Hope Small-Scale Food Processing Facility: Feasibility Analysis

Final Report

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June, 2008

Funding Provided by:

Canada Investment Agriculture Foundation of British Columbia BRITISH COLUMBIA The Best Place on Earth Fraser Basin Council

Acknowledgements

The Project Team of Zbeetnoff Agro-Environmental and Lions Gate Consulting wishes to acknowledge the financial assistance of Agriculture and Agri-Food Canada, the BC Ministry of Agriculture and Lands, the Investment Agriculture Foundation of BC, through the Small Projects Program, and the Fraser Basin Council, for making this study possible.

The Project Team also acknowledges the assistance the Fraser Basin Council, private individuals and small lot agricultural producers who contributed time and information to the feasibility assessment. Particular thanks go to the site owners, Muriel and Steve Young, who facilitated the study by hosting meetings and providing access to their processing facility. Participation and support for the study was also received from Fraser Health Authority, private business owners, food processors, Chilliwack Economic Partners Corporation (CEPCO), BC Institute of Technology (BCIT), the Small Scale Food Processors Association (SSFPA), Local Flavours Cooperative, and the District of Kent Agriculture Advisory Committee members.

Executive Summary

I. Purpose

The purpose of this report is to examine the feasibility of operating a small-scale food processing facility at an existing facility in the Hope area. The broader question about shared processing facilities and their feasibility in the BC context is also explored.

II. Description of the Facility

The kitchen facility under study is in Hope, BC. It is attached to an operating restaurant and although it has five clients it is considered under-utilized. There is no development concept for the facility. It is hoped that it may be used as a starting point for a sustainable, shared-use processing facility that could serve local processors and help stimulate small-scale food processing the Fraser Valley.

III. Small-Scale Food Processing in Canada

A shared-use processing facility typically provides small-scale food processors with the opportunity to use modern equipment for their processing needs, without high capital outlays. In the US, the shared-use food processing facility concept (also sometimes called an incubator) has been developed in numerous cities, mostly in the western states. In Canada, however, development has been rare. The Canadian Association of Business Incubators (CABI) lists 106 member incubators across the country, two of which are shared-used food processing facilities. No processing incubators are currently listed for BC.

Salmon Arm's **Shuswap Business Development Centre** is the only commercial kitchen that has operated in recent years in BC, although it closed in 2004. Operated by Community Futures, the facility spun off some successful food companies, but the overall demand did not justify either the available capacity or the costs of operation. There have been at least four other feasibility assessments of commercial kitchens in BC over the last decade, but none proceeded to the development stage. In 2004, the Small Scale Food Processors Association of BC (SSFPA) received government funding assistance to pilot a shared services cooperative on Vancouver Island in order to work with regional sponsors, producers and processors to set up a demonstration commercial kitchen and commercialization program. However, a commercial kitchen did not evolve out of this initiative.

Agricultural research centres in Canada, including Leduc, the Guelph Food Technology Centre, Manitoba Food Development Centre and Saint-Hyacinthe Food Research and Development Centre provide limited services such as market and business planning to the food processing sector, but these facilities remain primarily research-oriented and do not fit the shared-use or incubator model where the objective is to further the development of small-scale food processing enterprises.

The Toronto Food Business Incubator (TFBI), a registered, stand-alone, not-for-profit organization run by a volunteer board of directors, fosters growth in food industry micro-enterprises. It started as a City of Toronto initiative to offset the continuing loss of food manufacturing jobs in the metro area, but now involves all three levels of government.

The TFBI has only been operating with clients for six months, and is still searching for the best food processing model to suit its mandate.

IV. Industry Food Trends

Major food industry trends that continue to affect the market for small-scale food processing include the following:

- Population growth and demographic change continue to drive change.
- Health and safety considerations have become a major additional factor.
- Changing ethnic, household and labour force composition has led to greater demand for new and different food commodities.
- Product innovation has spawned "healthier" versions of existing commodities.
- Demand has surged for organically grown and produced products.
- The "food miles" concept has been superimposed onto the organic trend to add a sustainability component to organic food supply.
- The competitive price challenges in the industry remain intense, with large, multi-national companies in the US and Mexico now controlling organic production.
- BC's produce processing sector is relatively small but has successfully exploited market niches (e.g. frozen products to preserve quality and freshness).
- The seasonality of BC crop production is a significant factor limiting processing competitiveness. Importation of raw produce can enhance year-round activity.
- Labour supply and cost are significant issues in BC. Labour costs are substantially higher than some competing countries.
- Fuel costs have also increased significantly in the last five years, which has effectively increased the cost of imported products and created an advantage for locally processed products.
- The rapid appreciation of the Canadian dollar in relation to the US dollar in the last five years has reduced the competitiveness of Canadian products.

The greatest challenges for the industry are not in the upstream harvesting and processing activities, but in responding directly to the changing demands of consumer and food service markets, especially hotel, restaurant and institution buyers. These customers have expressed a preference for regionally produced and healthy food products, but the food service industry operators are not necessarily responding directly.

V. The Market Potential for a Shared-Use Facility

The Fraser Valley Regional District has numerous location advantages for small-scale food processing activity, including proximity to markets, proximity to inputs and a considerable pool of entrepreneurs and companies engaged in processing activities.

The survey of potential users of a shared-use facility that was conducted as part of this analysis showed a general level of interest in using such a facility but a relatively low willingness to pay for services. The average willingness to travel of 30 kilometres to a facility also limits the apparent market available for a Hope location.

The availability of alternative food processing space is an important consideration in assessing the feasibility of a shared-use facility. Small-scale food processors have access to many other

options, including their own home kitchens, purpose-built kitchens, restaurant and café kitchens, institutional kitchens (e.g. churches), co-packers and customer packers, and of course for-rent commercial kitchens. The existing supply of kitchen options is currently meeting the needs of start-up and small scale food-related businesses.

The Canadian experience in agri-food shared-use and incubation shows a definite preference for government supported facilities with an emphasis on research and commercialization and accessibility for the agriculture industry in general (and not just food processors). The only facility that we could find that was comparable to the proposed Hope facility was based in Toronto, a metro area with about five million people and an agri-food sector many times the size of the Lower Mainland's. The manager of the Toronto incubator does not believe his facility would be feasible in a smaller, rural area. (Peres pers. comm.)
Given the above research we believe the market potential for an economically sustainable shared-used food processing facility in the Fraser Valley is low to fair while the potential in the Hope area is low. However, as part of community and municipal revitalization and development, community food processing could be a vital component of local livability and sustainability goals.

VI. Facility Characteristics and Services

The characteristics of a shared-use facility can vary widely depending on the nature of agri-food markets, the size and structure of the local processing sector, infrastructure availability, proximity to suppliers and support businesses and opportunities for establishing partnerships with government and NGOs. The minimum requirements for a viable food processing model are as follows:

- A facility capable of delivering quality food production, including manufacturing processes and paper trails that meet consumer and regulatory expectations.
- A sound operation and management plan implemented by an experienced manager with the authority and responsibility to run the facility to meet clear predetermined objectives.
- The capability to allow more than two or three manufacturing processes at one time. Based on our survey, these processes appear to be canning, baking, and freezing.
- Clear policies and procedures for procurement, storage, packaging and labelling.
- Partnerships to deliver training programs by existing institutions.
- Design and delivery of specialized business and market planning services. Currently, availability and access to such courses is very limited.
- They may be opportunities to accommodate different uses in the food processing off-season or perhaps for training programs to generate supplemental revenues but this concept was not fully explored and remains highly uncertain.

VII. Feasibility Assessment

Our investigations reveal that the nature of the interest identified in the Hope facility does not dovetail with the concept of a shared-use community kitchen. More specifically:

- The facility would require significant capital improvements in order to provide the range of services demanded by potential clients.
- Ongoing operations would require at least two full-time personnel, a facility manager and a technical/business planning assistant.

- Our analysis of different operating capacities indicates that anticipated operating parameters based on our survey of users falls short of "breakeven" calculations by a wide margin. A reasonable return on investment would not be possible given an insufficient willingness to pay, low charge out rates and a small pool of potential users.

Given these factors, a shared-use food processing facility is likely not feasible in Hope.

VIII. Recommendations

- Given our assessment that a general shared-use facility is not viable, some further investigation of specific food niches that could give a Hope facility a reasonably good business focus might prove worthwhile.
- Consider shifting the core objective away from a private, for-profit venture to one that incorporates either social or economic development objectives as the core mandate.
- Further research on mobilizing existing socio-cultural and technology programs aimed at bringing processing expertise and capacity to the area could also be considered. The concept of a virtual incubator may well have merit in the region.
- Concurrent developments in the food processing sector in BC could overlap with the intended outcomes for the Hope facility. These initiatives should be investigated and integrated into future planning.

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1 Introduction

The Client, Fraser Basin Council, has expressed interest in assessing the potential of the Hope area to support a shared use food processing facility.

1.1 Purpose

The purpose of this report is to examine the feasibility of operating a small-scale food processing facility at an existing facility in the Hope area. The broader question about shared processing facilities and their feasibility in the BC context is also explored.

1.2 Description of the Facility

The kitchen facility under study is attached to an operating restaurant known as Skinny's Grille on Silver Hope road in Hope, BC. Travel distances (times) are approximately 50 kilometres (30 minutes) to Chilliwack and 75 kilometres (45 minutes) to Abbotsford.

Although the building is common, the kitchen is separate from and not used by the restaurant for its food preparation needs. The kitchen was not purpose-built but was converted from a gas station and is deficient in some respects, including a lack of storage and loading space. The total square footage is roughly 1,200 square feet with cold storage (walk-in freezer and cooler), steam kettles, grill, stoves, convection oven, steam ovens, dishwasher and preparation areas. It is possible to accommodate more than one user at a time, but this would only be possible if there were no shared equipment or preparation areas.

In the past, the owners have catered local school lunches but that is not longer the case. Five individuals currently use the facility for processing small batches of local produce or ingredients. Marketing is done by word-of-mouth.

There is no development concept for the facility. It is hoped that it may be used as a starting point for a sustainable, shared-use processing facility that could serve local processors and help stimulate small-scale food processing the Fraser Valley.

1.3 Methodology

A literature review was conducted to gather information small-scale food processing in BC, shared use facilities, and the BC and Fraser Valley agri-food industry.

Primary research consisted of an online market survey and interview program totalling 30 respondents during April, 2008. The results of the survey appear in Chapter 4.

A set of key-informant interviews and contacts was undertaken to fill in information gaps and vet conclusions and recommendations.

2 The Concept

A shared-use processing facility typically provides small-scale food processors, small producer/growers and food entrepreneurs with the opportunity to use relatively modern

commercial equipment that meets local, provincial and federal health requirements for a licensed kitchen facility.

The idea of sharing a facility stems from the fact that entrepreneurs and small processors often cannot afford to invest the capital in their own facility, particularly if they are unable to fully utilize the installed capacity.

A shared-use facility can help these people to do their processing without the upfront capital and allow them to focus on more important aspects of their business success. The shared-use facility has many benefits, including business and job creation, entrepreneurship development, improved competitiveness, commercialization of new technologies and the strengthening and diversification of the regional agri-food sector.

Shared-use facilities are not limited to food processing but can involve any collective enterprise where the sharing of buildings, resources, equipment, services and expertise allows an entrepreneur to operate a going concern. Sometimes, the literature refers to shared-use facilities as incubators, a concept based on helping small, fledgling processors move from the initial stages of business development to being a self-supporting commercial enterprise.

