

# **SCALING UP SPECIALTY FOOD AND BEVERAGE COMPANIES IN SOUTHEAST MICHIGAN**

**An Evaluation of the Region's Food and  
Beverage Entrepreneurship Community**

A REPORT BY:

**endeavor**  
INSIGHT

**PART OF A SERIES ON SOUTHEAST MICHIGAN'S  
COMPETITIVE ADVANTAGES IN ENTREPRENEURSHIP**

## ABOUT ENDEAVOR INSIGHT

Endeavor Insight is the research and policy division of Endeavor, a nonprofit organization with a 20-year history of supporting high-impact entrepreneurs around the world. Our team of economists, data scientists, and policy analysts provide data-backed insights on entrepreneurship and its contribution to economic development. We specialize in understanding how entrepreneurship networks can drive job creation and inclusive growth. We partner with organizations that support entrepreneurs, including foundations, multilateral agencies, and corporations.

The methodology utilized in this study builds on previous Endeavor Insight research supported by the Omidyar Network and the Kauffman Foundation. The findings summarized in this report are drawn from interviews with more than 45 specialty food and beverage founders operating in Southeast Michigan, as well as secondary data on over 220 specialty food and beverage firms.

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The William Davidson Foundation is a private, family foundation established to honor its founder and continue his lifelong commitment to charitable giving, advancing for future generations the economic, cultural and civic vitality of Southeast Michigan, the State of Israel, and the Jewish community.

# Executive Summary

In 2019, Endeavor Insight completed a study with support from the William Davidson Foundation that identified six sectors that make up Southeast Michigan's competitive advantages in entrepreneurship.\* Specialty food and beverage manufacturing was one of the sectors highlighted as a local strength.† This report revisits that research to identify strategies for furthering the growth of these businesses. Data collection was conducted before the COVID-19 crisis, but the findings have been presented so that they are especially relevant to ongoing economic recovery efforts.

**Southeast Michigan needs to diversify its economy and leverage existing competitive advantages in entrepreneurship.** The COVID-19 crisis exposed Southeast Michigan's continued dependency on the automotive industry. The region now needs to leverage its existing economic strengths, which include the specialty food and beverage manufacturing sector. Companies in this industry have already played a critical role in the economy during the pandemic. This report provides information on how decision makers in both the private and public sectors can support the growth of local companies in specialty food and beverage manufacturing. The study shares four major findings:

**1. Employment in the specialty food and beverage manufacturing sector in Southeast Michigan remains dominated by older, legacy businesses.** The number of specialty food and beverage manufacturing companies has increased threefold in the past 20 years to more than 220. However, the number of companies that have scaled has stagnated, and the sector's dynamism, as measured by the proportion of scaled companies founded in the past 10 years, has fallen. All of the sector's larger companies with 100 or more employees were founded over 10 years ago. If more new companies reach scale in this sector it would have a tangible effect on job creation in Southeast Michigan.

**2. Despite a long tradition of food and beverage manufacturing in the region, founders face significant barriers to scaling their companies.** Endeavor Insight interviewed local founders about the challenges they faced when operating their businesses. Access to funding was the most frequently cited challenge, noted by 44 percent of respondents. Clearing regulatory requirements and accessing distributors and production facilities were the next most commonly cited obstacles. Access to suppliers, talent, and markets were less commonly noted as challenges.

**3. Support from experienced founders could help address the challenges that entrepreneurs in the sector face.** Previous research by Endeavor Insight found that when local entrepreneurs of companies that scale offer support such as employment experience, mentorship, and investment to other founders, those up-and-coming companies are more likely to scale. Although there is a strong spirit of collaboration among newer companies and high levels of participation in entrepreneurship support programs, there were low levels of other types of important connections in the community.

**4. Decision makers can implement specific policies to leverage specialty food and beverage manufacturing as a competitive advantage.** The following five recommendations were developed as a practical guide for policymakers, investors, and entrepreneurship support organizations.

**Recommendation 1: Help companies pivot to online commerce.** The COVID-19 crisis accelerated the shift from brick-and-mortar retail to e-commerce. Support organizations are in a position to help entrepreneurs take advantage of this opportunity so that businesses survive the crisis and gain new, long-term customers.

**Recommendation 2: Help founders expand production through funding and access to facilities.** Scaling a food and beverage company takes significant resources, in part because setting up a manufacturing facility is so costly. Decision makers can support entrepreneurs by encouraging larger, more established manufacturers to allow newer companies to lease their production facilities. Decision makers can also work to provide patent funding that would allow more founders to invest in production facilities.

**Recommendation 3: Help founders clear regulatory requirements.** Decision makers can facilitate ongoing communication between regulatory agencies, city officials, and local entrepreneurs. Fortifying connections between policymakers and entrepreneurs is an important tool to help more specialty food and beverage manufacturers scale in Southeast Michigan.

**Recommendation 4: Foster productive connections in the entrepreneurship community.** Specialty food and beverage entrepreneurs have a strong sense of community in Southeast Michigan, but the type of connections that help companies grow are relatively rare. Decision makers can help more companies scale by encouraging angel investment and mentorship between founders.

**Recommendation 5: Elevate examples of founders who have scaled their companies.** There are several opportunities to raise the profile of the local sector. One way to do this is to showcase the food and beverage companies that have worked hard to help locals during the pandemic. Another way is to advertise the specialty food and beverage manufacturing sector as one of the region's competitive advantages in local and national media campaigns.

