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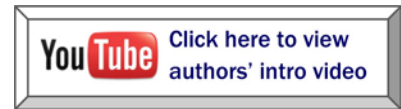
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## **The Starting Block: A Case Study of an Incubator Kitchen**

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### **Abstract**

This case explores strategic challenges facing the director of a non-profit incubator kitchen as he works to improve the facility's long-term viability. Incubator kitchens are business incubators that serve food business start-ups by providing licensed kitchens. The case follows the director from the incubator's formation through establishment and expansion, exploring tensions in this transition. Case objectives are for students to 1) debate definitions of success and value in entrepreneurial businesses, 2) evaluate the incubator's history and performance, 3) address its challenges, and 4) develop a sustainable business strategy for a business incubator. Intended audiences are advanced undergraduate and graduate courses and extension specialists.

**Keywords:** business incubator, incubator kitchen, entrepreneurship, networking, SME food business

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### **IFAMA Agribusiness Case 17.1 A**

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## Introduction

Ron Steiner eagerly leads visitors on an impromptu tour of the Starting Block, the incubator kitchen that he founded in rural Michigan. There is the smell of fresh baked goods, the sparkling production area and a display of products made by clients. He never tires of expounding his entrepreneurial philosophy, and he never stops grinning. He pauses at a poster of Yoda, the wise Jedi hero of the “Star Wars” movies, and recites:

*“Do or do not...There is no ‘try.’”*

A prospective client walks in, someone with a salsa he’d like to start selling. Or cookies, or a pâté. Steiner rushes to greet him. The excitement of these encounters makes Steiner’s day. But recently he has been wondering what comes next for the Starting Block. How can he balance opportunity, passion, and skill to improve the facility’s long-term sustainability? This case examines the Starting Block’s inception, growth, and current situation. It considers the Starting Block’s geographic location and the economic situation to which it has responded; the skills of Steiner and his staff and the strategies they employ; the facility’s operations and the services that it offers; the culture that has been created; and challenges that the Starting Block faces.

## The Starting Block

The Starting Block is an incubator kitchen in Hart, population 1,900, in the rolling orchard-dotted countryside of the state of Michigan located in the north central US. An incubator kitchen is a business incubator that includes a licensed commercial kitchen facility rented to clients to develop food businesses, an arrangement that saves clients the cost of building their own kitchens. The Starting Block opened in 2006 and is incorporated as a non-profit organization, employing three part-time staff people. The facility measures 10,900 square feet. Approximately half contains rented office space and meeting rooms. The other half includes a shared-use commercial kitchen of approximately 2,500 square feet, a catering kitchen of approximately 600 square feet, and warehouse and storage space. The facility serves approximately 30 clients who produce a range of products including jams, granola, cookies, spice mixes, and chutneys. Client businesses are private enterprises operated independently of the Starting Block. Staff provides entrepreneurial education.

When the facility opened, no other kitchen incubators existed on the western side of Michigan. The area is a major growing region for a large variety of temperate-climate fruits and vegetables. A long history of specialty food processing existed in the area, but recent entrepreneurial activity had been limited by the absence of access to a licensed commercial kitchen facility. Exhibit 1 (see Appendix) provides background on the Starting Block’s service area.

## Beginnings

When Steiner retired as custom computer and electronic component marketing entrepreneur and moved from California to Michigan, he found a region rich in entrepreneurial opportunities. The state’s economy had been in decline for years, and even its diverse and vibrant agricultural areas

were affected. Restless in retirement, he turned to economic development and was hired as Director of the local Oceana County Economic Development Corporation in 1998. His initial impulse was to respond to the area's economic needs with high-tech businesses. "I was disabused of that very early on," he recalls, and tells of his first meeting with one of the region's large food processors. "I said that I'm hoping that I can have some of my Silicon Valley contacts visit Oceana County and maybe put a microprocessor plant here or something. And he said, 'That's interesting. Well, you are new here.' We go and look out his office window, and he says, 'What do you see there?' Beautiful orchards. To me when I first moved here it looked like the Sonoma Valley. It's beautiful."

The processor continued, "We grow and process food out here. *That's* our economic engine."

### *Forming the Organization*

Steiner defines an entrepreneur as someone who can spot unmet needs in society, who is "alert enough and is listening and looking around—always thinking of what better way there might be of doing something." He turned his attention to possibilities for innovation in food and agriculture, taking a second job with Michigan State University Extension (MSUE) and joining statewide efforts to respond to challenges in the agricultural sector. Michigan Food and Farming Systems (MIFFS), a non-profit organization, had formed in 1998 to develop partnerships to foster more sustainable food and farming for Michigan. With Dr. Chris Peterson of the Michigan State University (MSU) Department of Agricultural Economics, MIFFS co-founded the Michigan Partnership for Product Agriculture (MPPA) in 2001. MPPA was a broad-based group that aimed to give agriculture a more prominent role in statewide economic development and to create a network of resources for entrepreneurs. Along with Peterson and MIFFS, MPPA members also included US Department of Agriculture (USDA), Michigan Department of Agriculture (MDA), and Michigan Farm Bureau personnel and high-level MSU officials.

The notion of "value-added" agriculture (not just growing things but creating higher value goods through specialty processing) had attracted substantial attention in Michigan over recent years, and the group considered incubator kitchens as one means of pursuing value-added possibilities. Incubator kitchens had been established in rural areas of a number of other states. Fortuitously, the USDA representative to the MPPA suggested that the USDA Rural Development's Rural Business Enterprise Grants might be a source of start-up funding. MIFFS applied and received two identical grants in 2004, each for \$283,700, to develop two incubator kitchens in Michigan's more distressed agricultural areas. Steiner—by that time serving on the MIFFS Council—offered to move the project forward in western Michigan, one of the areas.

"By then I was captured by the idea," he says. "I said, I can do it, and I think I know how." Both he and Elaine Brown, MIFFS Executive Director, agreed that the actual management of an incubator kitchen was outside of MIFFS' programmatic focus. The MIFFS Council gave Steiner a high degree of autonomy in locating a facility, selecting equipment, and securing additional financing. "I had formed two companies before," he explains. "That's the easy part. The next stop after the MIFFS meeting was down to the Treasury Department in Lansing. I already had a name in mind, and incorporated the Starting Block. It cost me \$20." He and Brown emphasized the importance of trust and flexibility in these early stages of the project. Brown described their

relationship: “He had been on the MIFFS Council, he’d been a MIFFS member, and we knew his capabilities. He came from a business background. Getting to know him, he’s got these big ideas, and he’s done these very creative things. So my role was to make sure those creative things were consistent with the requirements of the grant. We wanted someone to take the incubator kitchen and make it successful, and we couldn’t do it from afar.”

Collaboration is an important part of Steiner’s business philosophy, “the willingness to partner with people and not thinking you can do it all by yourself.” Thus, as he moved forward in establishing the Starting Block—recruiting its board of directors, securing financing, hiring staff, and developing the facility—he formed and leaned heavily on a network of old and new contacts both inside and outside of the area. The USDA grant’s language called for an incubator kitchen with a regional focus, and Steiner was determined to cultivate a collective buy-in to the project among community leaders in surrounding western Michigan counties. The board thus includes members representing each of the six counties in the region<sup>1</sup> and a range of professional affiliations: a community college president, to represent the incubator’s educational objectives; a farm cooperative director; an African-American active in urban areas that suffer from a lack of supermarkets and other fresh food sources; local government officials; a certified public accountant; and a grower association director.

