



2016 Comparative Food and Beverage Industry Operating Costs Analysis

The 2016 site selection study, completed by The Boyd Company, Princeton, NJ, compared the cost of operating a typical food processing plant in 24 regions of the United States and Canada.

The study focused on current and emerging centres of food and beverage manufacturing activity.

Annual operating costs are projected solely for comparative purposes, with only major geographically variable factors being considered.

The analysis focused on those key cost elements most pivotal within the food processing industry site selection process, including labour, real estate, power and taxes.

The following table is the cost ranking of the 24 food manufacturing regions:

FOOD AND BEVERAGE INDUSTRY	
TOTAL GEOGRAPHICALLY-VARIABLE OPERATING COST RANKING: NATIONAL	
Food Manufacturing Regions	Total Annual Operating Costs
San Francisco/Bay Area Region	\$45,731,290
Brooklyn/Long Island Region	\$45,379,307
Salinas/Monterey Bay Region	\$44,169,431
Rochester/Upstate NY Region	\$44,111,146
Los Angeles/Southern CA Region	\$43,872,776
Fairfield/Northern CA Region	\$43,293,859
Camden/Southern NJ Region	\$43,082,181
Minneapolis/St. Paul Region	\$42,855,465

Chicago Region	\$42,393,578
Modesto/Central Valley Region	\$41,783,008
Harrisburg/Lebanon Valley Region	\$40,370,682
Allentown/Lehigh Valley Region	\$40,213,410
Baltimore/Central MD Region	\$39,521,972
Cincinnati/Southern OH Region	\$38,687,906
Scranton/Northeast PA Region	\$38,464,154
Henderson/Southern NV Region	\$38,263,490
Omaha/Eastern NE Region	\$37,761,399
Dallas/North TX Region	\$37,607,053
Twin Falls/Southern ID Region	\$37,547,104
Miami/South Florida Region	\$37,414,004
Tri-Cities/Southeast WA Region	\$37,303,884
Portland/Southern ME Region	\$37,269,826
Cleveland/East TN Region	\$36,467,050
Eastern Ontario Region	\$30,211,263

*costs are scaled to a hypothetical 300,000 square-foot food processing facility employing 500 workers.

Canadian costs are in U.S. dollars at an exchange rate of .7500.

Other drivers dominating the corporate selection process within the food and beverage industry are:

1. Site Selection Trend: Food Safety and Modernization Act (FSMA)

In today’s global and uncertain economy, comparative operating costs are ruling the corporate site selection process like never before. However, comparative costs are of special concern to the hyper cost-sensitive food and beverage industry — a sector now faced with added compliance costs associated with the new Food Safety and Modernization Act (FSMA) now being rolled out by the Food and Drug Administration.

This the most extensive and far-reaching update of federal food safety laws since 1938. It is expected that FSMA-mandated plant upgrades will be economically unfeasible for many older food processing facilities, this spurring a significant demand for new, greenfield manufacturing sites by food processors. Today, food processing — a sector less prone to offshoring — is a growth sector of the domestic corporate relocation field.

Overall, FSMA is a food safety game-changer, shifting the paradigm of the food industry from reaction to food safety events to one of preventing them. It is yet another mandated expense for processors, placing an even greater emphasis on bottom-line operating costs for investment decisions on a new plant and equipment. For many food processors today, improving the bottom line on the cost side of the ledger is far easier than on the revenue side.

2. Site Selection Trend: Water

An epic drought and new government restrictions on ground water access is expected to have long-range implications on food processing site selection decisions in California and throughout the western U.S. In California, the nation's leading food processing state, water availability and its cost, along with rising taxes, are precipitating an out-migration of food and beverage plants.

The availability of reliable, long term water supplies — an asset for water-rich locations like

Eastern Ontario — is an increasingly pivotal site selection factor for the food and beverage processing industry.