\* The analysis for Southeast Michigan in this report are based on the following seven counties: Livingston; Macomb; Monroe; Oakland; St. Clair; Washtenaw; and Wayne. Where county-level information was unavailable, data for the Detroit-Warren-Dearborn and Ann Arbor metropolitan statistical areas was used, which includes Lapeer County and excludes Monroe County. Endeavor Insight's research on the region's competitive advantages in entrepreneurship identified six groups of larger, high-value, entrepreneurial companies operating in a similar industry and given geographic area. These are consulting firms, software companies, lending-based businesses and financial services firms, shipping and logistics businesses, marketing and branding agencies, and specialty food and beverage manufacturers. For more information, please see the report titled "Southeast Michigan's Competitive Advantages in Entrepreneurship" available at [endeavor.org/semi-cae](https://endeavor.org/semi-cae).

† Specialty food and beverage manufacturing encompasses all activities and processes that add value to food and beverage ingredients. The term is used interchangeably with "value-added food and beverage manufacturing."



## INTRODUCTION:

# Southeast Michigan Needs to Diversify Its Economy and Leverage the Region's Competitive Advantages in Entrepreneurship.

### The COVID-19 crisis exposed Southeast Michigan's continued dependency on the automotive industry.

For several years leading up to 2020, Southeast Michigan's economy was steadily improving. Detroit was celebrated across the country for the successful revitalization of its downtown areas, and entrepreneurs and students were looking to move to Detroit.<sup>1</sup> In February 2020, seven years after the city declared bankruptcy, Moody's gave the city's rating a positive outlook, citing, among other considerations, its "improved job base" and "rising tax benefits."<sup>2</sup>

A month later, the COVID-19 pandemic hit, exposing age-old structural problems in Southeast Michigan's economy.<sup>3</sup> The state of Michigan continues to depend on the automotive industry, which the Brookings Institution identified as one of the most heavily and immediately impacted industries in the crisis.<sup>4</sup> By mid-April, the *Washington Post* reported that roughly a quarter of Michigan's workforce had applied for unemployment benefits.<sup>5</sup> The outlook in the city's rating was revised to stable, then negative.<sup>6</sup> By May 2020, Detroit was one of the hardest hit areas by the economic effects of the pandemic in the United States.

### Southeast Michigan needs to leverage existing competitive advantages in entrepreneurship in order to diversify its economy.

Endeavor Insight research suggests that regions have certain competitive advantages in entrepreneurship that decision makers can leverage to diversify local economies. Companies that are larger (employing 50 or more people) and operating in high-value industries are closely linked to important outcomes in cities, such as job creation and higher productivity. There is also evidence from the aftermath of the 2008 Financial Crisis that companies like these tend to be more resilient in times of crisis because they shed fewer employees.<sup>7</sup>

In 2019, with support from the William Davidson Foundation, Endeavor Insight scanned the region for these productive companies and found that Southeast Michigan is fortunate to have several of them. These valuable companies are concentrated in six sectors that are more prevalent in Southeast Michigan compared to the rest of the United States, giving the region a competitive edge.\* These sectors are specialty food and beverage manufacturing, software, consulting, shipping and logistics, marketing and branding, and lending and financial services.



Photo Courtesy of Eastern Market Partnership

All six groups of local companies operate in sectors outside the traditional automotive industry. The findings of this study found that by devoting support to these six groups, decision makers can further diversify the economy and help the companies with the greatest capacity to create large numbers of local jobs. Although this research was conducted before the onset of the COVID-19 pandemic, the findings are even more relevant and necessary for increasing Southeast Michigan's economic growth and resilience.

**Specialty food and beverage manufacturing is one of Southeast Michigan's competitive advantages in entrepreneurship.**

Specialty food and beverage manufacturing encompasses all activities and processes that add extra value to food and beverage ingredients. For example, companies that create packaged foods and beverages, and businesses that make products in small batches from high-quality ingredients fall under this category. In 2019, there were over 220 value-added food and beverage manufacturers in Southeast Michigan. Based on the 2019 study mentioned above, the area has a higher share of companies with 50 or more employees in these industries than the national average, and outperforms neighboring metropolitan areas by the same metric.

Beyond job creation, value-added food and beverage manufacturing companies offer several benefits to communities in Southeast Michigan. The industry is diverse in terms of the number of women founders, and can promote social mobility — most entry level jobs in specialty food and beverage manufacturing do not require a college degree, but there are often opportunities for career advancement.

**Across the United States, specialty food and beverage manufacturing companies have played a critical role in keeping the economy going during the COVID-19 crisis.**

As cities across the United States went into lockdown due to the COVID-19 pandemic, demand for consumer packaged goods skyrocketed. Canned goods companies, liquor producers, and coffee subscription companies experienced a business boom, according to the U.S. Chamber of Commerce.<sup>8</sup> When meat factories were affected by the pandemic, the demand for plant-based proteins went up significantly as well.<sup>9</sup>

Many specialty food and beverage distribution channels like supermarkets, convenience stores, and

gas stations continued to operate normally during the crisis since they were declared essential businesses.