The USDA grant did not provide all of the initial funding needed, and it did not cover operating expenses. With a broadly representative board in place, Steiner next approached each of the county commissions in the region for start-up funding, asking them for 20 cents per capita for one year. The effort raised about \$30,000 total from six counties. MSU’s Project GREEN<sup>2</sup> also contributed significant funds. He then contacted state and federal economic development organizations: the US Department of Commerce Economic Development Association (EDA) and the Michigan Economic Development Corporation (MEDC). Finally, needing a local partner to accept grants from these organizations, he contacted Stan Rickard, City Manager of Hart.

Speaking appreciatively of Steiner’s networking abilities, Rickard recalls, “The city got involved because of two grant opportunities that Ron scoured the countryside for, as Ron does.” Part of the funding was needed to finance what is now the Starting Block’s building, which was for sale at the time. “We were acquaintances,” Rickard explains, “but this is when we really started to work side-by-side to purchase the building. Both of the agencies, EDA and the MEDC, were very helpful, but it was a very cumbersome grant application process. It took a long time, a lot of paperwork. But,” he adds, “we’ve worked on grants here.” Rickard applied for the economic development funding to buy the building, and the Starting Block now leases it from the city at a low rate. Rickard also credits the building’s former owner for believing in the project and having patience during the grant process. A number of other offers were on the table, but the owner wanted to help the incubator. “So God bless them, they held the building for us until we could get the grant approved.”

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<sup>1</sup> Steiner broadened the geographic range from the four counties initially included in the market area of the feasibility study. See Exhibit 1.

<sup>2</sup> GREEN: Generating Research and Extension to meet Economic and Environmental Needs

Steiner now turned to staffing the facility. As in his relationship with MIFFS, trust and flexibility were central to these choices. Jim Henley and his wife, Jane Dosemagen, had run a restaurant in Hart and had been among those surveyed for the Starting Block's feasibility study. Henley also knew Steiner's wife from the nearby Pentwater Yacht Club, where he was kitchen manager. The couple wanted to stay in Michigan but found the economic climate difficult. In fact, when Steiner phoned to recruit them as staff, they were in the process of returning to Minnesota, where they had lived for 25 years and retained a residence. As Dosemagen tells it, "I was already actually back in Minnesota with the kids and Jim was still here. He worked at the yacht club for the summer. Then Ron had this idea, and we knew Ron from the restaurant. He knew us and knew enough about us that he thought we might work out well with this project with him. So he wasn't twisting any arms, but..." Dosemagen asked for a job description. Steiner had not developed one, and in fact admits that he does not believe in them. Nevertheless, Dosemagen was convinced. "Ron had the vision, and we trusted that. We'll work with Ron, Ron is a good person, Ron knows what he's doing."

Dosemagen and Henley possessed the broad range of skills needed to develop and manage a facility. The three of them eventually renovated the building, swinging sledgehammers and hauling wheelbarrows of cement block outside. Steiner acknowledges wryly that Dosemagen may not have accepted an offer with those tasks in the job description. But he holds himself to the same standard of flexibility. Since the couple needed health benefits that the Starting Block would not be able to provide, they agreed on an arrangement that has allowed Henley to hold another job that does, managing food service for a local school district. Steiner's human resource philosophy: "Find and hire 10s. One 10 is worth three to four 5s. Don't just hire cheap, but find the right people and be flexible—agility not only as a business, but also not having any fixed idea."

### *Equipping the Kitchen*

Before making any major decisions about the facility, he took Dosemagen and Henley to visit the Appalachian Center for Economic Networks (ACEnet) in Athens, Ohio. ACEnet established one of the first incubator kitchens in the US and offers day-long replication seminars for others interested in its success. "Best \$500 we ever spent, before we took a hammer or a paintbrush here," Steiner says. Among the advice they received was to buy equipment used, not new. Asked whether it might make more sense to buy new equipment that is less likely to need repairing, Steiner replies simply, "Hire people who can fix it themselves." Indeed, stories of equipment repair abound among Starting Block clients. Gene Van Koevinger, a graduate who produces Uncle Gene's Backwoods Pretzels, recalls an experience with the tumbler that he and his business partner used. "It was going too fast to start up with. Ron was—we were all—on our knees, digging around, playing around with gears and pulleys and stuff. And that was fun. They were so accommodating, it was unbelievable. And we got it to work in exactly the way we wanted it."

Steiner also subscribes to the belief that some kitchen equipment should not be purchased until a client has indicated a specific need for it. The feasibility study had specified the equipment that an incubator kitchen would be expected to need (Exhibit 2, see Appendix), but Steiner is adamant that there is no cookbook formula for equipping a kitchen. Henley drew on his

professional experience in commercial kitchens to identify and locate essential appliances—a convection oven, self-contained steam kettles, Hobart mixers, and reach-in refrigerators and freezers. Beyond the purchase of these basic appliances, other equipment decisions have been made in collaboration with clients. For Steiner, this “decision not to make a decision right away” is part of a larger philosophy. “Don’t think you’ve got to have everything in place right away,” he advises. The Starting Block offers to buy or lease equipment that clients need, and then gives them the option to take the item along when they graduate. When Van Koevering and his partner moved on to another facility, the only equipment they needed was the tumbler. “We had the opportunity to come up here [to the new facility],” he says, “and they were kind enough to say, ‘Hey, if you want this tumbler, we’ll sell it to you.’ So we made a deal on a tumbler and bought that.”

With basic kitchen equipment in place, obtaining an MDA license was the last hurdle before opening for business. A food establishment may not commence production operations before an MDA food safety inspector has evaluated the facility and issued a license. In some cases, this involves more than one evaluation visit as producers make required changes to bring the establishment into compliance. These changes may involve surface coatings of floors, walls, and ceilings; plumbing; and other items that may require considerable time or additional expense. Establishments, like the Starting Block, that have invested in used equipment may find that the equipment does not meet MDA standards. Starting Block staff found that one of the challenges of the licensing process was that not all MDA personnel were familiar with incubator kitchens. Dosemagen feels that the MDA was generally supportive of the project, but adds that it is very important to keep asking questions—and observes that the answers to questions can change over time as new regulations are implemented or as interpretations change. In some ways, licensing is an ongoing process. A kitchen license does not automatically cover all food products; kitchens are licensed only for specific products. The Starting Block continues to work to broaden the range of products that can be processed in its kitchen and has now become both a USDA and FDA processing facility.

The Starting Block began serving clients in 2006. Steiner marvels that although the feasibility study estimated a total cost of \$1.2 million, the three managed to start for one-third of that. Steiner, Dosemagen, and Henley thus pooled their interests and talents to develop a commercial kitchen on a shoestring budget. Key to this has been extensive networking at each step and a collective skill set that includes building renovation, equipment repair, institutional food service management, fundraising, administration, and entrepreneurial education.

## **Current Operations**

Approximately 30 clients use the Starting Block’s kitchen, coming from the immediate area and as far as 200 miles. Products include jams, salsas, chutneys, and other spreads; granola, cookies, and other baked goods; and snack foods, such as specialty nut mixes. Many of these products originated in family traditions or had long been popular with friends and colleagues. For many of the clients, the current economic downturn provided the final incentive to turn product ideas into marketable goods that could generate supplemental income.

Four clients have graduated, moving on to their own facilities and even building their own licensed kitchens. Vicki Fuller, for example, started the Maple Island Pie Company at the Starting Block and eventually added a commercial kitchen onto her house. Van Koevering's business grew to the point that he and his partner hired a copacker, and his Uncle Gene's Backwoods Pretzels were recently approved by Cracker Barrel Restaurants and Old Country Stores for national distribution.