A development concept has not been proposed for the Hope facility, although in its simplest terms it could be considered a shared-use kitchen. It might also be possible to operate it as an incubator or alternatively as a facility mandated to address socio-community goals such as increased local food production, social development of disadvantage groups or perhaps education and training. A facility targeted at broader industry or economic development, for example in the areas of research, development, technology transfer or commercialization, is also a possibility.

The scope of research undertaken for this project is relatively limited and focused primarily on the market need and potential for a shared-use kitchen in the upper Fraser Valley. Nevertheless, we remain mindful of the full range of shared-use concepts that might be feasible in the study area and where possible have provided some insights into good practices, lessons and implications for this study.

3 Food Processing Models in Canada

The Canadian Association of Business Incubators (CABI) lists 106 member incubators across the country, two of which are shared-used food processing facilities. (CABI, 2008) No processing incubators are currently listed for BC.

3.1 Shuswap Business Development Centre

Salmon Arm's **Shuswap Business Development Centre** is the only commercial kitchen that has operated in recent years in BC, although it closed in 2004. It was established in late 1998 by the Community Futures Development Corporation of the Shuswap. The 7,000 square foot facility had three 800 square foot manufacturing bays, four 144 square foot business offices, a 255 square foot conference room, and an 1,800 square foot commercial kitchen. Tenants of the facility had access to administrative services, the Internet, a resource library and meeting rooms. The kitchen was provincial government-inspected, shared-use food production facility. The kitchen had trouble maintaining viability and did not break even in any operating year. Initially,

demand for the shared-use commercial kitchen was very weak, and the manufacturing bays were used for non-manufacturing purposes. The Okanagan University College (OUC) has used the kitchen to deliver 10-week cooks training course and some successful food companies have been spun-off, but the overall demand did not justify the available capacity.

There have been at least four other feasibility assessments of commercial kitchens in BC over the last decade, but none proceeded to the development stage. Investigations in Dawson Creek, Comox Valley, Cowichan Valley and Vanderhoof all led to "no go" decisions.

In 2004, the Small Scale Food Processors Association of BC (SSFPA) received government funding assistance to pilot a shared services cooperative on Vancouver Island in order to work with regional sponsors, producers and processors to set up a demonstration commercial kitchen and commercialization program. The initiative was based on feedback from a 2003 survey by SSFPA suggesting that small-scale food processors in BC lacked the services needed to expand the industry. A commercial kitchen did not evolve out of this initiative, which focused, instead, on the following services: (SSFPA 2004)

- Business-To-Business data synchronization (bar coding)
- Buying club
- Food Broker Service
- Some non-market services such as peer-to-peer mentoring

3.2 BC Food and Bio-Products Centre

In September, 2007, the Investment Agriculture Foundation, in partnership with the federal and provincial governments, prepared a feasibility study for a food technology and commercialization centre. Although the scope of the development concept was oriented to food research facility, the research explored a diversity of issues including some concerning small-scale food processing. Major results of the study include the following:

- Of 125 agriculture firms interviewed in the province, there was strong interest in using the facility for educational and training courses as well as business advisory services.
- There was strong interest among existing producers of value-added products to help increase sales and profits from their operations.
- First Nations expressed keen interest in moving ahead with some of their product development plans for food processing.
- The proposed Centre was seen as the centre of a "hub and spoke" model for the province, one in which a core facility in the Lower Mainland could reach out across the province through the adaptation of interactive communications and partnerships with the university and college system.
- The estimated costs of the facility was about $20 million. Similar centres across Canada are all subsidized by government.
- The feasibility of the centre was linked to the uptake of food development and pilot plant processing (i.e. the research and commercialization component), but the majority of revenues were in fact generated by education, training and business services, including a business consulting network.

- The large majority of survey respondents favoured Vancouver as the location for the centre, with Langley and Abbotsford distant runner-ups. Chilliwack garnered a few votes among agriculture producers but not votes among food processors.

3.3 Leduc

Leduc is one of several agricultural research centres in Canada. The Guelph Food Technology Centre, Manitoba Food Development Centre and Saint-Hyacinthe Food Research and Development Centre provide limited services such as market and business planning to the food processing sectors, but these facilities remain primarily research oriented and do not fit the shared-use or incubator model where the objective is to further the development of small-scale food processing enterprises.

The Leduc facility is noted here because it recently added a new Agrivalue Processing Business Incubator, a 6,875-square-meter extension of the Food Development Processing Centre. The facility costs $24.5 million and features the following:

- State-of-the-art processing technology:
  - Stork oven – can steam, cook or grill a range of products, from whole chickens to cordon bleu, processing 500 to 3,000 kg, in one hour.
  - Spiral freezer – can quick freeze 1,000 kg of cooked hamburger patties in one hour.
- Eight fully serviced processing suites varying in size and design for a variety of food production needs – each serviced with power, compressed air, steam and water.
- High safety standard – follows design and operational procedures mandated by the Canadian Food Inspection Agency.
- 24-hour private production facility with secured access.
- Shipping and receiving bays with storage capability.
- Office suites and conferencing room with A/V capabilities.

The facility remains government-owned, funded and operated which generates only 30% of its revenues from fees charged for food development and testing. The incubator, despite the availability of sophisticated processing equipment and on-site technical assistance, remains under-utilized.

3.4 Toronto

The Toronto Food Business Incubator (TFBI), a registered, stand-alone, not-for-profit organization run by a volunteer board of directors, fosters growth in food industry micro-enterprises. It started as a City of Toronto initiative to offset the continuing loss of food manufacturing jobs in the metro area, but now involves all three levels of government.

The 2,000-square-foot facility, opened in July, 2007, was set up with three-year funding from the federal government, the City of Toronto and its Toronto Economic Development Corp. The first six months of operation were given to further planning work and clients were not brought into the facility until late in the year.

TFBI can accommodate as many as nine entrepreneurs who pay a registration fee of up to $750, and $30 an hour for the use of the kitchen. The initiation fee gains the entrepreneur access to

various business and market planning services that are intended to encourage more full-time tenants. Food processing entrepreneurs only wanting access to either the TFBI commercial kitchen or processing facilities can purchase associate memberships at a reduced annual rate.

Benefits for facility clients include:

- A 24-hour fully equipped, commercially certified kitchen
- Priority scheduling for use of kitchen facilities
- Business plan analysis and feedback
- Access to consultant(s) on a limited basis
- An option to purchase shared liability insurance
- Assistance in migration to independent facilities (e.g. co-packer or stand-alone kitchen)
- Guaranteed entrance into Up and Running, a 12-hour entrepreneurial course provided by BizLaunch, a program focused on the various areas of business planning.

Plans for a new building to house the incubator have not yet moved forward and for the time being a converted restaurant is being used. It is approximately 1,500 square feet. Equipment available at the TFBI includes:

- Walk-in cooler
- Walk-in freezer
- Ice-Omatic machine
- Deli-style meat cutters
- Garland 8-burner stove and ovens
- Garland grill and flat grill
- Industrial capacity dishwasher
- Cleveland gas kettle
- Varimixer 20 qt. mixer
- MCO convection oven
- Various packaging machinery

Although the TFBI has only been operating with clients for six months, and is still searching for the best food processing model to suit its mandate, they have gained some interesting insights into the feasibility of food processing shared-use facilities:

- Finding the right people to run the board and the fill management positions has proved very challenging. The best fit appears to be with people with an a sense of entrepreneurship.
- TFIB prefers to deal with aspiring food processing entrepreneurs and has to date referred restaurateurs and caterers to other commercial kitchens in the Toronto area. However, if there is a need to make the incubator self-sustainable then accommodating these potential “anchor” tenants may become part of the business plan.
- Determining what the market needs and how best to serve is part of the ongoing exploration of the best business model for the incubator. The facility is not actively marketed yet but word-of-mouth has brought a steady stream of new clients. Interest in organics and the 100 Mile Diet has encourage many non-food entrepreneurs to consider productions. Some demand is coming from small growers and producers but the bulk is actually coming from

clients who have no previous relationship with the agriculture sector. There are many business people from other sectors of the economy, many already with full-time employment, who are using the facility to process their recipes. This group is also ethnically diverse as well.

- TFBI is using a phased approach to helping new clients find their niche. An initial 90-day trial period is to help the client with their business and marketing plans, making sure they have the appropriate recipes, supplies, distribution and of course food safety procedures in place. After this pilot period, the entrepreneur then has the option of continuing on as a conventional client who would use the incubator on an as-needed basis. Many tenants find the mentoring and networking aspect of the incubator to be a major benefit.
- With a relatively small floor space, matching demand with availability has made for difficult scheduling and impeded the full utilization of the facility. As many as three users will be in the kitchen at any one time and maintaining a physical separation is important. In some cases, a user may consider their production to be incompatible with other uses and this may limit demand. The incubator is now open 24 hours and it the current plan for is to have 100% utilization within the next year.
- The urban location of the TBFI is considered critical to success. Access to public transportation services, a large client base, alternative sources of supply, support services, labour and capital, food service and other markets (including several farmers' markets in Toronto) are some of the advantages of an urban location. While a rural location may be closer to some users such as growers/producers, the flip side is higher costs and challenging logistics in meeting other business needs. (Peres pers. comm.)

4 Food Processing in BC

Food processing in BC has undergone significant changes over the last 20 years. The relatively low volumes of crop production, seasonality of production, and small scale of processing facilities have been significant constraints to competitiveness in a global trading environment. As a result, BC has only a remnant of its previous processing capacity and those that have survived have created market niches based on a processing flexibility that the large scale facilities do not target.

Most recently, collaborative food system initiatives in the Vancouver area have identified micro-processing opportunities in the region based on local food procurement. A series of events has resulted in the formation of a new local tomato processing facility catering to the needs of chefs desiring local processed product.[1] It is apparent that there is untapped potential to create linkages between producers and consumers of food, fuelled by a consumer desire to source their food locally. However, this potential has to be strategically positioned between market ready producers and consumers of local products.

4.1 BC Industry Overview

Food production is BC's second largest manufacturing industry, producing $1.7 billion in value added goods in 2006, an increase of 5.8% over 2005. The dairy and meat industries have experienced the fastest growth up to and including 2007. Overall, BC's food manufacturing

[1] Notes from the Building Resilient Food Systems Workshop, June 18, 2008.

industry accounts for slightly less than one-tenth of the national total, ranking fourth behind Ontario (46%), Quebec (21%), and Alberta (10%) in terms of GDP. (BC Stats 2008)

The food industry in BC is dominated by a large number of small and medium sized firms which provide the industry with operational flexibility in responding to shifts in consumer tastes and preferences. Most firms have less than 50 employees.

There are roughly 1,600 firms engaged in food and beverage processing in the processing, an estimated 55% of which are located in the Greater Vancouver area and the Fraser Valley. A review of the BC Manufacturers Directory and the 2007 British Columbia Food Processors Directory showed about 70 major food processors in the Fraser Valley Regional District, the majority of which are clustered in Abbotsford and Chilliwack.[2]

Two of the largest processors of fruits and vegetables in the lower mainland are Lucerne Foods (a division of Canada Safeway Ltd.) and Snowcrest Packers (a division of Omstead Foods Ltd.). Both companies have specialized into frozen fruit and vegetable products, including IQF and purees.