Specialty food and beverage manufacturers in Southeast Michigan experienced a similar increase in demand with the onset of the crisis, and many were quick to pivot their businesses in response. Some provided online purchasing and last-mile delivery options to customers for the first time. More than 30 breweries and over 15 coffee and tea companies in the area began to offer curbside pickup and delivery. Ari Weinzwieg, the co-founder of **Zingerman's**, an iconic Ann Arbor deli and food manufacturer, reported that, while restaurant sales collapsed, wholesale and mail order purchases nearly doubled.

Many of the iconic value-added food manufacturers in the area also stepped up to help the local community from the start of the COVID-19 crisis. Jack Aronson of **Garden Fresh Gourmet** accelerated the launch of a quick-heat meal business for households and offered 10 percent of the proceeds to organizations helping people experiencing food insecurity. **Eastern Market** adapted to serve customers from their cars. Supported by the State of Michigan, several breweries shifted to producing hand sanitizer when supplies were running low.

**This report provides information on how decision makers in both the private and the public sector can best support the growth of local companies in specialty food and beverage manufacturing.**

Entrepreneurial food and beverage companies will continue to play a critical role in Southeast Michigan's economy well after the pandemic. To assess how decision makers can support the continued growth of this industry, Endeavor Insight has partnered with the William Davidson Foundation to better understand the emerging community of entrepreneurs in this industry. Endeavor Insight interviewed 45 founders from 49 local companies in specialty food and beverage manufacturing on how they started and scaled their companies, and what challenges they faced along the way. In addition, researchers analyzed both the educational backgrounds and work histories of founders from more than 220 companies. The following pages share four major findings that help identify opportunities to better support entrepreneurs in this sector.

## Employment in the Specialty Food and Beverage Manufacturing Sector in Southeast Michigan Remains Dominated by Older, Legacy Businesses.

**WHILE THE NUMBER OF SPECIALTY FOOD AND BEVERAGE COMPANIES HAS INCREASED THREEFOLD, THE NUMBER OF COMPANIES THAT HAVE SCALED HAS STAGNATED.**

Endeavor Insight identified more than 220 specialty food and manufacturing businesses founded or headquartered in the region. As the graph below illustrates, the number of companies in the sector surged in the years following 2010. Today, these companies employ over 7,500 people in aggregate.

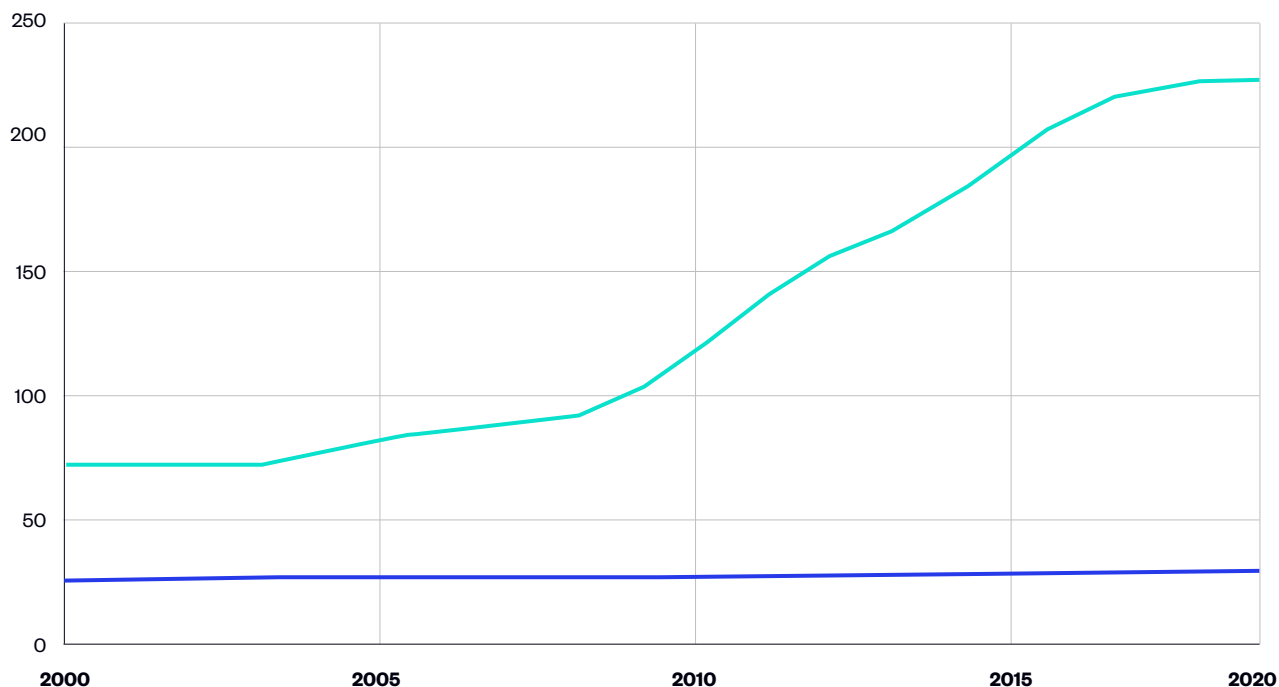
While the number of companies has increased threefold, the number of

companies that have scaled to the size of 50 employees or more has stagnated. Of the companies that have scaled, only three of them were founded in the past decade. All of the sector's larger companies with 100 or more employees were founded over 10 years ago.<sup>10</sup> This indicates a low level of dynamism in the local sector, which is measured by the proportion of scaled companies founded within the last decade.

