

# 2011 STATE OF LOCAL MANUFACTURING REPORT MADE IN SAN FRANCISCO



## LETTER FROM THE EXECUTIVE DIRECTOR, KATE SOFIS

In 2009, the US economy spiraled into recession, as macroeconomic data showed a steady, decades-long decline in US manufacturing jobs. Who would have thought that in 2011, a city like San Francisco could tell a new story: a renewed, reinvented, and by all accounts, a growing local urban manufacturing sector?

SFMade launched in 2010 as a fresh approach to revitalize and fuel local manufacturers. Our humble beginnings were propelled by the passion of a small group of 12 companies, a partnership with the City of San Francisco, and the shared experience of what it means to still make product locally. SFMade membership has grown to over 250 companies who collectively employ close to 2,500 individuals – all of whom are headquartered and producing one or more products in San Francisco. An estimated 80% of San Francisco's total manufacturing sector actively participate in SFMade, which gives a unique and privileged opportunity to paint a new and compelling picture of modern urban manufacturing.

This first annual SFMade State of Local Manufacturing Report is the result of a detailed survey we conducted of the sector in early 2011 and represents data from over 75 local manufacturers. The picture that emerges is far from a withering, monolithic industry, as is often implied by national reports and the media. Rather, modern manufacturing in San Francisco is a quilt of established businesses; small and flexible “artisan” manufacturers; a vibrant and distributed web of suppliers, order fulfillment partners, and distribution channels – both online and on the ground.

Here, manufacturers have found particular strength in marrying the craft-based skills of urban and immigrant communities with prowess in the design and creative sectors. The vast majority of the manufacturers make branded consumer products, including apparel and accessories; food and beverages; green building and transportation products; and a wide range of emerging products combining design with technology that defy traditional classification.

**2,500 JOBS**  
**250 COMPANIES**  
**ONE GROWING SECTOR**

As we move forward, local manufacturing holds the potential to play an increasingly powerful role in our economic future – in San Francisco, the greater region, and across the country. Other major US cities now participate in the Urban Manufacturing Alliance, a new national coalition of manufacturers, co-founded by SFMade. We hope you find that this Report offers insight, a range of pragmatic solutions, and perhaps most of all, inspiration.

- Kate Sofis, Executive Director

## MEET OUR MANUFACTURERS

By every measure, San Francisco manufacturers are diverse. The estimated more than 300 San Francisco manufacturers make products spanning clothing, bags, belts, beer, wine, chocolate, coffee, electric bikes, electric motorcycles, recycled cement, dog collars, iPad cases, furniture, jewelry, and even electronics. The majority of local manufacturers are located in the Southeastern neighborhoods - the Mission, Bayview, Central Waterfront, Lower Potrero, and South of Market - and draw a large percentage of their diverse workforce from the surrounding communities. A staggering 43% of our local manufacturers are owned by women.

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San Francisco's manufacturers range in age from 112 years old to fewer than 6 months new. By Federal definitions, they are all small to medium sized businesses. The largest employ upwards of 150 people, although the majority employ fewer than 10. Overall, 60% of SFMade companies reported revenues under \$250,000. But together, San Francisco manufacturers comprise an industry worth over \$232 Million.

## NEW JOBS & COMPANIES

According to the survey of more than 75 local manufacturers, 41% reported hiring new employees in 2010. In fact, SFMade found that there were almost five times as many new hires as lay-offs, even in a recessionary year. In 2010 there were 10.5% net new jobs created among surveyed member companies. This compares with a 2.1% growth in overall jobs for San Francisco between 2010 and 2011.

## 10.5% MORE NEW JOBS

San Francisco also serves as an incubator for new manufacturers. Of those surveyed, half are less than 10 years old. Even more exciting, 31% of all SFMade companies are less than 3 years old and launched during the Recession. Companies asked about reasons for starting or

staying in San Francisco, list industrial rents coming down to be more on par with other Bay Area cities; the perception that the City is actively now supporting the sector and has deployed specific programs and partners such as SFMade to help; and most of all, wanting access to the "San Francisco and locally-made" brand identity.

## CHALLENGES

While there is much good news, the survey also highlighted some of the most pressing challenges for manufacturers trying to do business in San Francisco, California and the US.

**HEALTHCARE:** Employee healthcare costs represent a significant hurdle for smaller, new companies to climb. Survey results revealed that only 38% of companies surveyed offer employees health coverage. While all companies who employed over 20 people offer healthcare – and thus are compliant with the San Francisco Health Care Ordinance – smaller companies are finding it difficult to afford coverage, with only one third of companies who employ under 20 people offering insurance plans of any kind. While there is no easy fix to the expense of health care for small businesses, in the next

year, SFMade will continue to collaborate with the City and in larger policy forums to craft public policy initiatives that make healthcare more achievable for small businesses. In the near term, more aggressive deployment of available local, State, and Federal hiring and other tax incentives can ensure that small manufacturers retain more working capital in the business, that could be applied toward basic employee health insurance.

