the Gardner intermodal facility and future intermodals in Kansas would add capacity to what is already a freight advantage for Kansas.

## OBJECTIVE

Based on feedback and information gathered from stakeholders and key partners at the Agricultural Growth Summit in August 2016, specific growth objectives for the Kansas food processing industry will be developed.

# Kansas AG SUMMIT

GROW SMARTER. GROW STRONGER. GROW KANSAS.

## KANSAS STRATEGIC AGRICULTURAL GROWTH FOOD PROCESSING — NOTES

### MEETING SUMMARY

From April to July 2016, Kansas Department of Agriculture executive and agricultural marketing team members met with food processing researchers and industry members. Industry members identified for the one-on-one conversations represented both small and large businesses and ranged in geography throughout the state. Many expressed that the presence of raw ingredients and the business-friendly environment make Kansas a good place to grow. Common themes of challenges impacting the growth of the food processing industry in the state included lack of available workforce and lack of access to processing.

### Consumer

- Branding is a large competitive advantage for local food processing

### Research

- Old extension model does not work as well for local food production, but the new extension model is good (community vitality, food science, consumer science)
- Beneficial to find more funding for more extension specialists in food
  - We have numerous specialists in other industries, but very few food specialists
  - Need to bring on faculty at K-State that works on value-added (targeting small and medium-sized companies)
- Current food science extension courses at K-State are packed and helping businesses stay in business
- Food processing industry needs help with dehydration, sterilization, thermal processing and high pressure processing
- Need an industry partner alliance for research and education
  - Need private sector partners that will bring in others to support

### Rules & Regulations

- Food safety is critical all the way through the process
- Need to educate small businesses in food safety to ensure compliance
  - Keeping up with food regulations is #1 concern with small companies
- Great interest expressed in group certification (ex: one inspector certifies the entire group — safety issues, quality standards, etc.)



## Transportation and Infrastructure

- Need further processing facilities
  - Lack of access to processing is a major limitation
- USDA inspection challenges for local meat processing (having the inspector/working around their schedule and keeping trained people available)
  - State can help, but USDA has to request
- Need more distribution, transportation and storage for local foods
  - Need for central distribution, especially for schools and hospitals
- There is interest in adding facilities at K-State for product development and value-added processing
- Interest is growing in more connection between food cooperatives
- Further grain processing is nonexistent for local foods

## Workforce and Quality of Life

- Work ethic may be declining
- Need 4-H and FFA to start preparing the younger generations in small livestock and horticulture
- Finding enough labor is a challenge — sheer numbers required for food processing is overwhelming for current Kansas population
  - Population decline in rural towns is a challenge
  - FDA's Food Safety Modernization Act is driving the workforce needs
  - Need employees competent in food science, grain science and pet food
  - Need for educated workforce transcends proprietary requirements of the company; companies will share in cost of educating employees
  - Turnover of newer employees is a challenge (many stay less than a year)
- Need to make small businesses feel welcome
- Food safety and food defense are big needs
  - Tapping into support for continued food safety education will be important
- Need school systems to understand agriculture and encourage careers in ag
- Shortage on housing is a concern

## Other

- Adding more value before shipping would be beneficial
- Important for K-State administration and leadership to understand agriculture and the importance to Kansas

## Potential Action Items

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