There are a number of processors of berries in the lower mainland.[3] Typical products processed by fruit processors in the lower mainland include IQF, bulk frozen purees, juices, jam stock, juice concentrates, dried berries, and essences. Processing strawberries are a regulated commodity under the BC Vegetable Marketing Commission.

BC also has a Small Scale Food Processors Association comprised of specialty food processors throughout the province.[4] The group has a vision to create regional food sustainability. The SSFPA delivers a food safety grant program to small scale processors and provides discounted member access to business management tools. A number of suppliers of specialty food products are also listed in the Specialty Foods Directory.[5]

In 2005, there was about 98 operators doing organic food processing in BC. Of these, about 15 processors were certified organic operations.[6] The main difficulties faced by certified organic processors are obtaining stable and consistent supply of local organic product.

Local Flavours Products and Services Cooperative is a group sponsored by the Small Scale Food Processors Association with chapters in various locations in the province and with the objective of enabling more local food products to be developed and marketed. The Cooperative, assisted by a Cooperative Development Initiatives Grant from various departments of the federal government, has been active in the Hope area in the recent past by providing support to small–

[2] http://www.bcfpa.ca/members.html
[3] See http://www.bcblueberry.com/processors/processors.htm ; http://www.bcraspberries.com/mediakit/supplier.htm ; http://www.bcstrawberries.com/FVSSGA.php
[4] http://www.ssfpa.net/
[5] http://www.ssfpa.net/bcsfd/dir.php
[6] http://www.agf.gov.bc.ca/organics/organics_industry/organics_overview.htm

scale food entrepreneurs.[7] The goal of the organization is to promote good, clean and fair food under sustainable food production systems.

4.2 Lower Mainland Crop Production

It is more than likely that field produce in the lower mainland would be the raw resources used in local micro-food processing. As can be seen in the statistics below, the largest volumes of vegetables currently go directly to the fresh wholesale market, while the largest proportion of fresh berries go to bulk processing.

In 2004, approximately 230,000,000 lbs of vegetables (not including greenhouse vegetables or mushrooms) were produced in the lower mainland of BC.[8] Of this total, 147,000,000 lbs (64%) were sold fresh wholesale, 55,000,000 lbs (24%) were processed, and 28,000,000 lbs (12%) were farm or roadside sales.

Berry and nut production in the Lower Mainland totalled about 182,000,000 lbs in 2004. Of this total, 40,000,000 lbs (22%) were sold fresh wholesale, 137,000,000 lbs (76%) were processed, and 4,000,000 lbs (12%) were farm or roadside sales.

4.3 Processing Overview

Any activity that maintains or raises the quality or alters the physical or chemical characteristics of a material or object, or otherwise adds to it, is considered processing. For BC food products, this can be as simple and quick as washing vegetables or it can be as long and complicated as making cheese or wine. Cooking, canning, smoking and drying are among some of the processing methods used. Many farm products must be processed before they can be used as intended. Most fruits and vegetables, for example, are cleaned, graded and stored or processed before they are eaten, while many livestock rations are cleaned, dried, ground and mixed before they are fed.

The majority of agricultural products are perishable and only available for a short period of time, so processing is one way in which to extend the season for which they are available. On-farm processing is done to prepare products for sale, make value-added products to sell, and prepare livestock feed. The term on-farm processing also includes the preparation of growing media for greenhouse and mushroom production and for composting of farm wastes. Processing operations may be carried out continuously or intermittently.

4.4 Industry Food Trends

Population growth and demographic change have traditionally driven change in the food processing industry, but health and safety considerations have become a major additional element of the market in recent years.

More specifically the demand for healthier foods in combination with an ageing population is shifting consumer tastes towards higher fibre, fruit, vegetable and cereal products and lower fat dairy, meat and other products. Even so changing ethnic, household and labour force composition has led to greater demand for new and different food commodities, including more

[7] See http://www.ssfpa.net/documents/pdf/local_flavours/press_release.pdf and http://www.doyourselfaflavour.com/links.asp

[8] http://www.agf.gov.bc.ca/stats/2004HortStats.pdf

prepared, higher value-added food commodities and snack foods. Further product innovation has spawned "healthier" versions of existing commodities. The surge in interest and demand for organically grown and produced products present many opportunities for smaller, traditional producers in BC.

Recently, the "food miles" concept has been superimposed onto the organic trend to add a sustainability component to organic food supply. Proponents of this concept note that much of the demand for improved food quality is contradicted by the impacts caused by the distant supply networks on the environment. As such, there is opportunity for locally produced organic processed foods to displace imported items in local markets.

The "100 mile diet" trend has also emerged in the BC Lower Mainland, referring to food that has been grown, manufactured or produced entirely within a 100 mile radius of where it is consumed. This trend developed in response to a desire to reduce carbon footprint, support local food production, and fuelled by renewed urban interest in where their food is coming from. The diet is challenged by the seasonality of BC production during certain periods of the year.

4.5 Industry Competitive Issues

In discussing food processing issues, it is important to realize that the bulk of our consumption currently originates from outside of the province, and outside the country. Therefore, in Canada it is always important to consider imports as the first target for market replacement.

4.5.1 Globalization

The competitive price challenges in the industry are intense. In the organic sector the rapid penetration of the market by large, multi-national companies in the US and Mexico has resulted significant competitive pressures. Similarly price pressures are increasingly eroding profits and demanding more cost-effectiveness in the logistics operations of producers, yet production and distribution challenges and inefficiencies in the value chain are constraining factors. In particular, so called 'fresh foods', (due to their perishable nature) will rely, increasingly, on transportation and logistics to effectively penetrate British Columbia's food service markets.

4.5.2 Economies of Scale

BC's produce processing sector is relatively small in overall size, small in the size of its individual processing plants, and characterized by reduced economies of scale. In general, BC processors of fruit and vegetables in the lower mainland have exploited a market niche that larger North American processors do not access efficiently. This market niche is essentially defined by the flexibility to handle different product lines and targeting of frozen products to preserve quality and freshness. New processors of lower mainland produce would do well to keep in mind that their unit costs of production will be significantly higher than large scale processors and that their product lines must be geared to those markets that the large processors have difficulty accessing.

4.5.3 Seasonality of Production

Seasonality of BC crop production is a significant factor limiting processing competitiveness in the global market. This has implications for how the raw products are handled to lengthen the processing period to the use of the processing facility when local supply is not available.

Snowcrest Packers, for example, imports tropical fruits and out-of-season vegetables to supplement its processing supply in the off-season. As such, new food processors in the lower mainland face the challenge of determining what to use their facilities for in the off-season in order to obtain adequate return on capital investment. Seasonality of local production also restricts the ability to expand and sustain markets.

Importation of raw produce for processing is one way to create year-round activity in a food processing facility located in the lower mainland. However, this tactic may not be feasible in light of the market trends towards more local production and food safety issues. In addition, procurement could create complications for branding of BC origin products, which may be key to developing consumer loyalty for local processed products.

4.5.4 Labour Cost and Supply

Labour supply and cost are significant issues in BC at all levels from production to processing. While the Seasonal Agricultural Workers Program (SAWP) has significantly improved the supply to farm workers, labour supply for processing facilities is more limited and must be priced to competing jobs. BC processing labour costs are substantially higher than labour costs in some competing countries, such as China.

4.5.5 Transportation Costs

Fuel costs related to the transportation of imported processed products to lower mainland markets have increased significantly in the last 5 years. This situation has increased the cost of imported products and created an advantage for locally processed products. Combined with the substantial population in the lower mainland, there is a significant opportunity for small scale processors to displace imports in local markets.

4.5.6 Exchange Rate

The rapid appreciation of the Canadian dollar in relation to the US dollar in the last 5 years has reduced the competitiveness of Canadian products in both domestic and export marketplaces. Hopefully, currency exchange rate changes may not be as important a factor in the near term future.

4.5.7 Food Safety and Food Quality

North Americans, in general, are becoming more and more concerned about the quality of the food they are consuming. In light of recent food safety issues associated with imports from Mexico and China, locally produced and processed products tend to be viewed with greater confidence than imports. It is anticipated that local processors will be able to differentiate their products in the market place based on high levels of food quality and safety. As such, it would appear to be highly important to new processors to ensure that appropriate systems are in place to exploit this opportunity.

4.6 Implications for Producers and Processors

The Ministry of Agriculture and Lands has stated that competition from external producers and consolidation within the domestic industry are forces that are generating major problems for small and medium-sized producers and processors in the province.

It appears that the greatest challenges for the industry are not in the upstream harvesting and processing activities, but in responding directly to the changing demands of consumer and food service markets, especially hotel, restaurant and institution buyers. These customers have expressed a preference for regionally produced and healthy food products, but the food service industry operators are not necessarily responding directly. This provides an emerging opportunity for the small and medium- sized food producers and processors of British Columbia.

4.7 Industry Cluster

Agriculture is a relatively well-serviced sector, even though there have been significant reductions in direct government support over the last two decades. Although socio-economic, legal, technology and trade trends have created an environment of change, a host of non-government organizations (NGOs) and industry organizations have provide services to growers and processors. Unlike other resource sectors in the province, where there remain large gaps in services, there does not appear to be a comparable shortfall in agriculture.

4.7.1 BC Ministry of Agriculture and Lands (BCMAL)

The goal of BC Ministry of Agriculture and Lands (BCMAL) is to promote sustainable land use and the production of agricultural and aquaculture products. They provide numerous services to the industry including information, research, lab services, extension and technology transfer, market and product development, financial, business planning and mentoring, employment and labour, training and education and agriculture awareness. They deliver these services directly and in cooperation with a number of affiliated agencies.

BCMAL has expressed interest in developing a “hub and spoke” model of food science, research and commercialization, in which virtual and physical resources are brought together to promote development of the agri-food industry. While incubators, shared-use facilities and virtual networks have been discussed in the past, they have so far not been financially supported by the province.

4.7.2 BC Universities and Colleges

The BC Institute of Technology (BCIT) and the University of British Columbia (UBC) and BC colleges have traditionally played a role in agri-food development, although the nature of these services has evolved over time. Unlike the US university system, extension services in BC are very limited and generally not available to small-scale food processors. Their strengths are in the areas of academic research as well as education and training. Research capabilities include equipment validation, product, process and prototype development and some limited processing lines. Generally, these facilities are not utilized by small-scale food processors.

4.7.3 Suppliers to the Industry

Suppliers to the industry play an important role in transferring technology and technological expertise to producer groups. Suppliers of ingredients, flavouring, colouring, packaging and equipment can help educate and inform smaller and start-up companies who may not otherwise have access to important information.

4.7.4 Technical Consultants and NGOs

There are numerous agri-food consultants who offer services in a diversity of areas, including workplace health and safety (e.g. HACCP programs), market research, business and marketing planning, consumer taste testing, packaging and branding needs.

In addition, some agriculture sectors, notably managed commodities, are well served by private consultants. Many producers prefer to access information through their own agencies or via methods they have identified outside of government. Major NGOs include the Investment Agriculture Foundation (IAF), BC Agriculture Council (BCAC), the Canadian Farm Business Management Council (CFBMC) and producer associations. For processors, the BC Food Processors Association and the BC Small Scale Food Processors Association provide direction and services for their member companies.

5 The Market Potential for a Shared-Use Facility

The feasibility of a shared-use, small-scale processing facility in the Hope area depends on the size of the potential customer base and its willingness to pay and interest in using the facility. This section examines each of these issues in turn before providing some conclusions about overall market potential.