### SOUTHEAST MICHIGAN'S SPECIALTY FOOD AND BEVERAGE MANUFACTURING COMPANIES OVER TIME

Cumulative number of companies

■ ALL COMPANIES ■ COMPANIES WITH 50+ EMPLOYEES



Source: Endeavor Insight analysis.

As the previous report on Southeast Michigan's competitive advantages in entrepreneurship demonstrated, the proportion of food and beverage manufacturing companies founded locally in the last decade was lower than the average seen in the rest of the United States.<sup>11</sup>

More than 70 percent of people in this local sector work at the handful of local, and mostly older, companies that have scaled to the size of 50 or more employees. If more new companies reach scale in this sector it would have a tangible impact on job creation in Southeast Michigan.

It is important to note, however, that many companies in this industry choose to remain small. There are several reasons for this that Endeavor Insight identified through

interviews with the founders. First, when asked about their ultimate goal, less than half of the entrepreneurs emphasized company growth. Instead, they were primarily focused on building a sustainable business to support themselves and their families, and on establishing a strong brand. Second, in many cases the brand of the company relies on high-quality, small-scale batch production, which cannot benefit as easily from economies of scale. Finally, many of these companies were started as passion projects, where founders sought to maintain personal relationships among a more tight-knit group of employees. The following sections show some of the factors preventing younger companies from scaling, and how they can be addressed with the right policies.

## Noteworthy Companies

The larger companies in the region are considered part of the industry's local legacy. A specific example is **Zingerman's**, mentioned earlier, that was founded in 1982. What began as a deli now encompasses 20 different sub-companies including a bakehouse, a creamery, and a coffee manufacturer. Another example is **Living Essentials**, founded by Manoj Bhargava in 2004. The company is known for producing 5-hour Energy, a drink which grew to an estimated \$1 billion in sales by 2012.<sup>12</sup> **Garden Fresh Gourmet**, also mentioned earlier, was acquired by Campbell Soup for \$231 million after several years of rapid growth.<sup>13</sup>

There are also companies that have been founded more recently that represent a new wave of activity taking place in Southeast Michigan. An example is **DROUGHT**, a Royal Oak-based juice company founded in 2014. It is one of the fastest-growing companies founded in the past decade, and now has five locations making more than 5,000 bottles of cold-pressed juice per week.<sup>14</sup>



## Despite a Long Tradition of Food and Beverage Manufacturing In the Region, Founders Face Significant Barriers to Scaling Their Companies.

Endeavor Insight evaluated the challenges that local founders are facing in order to identify how decision makers might better support them. In interviews, Endeavor Insight asked food and beverage founders about some of the most common challenges that entrepreneurs face, including access to customers, access to talent, and access to funding. During the interview process, a number of other obstacles particular to this industry arose, including clearing regulatory requirements, and accessing the right facilities and suppliers. Founders were asked whether or not they considered these elements to be serious or very serious challenges to operating their business. The findings below are based on the responses of the 45 entrepreneurs who participated in this survey.

### ACCESS TO FUNDING

Access to funding was the most frequently cited challenge, noted by 44 percent of respondents. This pattern was apparent regardless of the size of the company, although many younger companies did not want or need to seek funding, especially if they were not planning on scaling. Many small companies received loans from organizations like the Small Business Development Council rather than investors or other financial institutions.

Founders of some of the larger companies also mentioned that it was difficult to raise the type of funding they needed to scale operations outside of Michigan. This constraint is particularly important because bringing in revenue from customers outside the immediate region or from other states is important to boosting the local economy.

### CLEARING REGULATORY REQUIREMENTS

About 20 percent of respondents cited the clearing of regulatory requirements as an obstacle, making it the second most commonly reported challenge. This includes compliance with food safety and nutrition labeling rules. Many founders of smaller companies noted that existing regulations were prohibitively expensive to follow, especially for a startup. Notably, however, many founders of larger companies also considered regulatory requirements to be a challenge.

### ACCESS TO DISTRIBUTORS AND PRODUCTION FACILITIES

Access to distributors was the third most frequently cited challenge. Many founders stressed difficulties in competing with larger companies. Others found it difficult to meet the extremely high upfront costs and production levels required by many of the larger distributors.

This pattern is tied to another major challenge mentioned by a number of founders and experts: a lack of access to production facilities. Typically, shared kitchen space is not difficult to find for early stage companies, but as soon as companies begin to scale, they are caught in a dilemma. They need to invest in larger production facilities, but do not currently produce or market their product at a level that would sufficiently cover that added cost. Often, founders receive their first large customer and are forced to take on the risk of doubling or tripling their production capabilities without the guarantee that they will be able to sell at the same level in the future.

### ACCESS TO SUPPLIERS

Only 16 percent of respondents cited access to suppliers as a challenge. Those who did mention it explained that although suppliers were abundant, it was difficult to find one that met their quality standards, such as being organic certified.

### ACCESS TO TALENT

Similarly, 16 percent of founders considered access to talent to be a challenge. This is likely related to the fact that many of the founders interviewed wanted to remain small and already had the few employees they needed.