Describing the mix of resources and the operational atmosphere of the Starting Block is no easy task. Operations are chaotic and have morphed to meet expanding client needs. Four elements make up Starting Block processes and procedures: (1) training clients, (2) providing basic services, (3) expanding services based on demonstrated client need while diversifying income streams for the incubator, and (4) creating an atmosphere that makes it all work.

### *Training Clients*

Potential clients approach incubator kitchens for several reasons. First, Michigan law requires that most food products offered for sale be produced in a licensed facility. Second, incubator kitchens enable clients to produce at a greater scale than is typically possible when using restaurant kitchen space or other provisional facilities. Third, many small entrepreneurs have limited business experience and seek the expertise and guidance provided by incubator kitchen personnel.

When clients first contact the Starting Block, they meet with Steiner, Dosemagen, or Henley. Steiner is irrepressibly enthusiastic when talking about people's dreams—about the passion they bring to things that they love to do and want to share with others. However, he cautions, "You don't want to string them along." He first sends them away with homework, "low-cost, skunkworks market research," as he puts it. He advises clients to ask friends and family for honest feedback, suggestions on improving the product and, most importantly, whether they would pay money for it. Some clients have also been connected with a financial advisor provided by a community college. Henley agrees that marketing is one of the biggest challenges that clients face. He asks them to do concrete cost calculations, compare their costs with retail prices, and decide whether their products are feasible. If clients request independent taste testing, they are referred to the MSU Department of Food Science and Human Nutrition's Food Sensory Laboratory.

Some have found that friends and family do not provide the candid assessment that a realistic market analysis needs. Van Koevering tells of problems selling one of his pretzel products. "We realize that we've got one that's not a winner. And I would have much rather known that a year ago. But it took time. And quite honestly, we taste-tested with people we knew. If you and I get along, you're going to tell me you like my pretzels whether you like them or not. But you have to be honest." He suggests that the Starting Block coordinate blind taste tests at venues such as food shows.

Once clients decide to move ahead, they are required to contact the MDA themselves, obtain their own food licenses, and develop their own labels. The Starting Block provides clients with a checklist detailing whom to contact and in what order. As Henley reasons, "It doesn't make any



sense for us to do it for them. They've got to know where to go. It's their license, they're the ones who are going to meet the inspector, so they have to know what they're talking about." For their own part, clients generally agree that the licensing and label review process is difficult and time-consuming. Some received conflicting information from different MDA personnel, resulting in a more protracted (and sometimes more expensive) process than they felt was reasonable. Some expedited the process by contacting the MDA persistently during the process and visiting the regional office in person.

Once a client is ready to use the Starting Block's kitchen, he or she is given a kitchen orientation. This includes a video covering preparatory and clean-up processes. Depending on how familiar clients are with commercial equipment, staff may also work with them the first time they use the kitchen, and they are always available to help if needed. Fran Russell had been producing her nut mix, "The Nuts," in a restaurant kitchen when she moved to the Starting Block. She speaks appreciatively of the orientation process as well as the kitchen. "They make sure everything is done by the book—they read you all the rules. They're aware of it and they make sure that you're aware of it, but they're fun people. I thought it was an amazing facility, physically. They have an amazing array of equipment, the kitchen is kept impeccably clean, and I love that the kitchen layout is flexible. So much of the equipment is on wheels, so you're not tied into using a configuration that's pre-set for you. You can set up the kitchen to work for you and your production needs."

Incubator kitchens and other multiple-use facilities pose risks of allergen cross-contamination. It can be difficult for clients to know exactly what ingredients other clients are using. Starting Block clients work with their MDA inspector to manage allergenic ingredients properly and to meet labeling requirements. Labels include the statement that the products have been produced in a facility that uses tree nuts, milk, and other major food allergens.

### *Providing Basic Services*

The Starting Block offers two basic services: access to physical facilities that the client would not otherwise have, and business education and development services.

**Physical Facilities.** In addition to the commercial kitchen itself, clients need office space and warehouse/storage space. The Starting Block offers all three for a fee. The challenge in setting facility fees is that most small entrepreneurs have very limited financial resources. A balance has to be struck between fees that will finance the Starting Block's operation and be affordable for the entrepreneurs. To determine fees, staff researched other incubator kitchens across the Midwest and the US. They took into account the for-profit or non-profit status of the kitchens, urban vs. rural locations, and ambient economic conditions. In the end, they "went down the middle," in Steiner's words. After several years' experience, he now reflects that their rates may be too low. The facility has begun instituting incremental rate increases.

Rental fees at the Starting Block include:

1. *Commercial Kitchen.* Clients reserve kitchen time on a wall calendar near staff offices. Fees range between \$10 and \$15 per hour depending on level of kitchen use and equipment required. Equipment includes commercial ovens, freezers, ranges, mixers, kettles, industrial food processors, and a filling machine.

2. *Office Rental.* Like other business incubators, the Starting Block rents office space to food as well as non-food businesses. Amenities include wireless internet access, local phone service, use of the conference room, and office support. A 90-square-foot office rents for \$110 per month, and a 225-square-foot office for \$275 per month.
3. *Warehouse and Storage.* The Starting Block rents dry pallet storage for \$10 or \$15 per month depending on whether it is secured. Refrigerator and freezer space is available for \$1.50 per cubic foot per month and \$75 per pallet per month. Staff also accepts deliveries. This saves clients, especially those who live at a distance from Hart, the trouble of bringing quantities of supplies and ingredients from home. Simone Scarpace receives bulk shipments of natural pectin from a California supplier for her Wee Bee Jammin' products. The pectin is sent straight to the facility, as are her jars. "I get a couple pallets of my jars delivered here every other month, so somebody who knows how to handle a forklift and get it off the truck needs to be here. It's usually Jim or Ron who do that. But I haven't really had any problem—I just let them know when it's coming. They just tell me that I owe them some jam." Since some carriers charge more for deliveries to private residences than for business deliveries, this also reduces delivery costs for some clients.

Clients sign a contract that spells out their payment terms and other obligations. Rental fees are not billed up front. Clients whose accounts remain in arrears beyond a specified term are prohibited from using the kitchen until they have paid. Steiner reports that this measure has been necessary just twice since the facility opened.

**Business Education and Development Services.** The Starting Block also offers individual guidance in small business management and networking, and classes in entrepreneurship, small business management, and marketing.

A critical partner in providing these services is the Michigan State University Product Center, which has been instrumental in the Starting Block's development. The two organizations maintain close ties. The Product Center assists entrepreneurs and businesses in the development of food and agricultural products and ventures. Staff, including a corps of Innovation Counselors, provides guidance in market identification, product research, and other developmental decisions. For some, the Product Center provided the initial contact with the Starting Block, and the Center continues to work with clients as their businesses grow. Sue Keegstra, whose family's cherry topping was produced at the Starting Block, recalls that their business grew to the point of attracting a distributor. She contacted Matt Birbeck, Supply Chain Specialist and Counselor Liaison at the Product Center, who has provided assistance since Keegstra's business was formed. "Well," Keegstra says, "I've never met with a distributor before, so Matt came to my home, and the distributor came, and Matt did the wheeling and dealing. I just sort of sat there and watched. And Matt was just fantastic."

### *Expanding Services*

Food entrepreneurs require a variety of services that expand as their businesses grow. In addition to providing education and physical facilities, the Starting Block works to respond to client needs and expand opportunities.