3. Site Selection Trend: Trade

Foreign consumer markets, especially Asia's growing middle class, show great demand for U.S. food and beverage products due to their branding appeal, quality and safety. As a result, export opportunities and trade agreements are of growing importance to the food and beverage industry. Canada has free trade agreements with 40 countries compared to only 20 for the U.S. Popular support for free trade with Japan and China is much higher in Canada than the U.S., and the Trans Pacific Partnership (TPP) trade agreement is expected to be ratified in Canada later this year. The TTP — which would connect the U.S. with 12 countries accounting for 40 percent of global GDP — is stalled in Congress and its likelihood of approval after the fall presidential election is uncertain.

4. Site Selection Trend: Canada

Eastern Ontario — home of food processing operations of Kellogg's, Quaker Oats, PepsiCo and

Nestle — is the least cost location in the Boyd analysis. A favorable exchange rate, low world market sugar prices, low land costs, absence of development fees and lower corporate fringe benefit costs owing to Canada's national healthcare plan all contribute to its cost effectiveness.

In terms of tax policies, KPMG ranks Canada first among G7 nations for its low corporate taxation rates. Last year, Ontario launched the new \$2.7 billion Jobs and Prosperity Fund to incentivize new corporate investment and jobs. The fund includes a

special food and beverage industry focus and is considered by Boyd as one of the most extensive and best funded incentive programs in North America.

5. Site Selection Trend: Workforce Training

One of the biggest challenges facing our site-seeking clients in the food sector is finding skilled labor to assemble and run the high-tech equipment on the production floor, as well as recruiting scientifically trained workers to carry out demanding quality control research and testing in the lab. Today, the food industry is high tech and suffers the same problems recruiting skilled workers that other advanced manufacturers do. In many markets, the available workforce is not properly trained coming in, so our clients need to do their own training. To assist with this costly undertaking, site searches include a thorough examination of workforce training programs, as well as access to strong academic programs in the food technology field for training, continuing education and recruiting support.

Colleges with strong food technology programs serving those locations included in the cost analysis include Penn State University, Rutgers, the University of Nebraska, the University of California-Davis, Washington State University, Lehigh University and Loyalist College located in the Eastern Ontario city of Belleville.

Comparative Annual Operating Cost Simulation Summary						
	Highest Cost Location					Lowest Cost Location
	San Francisco/ Bay Area Region	Rochester/ Upstate NY Region	Chicago Region	Allentown/ Lehigh Valley Region	Omaha/ Eastern NE Region	Eastern Ontario Region
Nonexempt Labour:						
Weighted Average Hourly Earnings	\$30.02	\$29.44	\$27.95	\$26.45	\$25.30	\$21.16
Annual Base Payroll Costs	\$28,579,040	\$28,026,880	\$26,608,400	\$25,180,400	\$24,085,600	\$20,144,320
Fringe Benefits	\$10,574,245	\$10,574,245	\$9,845,108	\$9,316,748	\$8,911,672	\$3,827,421
Total Annual Labour Costs	\$39,153,285	\$38,396,826	\$36,453,508	\$34,497,148	\$32,997,272	\$23,971,741
Electric Power Costs	\$1,026,660	\$624,264	\$449,304	\$725,688	\$546,780	\$581,100
Natural Gas Power Costs	\$396,000	\$389,400	\$247,800	\$454,800	\$267,000	\$292,783
Amortization Costs	\$3,523,808	\$2,761,287	\$3,059,681	\$2,872,097	\$2,568,695	\$2,751,969

Property and Sales Tax Costs	\$1,631,537	\$1,921,369	\$2,183,285	\$1,663,677	\$1,381,652	\$2,677,342
Total Annual Geographically-Variable Operating Costs	\$45,731,290	\$44,111,146	\$42,393,578	\$40,213,410	\$37,761,399	\$30,274,935

Notes: Includes all major geographically-variable operating costs for a 300,000 sq. ft. plant employing 500 hourly workers.

Start-up and relocation costs not considered. All costs are in U.S. dollars.

Source: *The Boyd Company, Inc. Location Consultants, Princeton, NJ, 2016*