### ACCESS TO CUSTOMERS

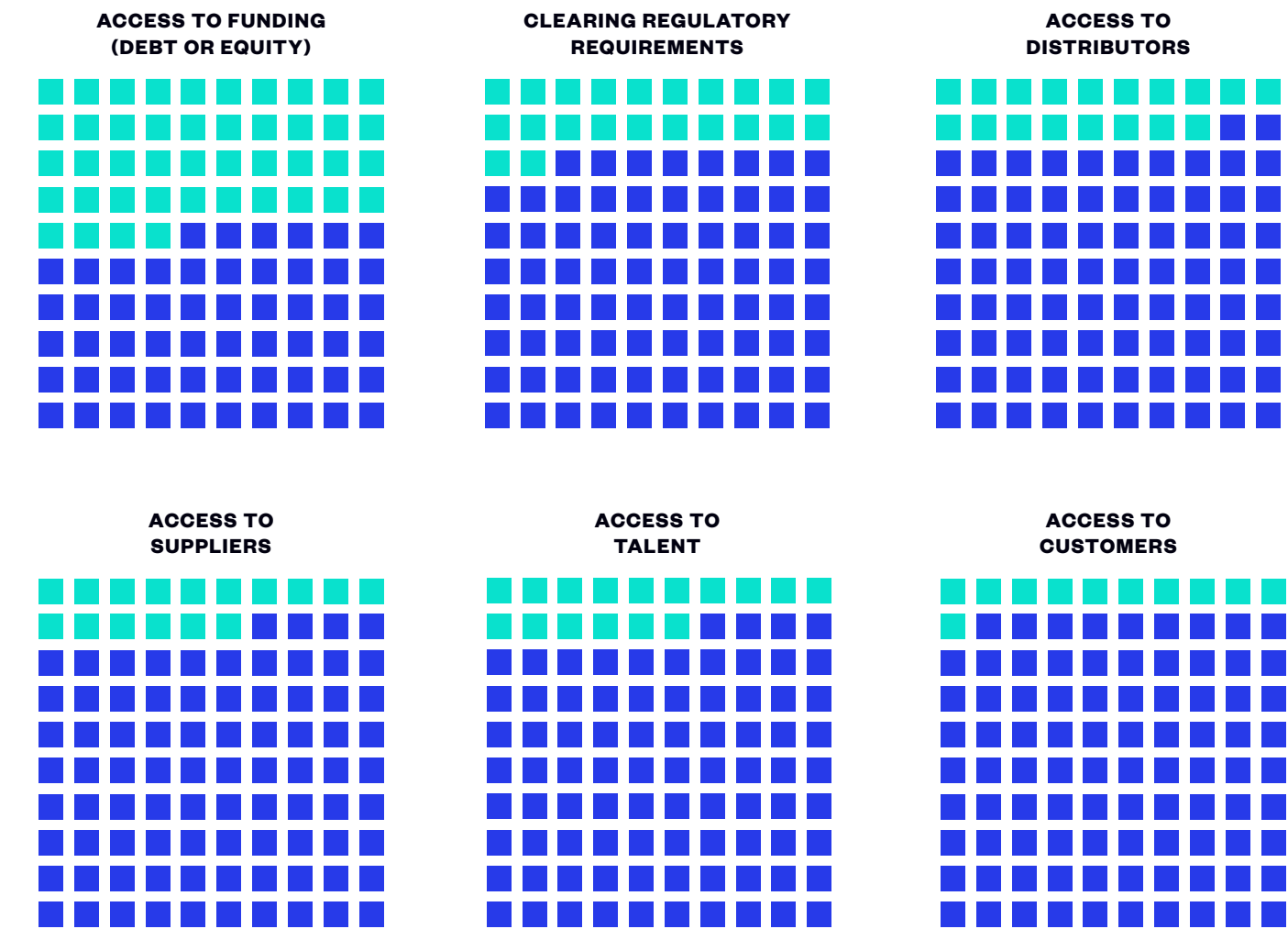
Access to customers was not a significant challenge on the whole, with only 11 percent of founders ranking it as an obstacle or very serious obstacle. This is mostly likely due to the large number of markets available to founders in Southeast Michigan. Several founders who did struggle in this area mentioned difficulties convincing potential customers that it was worth paying extra for healthier or higher quality products.



**ANSWER TO THE QUESTION:**  
**“IS THE FOLLOWING A SERIOUS OR VERY SERIOUS OBSTACLE TO THE GROWTH OF YOUR BUSINESS?”**

Percentage “Yes” Responses among Interviewed Founders

CHALLENGE NOT A CHALLENGE



Note: Each square represents 1% of respondents; total = 100%.  
Source: Endeavor Insight analysis.

## Support From Experienced Founders Could Help Address the Challenges That Entrepreneurs in the Sector Face.

The industry receives a lot of attention from the local government and a growing number of entrepreneurship support programs. Interviews revealed high levels of participation in such programs. While most of these programs target small early stage companies, several also focus on medium-sized companies that are growing. These include the **Michigan State University Product Center** and several programs launched by **Eastern Market**, the long-standing farmers market and event space that also offers food access and entrepreneurship initiatives. Another organization is **Foodlab Detroit**, which serves as a hub for food-focused entrepreneurs to launch and grow their businesses through their Fellowship for Change program.

Although there is a high level of participation in entrepreneurship support programs, there were low levels of other types of important connections in the community. Previous research by Endeavor Insight found that when entrepreneurs of companies that scale in a local sector are offering support such as employment experience, mentorship, and investment to other founders, those up-and-coming companies are more likely to scale.<sup>15</sup> These types of connections in particular are the strongest indicator of a robust and effective entrepreneurship network.