**Distribution.** Distribution is a main challenge for many of the Starting Block's clients. Many

make their own deliveries, driving hundreds of miles to drop product off and, in some cases, to pick it up again after the product expiration date. It is among the services that they would welcome at the Starting Block.

Lynn Smith began as a client making fruit salsas, and she had also partnered with other food businesses. Some of them folded because of the challenges of making market contacts and deliveries. Steiner encouraged Smith to develop a distributorship based at the facility. A partnership with another distributor had failed in early in 2009, but Steiner persisted with the idea. She laughs about it. “Ron would say, ‘We need a distributor.’ And I would say, ‘I don’t have any money, Ron. I’m sorry, I am not your girl!’” At issue was buying a truck. “For probably about six months, he kept saying, ‘You’ve got to do this,’ and he was looking for a truck for me. Everybody was looking for a truck.” One day Smith happened to phone her car dealer, who had a utility truck for sale. He agreed to let her use it and pay only mileage. He transferred the title to her company, with the agreement that if the business was successful, at the end of two years she would buy it. If not, she would return it. “What a great business move!” Smith exclaims. “He makes very little, but he could get his truck sold, and if I add a fleet, I will do business with him.”

“So all of a sudden,” she continues, “I’ve got a truck. . . “Then people started coming out of the woodwork because we had a truck.” Smith considered the types of products that were available from other Starting Block clients, such as granola and cookies. She saw an opportunity to market to school districts in the region, and within two weeks had orders from five districts.

**Drum Dryer Processing.** Dave Johnson runs the drum drying business started by his father in Fremont, about 20 miles from Hart. Drum drying is a technology used in food processing and other industries. Food products are made into slurries, which are dried between two heated, rotating drums. The technology provides a means of removing water from a product, reducing transport costs and making possible new forms of the product. Wanting to reach a greater variety of food producers, large and small, Johnson contacted Steiner about establishing a pilot plant at the Starting Block. He installed a drum dryer to enable kitchen clients and others to develop and test new food products. He hopes to broaden the services that the facility provides to entrepreneurs and create new opportunities to add value to regional agricultural products.

**Food Product Testing.** Food processors must abide by a range of quality and safety standards required by government regulations and increasingly by private-sector food buyers. Most Starting Block clients submit their products for testing of some kind, such as for pH, shelf life, or nutritional analysis. For this, Steiner refers them to MSU and to Summit Laboratory, one of the region’s few food testing laboratories, and at that time 75 miles away in Grand Rapids. In the interest of serving clients better as well as providing a new service to the many fruit and vegetable processors in western Michigan, Steiner persuaded Summit Laboratory President Tom Krueger to establish a branch of his facility at the Starting Block. “I need to be able to justify it,” Krueger recalls telling Steiner initially. “There had to be that market that would support my decision to set up a laboratory there.” Krueger was delighted when Steiner offered to contact the region’s major processors and spend a day taking him to meet with each of them. “And we did. You know, Ron Steiner knows everybody up there in Oceana County. We went up there in April [2009] and we visited with all of them, and it was unanimous. That not only was there this huge

demand for reliable, convenient, quick testing of their product, but also for training as well.” Summit Laboratory opened its Starting Block branch in July 2009. Krueger hired a staff person from the area and has been pleased with the response from the processors. He is also pleased to be able to help the region economically. “I’m going to buy my supplies locally, I’m going to buy equipment locally. I’m going to hire electricians, I’m going to hire plumbers, I am going to hire people to work here. I’m going to get my lunches here in Hart.” Krueger contacted *Oceana’s Herald Journal*, which responded by interviewing him and publishing a story on the new branch. He has had limited interaction with Starting Block clients, partly because many of them are not there during business hours. “They have very unusual hours, because they’re kind of squeezing it in along with the rest of their life’s doings,” he observes. They continue to call on Summit for product testing, and the laboratory’s presence saves them shipping costs. Clients are pleased that the lab is there. Says TenBrink, “I think it’s fantastic that they have an on-site lab now. Had that been there when we first started—we shopped all over for a lab to do that.” Krueger plans to offer trainings. He observes that the clients’ training needs differ from those of the larger manufacturers. “The manufacturers require training in things like GMPs [Good Manufacturing Practices] and HACCP [Hazard Analysis and Critical Control Points], whereas the people who are developing their own product in the kitchen require training such as ServSafe, which is just safe food handling practices. They need to know how to be able to prepare their product in a way that is not going to cross-contaminate it and that is not going to cross-contaminate other areas of the kitchen or products in the kitchen.”

**Copacking.** A number of Starting Block clients have expressed an interest in working with copackers. Copackers process food products for others, leaving food entrepreneurs more time for product development, marketing, and other tasks. Henley notes that there is a relative shortage of copackers who do small batches. The Starting Block thus undertook a copacking project in the fall of 2009, bottling Herkner’s Homemade Cherry Topping for Sue Keegstra and her sisters, Lynda Herkner and Judy Harmon. This has been the facility’s only copacking experience to date, and it illustrates some of the challenges of commercial-scale expansion.

The project began with a batch of 600 jars, and all agree that it was a learning experience from the beginning. As Steiner says, gesturing, “We usually start down here [in terms of quantity], and they started way up here.” First, the original recipe needed to be scaled up by six times. According to Dosemagen, they now know that the copacking process is normally done gradually, requiring testing for both process and quality. The jars produced in the early batches turned out not to have an even consistency, a problem that may have been due to insufficiently automated equipment. The topping is made in a large cooking pot and then poured into a filler. The operator pushes a pedal to release a specific amount of product into each jar, one by one. The filler at the Starting Block did not have an automatic stirrer. As a result, over the time required to fill all of the jars, the cherries settled, and some jars had too much sauce and some had too many cherries. The problem was resolved when Steiner stood on a ladder to stir while Henley filled jars—an entire day.

Keegstra marvels at how quickly their business then took off, which led to another challenge. “Quite rapidly, we realized that we were outgrowing the Starting Block, because they just could not make it fast enough for us. We started selling lickety-split right away. I mean, we just found markets.” Staff found that expanding a copacking operation can be a slow process. Copackers

normally approach this carefully, in stages, and, Dosemagen emphasizes, with no promises. “You can’t just make a lot of cases the first day,” she observes in retrospect. “Depending on the type of product, copackers can take at least six months to review, scale up, and test the recipe, then bottle and package the product so it is of high quality and up to the client’s satisfaction.” After a month or so, Herkner’s moved operations to a copacker with greater capacity, one near Traverse City and closer to two of the sisters. However, Keegstra remains appreciative of the Starting Block and its staff and of what they have helped accomplish. “It’s an awesome place to start. We learned a lot from them.”

The experience has reinforced the Starting Block’s identity as an incubator kitchen. “We’re here to assist,” Henley says. “We’d like to do copacking to raise funds for the Starting Block, but with limited staff at this time, it is too big of a time commitment. We recommend that clients hire and create local jobs, keeping our role as advisors.” Should others express interest in copacking, they would begin in the same way as other clients, making their own products and adapting their own recipes. “There are always glitches when you’re starting out,” Dosemagen remarks. Indeed, clients describe such learning experiences—ingredients running short, supplies arriving dirty, labels fitting wrong. “That’s why it’s better for people to come and make their product first, see what it’s like, see what they need, and face some of the glitches themselves. Then they know what it entails to make their product.” Then, if production increased to the point that clients needed assistance, clients would hire their own help. Starting Block staff would provide these workers with the same technical assistance provided to all clients. Such an approach would address many of the issues encountered in this copacking experience, in which several stages of development were condensed into a single, very demanding project.