5.1 The Regional Market for Kitchen Services

The Fraser Valley has numerous location advantages for small-scale food processing activity, including proximity to markets, proximity to inputs and a considerable pool of entrepreneurs and companies engaged in processing activities.

The size of the regional market in the Lower Mainland is now over two million and growing strongly. If southern Vancouver Island is included in this scenario, then the market potential grows by another sixth. This represents a potential lucrative market for small-scale producers and processors who are looking to take strategic advantage direct selling, rising transportation costs and consumer trends like the 100 Mile Diet. The success of these strategies is directly related to market proximity. (Standing Senate Committee on Agriculture and Forestry, 2004) Complementary tools such as the Internet can provide innovative options for helping processors expand into niche markets, including the important food services sector.

The access to the various inputs needed to conduct food processing activity is relatively good in the Fraser Valley, compared to other areas of the province and the country. According to the 2006 Census, the Fraser Valley Regional District has 13% of farms, 22% of farm capital and 35% of gross farm receipts. (Statistics Canada 2008) As a provincial leader in livestock, specialty livestock, nursery products, cut flowers, vegetables and berries the feedstock needed to conduct value-added activities, including food processing, is here in the Fraser Valley. This includes access to a skilled and flexible labour force which is experienced in many different processing sub-sectors. Access to the government, institutional, producer groups and private sector services outlined previously in section 4.7 is also very good.

Finally, there is a significant pool of existing and potential small lot farms and food entrepreneurs, many of which are involved in micro and small-scale processing activities. These operators represent prospective tenants on which a shared-use facility can rely for a consistent

and reliable rental revenue stream. The experience of processing incubators in the US shows tenants will spend up to a one hour commute getting to a facility. A 2004 survey of user groups in Chilliwack showed respondents willing to drive up to 80 kilometres with an average willingness of 27 kilometres. As noted in the next section, our own survey found that people were willing to travel about 30 kilometres or 30 minutes to a facility located in Hope. The fact that many respondents were from the upper Fraser Valley may have biased this answer toward a lower tolerance for travel time. More Vancouver area respondents might well have demonstrated a greater willingness to travel longer to a facility, under the assumption that these users would be more used to traffic congestion and commuting times. In any case, what the sensitivity to travel distances and times does indicate is that a facility on the fringe of market area will have more difficulty attracting tenants and users than a comparable facility more centrally located. For example, a facility in Hope would have good access to the Chilliwack market and perhaps reasonable access to the entire Fraser Valley Regional District, whereas a facility in Abbotsford would be more much more accessible to users in both the Fraser Valley and Greater Vancouver regional districts.

5.2 The Needs Survey

A survey of potential users of a shared-use facility was conducted as part of this analysis. The following paragraphs provide a summary of the results. Further survey details can be found in Appendix A.

5.2.1 The Survey Population

The survey population was made up of four databases:

1. Database of local interest supplied by Marion Robinson, Fraser Basin Council
2. Direct marketers listed in the Farm Fresh Reference Guide for the Lower Mainland.
3. A database of attendees to the Chilliwack food processing incubator conference held in 2005.
4. Website directory of certified organic producers in the Lower Mainland.

A total of 176 contacts were identified (see Appendix A for more detail).

A total of 30 respondents with interest in small scale food processing participated in the survey. The detailed responses are contained in the Appendix B.

5.2.2 Profile of the Interested Respondent

Current Situation (Question 1)

The typical respondent showing interest in using a small scale food processing facility was a grower/producer (64%). Of the 25 persons responding to this question, 56% (14 operations) are currently small scale micro-processors.

Food Processing Interest (Question 2)

About 61% of the respondents reported the processing of food products from their own production. The remaining 39% of respondents indicated they would like to process foods from their own production. In relation to 2.1, above, 88% of the producer respondents are currently food processors.

Current Food Processing Facilities (Question 3)

Of those respondents currently food processing, 26% use a home kitchen and 26% have built their own processing kitchen. A further 18% of the sample uses a restaurant or rented kitchen.

Number of Years Processing (Question 4)

About 82% of respondents currently processing have done so for over 3 years, with 35% of these indicating processing for more than 10 years.

The number of respondents processing exceeds the number of respondents interested in food processing in 2.1.

Food Items Currently Being Prepared (Question 5)

All respondents do food processing. About 13% of current small scale food processors do catering.

Value-added produce products are the predominant products being prepared by 43% of the small scale food processors. A further 30% make jams and preserves, while sauces (24%), dry mixes (20%) and herb and spice products (17%) are also manufactured.

Interest in Food Preparations (Question 6)

Highest interest in making various types of processed food items is shown in what is currently being produced, i.e., value-added produce, jams, and sauces. Nonetheless, there is also interest in a variety of food preparations, including catered meals, herbs and spices, bakery items and juices.

Processing Facility Equipment Needed (Question 7)

Twenty-one respondents indicated the type of equipment needed in a shared use facility. The necessary equipment most commonly identified included: filling and packaging equipment (17 responses); walk-in cooler (15); food processor (14); dishwasher (14); stainless steel table (14) dehydrator (13); and commercial mixer (13). However, all equipment choices offered in the question are indicated by almost 50% of the respondents. In addition, equipment identified in the "other" category includes flash freezer and UV juicing machine.

Essential Ingredients (Question 8)

Ingredient needs would be expected to be specific to product processed. Sugar, vinegar and pectin are the most indicated ingredients required by respondents for their processed food production. Besides raw or dried fruit, vegetable and herb ingredients, other items include spices, salt, lemon juice, butter, flour and oil.

Hours of Facility Use (Question 9)

This question could have been better asked. Nevertheless, the majority of respondents selected hours per week, followed by hours per day. Assuming 60 hours per week availability, respondents indicate a need for 40%-week and 70%-day availability, probably during the harvest season. The three respondents indicating a monthly need would use the facility, on average, for less than 7% of the time it could be available.

Time of Day Usage (Question 10)

Respondents indicate mornings are preferable to afternoons and evenings as times of use. This may be related to the indication that full days would be required when leasing occurred (2.9, above).

Lease Rate (Question 11)

Seventeen respondents indicated what they would be willing to pay for use of the food processing facility. The hourly rate preferred by most respondents is $25 per hour. The computed average rate is $26.76 per hour

Type of Customer Targeted (Question 12)

There is a strong indication that potential users of the food processing facility will attempt to market their products in specialty markets. The most attractive targets are indicated to be the 100 mile diet club, processor-direct, and organic markets. Only 10% of respondents perceived mainstream channels as being the outlet for their products.

Annual Sales Goal (Question 13)

Sales expectations of potential facility users are modest with 64% of respondents estimating their sales goal to be $1 million or less, annually. This question should be interpreted in conjunction with the findings of Question 16, below.

Marketing Plan (Question 14)

While respondents indicated a mixture of marketing approaches, there would seem to be a predominant desire to market through local, specialty, and community-based channels. There is also indication of interest in Internet, self-marketing and direct to retail marketing. These channels would tend to minimize the role and cost of distribution.

Product Packaging (Question 15)

The processing facility should definitely have the capacity to process in glass jars, as over 61% of respondents indicated this mode of packaging. Other packaging formats of mention include bags, plastic containers, and pouches.

Business Type (Question 16)

About 48% of respondents envision their food processing business as a full-time endeavour. The majority perceive value added as either a part-time pursuit or as supplemental income to a farming activity.

Food Processing Training (Question 17)

About 52% of the respondents indicated they had received food processing training. However, this response should be correlated with the response to Question 18, below, wherein food processing topics dominate information needs.

Seminars or Classes of Interest (Question 18)

Respondents indicated strong interest in training in two broad areas: 1) food processing knowledge, regulations, and safety and 2) all aspects of business start-up and development. Interest is also noticeable in organic processing standards and compliance. On average, each

respondent identified at least four areas of interest in seminars or classes to support their food processing operation.

Willingness to Travel (Question 19)

About 44% of respondents to this question indicated that the commute to a Hope/Chilliwack facility is acceptable. On average, respondents indicate a willing to travel about 33 minutes or 30 km to process food products.

5.3 Competitive Services and Kitchens

The availability of alternative food processing space is an important consideration in assessing the feasibility of a shared-use facility. The user needs survey indicated a demand for such a facility but it also demonstrated that small-scale food processors have access to many other options, including using their own personal kitchens. Although these options may not be an ideal or even a preferred alternative, they will in fact affect feasibility because they lower a processor's willingness to pay for a shared-use facility.

5.3.1 Home Kitchen

About a quarter of survey respondents used their own personal kitchens for processing. Although this option has many constraints, it is offers a maximum of flexibility and convenience, not to mention low cost.

5.3.2 Purpose Built Kitchen

Another quarter of survey respondents indicated they had built their own specialty kitchens to handle food processing duties. Depending on the capacity utilization, this may be considered a high cost option, but it still offers the flexibility and convenience noted above.

5.3.3 Restaurant and Café Kitchens

The Fraser Valley has numerous food service establishments, some of which use their kitchen facilities either for catering meals or small-scale food production to supplement their core revenue. Others may rent out their restaurant kitchen space to specialty food producers or caterers. The downsides here include the lack of access during the establishment's regular operating hours and possibly security and liability issues. Restaurant kitchens also are designed to produce meals for immediate consumption on premises and may not have sufficient space, layout or equipment required by specialty food producers. Still, these facilities tend to be widespread and depending on the processors needs may represent a viable processing option.

5.3.4 Other Kitchen Space

Other institutions: including churches, nursing homes and hotels are other possible sources of kitchen space, although they did not appear a major factor in our user needs survey. The problems, beyond scheduling mutually acceptable hours, include security, safety and liability.

For rent, commercial kitchens: Some small-scale food processors who have purpose-built kitchens will make them available to other users on a "for rent" basis.

Co-packer/custom packers: Typically, a small-scale food processor would not be thinking of operating at the co-packing scale. Co-packers and custom packers require minimum runs that are often too large for a small firm to produce and their services are usually too expensive for a start-

up business. However, producers who have an existing product line, require access to sophisticated equipment or technology or perhaps a simple desire to focus on marketing rather than production activities, could find co-packing arrangements a preferred option.

5.4 Assessment of Market Feasibility

Based on the survey results and our understanding of other research on shared-use facilities, our conclusions about market demand are outlined below.

5.4.1 Supply of Processing Spaces

The existing supply of personal, purpose-built, "for rent" or restaurant kitchens is currently meeting the needs of start-up and small scale food-related businesses.

The user needs survey showed that:

- these facilities have their limitations including inadequate size, lack of storage space, lack of production equipment, and regulatory and liability issues;
- there is potentially a large number of small-scale food processors and entrepreneurs with good experience in their product areas and definite aspirations to operate full-time businesses (i.e. they would represent a good target market for a shared-use facility);
- respondents have high interest levels (above 50%) in accessing a shared-use facility;
- respondents would prefer to use the facility on a weekly basis; and that
- respondents have a high degree of interest attending a seminar or class on marketing, health regulations, nutritional considerations and business planning.

Given these findings, and considering other similar surveys in the study area, there may therefore be enough expressed and latent demand to support a shared-use facility somewhere in the Fraser Valley.

5.4.2 Driving Distances

Limits on driving distances (about 30 kilometres) and willingness to pay (average of $25 per hour) suggest that for Hope at least the market and revenue potential is more constrained. Location and distance is also an issue:

- If other potential uses are to be considered, including training and education, food service companies such as caterers and First Nations; and
- If there is a concerns about accessing key inputs such as labour, transportation or other services.