Endeavor Insight examined specialty food and beverage manufacturing companies in Southeast Michigan by analyzing the relationships among founders. Studying these connections allows for a deeper understanding on the state of the entrepreneurship community in this region.

### MENTORSHIP

Mentorship is the most common way that entrepreneurs were connected to one another, yet the percentage of founders who have given or received this type of support is much lower compared to what is typically seen in productive entrepreneurship communities.

That said, the most influential mentors in the food and beverage entrepreneur community are established, experienced founders. This is not typical — in many entrepreneurship communities studied by Endeavor Insight, only a fraction of the most active mentors are the ones that have scaled their companies.<sup>16</sup>

There are several instances of successful mentorship that could serve as inspiration for others in the local network. The case study on the next page tells the story of **Garden Fresh Gourmet**, which played an influential role in fostering a culture of support in the local food and beverage entrepreneur community. Similarly, one of **Zingerman's** companies is ZingTrain, which aims to help clients understand and apply the real-life systems, tools, and techniques used at Zingerman's.<sup>17</sup>

### PEER-TO-PEER SUPPORT

The comparatively low rates of mentorship do not necessarily mean that the sector's founders are isolated from each other. Peer-to-peer support was mentioned in some form by nearly every founder interviewed. This usually involves exchanging information, such as opinions on the best suppliers and distributors in the area, and insider market information. These relationships revealed a strong spirit of collaboration among newer companies, as they worked to grow in a market where their primary competition is from larger, established legacy corporations.

### EXPERIENCE

Other type of connections between founders is past professional experience. Very few founders worked at other specialty food and beverage manufacturing companies within or outside Michigan prior to starting their own company.<sup>18</sup>

Instead, a large percentage of founders in the sector started their careers in completely different industries, such as engineering, marketing, and teaching. Others brought experience from positions in adjacent industries such as working as chefs or in other roles in restaurants and bars. While many founders learned valuable skills from past employment, they often emphasized in interviews with Endeavor Insight that they were unprepared for the specific challenges of manufacturing food for retail.

In addition, serial entrepreneurship is also comparatively low. Very few founders in the industry have owned and operated more than one company.



Photo Courtesy of DROUGHT





## CASE STUDY: Garden Fresh Gourmet

In 1997, when Jack and Annette Aronson started Garden Fresh Gourmet in the back of a barbecue restaurant in Ferndale, Michigan,<sup>19</sup> they were told that large supermarkets would not want their all-natural product because its shelf-life was too limited.<sup>20</sup> The founders were dedicated to fresh, high quality ingredients and did not compromise for the sake of higher production volumes. Jack was making the salsa in 38-pound batches inside five-gallon buckets, a practice that the company maintained for years to come.<sup>21</sup>

**The founders made several strategic decisions that accelerated the company's growth.**

The company began to scale when local grocery store owner Jim Hiller tried Garden Fresh Salsa. He loved the product, and

began carrying it at Hiller Markets, a six-store grocery chain. By 2002, they booked \$4.6 million in sales, but were still heavily indebted, according to an account by former Vice Chairman Dave Zilko, who met Jack at a food show at the time.<sup>22</sup>

Zilko and the Aronsons pooled their resources and assembled a team that would enable Garden Fresh Gourmet to secure funding and invest in new production technology. They diversified by purchasing a tortilla company and acquiring Basha Hummus. Costco started to stock their products, and they soon became the number one fresh salsa brand in the United States.<sup>23</sup> By 2014, they booked \$100 million in net sales and employed over 500 people.<sup>24</sup> In 2015, the founders were able to sell Garden Fresh Gourmet to Campbell Soup Company for \$231 million.<sup>25</sup>



*Photo Courtesy of Garden Fresh Gourmet*  
(left to right) Melanie Mena, Trevor Aronson, Jack Page, Daniel Aronson, Jack Aronson, Annette Aronson





**Government-backed industrial revenue bonds allowed Garden Fresh Gourmet to buy the technology that enabled their exponential growth.**

The founders often note that they would not have been able to become the top fresh salsa brand in America if they had not invested in high pressure processing (HPP) machines, a technology that strips food of bacteria and makes it last five times longer without using preservatives.

At \$2 million each, they were a significant investment for the company. The manufacturing facility needed to have thicker concrete floors just to bear the machines' weight.<sup>26</sup> To acquire the HPP machines, the founders needed patient capital that suited the slower growth curve of a brick-and-mortar business. Finally, they were able to acquire industrial revenue bonds, which are municipal debt securities designed to help the business acquire factories or equipment issued by a government agency on their behalf.<sup>27</sup>

**Garden Fresh Gourmet had a multiplier effect in the entrepreneurship community.**

The beneficial impact of the company extends far beyond the roughly 500 jobs that the founders brought to the community. The

team demonstrated that it was possible to build a multimillion-dollar food manufacturing company in Southeast Michigan. As soon as the founders became successful, they dedicated time to helping other food entrepreneurs scale. They mentored the founders of eight local food and beverage companies, including the founders of DROUGHT, a juice company that became one of the fastest growing beverage companies in the region.<sup>28</sup>