### *Creating the Atmosphere*

The physical facilities and services (basic and advanced) are critical to an incubator’s success, but creating an entrepreneurial atmosphere appears to be the final ingredient of the Starting Block’s operational processes. Two elements drive the atmosphere—the culture and the leadership.

**A Culture of Collaboration.** The learning process along which the Starting Block moves clients does not follow a precise, prescribed course. Steiner’s approach is to not offer help unless clients request it. Instead, the Starting Block staff has aimed to create a dynamic environment that fosters spontaneous conversations and innovation. Vaughn White bakes Uncle Vaughn’s Cookies at the facility and tells of an episode in which Henley and Steiner had borrowed an automated cookie machine in order to speed up his baking process. The three of them tried to figure the machine out and to get it to produce cookies according to White’s standards. “And we failed completely,” White says. “Ron actually got on the phone with the company and we had a conference call about why this wasn’t working. Essentially I had to change my recipe, and I wasn’t willing to do that.” But in the process, Henley hit on a different solution. “Really, you know, frozen dough would be good,” White remembers him saying. “We have a heat sealer.” That led White to develop and build a new baking implement, an idea he considers so innovative that he is guarded about sharing the details.

Others agree that the atmosphere is conducive to sharing, networking, and collective problem solving. “It’s very friendly, it’s an environment where we’re all comrades,” says Randy TenBrink, who produces Randy’s Granola. “Even though we’re customers of theirs, we collaborate on ideas almost on a daily basis. There have been mistakes plenty—inventory management, deadlines, delivery mistakes, packaging mistakes—that contribute to our business’s quality assurance program. But I don’t sit down and say, ‘I want to talk about quality assurance with you.’ I’ll be walking down the hall and say, ‘I’ve been doing *this*, but I’m thinking of doing *this*, what do you think?’ They’re collaborators.” Van Koevering puts it this way: “We all feel pretty comfortable. I would liken it to me going to a gym where they’re all buff. I wouldn’t be very comfortable there. But I’ll go on the TV show where they all lose weight. The Starting Block is kind of that way, where you feel comfortable going in, because we’re all kind of in the same thing.”

Even Rickard, who is Hart City Manager and does not use the Starting Block, appreciates the atmosphere. He tells of one visit: “Just to walk in and see what’s happening there—it’s exciting to see these young kids out there. Seeing these young people, new ideas, trying a new product. Here are people trying to get this drum dryer going. And then Randy [TenBrink] was all excited.” TenBrink does not use the drum dryer but was enthusiastic about it. “He showed me—‘Do you know how it works? It comes in here, and it goes out there, and it goes up over the ceiling!’ He was as excited about the drum dryer as these other guys were. It’s just contagious.” Starting Block staff also refers clients to other producers and businesses in the area. Dosemagen continues to email event announcements and marketing suggestions to clients even after they have stopped using the facility. Keegstra has learned of key opportunities in this way, such as the MSU Product Center’s annual Making It in Michigan event, and the twice-annual Select Michigan farmers’ market at the Capitol in Lansing. She also credits Henley with referring them to a couple that has proven to be one of their biggest resources, both as a supplier and as a source of advice. “Probably that is the biggest thing the Starting Block did for us, was to connect us with them.” Steiner connected Fuller with one of the region’s largest producers. She wants to use Michigan fruit where possible, and Steiner made the initial contact with the grower.

Some clients express interest in more coordinated networking. Smith, the distributor based at the Starting Block, suggests holding groups that meet and brainstorm on ideas, although she acknowledges that this can be hard to schedule. TenBrink agrees that everyone is busy. “It would be nice to have a monthly meeting. It would be a meeting to encourage each other, share progress stories, leads, any kinds of marketing tips that we’d come across. But we’re all so busy.”

**Entrepreneurial Leadership.** Steiner has established and managed the Starting Block by following the same advice he gives clients: Move forward without having all the certainty. Be comfortable with ambiguity. Business decisions should be client-driven. Benchmark. And don’t think you can do it all yourself.

Many agree that his commitment, energy, and optimism have made the project possible. Some colleagues speculate on the prospects for a Starting Block without Steiner should he decide to retire. “Ron is a sharp guy. He knows a lot of people, and he’s an ambitious guy,” Krueger says. “But when he’s done with that place, they’d better get somebody who’s pretty ambitious to

replace him.” Brown, of MIFFS, feels that he has developed a team equal to that eventual challenge. “I think he’s got two good people. There’s no doubt in my mind that you’ve got some risk takers there who are working with him. In terms of running it on the whole, they could. They understand what the commitments are in terms of funding, and he’s probably helped them develop the relationships they need to build and move forward. But the odds of getting someone to come in from the outside and be able to do that—probably not so good.”

## Challenges

### *Client Wish Lists*

The Starting Block cannot meet all client needs as client businesses grow. As clients resolve some operational bottlenecks, others emerge. For TenBrink, for example, the physical labor of making granola was a bottleneck until staff adjusted the kitchen’s drum mixer. “It increased our production like crazy,” he says. “The next bottleneck now is the actual packaging.” Without automated equipment, he fills bags one at a time. Scarpace also discusses packaging needs; she would take advantage of more assistance with time-consuming aspects such as attaching shrink bands and labels, and cutting out the burlap bonnets that decorate her jars. Staff is planning to upgrade. “We’ve also found that we need better packaging equipment and more automated equipment,” agrees Dosemagen. Clients also express interest in Universal Product Code (UPC) and other coding software, which is expensive for small businesses.

Some clients voice a need for more assistance than the trainings that are offered. TenBrink speaks for many when he says, “I’ve done a lot of things over the years, but I’ve never been a businessperson.” Suggested topics include taxes, liability, advice on accounting software and procedures, even simply learning more about the culture and language of business. Others would like to learn more about marketing. Many appreciated a meeting that Steiner arranged for clients with representatives of a major grocery chain, and they would like to participate in more such sessions. White suggests that staff also conduct follow-up calls with clients. “They’re always there for you if you have a question, but I think if they could maybe even just call and connect. Say, ‘How are you doing? I haven’t seen you around lately, how’s your business?’ I think that might be helpful. Because I think it encourages you to progress.”

Many clients started their businesses on shoestrings. Smith notes the barrier that start-up costs present, and wonders whether the Starting Block could collaborate with a financial institution to make small loans available. “Because,” she says, “usually, it’s a matter of \$1,000 or \$2,000 to get this great idea off the ground. But you’re working a 40-hour job and the paycheck’s spent at the end of the week, and you don’t have it. So that idea never gets off the ground.”

### *Financing*

Ongoing funding is a challenge. According to Steiner, the kitchen is not likely to cover more than 30 to 40 percent of the facility’s cash flow even when fully booked. Although the Starting Block is incorporated as a non-profit organization, he is determined not to rely on grants, arguing that this is a common mistake made by other incubator kitchens. He is working to create income

streams that make it self-sustaining. A need for entrepreneurial education in the region provides one opportunity; Steiner notes the relative lack of business counseling available in the area. He plans to offer a business start-up course tailored to displaced workers, a 10-week course condensed into 3 weeks. In the meantime, the Starting Block periodically offers classes on topics such as low-cost marketing, accounting software use, and food safety, for a fee. Steiner also teaches entrepreneurial education classes at neighboring community colleges and forwards his instructor fees to the Starting Block.