In each instance, a Hope facility remains on the periphery of the market place.

5.4.3 Funding Models

The Canadian experience in agri-food shared-use and incubation shows a definite preference for government supported facilities with an emphasis on research and commercialization and accessibility for the agriculture industry in general (and not just food processors). The only facility that we could find that was comparable to the proposed Hope facility was based in Toronto, a metro area with about five million people and an agri-food sector many times the size of the Lower Mainland's. The manager of the Toronto incubator does not believe his facility would be feasible in a smaller, rural area. (Peres pers. comm.)

5.4.4 Market Potential

Given the above research we believe the market potential for an economically sustainable shared-used food processing facility in the Fraser Valley is low to fair while the potential in the Hope area is low. However, as part of community and municipal revitalization and development, community food processing could be a vital component of local livability and sustainability goals.

6 Facility Characteristics and Services

6.1 Technical Services

Regardless of the food processing model adopted, the potential success of any processing activity is critically related, at a minimum, to the production of safe food products. In order to have a prospect of economic sustainability, such facilities should be able to deliver a high level of food quality. In the current environment, this requires manufacturing processes and paper trails that meet consumer and regulatory expectations. As such, it is not realistic to "skimp" on food safe facilities, processing knowledge, or food handling practices. The requirements include product analysis, ingredient testing, Hazard Analysis and Critical Control Point protocols, and laboratory services.

6.2 Interim Processing

Operation and management must consider who its clients should be and have a plan for determining when they should graduate from the facility. This will require an experienced manager with the authority and responsibility to run the facility to meet clear predetermined objectives. While it is anticipated that some users of the facility will have food processing knowledge and experience, it seems that learning has to be integrated into use of the facility to insure that pre-commercial food processors have the competency to produce high quality processed food products. At the same time, graduates must be suitably equipped to take positive steps to commercialization or results will reflect negatively on the facility.

6.3 Manufacturing Process

It is probably premature to discuss who would be a client of the processing facility, particularly when it is difficult to see a current level of interest to sustain the facility. Nevertheless, it is also not realistic to expect that a facility could provision for more than two or three manufacturing processes at one time. Based on our survey, these processes appear to be canning, baking, pickling, and freezing.

The manufacturing processes will require various ingredients in various quantities. Our survey indicated that the basic ingredients for condiments, pickling, and baking are relatively predictable but would need to be managed efficiently to avoid disruption to processing activities.

The end of the processing phase progresses into the procurement and storage of supplies, packaging process, and labelling requirements. There are food safety, regulatory, and marketing issues to consider. Policies need to be developed on the storage and handling of processed products within the facility so as not to congest the facility.

6.4 Training

It is not reasonable to expect that management of the facility would have the ability or qualification to train users of the processing facility. This function could most easily be fulfilled presently by the expertise present in colleges, government agencies, and technical institutes in the region, if they made are available. If they can be enticed to present at the facility, this would provide a most convenient vehicle accessible to local food processors.

However, while food processing courses and research is conducted at BCIT, capacity to train pre-commercialization food processors in an on-the-job capacity is currently limited in BC. This could change if the Food Technology and Commercialization Development Centre were to become a reality.

6.5 Business and Market Planning Services

There are member services provided by the Small Scale Food Processors Association and the BC Food Processors Association. It is not clear whether users of the Hope facility would have the inclination or capability to utilize these services, although the need for some of those services has been indicated in the survey.

Food processing courses and research is conducted at BCIT, but does not offer assistance in product development and commercialization services. There is currently a gap in terms of the availability of these services in BC. Business courses offered in UCFV colleges appear not to be specific enough to food processing.

6.6 Other Considerations

There are a host of other considerations that enter into how a shared-use facility might be made operational in Hope, BC.

Return on investment is essential factor, considering that the present facility is owned by privately. Our survey suggests there is not sufficient interest to support even the depreciated value of the facility. The current owners should recognize that there is insufficient economic rationale for making their facility available to local micro- food processors, although there is certainly indication of interest for processing capacity in the Hope area.

Charging for the use of the facility at the rates indicated as affordable by the surveyed will not currently generate a cash flow to generate net revenue to the owner. This may not so much be a factor with regard to the rate paid but rather the number of processors that may operate in the facility and the seasonality of their activity. While there is suggestion that courses could we offered to facility renters in the processing off-season, there is no indication or expectation that the space would be paid for.

Prospects of using the facility in the food processing off-session for revenue generating are uncertain. In the short term, there may be potential to host food processing information sessions or courses. In the longer term, this function may be assumed by developments elsewhere in the province

Provision of adequate and appropriate insurance is an important consideration for this facility. This issue is a factor but not roadblock to operating a shared-use food processing facility at Hope, BC.

7 Financial Assessment

In this section, we review the financial viability of a shared-use food processing facility in the Fraser Valley. Two options are assessed, the existing facility in Hope that is the focus of this analysis, as well as a look at the viability of a more centrally-located, urban facility in the Abbotsford or Chilliwack area.

7.1 Hope

The existing facility at Hope, at roughly 2,000 square feet in size, is a converted gas/service station that has been outfitted with basic kitchen equipment capable of hosting rudimentary food processing procedures.

Based on our assessment of equipment and building needs and the most likely operating scenarios for this facility, we have projected capital and operating budgets for the Hope facility, as seen in Table 1.

It is possible, that the Hope facility could be marketed "as is" to see if it could be viable as a privately-run, rental kitchen. The current owners could simply promote the premises this way, but our understanding is that the market is either too small to support this concept, or that changes would have to be made to the facilities or to operations in order to appeal to a broader range of potential clients. In either case, more money would have to be invested to bring the concept to fruition.

Table 1: Estimated Budget for a 2,000 Square Foot Rural Shared-Use Kitchen

Capital Requirements		
Estimated equipment improvements	$ 36,300	
Estimated building improvements	$ 50,000	
Total	$ 86,300	
Average Operating Budget		
Operating revenues	$ 100,500	
Operating expenses	$ 135,000	
Annual cash flow (deficit) before debt service	$ (34,500)	
Breakeven analysis (before debt service)	**Projected**	**Breakeven**
Hourly rate	$ 25	$ 40
Average client hours per month	20	32
Salaries	80,000	46,000

According to our user needs survey, new equipment could certainly make a difference, either to allow more value-added activities, or to permit maximum usage of the available floor space. According to the owners, there is also some equipment (e.g. steam ovens) that apparently see little usage and therefore could be replaced with useable equipment. In our budget of $36,300

we have assumed that more walk-in and reach-in cooling equipment and security cages (pallet-size) would appeal to potential new users.

Some minor modifications to the premises would be required, including the construction of a loading bay and exterior storage. Some general repair and maintenance on the interior would also be in order.

It is important to note that these costs would be expected to generate benefits both in terms of new customers and perhaps in more flexibility in setting user rates and fees.

The operating scenario in Table 1 shows revenues of approximately $100,000 and operating expenses of $135,000 for an early-stage operating year. The major assumptions include the following:

- The utilization of the facility is based on comparable kitchen facilities in the US as documented by Wold (1997). Our user survey showed a high level of interest in a shared-used food processor, but the survey was not representative enough to calculate potential demand. We do know, however, that there is a critical mass of producers and small-scale food processors in the Fraser Valley who are potential clients. The average customer base is 15, averaging 20 hours monthly for a total use level of 3,600 annually. On a $25 hourly rate, annual rental revenue is $90,000.
- Supplementary revenues of $10,500 annual come from a $700 membership fee that provides the user with technical, business and market planning assistance. This policy is used at the City of Toronto food processing incubator and has proved an effective tool in guiding new food entrepreneurs.
- The major cost item is a salaries and benefits package of $80,000 for two full-time personnel, a facility manager/food technologist and an administrative/planning assistant.
- All other costs items, including utilities, supplies, repair & maintenance and insurance, are scaled according to current small business restaurant/kitchen operations in BC.

The cash deficit of $34,500 is significant but still highly conservative (i.e. positive), given that debt servicing and a return to the property owner (i.e. rent) has not been included.

Table 1 also presents a brief sensitivity analysis on key variables. A substantial increase in rates or in the number of users/tenants would have to be realized to bring about a positive cash flow, or a major cost item such as salaries would have to be implemented. Our research indicates that none of these strategies is likely to be successful. The user survey showed a $40 rate to be well beyond the willingness to pay of most respondents, while the physical size of the space would probably not allow a significant increase in user hours. Finally, our revenue estimates are premised on a quality management and service regime and cutting back on what we consider already conservative salary projections is unlikely to deliver the sort of value customers would expect.

Based on these assumptions, we do not believe the Hope facility could be viable as a privately-run facility without substantial support from the public sector. This support would have to be in the form of:

- Capital grants to improve and better equip the facility;
- Ongoing operating support; and
- Different concepts and services not explored in this study, including a focus on training and education and perhaps First Nations economic development. This would undoubtedly entail alliances and partnerships with government and institutional service provider with an interest in and mandate for agri-food development among target groups.

7.2 Fraser Valley Urban Facility

For illustrative purposes, we have undertaken a similar analysis of a fictitious 6,000 square foot shared-use food processing that would be located either in Abbotsford or Chilliwack. The capital needs and operating projections for this facility are shown in Table 2.

Unlike the Hope facility, new or used equipment would have to be purchased and a building secured. These are costed at $500,000 and $100,000, respectively. Major equipment includes walk-in freezer and cooler, dishwashers, exhaust system, filling line and conveyor, fryer, range/oven, convection oven, ice machine, small and large kettles, small and large mixers, racking system, security cages, sinks, steamers, vertical cutter/mixer, stainless tables and counters and an assortment of miscellaneous small equipment and implements. The building improvements would be to refit an existing building.

The operating scenario in Table 2 shows revenues of approximately $280,000 and operating expenses of $286,000 for an early-stage operating year. The major assumptions include the following:

Table 2: Estimated Annual Cash Flow for a 6,000 Square Foot Urban Shared-Use Kitchen

Capital Requirements		
Estimated equipment improvements	$ 500,000	
Estimated building improvements	$ 100,000	
Total	$ 600,000	
Average Operating Budget		
Operating revenues	$ 280,000	
Operating expenses	$ 286,000	
Annual cash flow (deficit) before debt service	$ (6,000)	
Debt service requirements (annual)	$ 12 ,000	
Annual cash flow (deficit) after debt service	$ (18,000)	
Breakeven analysis	**Projected**	**Breakeven**
Hourly rate	$ 25	$ 26
Average client hours per month	35	26
Salaries	$ 109,000	$ 102,000
Annual debt service	$ 12,000	$ 5,000

- The utilization of the facility is again based on comparable kitchen facilities in the US as documented by Wold (1997). The average customer base is 35, averaging 25 hours monthly for a total use level of 3,600 annually. On a $25 hourly rate, annual rental revenue is $262,500.
- Supplementary revenues of $17,500 annual come from a $700 membership fee for technical and advisory services.
- The major cost item is a salaries and benefits package of $109,000 for two and a half full-time personnel, a facility manager/food technologist and a second food technologist and planning assistant and a part-time administrator/bookkeeper.
- Unlike the Hope facility, for our urban facility we have assumed rental on an existing building of approximately $6 per square foot.
- All other costs items, including utilities, supplies, repair & maintenance and insurance, are scaled according to current small business restaurant/kitchen operations in BC.