The companies connected to Garden Fresh Gourmet created another 150 jobs in the past five years, by conservative estimates. This multiplier effect continued when Dave Zilko joined Huron Capital as an advisor for food entrepreneurs.<sup>29</sup>

After they sold Garden Fresh Gourmet to Campbell's, Jack and Annette Aronson started Clean Planet Foods, a clean food manufacturing company using the same HPP technology.<sup>30</sup> In 2017, the Aronsons converted an old distribution site into the Great Lakes HPP and Food Innovation Center, a facility that hosts one of the largest HPP processing machines in the world.<sup>31</sup>

When the COVID-19 pandemic hit in early 2020, Jack and Annette fast-tracked the launch of a new line of healthy packaged meals to help families under lockdown. The founders pledged to donate 10 percent of all profits to organizations that are addressing food security during the crisis.<sup>32</sup>

## Decision Makers Can Implement Specific Policies to Leverage Specialty Food and Beverage Manufacturing As a Competitive Advantage.

### BEYOND THE BENEFITS OF JOB CREATION AND ECONOMIC RESILIENCE, SUPPORTING THE GROWTH OF THESE COMPANIES CAN BE A VEHICLE TO PROMOTE SOCIAL INCLUSION AND MOBILITY IN SOUTHEAST MICHIGAN.

The COVID-19 crisis is an important reminder that Southeast Michigan needs to diversify its economy and become less dependent on the automotive industry. Decision makers should look to the entrepreneurial assets already present in the community as it navigates the resulting economic shocks. Specialty food and beverage manufacturing businesses make up one of the region's competitive advantages in entrepreneurship, and they are emerging as an important pillar of local economic recovery.

To support the industry and fortify the local economy, decision makers need to help specialty food and beverage manufacturing companies grow. Beyond the benefits of job creation and economic resilience, supporting the growth of these companies can be a vehicle to promote social inclusion and mobility in Southeast Michigan.

Nearly two-thirds of the entrepreneurs in the study had immigrant backgrounds, and the vast majority of jobs they offered did not require a bachelor's degree. The industry is highly diverse, it

offers opportunities for career advancement, and many of its companies have a strong mission to support low-income communities by providing food, or supporting efforts to revitalize neighborhoods.

There are several strategies that decision makers in the public and private sectors can follow to help specialty food and beverage companies scale. The following five recommendations were developed as a practical guide for policymakers, investors, and entrepreneurship support organizations.



Photo Courtesy of Eastern Market Partnership

# 1

## **Help Companies Pivot to Online Commerce.**

The pandemic has accelerated the shift from brick-and-mortar shopping to e-commerce in the food and beverage manufacturing sector. Support organizations can help entrepreneurs take advantage of this opportunity so that businesses survive the crisis and gain new, long-term customers. Investing in e-commerce can also help companies gain customers beyond the Southeast Michigan region.

Decision makers can support this pivot to e-commerce by facilitating connections to online branding and marketing companies, as well as transportation and logistics

companies. Identifying easier pathways to scale can also encourage more founders to grow from small-scale lifestyle businesses to job creating enterprises. The previous Endeavor Insight study that identified specialty food and beverage companies as a local competitive advantage also found that Michigan had demonstrable strengths in both of these other sectors. Decision makers can also help founders partner with other entrepreneurs to share fulfillment costs. One model is already proving effective: Eastern Market supports its vendors by providing bulk delivery services.

# 2

## **Help Founders Expand Production Through Funding, and Access to Facilities.**

Scaling a food and beverage company takes significant resources, in part because setting up a manufacturing facility is so costly. Most companies face the dilemma of not being able to cover the costs of their own manufacturing plant, but needing added capacity when they receive their first order from a large distributor, such as a major supermarket chain. Without a guarantee of selling at that volume in the future, there are significant investment risks and a shortage of suitable funding options.

Food and beverage manufacturers who scale are often able to do so by leasing production facilities from more established founders. Decision makers in Southeast

Michigan can support founders by encouraging larger, more established food manufacturers to allow newer companies to lease their production facilities.

In previous studies of food and beverage manufacturing, Endeavor Insight found that larger production facilities often share their spaces with newer companies, which work in adjacent or complementary food producing segments. In addition, some larger companies will lease their spaces as a step that precedes strategic investment in that other company. Decision makers can also work to provide patient funding that would allow more founders to invest in production facilities.

# 3

## **Help Founders Clear Regulatory Requirements.**

Entrepreneurs interviewed for this study rated clearing regulatory requirements as one of their top challenges. Newer founders often said that clearing regulation was prohibitively expensive.

One way that decision makers can help more local founders with this issue is to facilitate ongoing communication between regulatory agencies, city officials, and local entrepreneurs. Endeavor Insight research has found that when entrepreneurs have a more consistent and direct line to their city leaders, those government officials better understand the needs of local founders. This in turn allows decision

makers to respond more quickly to emerging issues affecting local entrepreneurs as seen in the current pandemic.

The COVID-19 crisis demonstrated that local regulation can be fast tracked when there is a pressing need to mitigate a crisis. City officials all over the United States worked with entrepreneurs to help feed local communities or produce protective equipment. Fortifying these connections between policymakers and entrepreneurs is an important tool to help more specialty food and beverage manufacturers scale in Southeast Michigan.