Steiner does not draw a salary from the Starting Block but instead has retained his half-time job as an MSUE regional entrepreneurship educator. As he explains it, “All extension agents have to have at least two educational initiatives. I said, Okay, my initiative is to establish and administer a regional kitchen incubator.” This arrangement has been crucial as the facility establishes itself. However, it is a luxury that few incubator kitchens enjoy, and constant threats to MSUE’s budget could compel the Starting Block to find other funding sources during what are very lean years for non-profit organizations. The facility’s financial health is of importance to clients whose businesses depend on it. As White says, “If they don’t sustain, we fold”—a loss that would have cascading effects throughout the businesses that White supports in his community.

A recent fiscal year funds flow statement is provided in Exhibit 3. The facility is running at about 50 percent capacity.

### *Equipment and Safety*

Steiner makes a strong case for purchasing used rather than new equipment, and many clients have been pleased with his and Henley’s ingenuity in repairing equipment and adjusting it to meet their needs. However, a few of them mention persistent problems with one item, an automated filling machine that has dispensed uneven quantities in spite of repeated attempts to correct the problem.

Commercial equipment enables producers to increase production, as TenBrink and others have experienced. Johnson, who installed the drum dryer, feels that this gives rise to a new set of challenges and that clients may not be sufficiently aware of them. Large equipment and the quantities made with it can introduce safety problems. For example, when equipment breaks, pieces of it can find their way into food products. He emphasizes that clients need to be made aware of these risks and of the consequences for both clients and the Starting Block should a public food safety problem arise.

### *Location*

The Starting Block originated with a vision of providing value-added opportunities to western Michigan farmers, and it is located in that part of the state in order to be closer to them. But although a number of the facility’s clients source ingredients from local growers, many of them do not represent the rural Michigan constituency that the Starting Block had intended to benefit. At the same time, many of the clients’ products sell well in urban niche markets, the closest of which is 60 miles away.



Clients and others weigh the advantages and disadvantages of the Starting Block's location. Many feel that one of the chief advantages is the safe and collegial atmosphere of the facility. "You trust people," Dosemagen observes. "So far, it's pretty much an open door. They have a key to come in here. We're in an area here that is just really safe, and that's been a really nice thing. Other places—I'm sure in bigger cities—you can't have the trust factor that we have. We were going to build cages in the dry storage, and everybody would have their locked space, but so far nobody cares." Russell agrees. "Everyone is respectful of the belongings of others." She is from an urban area and marvels, "I feel totally comfortable just coming and going. The building and parking area are well lighted and feel very secure."

However, the location can make it harder to attract entrepreneurs and increase kitchen rental income. It can also be hard to attract the attention of distributors and retailers. Even the workshops that Steiner hopes to develop into an income stream are not always well attended. Krueger recounts arriving at the Starting Block the day that a class on the food industry had been scheduled, and seeing a sign on the door that it had been canceled due to lack of registration. He sees the low population density of the region as a challenge to the facility's long-term success.

### *Competition*

When the Starting Block began, it was the only kitchen incubator in western Michigan. The increased demand for locally grown and processed foods had recently become a national phenomenon, and Michigan consumers appeared to have growing interest in local foods. Since then, new kitchen incubators have been established in nearby cities, including Grand Rapids and Kalamazoo. The trend towards local foods would seem to be an opportunity, but the prospect of competition seems a challenge.

### **What's Next?**

Like many entrepreneurs, Steiner does not believe in formal plans. He has developed and managed the Starting Block without a business plan, relying instead on an innate ability to identify markets, partners, and opportunities, and a knack for building a business identity and culture. He has been creative in meeting financing, physical plant, and other needs. Steiner's management philosophy accommodates and even embraces ambiguity, and many colleagues emphasize the benefits that have accrued from this flexibility.

However, Steiner is now faced with strategic decisions about how to maintain the viability of the Starting Block, maximizing its strengths while mitigating concomitant risks. He is 1) considering in what ways the Starting Block is and is not successful; 2) assessing which strategies have been effective and are appropriate for the business's transition to its next stage of growth; 3) reevaluating the Starting Block's target client audience, the role that it plays in its clients' lives, and its value proposition for them; 4) defining clients' key success factors, critical risks, and strategies for their start-up and growth; and 5) determining the qualities that should be fostered in entrepreneurs.

Late in the evening, Steiner finishes some paperwork and pushes back from his desk. The Starting Block is quiet except for the sounds of a client working in the kitchen across the hall. Steiner reflects happily on the accomplishments of the past several years and on the legacy that

he has created in his adopted state, at an age at which many have left business life far behind. He pauses at the door to consider some of the suggestions his staff has made for improving the Starting Block's long-term sustainability. He will return early in the morning.

## Acknowledgements

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## Reference

Molnar, Lawrence. 2005. Oceana County Kitchen Incubator Market & Feasibility Analysis and Business & Operating Plan: Final Report. Ann Arbor, Mich.: EDA University Center for Economic Diversification, University of Michigan Business School.

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[accessed January 25, 2014].

## Appendix

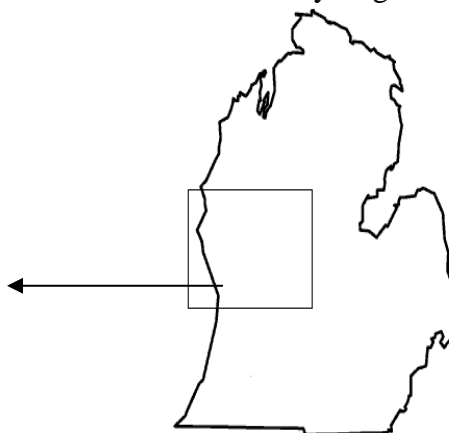
### Exhibit 1

#### Basic Description of Location and Agricultural Production of Market Area

Excerpted from the initial USDA project's feasibility analysis for an incubator kitchen in western Michigan (Molnar 2005, 1-8).

#### *Area Boundaries*

The primary focus of the study consists of the Ocean County Region in Michigan.



### *Motivation and Goal of Study*

Agriculture plays a significant role in the Oceana County Region. One of the most alarming agricultural issues in the area is the inability of small, family-operated farms to remain profitable and stay in business in the long term. Raw crop farming is profitable, but only if sold in considerable quantities and at a low price in a market where large farm corporations already dominate. One method to increase profitability for small farms is through the selling of value-added and processed farm products. These products can sell for a higher price compared to raw farm products, which means higher profit margins for small farms and farmers. . . . However, it may be that this is not enough to solve the escalating problems of small farms, as well as the declining employment in the manufacturing industry.

### *Agriculture of Oceana County*

Forty percent of the land in Oceana is used for agricultural purposes. According to the 2002 Census of Agriculture, Oceana County contained 648 farms, roughly the same number as 1997. However, the land in farms and the average size of farms decreased by 4 percent over this five year period. . . . Despite decreasing sizes of farms, the market value of production on the farms has increased by 14%, from \$78,875 in 1997 to \$90,096 in 2002, per farm. Crops accounted for 68% of the value, and livestock accounted for 32%. The predominant crops grown were fruits and vegetables, which made up 82% of the crop market value. Asparagus and tart cherries are two crops that are grown in large quantities within the county, contributing \$10,403,000 and \$8,581,000 to the county's total market value of \$58,382,000 respectively. Within the state of Michigan, Oceana ranks first in vegetable production and asparagus production, and also ranks second for tart cherry production. Asparagus and tart cherry growth both rank second in the nation.