The operating cash deficit of $6,000 is substantially less than the rural facility noted in Table 1, due to a much higher customer and revenue base. Even though this is close to breakeven, it still does not account for any financing of the capital cost of setting up the facility. We have assumed that 25% of the $600,000 would be supported through conventional debt financing, which would generate interest costs of about $12,000 annually for the early years of operation. When this is factored into the projections, the deficit climbs to $18,000 per annum.

The sensitivity analysis shows that the breakeven points for key variables are much closer to our projections than for the rural facility, and therefore much more likely to be considered likely.

Based on these assumptions, we do believe Abbotsford/Chilliwack scenario more likely to be viable than Hope because of:

- Better proximity to a large client base;
- Better proximity and access to key markets;
- Better access to support services and key inputs;
- Overall greater demand;
- Less sensitivity to rental rates; and
- More opportunities for new and innovative services (due to all the above factors).

Despite the improved cash flow position of the urban facility, it is still clear that public support and a mandate above and beyond that of a privately-run rental kitchen would be required to make this concept viable. Even though ongoing operating grants may not be required, a substantial infusion of capital would. In our scenario, that amounts to roughly $450,000. Having reviewed the literature and interviewed key informants, we are not aware of a shared-use facility that operates or has operated in Canada that can function without some sort of capital or operating funding support.

8 Feasibility Assessment

The foregoing investigation and analysis has identified important considerations in key areas.

A first consideration is the potential role and function of a shared-use kitchen in relation to existing resources and processing activities in the region. The research indicates that there is regional and provincial interest in food technology development and increasing commercial food processing capacity in the BC lower mainland. This interest has been indicated in:

- A feasibility study for a Food Technology and Commercialization Centre in the lower mainland
- Our survey of potential users.

However, the apparent demand must be tempered by the objectives of those who would purchase services and the conditions under which they would participate. There appears to be a latent demand from agricultural producers for incubator services in the region and access to state-of-the art technology for ingredient testing, shelf life testing, lab services, market research and product analysis. The objectives of these potential participants are to test pre-commercial food products and technologies with the intent to graduate from the facility once the transition has been made to commercialization.

Our investigations revealed that the nature of the interest identified in the Hope facility does not dovetail well with the concept of a shared-use community kitchen. A conventional shared-use community kitchen concept is often is based on community goals associated with rural revitalization, poverty reduction, and improved community access to food. In contrast, many respondents to our survey questioned whether a shared-use facility would be able to meet either the technology, scheduling or service demands of potential users trying to develop an economically sustainable business venture. From this perspective, there does not appear to be shared expectation or interest in utilizing the facility on a recurring basis.

This is not to say that refocusing to support a social or community-based concept is not possible at the Hope facility. However, it is important to acknowledge that each concept has completely different implications for funding, investment, revenue generation and overall feasibility. In the current situation, the expectations of prospective users and owners are spread across the spectrum of possibilities and do not suggest a common theme or purpose. It is worth noting that community kitchens with social objectives are usually supported by ongoing governmental funding and do not measure success in dollars and cents.

A potentially attractive use for the facility is as a base for catering businesses. However, our investigation indicates that Hope does not appear to be in a favourable location for such activity.

A second consideration is logistical in nature and concerns the need for approval by the Fraser Health Authority according to the Health Act's Food Premises Regulations and permitting as a "food service establishment". In general, food facilities must be federally approved if the food products are to be sold in inter-provincial and international markets. The Canadian Food Inspection Agency (CFIA), under the umbrella of Agriculture and Agri-Food Canada, is responsible for all federal inspection services pertaining to food safety, trade-related requirements and animal and plant health. The CFIA has a processed food section. It is not clear that there would be enough demand from the proper tenant mix to justify federal certification of the facility.

Lastly, the research is clear that neither incubator nor shared-use kitchen is likely to generate a reasonable monetary return on investment. "If your group is looking at a kitchen incubator simply from the profit and loss side, it may not make much sense. However, as part of your local integrated strategy for economic development, it could be a welcomed component." (Wold et al. 1997).

A micro-food processing facility is likely not feasible in Hope due to location and distance from users and food markets and the capital needs for upgrading the facility. The favoured location for a Food Technology and Commercialization Centre has been concluded to be in the Vancouver area, followed by Abbotsford.

9 Recommendations

Regardless of the commitments to this project so far, it is unrealistic to expect that private contributions can provide the funds necessary to sustain the project in the foreseeable future. All of the initiatives investigated show that these types of projects do not cover their costs and require a substantial amount of federal or provincial funding to sustain themselves In particular, a shared-use food processing facility is among the most difficult to maintain because of complications created by social objectives, management objectives and accounting standards.

The following recommendations are based on the results of our survey, investigations and analysis.

- Hope is considered to be on the periphery of the Lower Mainland and therefore not well positioned to attract the needed client base. As well, a significant volume of local agricultural production currently finds its way into regulated food channels such as dairy and poultry. Opportunities for food processing lie in the "fringe" crops, particularly those that the Hope area produces uniquely in high quality. Alternatively, pursuing options for specific "low–hanging fruits" in the area, as part of an agricultural plan might be feasible. For example, our study indicated good opportunities for the processing of garlic, hazelnuts, corn and herbs. Further research into these opportunities may provide better market direction for a shared-use facility.
- The core objective of a food processing facility should recognize the lack of feasibility of a privately-run, for-profit enterprise and consider the viability of a facility operated for either social or economic development objectives. The two are linked but need to be clearly articulated to create the environment for participation and investment.
- Further research and mobilization of socio-cultural and technology programs to bring processing expertise and capacity to the area may be an alternative to developing a bricks-and-mortar processing facility. The concept of the virtual incubator that combines a clearing-house of research, technical expertise and existing programming within a core networking and communications function may very well have merit in Hope. The Internet could play an key role in this concept.
- Concurrent developments in the food processing sector in BC could trump the Hope facility and developments. These initiatives should be investigated and integrated into the Hope situation.

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Appendix A – User Needs Survey Methodology and Results

Warren Fox of Geoscape Environmental Planners was contracted by Zbeetnoff Agro-Environmental Consulting to contact and survey companies, organizations and individuals within the agricultural sector from a list provided. The list was expanded to include others referred by those within the agricultural sector.

The intent of the survey is to evaluate the potential feasibility of a **shared use food processing facility** in the Fraser Valley for the Fraser Basin Council.

The Process

The first step was to send an email to all those with email addresses.
The second step was to phone those with incorrect or without email addresses.
The third step was to contact all those who had not responded to the emails.

Initially, the email recipients were given time to respond to the email. After two days, a phone call to each one of the recipients who had not responded was made to ensure the survey was filled or to solicit interest or comment. Two approaches ensued:

- If contacted, an interview ensued describing the project, asking them if they were a interested or not, asking them for reasons, ideas, and comments and if there was a level of interest, to take the time to fill out the survey during the course of the short interview.
- If a message was left, the recipient was reminded of the survey. They were asked to phone Warren if they had an interest or would like to make comment or if they were to look at the survey, to do the survey or to just to provide a reply as to their level of interest.

The calls were made during the day and in the evenings. Scheduling did not permit for calls to be made every evening, so these were done on a "can do" basis.

If after an email and a message or two there was no response than it is assumed that there is not the level of interest. However, since this cannot be verified than these are identified simply as Messages or Email.

Time constraints prevented 100% coverage therefore those on the list identified with incompatible use (meats), specific use (cheeses), out of the area, very large growers, other processing houses, hazelnut farms (there is a processor), and tree farms were not contacted and listed as Not Applicable. A few contacts were made to verify the assumption.

The Population

There were a total of 176 contacts identified that belonged to four lists. Figure 1 provides a percentage breakdown of the responses.

The following table provides the breakdown of the survey effort.

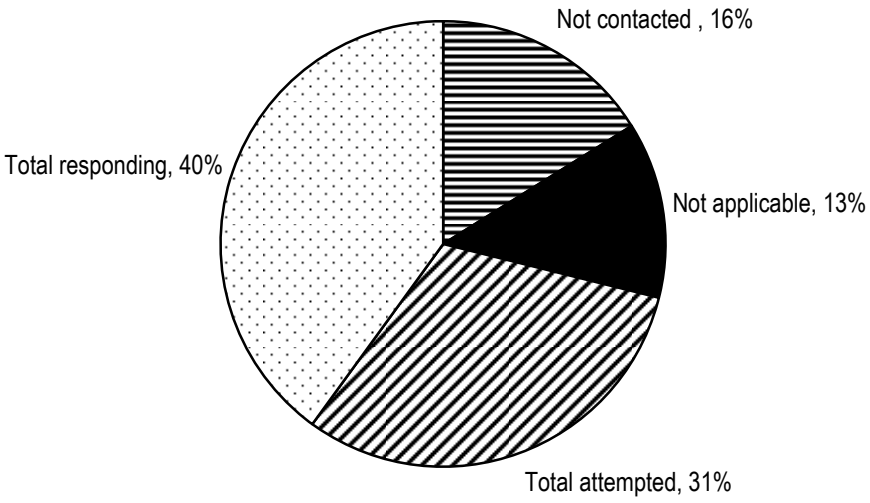
Respondent Tally

	FB	CS	Farm Guide	ORGANICS	totals	
Fox Done	9	2	3	1	**15**	contact
Z Done	8	3			**11**	
Fox Not interested	12	20	1	3	**36**	
Z Not Interest	0	5	3		**8**	
Not Applicable	2	22	1		**25**	
Messages		3			**3**	attempts
Email		10	1		**11**	
# Not in Service	5	2			**7**	
Cannot contact	1	1			**2**	
No answer		6			**6**	
Wrong #	2	9	10	2	**23**	
Total Listed	39	83	19	6	147	
TOTAL identified	41	95	34	6	176	
not contacted	2	12	15	0	29	

Explanation:

FB	Fraser Basin List
CS	Chilliwack Survey List
Farm Guide	Farm Fresh Reference Guide 2007-2008
Organics	From the website: www.certifiedorganics.ca. The website has since been disabled (April 7, 2008)
Fox Done	Interested. Survey filled or person interviewed.
Z Done	Interested. Zbeetnoff prior contact.
Fox Not interested	Contacted. Not interested: comments were requested as to why.
Z Not Interest	Not Interested. Zbeetnoff prior contact
Not Applicable	Some contact. Meats, dairy, hazelnuts, outside area, etc.
Messages	Telephone Message
Email	Email only. There were however, approximately 90 emails were sent.
# Not in Service	Telephone numbers are not in service.
Cannot contact	No telephone number. The recipients are not responding to email.
No answer	There is no answering machine.
Wrong #	Wrong telephone number with no forwarding.
Total Attempts	Total of the above.
TOTAL identified	All contacts.

Response Analysis of 175 Contacts



Survey Results

General Comments

Perceived advantage of this type of facility
- There may be networking capabilities among other growers or processors.

Location of Facility
- Location allows product to fall within the 100 miles radius from Vancouver which is excellent for "carbon friendly" marketing.
- Half an hour drive seems to be the acceptable amount of time on the road (40-50 KM?).
- The Hope location although acceptable to some is seen as being too distant from the market, population centers and most of the farms.
- Cost of transport is a consideration.
- Chilliwack is considered more central by many interviewed.

Quality
- Good manufacturing practices are required to ensure the products are of the highest quality...
- Proper sealing equipment is important.
- There can be no room for error in processing. Failure can result in not only product loss but have a negative effect on the marketing.