# 4

## **Foster Productive Connections in the Entrepreneurship Community.**

Specialty food and beverage entrepreneurs have a strong sense of community in Southeast Michigan. Over a quarter of interviewees mentioned that one of their ultimate goals was to support their community. Iconic companies like Zingerman's have launched consulting services and talent development programs for other companies in the industry.

Decision makers can help more companies scale by amplifying these actions and encouraging further connections like

angel investment and mentorship between founders. They can foster these types of relationships by organizing themed events where potential mentors address specific strategies and challenges such as working with distributors or clearing regulatory requirements. Decision makers can also partner with the companies already offering consulting and training services to provide increased opportunities for founder-to-founder mentoring, especially for new entrepreneurs.



# 5

## **Elevate Examples of Founders Who Have Scaled Their Companies.**

Since many founders in the industry launched their companies out of personal passion, decision makers could encourage more founders to grow their companies and increase their economic impact by showcasing the companies that have already scaled.

It is also important to raise the profile of the local sector by focusing on scaling companies. One way to do this is to showcase the Southeast Michigan food

and beverage companies that have worked hard to help locals during the pandemic. Another way to promote narratives of scale is to advertise the specialty food and beverage manufacturing sector as one of the region's competitive advantages in local and national media campaigns. Food and beverage manufacturing lends itself well to narrative storytelling, especially since entrepreneurs have such a strong commitment to the local community.

# Methodology

## Competitive Advantages in Entrepreneurship:

Endeavor Insight identified Southeast Michigan's competitive advantages in entrepreneurship in a 2019 study by scanning the region for industries with a high concentration of larger, high-value, entrepreneurial companies.

The methodology and results of the study were developed in partnership with the William Davidson Foundation. Additional details can be found in the report titled "Southeast Michigan's Competitive Advantages in Entrepreneurship," available at [endeavor.org/semi-cae](http://endeavor.org/semi-cae).

## Sampling frame:

Companies were considered "targets" and included in the sampling frame if they met the following criteria:

**1. The company is local.** Companies were included if they were:

- a) founded in Southeast Michigan, or
- b) currently headquartered in Southeast Michigan after they were founded elsewhere.

Target companies also included businesses that have closed after being founded or headquartered in the area, or those that have been acquired after being founded or headquartered in the area.

For the purposes of this research, Southeast Michigan was defined as the following seven counties: Livingston, Macomb, Monroe, Oakland, St. Clair, Washtenaw, and Wayne. These counties include the cities of Detroit and Ann Arbor.

**2. The company's industry falls within the sector.**

Specialty food and beverage manufacturing encompasses all activities and processes that add extra value to food and beverage ingredients.

**3. The company is entrepreneurial.**

Entrepreneurial companies are those started by individuals. This excludes businesses that began as either:

- a) Government entities, or
- b) Local divisions of corporations based in other cities.

## Data Collection:

The data collected for this project comes primarily from surveys and interviews with local entrepreneurs and stakeholders.

This study began by compiling a primary company list from multiple sources, including Pitchbook, D&B Hoovers, and Crunchbase, as well as the portfolio companies of investors and entrepreneurship support organizations operating in Southeast Michigan.

Only those that were target companies moved forward for further investigation, i.e., those founded or headquartered in Southeast Michigan, entrepreneurially founded, and in the selected industry.

Entrepreneurs from the target list received invitations to fill out an online survey or set up an interview (either in person or over the phone). This mass outreach campaign used standard questions, but the interviews were adapted to be more conversational.

The survey was designed to take no more than approximately 15 minutes for entrepreneurs to fill out. Endeavor Insight has used this same instrument for other studies over the past few years, with only minor updates to reflect city-specific factors and to address areas where entrepreneurs have been most reticent about sharing data. Endeavor maintains confidentiality, and collected data is accessible only to Endeavor and its research partners.

In order to ensure that the company list was comprehensive, a secondary list of companies was compiled from those mentioned in the interviews and surveys that were not already on the primary list. The secondary list also included additional companies sourced from the portfolio companies of those associated with the new mentions. The secondary list also included new companies found on LinkedIn while collecting data on entrepreneurs and companies. These secondary targets then received invitations to complete surveys and interviews.

## **Sector Analysis:**

The analysis process relies on two types of data: primary interviews with local entrepreneurs; and secondary data on a founder's employment and fundraising history from LinkedIn, Crunchbase, and other publicly available sources.

Previous research by Endeavor Insight has found that there are four main connection types among entrepreneurs that drive the growth of an industry. These are: investment, mentorship, serial entrepreneurship, and former employee spinoffs.

To learn about these connections within entrepreneurship communities, the surveys and interviews discussed above focused on four core questions:

1. Who invested in your company? (This includes both angel and institutional investors.)
2. Who was your mentor during the growth and development of your company?
3. Have you founded other specialty food and beverage manufacturing companies in Southeast Michigan?
4. Which of your former employees have gone on to found specialty food and beverage manufacturing companies in Southeast Michigan?

Companies were only included in the analysis if it was possible to identify the year in which they were founded. Companies that were no longer operating were included in the analysis if it was possible to find enough data on them. For companies that were acquired, the number of employees at the time of acquisition was used.

Omitted variables may have played a role in sampling, creating bias that would otherwise expose gaps in the research process. The study's double interview, verification, and analysis procedures were meant to offset any adverse effects. If gaps in or misinterpretations of the data were revealed during the analysis, the results were corrected.

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