### *Agriculture of Mason County*

According to the 2002 Census of Agriculture, there were 478 farms in Mason County, a slight increase from five years prior. However, the land in farms and size of farms decreased by 4 and 5% respectively. . . . Like Oceana County, Mason County has experienced an increase in market value of production for its crops over the past five years. This increase was from \$24,343,000 to \$24,955,000, and increase of 2%. About two thirds of the market value came from crop products, the other third from livestock. Fruits and vegetables dominate the crops, accounting for \$9,947,000 of the \$16,546,000 total. . . . Mason County ranks second in the state for asparagus production and fifth for tart cherries and snap beans.

### *Agriculture of Newaygo County*

Newaygo County has seen a 15% increase in the number of farms from 1997 to 2002, according to the Census of Agriculture. Originally, at 787, farms increased in number to 902. Land in farms increased slightly from 131,779 to 135,422 acres, but overall, the average size of a farm decreased by 10%. . . . Market value of production in Newaygo County increased rapidly from 1997-2002. During these five years, the value increased by 23%, translating to an average 7% increase by farm. Unlike Oceana and Mason Counties, Newaygo County's market value comes

more from livestock than crops. Crops accounted for only 33% of the total \$60,868,000 market value, and livestock accounted for the other 67%.

### *Agriculture of Muskegon County*

Muskegon County had 545 farms in 2002, representing an 11% increase from five years prior. Overall farmland decreased 4% to 73,918 acres, dropping the average acreage per farm to 136 acres, the smallest size of the four counties surveyed. . . . The market value of production in Muskegon County was \$46,301,000 in 2002, up very slightly from 1997. Overall though, average production decreased by farm, due to the increase in farm number. Crops represented 64% of this value. Fruits and vegetables are popular in the county, but nursery products and sod also contributed heavily to the total market value, making up nearly 25% of it at \$10,369,000. Statewide, Muskegon County ranks fifth in blueberry production.

### *Entrepreneurs Key Findings*

A mail survey went out to 600 local entrepreneurs which resulted in 116 valid responses. One of the key findings was in relation to venture type.

**Question 7.** What type of business venture are you presently involved in, or do you plan to launch? (*check all that apply*)

Type	Responses	Percent	Type	Responses	Percent
Restaurant	59	50.8	Farm Market	4	3.4
Farmer	28	24.1	Meat Sales	2	1.7
Caterer	20	17.2	Bar	2	1.7
Value-Added Processing	19	16.4	Cart/Street Vendor	1	1
Bakery	18	15.5	Delicatessen	1	1
Specialty/Gourmet	14	12.1	Direct Retail	1	1
Supermarket	7	6	Fish Smoking	1	1
Bed and Breakfast	6	5.2	Pet Food	1	1
Home-Based	6	5.2	Wholesale	1	1

**Exhibit 2****Kitchen Equipment Costs Projected in Original Feasibility Analysis (Molnar 2005, 57-59)**

<b>Name</b>	<b>Cost</b>	<b>Name</b>	<b>Cost</b>
Janitor's sink	\$374.90	Double Stack Conventional Oven	\$7,790.10
Walk in Cooler/Freezer	\$17,297.15	40 Gallon Tilt Kettle and Filler	\$8,000.55
Cooler Condenser	\$4,488.45	40 Gallon Stationary Kettle and Filler	\$4,993.30
Freezer Condenser	\$6,467.60	Gas Fryer	\$3,872.05
Storage Shelving	\$638.25	Walk in Cooler/Freezer	\$7,307.10
Work Tables	\$2,856.60	Refrigeration System	\$5,957.00
Hand Sink	\$347.30	Freezer Shelving	\$982.10
Prep Table w/ Sink	\$4,363.10	Cooler Shelving	\$1,125.85
Food Processors	\$6,656.20	Class I Hood	\$3,542.00
20qt Mixers	\$4,273.40	Class II Steam Vent Hood	\$1,967.65
Slicers, Univex	\$2,130.95	Dishwasher	\$2,696.75
Roll In Refrigerator	\$12,916.80	21/22 Qt. Mixer	\$2,639.25
Roll In Freezer	\$8,186.85	Mixer Cart	\$419.75
Reach In Freezer	\$5,931.70	63Qt. Mixer	\$8,510.00
Reach In Fridge	\$7,259.95	Hand Wash Sink	\$162.15
Double Convection Ovens	\$18,842.75	Work Tables	\$2,248.25
Double Steamer Ovens	\$21,256.60	Vegetable Sink w/ Faucet	\$667.00
Exhaust Hood	\$20,125.00	Work Tables	\$1,624.95
Trunnion Kettles	\$21,625.75	Pot Rack	\$212.75
Tilting Braising Pans	\$16,878.55	Pot Sink w/ Faucet	\$914.25
Floor Through Drains w/ Grates	\$1,089.05	Clean Dish Table	\$535.90
Work Table L	\$1,089.05	Soiled Dish Table w/ Pre-Rinse	\$917.70
4 Burner Ranges w/ Oven	\$5,773.00	Bun Racks	\$664.70
Gas Griddle w/oven	\$6,289.35	Scale 40lb	\$563.50
Gas Deep Fryers	\$9,987.75	Portion Scale 5lb	\$67.85
Hot top range w/oven	\$5,974.25	Slicer	\$1,941.20
6 burner ranges w/oven	\$5,773.00	Juicer	\$1,777.90
Disposer	\$1,440.95	Attachment Set, Varimixer	\$621.00
Ice Machine	\$2,096.45	Receiving Cart	\$624.45
Gas Range	\$1,568.60	Garbage Cans	\$96.60
Electric Tilting Braising Pan	\$5,263.55	Aluminum Baking Sheets	\$225.40
Rinse/Fill Faucet for Braising Pan	\$219.65	Flash Freezer	\$14,500.00
<b>Total</b>		<b>Total</b>	<b>\$317,651.50</b>

**Exhibit 3****Starting Block Annual Funds Flow Statement (Most recent fiscal year)**

<b>Income</b>	
Grants	\$ 208,670.73
Education Fees	\$ 2,940.00
Office rental	\$ 6,123.00
Warehouse rental	\$ 4,947.25
Kitchen rental	\$ 17,746.95
Other	\$ 3,089.01
<b>TOTAL INCOME</b>	<b>\$ 243,516.94</b>
<b>Expense</b>	
Contract labor	\$ 4,566.25
Educational materials	\$ 13,074.50
Equipment	\$ 7,069.16
Insurance	\$ 5,698.75
Payroll expense*	\$ 34,386.53
Professional fees	\$ 1,285.15
Repairs	\$ 1,300.80
Supplies	\$ 5,266.49
Utilities	\$ 13,555.97
Other	\$ 1,795.83
<b>TOTAL EXPENSE</b>	<b>\$ 87,999.43</b>
<b>Net Funds Flow</b>	<b>\$ 155,517.51</b>

\*Steiner does not draw a paycheck from the Starting Block.

## Exhibit 4

### Participating Businesses

#### *Vicki Fuller, Maple Island Pie Company*

Fuller is one of the Starting Block's graduates. The business began with a decision to leave an office job and simply do what she loves, which is bake pies, and the local MDA inspector put her in touch with the Starting Block. Her first impression was of the distance from her house. She remembers her daughter commenting during the first 30-mile trip, "I don't know, Mom, this is an awful long ways to travel just to bake." But the assistance that she received made it an important move. Staff provided a financial advisor, a community college instructor who helped Fuller determine pricing. They also helped her increase batch size. Steiner connected her with local fruit growers, and production leapt after he introduced her to the representatives of a local community foundation who were touring the facility while she was baking. When she decided to develop her own kitchen, the Starting Block assisted her with that project as well.