Accreditation
Paramount importance for all respondents is all applicable site licenses
- GMP – Good Manufacturing Practice is required for all processes.
- Natural health products and remedies require a unique licenses and good manufacturing practices. http://canadagazette.gc.ca/partII/2003/20030618/html/sor196-e.html
- Organic goods require certification that meets identified criteria.

Cooperation
- Discussion with Patsy Gessey (Lytton) and the Two Rivers Farmers Market (30 members) brought to light the importance of groups that have a history of cooperative production and marketing endeavours in a successful shared use facility.
- These groups can act as an important arm of a processing facility by providing a customer base but also a form of associative governance.

Timing
- There is a concern that the adage "when it rains it pours" will describe the use demand for the facilities particularly during harvest season.
- In a facility such as this there is a need to have products that can be produced during shoulder and off seasons.

Demographics:
- Many of those surveyed are senior citizens who are not interested in increasing their production but in maintaining what they have as a supplemental income.

Dairy:

- The value added component is associated with cheese and yogurt making.
- To create the diversity of cheese and to assure quality, constant monitoring of temperature over specific times is essential. This requires the constant presence of the manufacturer during the process. It is a dedicated process that may not be favourable with a shared use facility. To fill in the gaps of time, cheese making can be coordinated with the bottling of milk.

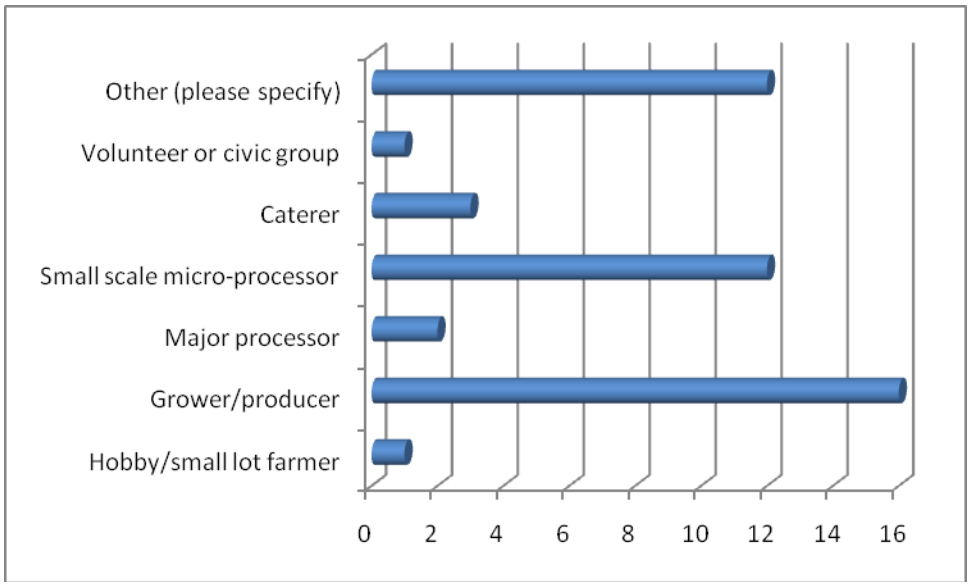
Hazelnut

- The Hazelnut producers bring their products principally to Pentti Hanninen for any type of value added production.

Caterers

- This group has had a mixed reaction to the interview and survey.

1. Please classify your current situation.

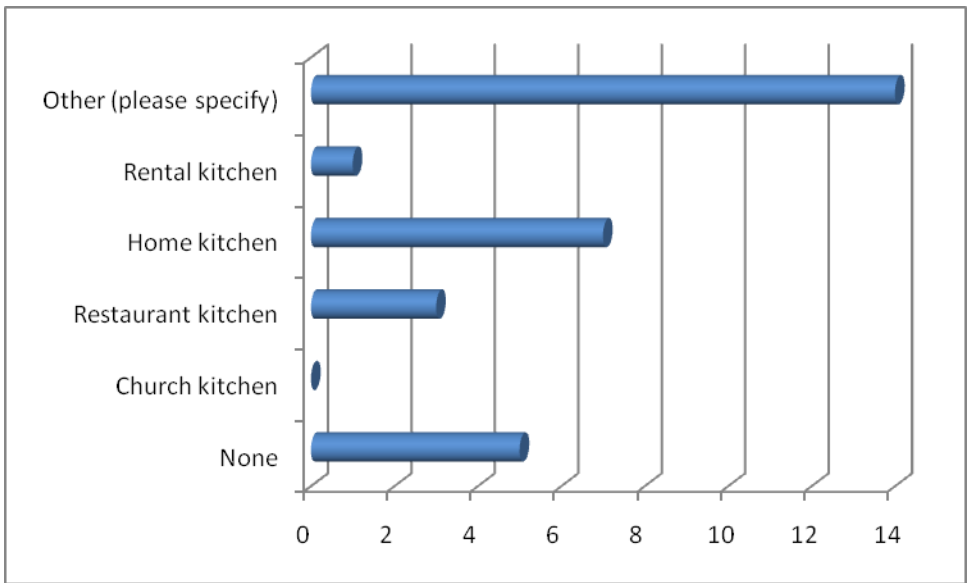


2. Please describe your food processing interest and potential future situation? (Check all that apply)

Would like to process food products from my own crop production	39.1%	9
Would like a processor for my crop production	4.3%	1
Currently process food products from my own crop production	60.9%	14
Require additional space to process other food products	8.7%	2
Require special facilities to process other food products	21.7%	5
Process raw products purchased from producers	34.8%	8
Other (please specify)		7

Other (please specify)
none
referral service
food safety and quality
regulator/facilitator
home based facility
not interested
agricultural educator

3. What facilities or services are you currently using to meet your food processing needs?

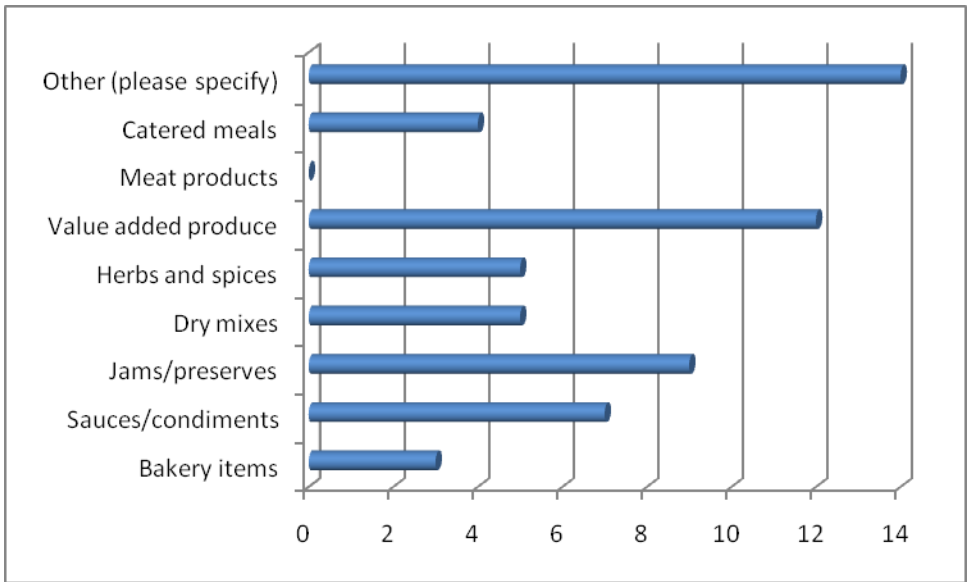


Other (please specify)
commercial on-farm kitchen
our own dairy processing plant.
none
we have our own small processing kitchen
own facility
small drying facility.
utilize food processors directory and networking as resource
commercial kitchen (rent per hour)
inspection line on site & outside freezer storage
kitchen in production facility no
NA
licensed and inspected
n/a
Johnston packers for meat

4. If you are currently processing food products, how many years have you been processing?

Average – 7.9 years Longest – 20 years

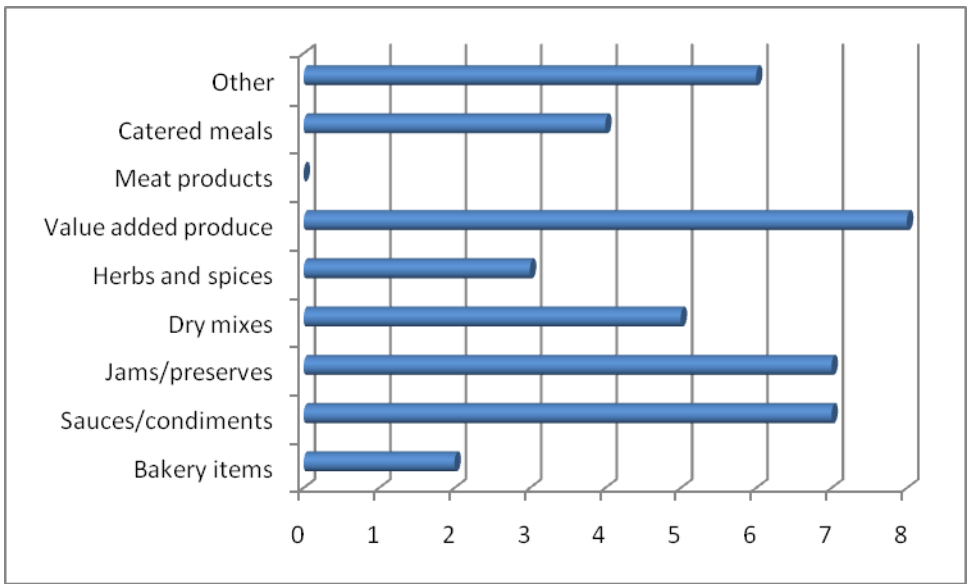
5. What food item(s) are you now preparing or interested in preparing?



Other (please specify)
dairy
none
all our products are wild harvested
liquid extracts
all
gel, sundried, whole
dried fruit, berry juices
honey wines using fruit
fish
honey
NA
education; answering questions on food processing
packaging dry mixes; energy bars; organic certified
frozen vegetables, berry, and meat products, pickles

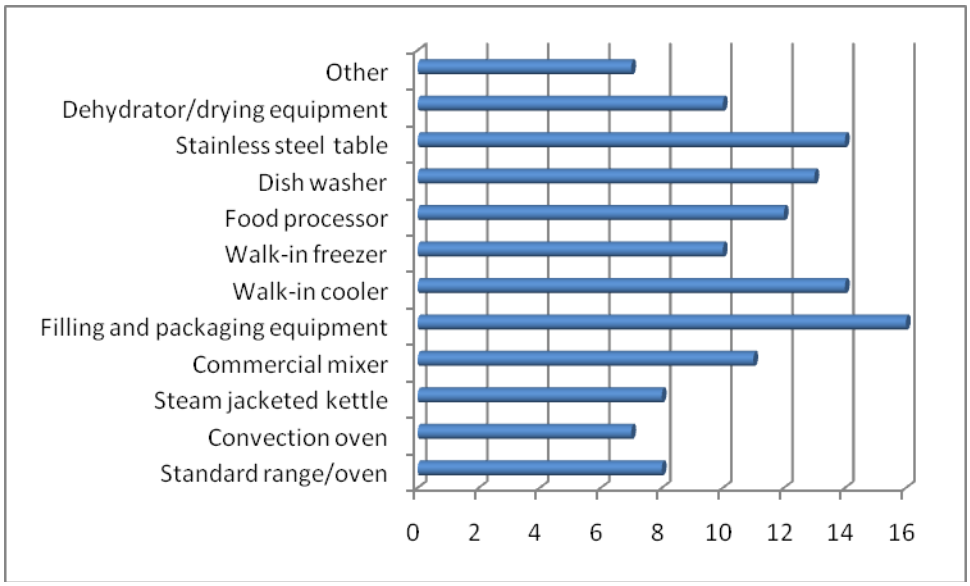
6. Please rate your interest in preparing the following food items.