**NAVIGATING CITY GOVERNMENT:** The filing processes for permits, licenses, economic incentives and subsidies represent a significant burden that small businesses often lack bandwidth to accommodate. Moreover, despite the enormous potential value tax credits and subsidies hold for emerging companies, survey results reveal that only 26% of surveyed manufacturers reported using employment subsidies or credits in 2010. Of particular concern, over 90% of San Francisco's manufacturers are in the State and Local Enterprise Zone (EZ). We would have expected far more to have taken advantage of the program, which offers the single most significant set of incentives currently available to the manufacturers. Our research indicates that a lack of understanding about the EZ program and how to file, combined with over-

reliance on private sector solution providers (who are often not interested in working with pre-profit or small companies) are key drivers of the problem. In response to these issues, in partnership with San Francisco's Office of Economic and Workforce Development, SFMade now reaches out to manufacturers to individually assist with navigating licensing, permitting, and incentive programs. In 2011, SFMade also added new in-house capacity to file for EZ credits on behalf of any local manufacturer.

## EMERGING OPPORTUNITIES

As we look forward to further development and growth of both businesses and jobs in our local manufacturing sector, we recommend continued focus on several critical opportunity areas:

**FLEXIBLE AND AFFORDABLE INDUSTRIAL SPACE:** The cost to rent legal, permitted industrial space is often the biggest expense, after labor. While the cost to rent or buy industrial real estate has declined relative to pre-Recession prices, rents of all kinds in San Francisco remain at a premium as compared to smaller, less dense cities, suburban areas, and other parts of the US. The City's recent re-zoning of the Eastern Neighborhoods has helped to clarify the desirable industrial areas for manufacturers, and a combination of zoning controls and the economic climate have coalesced to alleviate the most severe land use competition. All this has resulted in a comparatively more affordable industrial real estate landscape for San Francisco. Manufacturers have been responding by trying to grow in place, rather than leaving once they begin to scale. In 2010 and 2011 alone, SFMade helped place more than 10 companies into affordable industrial space in the City — most recently, Heath Ceramics — which will be moving into a 60,000 square foot facility in the Northeast Mission.

San Francisco will need to closely monitor its industrial real estate availability and prices as we begin to pull out of a recession and commercial industrial markets begin to heat up once again. At the same time, today's manufacturers are inherently hybridized businesses that often blend manufacturing, administration, and factory retail

into the same space. We will need to make sure that the very industrial zoning intended to protect local manufacturing remains flexible enough to accommodate this ever-changing mix of use in the industrial areas of the City.

**NEW MARKET DEVELOPMENT;** In an increasingly globalized retail market, San Francisco manufacturing has followed suit — 55% of surveyed companies already export goods to one or more foreign countries. Of those that don't, a further 18% intend to export to other countries in the near future. This area stands to be a significant node of growth, as nascent businesses develop strategies to expand business internationally. San Francisco is particularly well positioned to develop trade partnerships with our neighbors in Asia that can then accelerate the development of new markets for our local manufacturers. Already, SFMade and businesses are using the City's reputation to help open up new local markets. SFMade's emerging collaborations with SF Travel and SFO will connect visitors to locally made products. In addition, the City's partnership with the America's Cup Event Authority specifically encourages the procurement of locally-made products for the upcoming events in 2012 and 2013.

**CONNECTING MANUFACTURERS AND (RE)BUILDING CLUSTERS:** Local manufacturers naturally cluster and network in specific geographic areas of the city, and often share suppliers. Of the companies that use Bay Area suppliers, 60% of companies have a supplier in common with another SFMade company. Going forward, we should identify strong 'sub-clusters' of companies, further providing space for collaboration on industry-specific issues from sourcing to hiring practices. In October 2011, Mayor Lee announced a collaborative effort to encourage and support the emerging apparel and accessories manufacturing cluster. In early 2012, SFMade will be adding furniture, food and beverage, and jewelry cluster-based initiatives.

Expanding this network presents an opportunity not just for manufacturers, but widens an area of opportunity for all of San Francisco to develop career paths and build skills in manufacturing to employ the underemployed or unemployed skilled workforce.

## FOUNDING PARTNERS

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## MISSION

To build and support a vibrant manufacturing sector in San Francisco, that sustains companies producing locally-made products, encourages entrepreneurship and innovation, and creates employment opportunities for a diverse local workforce. Our vision is a more diverse and sustainable local economy, where companies who design and manufacture products locally thrive, in turn, creating quality jobs for people from all walks of life and contributing to the overall economic and social vibrancy of our City.

SFMade engages directly with entrepreneurs and growing small companies, all of whom are headquartered in and manufacture within San Francisco, offering industry-specific education, networking opportunities, and connecting these companies to powerful local resources. By building strong companies, SFMade helps sustain and create job opportunities for the City's low-income communities and individuals with less typical education, experience, or skills.

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