#### *Dave Johnson, Drum Drying Resources*

Eager to establish a pilot drum dryer plant in addition to his main production facility, Johnson approached Steiner with the idea and installed a small drum dryer at the Starting Block in 2009. The pilot plant gives producers an opportunity to experiment with products using larger-scale industrial production technologies, and renting space at the Starting Block saves Johnson the cost of building a separate facility. Although Johnson appreciates the enthusiasm with which clients develop businesses, he believes that they need to be better prepared to meet the challenges of increasing scale. Large equipment creates new quality and safety issues. "And they need to be educated for that. It's easy to make it in the Starting Block with family. But the next step could scare you." He hopes to be part of that developmental process and to assist with innovations.

#### *Sue Keegstra, Herkner's Homemade Cherry Topping*

Keegstra and her sisters, Lynda Herkner and Judy Harmon, grew up on a cherry orchard on Michigan's Old Mission Peninsula. When they decided to fulfill their parents' dream of bottling a popular cherry topping, they recognized that they would not be able to produce at a commercial scale without help. Matt Birbeck of MSU's Product Center guided them through the process of forming a business, and he referred them to the Starting Block for copacking. "We didn't have a lot of money to get started," Keegstra recalls. Sales increased rapidly. Henley put them in touch with a jar supplier, who put them in touch with a distributor who was so impressed with the topping that he offered to make it his primary distribution product. Although they soon moved to a larger copacker, she stresses that the Starting Block has been of tremendous help. The sisters have continued to enjoy the networking connections with other clients.

#### *Tom Krueger, Summit Laboratory*

Summit provides analytic and microbiology lab testing, and it opened a branch at the Starting Block in 2009. Krueger thus sees kitchen clients from a broad food industry perspective. He remarks on the considerable motivation that clients display when they travel the distances they do to develop products. Although the Starting Block is located in a commercial fruit production area, many clients do not live in that area, nor are their markets nearby. Krueger hopes that Summit's presence there can help to make it a resource for a greater variety of food businesses.

He sees twin challenges in increasing kitchen use. One is producer drive. “People really have to have the motivation to want to take their famous family recipe and try to get it on the shelf at Meijer [a major regional supermarket chain].” The other is market incentive. “The stores have to create the demand. They have to create the market. They have to say, ‘Hey, all this stuff was grown locally, and here are the advantages to you and to Michigan as a whole for you buying these products.’ If they can create the market—the demand for those products—then the incentive will be there. Then it motivates people more to use places like the Starting Block, and it helps complete that cycle.”

*Fran Russell, “The Nuts”*

“The Nuts” are a mix of pecans, cashews, and almonds in a sweet, salty, spicy coating. Russell uses Michigan honey and beet sugar, and, while not grown in Michigan, all of the nuts used come from a Michigan distributor. “‘The Nuts’ is a recipe I’ve been making and tweaking for years, and it’s always what I’d put out at parties.” When her design business started changing in 2008, she decided to try marketing “The Nuts” and contacted the MSU Product Center. With help from Birbeck, she obtained a food license and started producing the mix in a cramped local restaurant kitchen, then moved to the Starting Block in 2009. Although Hart is a two-hour drive from her home, she feels that the efficiency of a well-equipped production kitchen has more than compensated. Among her favorite accessories is a large bowl that fits nearly all 75 pounds of the baked nuts, which are packaged into 4- to 11-ounce boxes. Production labor is one bottleneck, but she was able to hire local labor from the Hart area for the most recent baking and packaging day.

*Simone Scarpace, Wee Bee Jammin’*

Scarpace has been gathering wild berries and making jam with her family for years, and her products are now sold in specialty shops throughout Michigan. “We love the Upper Peninsula, we love being outdoors. So there’s just a passion for all of this,” she says. A friend who knew that she was interested in marketing the jams mentioned the Starting Block, and she began using the kitchen in 2008. Demand grew fast, pushing the limits of the fruit supply that her family could pick fresh in season. A light bulb went off, she says, when Henley suggested buying frozen fruit from Michigan farms. About the Starting Block, she says, “It’s a blessing, really, I just find that it was too good to be true.” In particular, the networking with other clients and the support from the staff make the hour-long drive from her home worth it, “just talking to people and picking their brains a little bit and getting ideas and learning what they’ve learned, and about their mistakes.”

*Lynn Smith, MI Foods*

Smith has used the Starting Block facilities and services since 2007, and she credits its supportive atmosphere. “I went through several businesses that failed, and with every failure there’s an opportunity. Ron has really been crucial in focusing—‘There’s an opportunity. There’s got to be.’ And there was, and it was just a matter of picking up the pieces and figuring it out. I couldn’t have done it without the Starting Block.” She is driven by a vision of making nutritious and locally produced food available to school districts. Her distributorship helps fill a marketing need among small producers who cannot supply the quantities demanded by larger distributors. In addition to products made by Starting Block clients, she has added other products based on the



schools' needs and turned to others she knew from networking. A Big Apple Bagel shop is custom-producing the smaller size of bagel served in school cafeterias.

*Randy TenBrink, Randy's Granola*

TenBrink started developing a granola recipe in 2005 and eventually was selling it to friends and coworkers. He began looking for a commercial kitchen. "I made hundreds of calls—VFWs, American Legions, day care centers—but no one would do it," he says. Although TenBrink lives only 60 miles from Hart, he was not aware of the Starting Block. He queried on Facebook and learned of incubator kitchens, and a Google search led him to the facility. "They've helped us with production—streamlining the production, storage, providing a place for the product to be picked up." He appreciates the staff's jack-of-all-trades capabilities. "Anytime we need something, some piece of equipment that needs to be put together, or a 220 power line needs to be run somewhere, it's just a question of asking and it's done." The business has grown. Like many other clients, he makes a point of sourcing ingredients through Michigan companies.

*Gene Van Koevering, Uncle Gene's Backwoods Pretzels*

Van Koevering's business is a Starting Block graduate. He and partners have started a number of businesses over the years, and their flavored mini-pretzel is a current project. "We started this little snack food business in November 2006 with one product, a result of a recipe that I'd been using for six or seven years." A friend had seen a Starting Block workshop advertised and alerted Van Koevering. The facility allowed them to begin processing and packaging the pretzels without investing in equipment. They used the kitchen for eight months before sales exceeded their production abilities. They now contract with another pretzel business, one that is helping the group transition to a larger scale. Van Koevering speaks appreciatively of their experience at the Starting Block. "It was a good facility—plenty of room, a good storage area. And they were very accommodating folks. And the accessibility to it—we all got a key, and then you'd go in any time of the day or night, and you'd just sign in and put your hours down."

*Vaughn White, Uncle Vaughn's Cookies*

"I'm a do-er," White says of himself, "I'm always doing something." He had been making dozens of cookies for school and community events every year using his grandmother's popular recipe when he asked his wife what she thought it would take to sell them. "She kind of rolled her eyes, and she knew she was in trouble." White credits his family and the Starting Block with making his business possible. The facility's flexible hours enable him to work around his job as a school administrator, and he sometimes bakes at 5:00 a.m. during the school year. He is at home in the Starting Block's collegial atmosphere, where staff and other clients have prompted innovations. As production increases, he hopes to make use of additional kitchen equipment, such as a larger mixer. Such an increase, however, requires scaling up his recipe, which can be an expensive experiment. "If the dough doesn't turn out right, I don't feel right selling it." White emphasizes the importance of values as he builds his business: avoiding debt, donating a portion of profits, and supporting local producers and retailers.