(Respondents indicating high or serious interest)



(please specify)
dairy
none
wild harvested non-timber forest resources both traditional use plants and berries
juices
dried fruit, juices
honey & honey products
shared use facility could be difficult to operate and would require a full time manager (chef); control of the inventories of the various users
packaging dry mixes; energy bars; organic certified
frozen berries, frozen meats

7. What type of equipment would you need to prepare your food product?



(please specify)
none
we have our own
ss mazeration/ percolation
apple corer splicer , UV juicing facility, bottling facility
burner and fan (fish)
flash freeze, Ph balance tester, testing equipment to ensure seals
high power juicing machine for apples
labelling machine
business incubator food processing opportunities
bottle washer sterilizer; large cooking pots; sealing kettles; large and small scales
proofer, large bakery oven, tempering machine
hot water bath kettle; stainless steel 3 bin washing sink; labelling equipment; 3-4 door reach in coolers
flash freezer

8. What ingredients would be essential to your products?

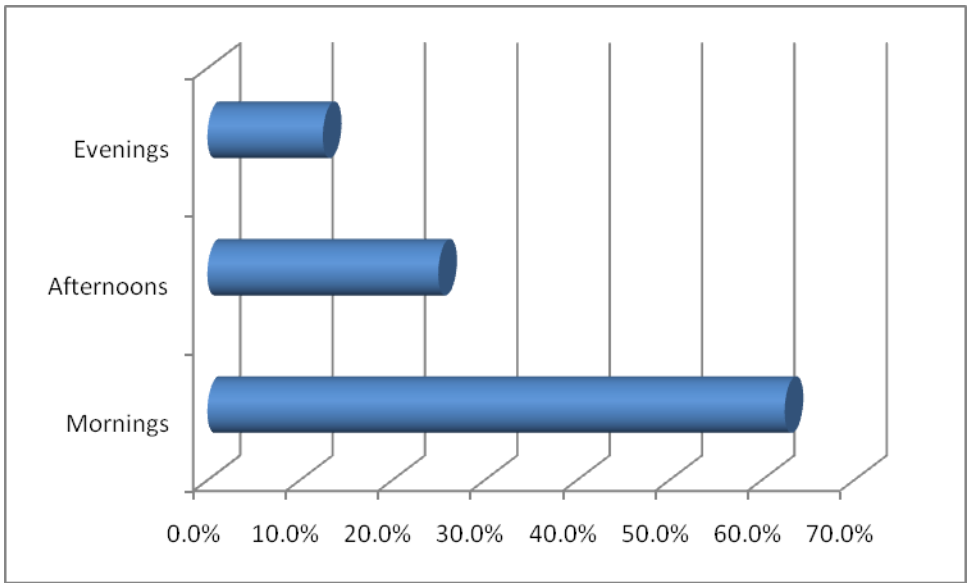
Rank by number of times mentioned.

Item
Fresh produce
Sugar
Vinegar
Juice
Pectin
Herbs/Spices
Butter/oil

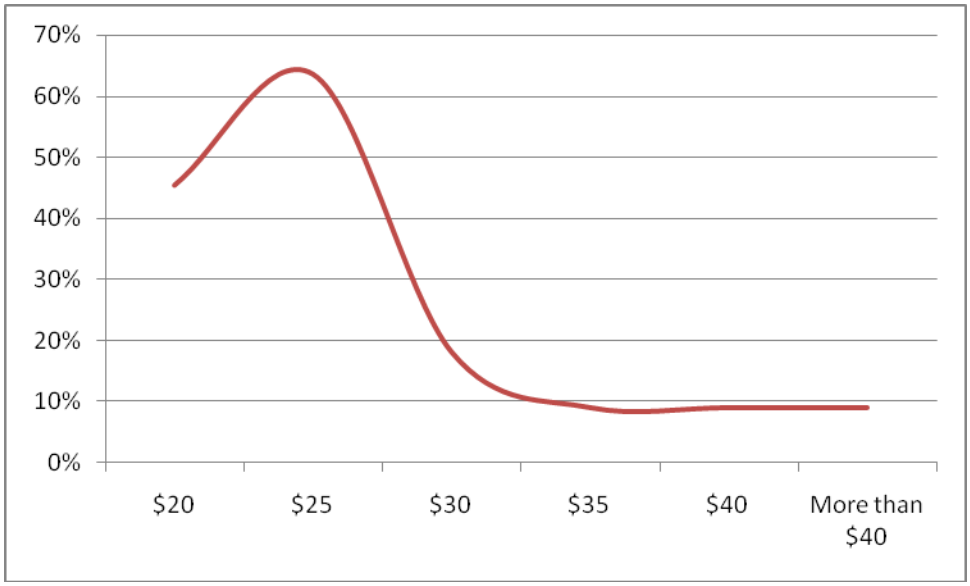
9. How many hours might you be interested in using this facility (answer one only)?

Answer Options	Response Average
Daily (hours per)	7
Weekly (hours per)	20
Monthly (hours per)	17
Weighted average hours per week	21.5

10. What time of day would you be interested in using the facility?



11. How much would you be willing to pay on an hourly basis to lease this facility? Please mark all that apply.



12. What type of customer are you targeting?

Response
retail - speciality
restaurant, grocery store, coffee shop, wholesaler
families with kids @ home.
retailer, distributer, manufacturer
presently targeting buyers to farm. 95% fresh produce. Possible interest in dried fruit (apples) and juices however concerned by competition for these products from the Okanagan. Not sure if dried fruit or juices are feasible.
working double income house
restaurants or direct retail
organic buyers retail, wholesale or direct sale
100 mile diet, drop in, agri tours
young people, 100 mile radius crowd
health foods, local foods
health conscious, organic market
restaurants, individuals, manufacturers of other products
food savvy consumer who is conscious of organic and/or natural ingredients, locally grown when possible, all resulting in a high-end product no longer readily available
customers who are concerned where their product is made and are willing to pay for a quality specialty product
local premium; healthy; baby boomer
industrial

13. What is your annual sales goal?

Average – $660,000 Highest – $2 million Lowest - $20,000

14. How do you plan to market your product?

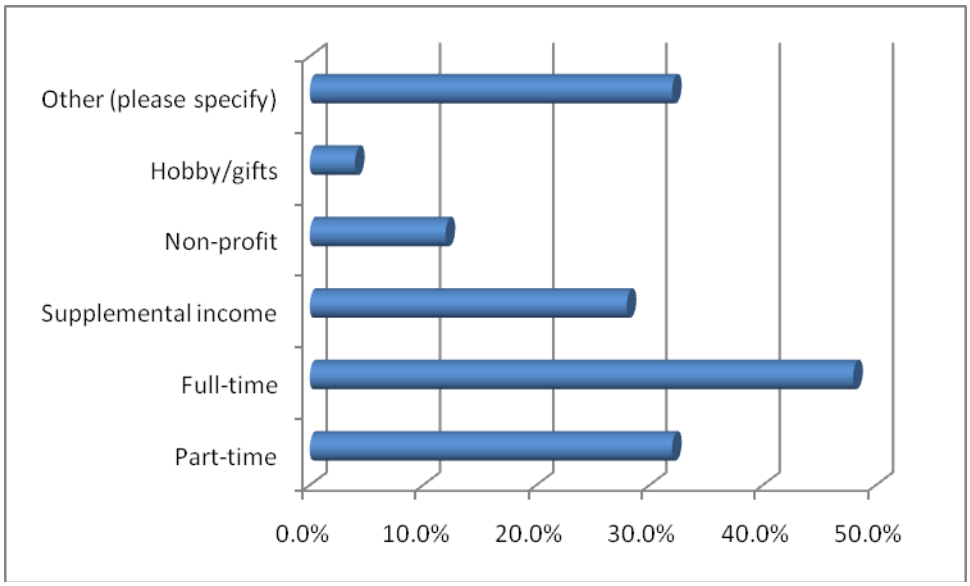
Response
demos/sales program/pr firm
salesman
Self marketer
on my own
storefront, advertise
using current customers and advertising in the organic market.
wine can only be done on SITEL
retailers or restaurants
local fairs, online store
farmers markets, local retail stores, commercial outlets, "web" sales
have retained customers from former retail operation
farmers markets, trade shows, Christmas shows
retail off the farm
co-packing for industrial companies and distributors
farmers markets; farm gate

15. How would your product be packaged?

Rank by number of times mentioned.

Item
Jars/bottles
Bulk container
Boxes
Bags

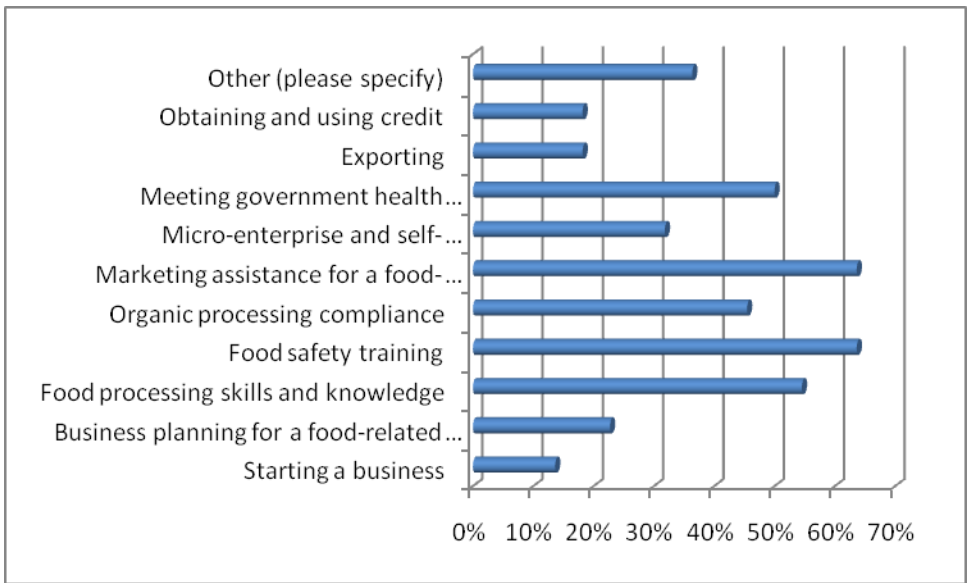
16. What type of business are you looking to operate?



17. Have you taken any food processing training in the last three years?

Answer	Response Percent
Yes	52.0%
No	48.0%

18. Would any of the following seminars or classes be of interest to you? (check all that apply)



Other (please specify)
we do our own sustainable harvesting course for anyone who wants sell product to us
Viticulture
food quality certification, local foods, consumer demands
food technologist; accounting; product development facilitator
Would be interested in discussing making our facility available for this type of project
nutritional considerations for prepared meals and food products
Nutritional considerations for prepares meals or food products
Will provide food processing training

19. How far would you be willing to travel to use a shared-use facility or kitchen?

Average – 38 km **Highest – 60 km** **Lowest – 20 km**