2013 State of Local Manufacturing Report

CLAIMING SAN FRANCISCO'S PLACE IN THE "MAKE IT IN AMERICA" MOVEMENT

LETTER FROM EXECUTIVE DIRECTOR, KATE SOFIS

In late 2009, when SFMade was no more than the aspiration of a handful of local manufacturers standing in a circle on the factory floor of founding manufacturer Rickshaw Bagworks, the country was deep in the throes of the Great Recession. Unremarkably, the contraction of manufacturing jobs in the US showed no signs of departing from the downward spiral that had begun almost two decades earlier. The twelve companies at this first meeting — companies like Recchiuti Confections, Ritual Coffee Roasters, and Cordarounds (now Betabrand), representing the breadth of local makers in San Francisco at that time — talked about forming a community of local manufacturers, of more cross-company collaboration, and of "the pride of place" of being a San Francisco producer.

Fast forward to today: one has only to read a recent paper or blog to find another article about the growth of the maker movement, of yet another city's organizing around their locally made brand, or efforts by major corporations to re-shore parts of their supply chain. And even in Washington, President Obama has launched a "Make it In America" platform, which has included awards of more than $50M in federal funding supporting regional advanced manufacturing initiatives. Overall, the US has added more than 550,000 new manufacturing jobs since January 2010. While we may never return to the scale of US manufacturing of the twentieth century, clearly making things locally is once again relevant to most US cities.

While San Francisco can't take sole credit for the rebirth of American manufacturing, certainly the ingenuity and innovation of the Bay Area generally — and San Francisco specifically — can be credited with being one of the pioneers in this new era of manufacturing. But we are no longer alone. In the Bay Area, we face the reality that other urban communities can offer more affordable industrial real estate and a skilled workforce; and while we are strong in certain sectors such as garment manufacturing or food production, other US cities have equally impressive manufacturing chops in these and other sectors; and with the empowerment that the internet brings to our small manufacturers also come platforms such as Alibaba or Maker's Row, which make it easy for a designer to not only find a manufacturer in San Francisco, but in Los Angeles / New York / Toronto / Shanghai and beyond.

It is time for San Francisco to plant another stake, to clear a path for the role it intends to play in this new era of manufacturing: by boldly honing those manufacturing sectors we are strongest in; by building connections between allied industries — technology, design, retail, tourism, and finance — in ways that are more nimble and creative than others would; and by empowering our multilingual, multi-generational workforce to become the creative and productive asset it has the potential to be.

San Francisco Manufacturing Matures

The pace of growth of the local manufacturing sector has continued to accelerate, as revealed by this year's *Annual SFMade Survey of Manufacturers* which was completed by 159 companies. In 2013, SFMade membership — which comprises 95% of the local manufacturing sector — rose to an all time high of 512 companies, an almost 25% increase since this time last year.

The survey revealed that San Francisco continues to serve as a powerful incubator for new products and new companies, with 54 manufacturers (10.5%) having begun operations in just the past 18 months. At the same time, approximately 15% of local manufacturers are more than 20 years old, having survived through multiple generations of leadership and economic changes. Reassuringly, to date, only four companies founded during the Great Recession have failed. And one — Charles Chocolates — even successfully re-launched after more than a year of closure.

OVER 500 LOCAL MANUFACTURERS

Companies making sewn products — including apparel and accessories such as bags — continue to represent the largest segment of the local manufacturing population by sheer numbers of companies (33% of the sector), powered by San Francisco's strong network of contract garment manufacturers. Food and beverage manufacturers remains second (15%), but followed closely by Furniture, Home, and Garden (12%), Accessories (10%), Jewelry (10%), and a diverse "Other" category that represents largely hybrid consumer products that combine design and materials in new ways informed by technology.

12.9% INCREASE IN LOCAL MANUFACTURING JOBS: **THE HIGHEST IN 3 YEARS**

2013 marked a third straight year of increase to the rate of new job creation for the manufacturing sector, adding almost 13% net new jobs, as compared with 10.5% in 2011 and 12.5% in 2012. Of these jobs, the food and beverage sector was responsible for almost 55% of the new job growth, with San Francisco's local breweries adding more than 100 new jobs alone. Established apparel and bag manufacturers accounted for 22% of new jobs; and an emerging sector comprised of design-driven technology-informed product manufacturers added another 18% of new jobs.

San Francisco's local manufacturing sector now employs almost 4,000 people and the workforce remains diverse. On average, 70% of the workforce are from low-moderate income households and close to 75% of the workforce are San Francisco residents. However, the percentage of employees commuting has been rising, as compared to prior years, with Oakland/Alameda being the second most reported place that employees live.

One of the top three concerns reported by San Francisco manufacturers is the increasing cost of housing in San Francisco for their workforce. While there may be no easy solution to San Francisco's housing crisis, it is important that the City recognize that the high cost of housing may dampen some of the growth in the manufacturing sector. And similar to other sectors, ensuring good public transit to the neighborhoods where manufacturers operate will become even more imperative if a higher percentage of the workforce must commute from other parts of the Bay Area.

The San Francisco manufacturing sector continues to be a powerful contributor to both the city and to the regional economy, driving an estimated $395M of direct revenue into the local economy and another $750M of indirect economic activity, driven by the intensely regional supply chains of the majority of the SFMade companies and the spending power of their local workforce.

SF manufacturers contributed more than $1B to the Bay Area economy between 2012–13

How much higher can this impact go? It will depend on how well San Francisco can continue to sustain our current innovation culture — driven by the marriage of design, technology, and the vibrancy of the local maker community. We must ensure we also scale our manufacturing infrastructure: deepening our network of contract manufacturers that so many of our local designers and inventors rely on; unlocking more multi-tenant and shared manufacturing space; making it easier for local manufacturers to connect with appropriately-skilled local workers; and ensuring companies have the local distribution infrastructure they need to access new markets beyond the Bay Area. Finally, San Francisco must look for every opportunity to continue to elevate and leverage our locally made (SFMade) brand—an engine that drives not only market opportunity for our manufacturers but stimulates the flow of capital, technology, and expertise into the sector and into the city as a whole.

Emerging Trends and Success Stories

DEEPENING LOCAL ROOTS: **RETAIL, RE-INVESTMENT, REACH**

In an increasingly crowded online market, and where "Made Locally" signs seem to be in every city — San Francisco manufacturers are working even harder to differentiate themselves and their products, both locally and in export markets. Many have chosen to do this by rooting themselves deeper into their home soil. In the apparel and sewn products sector, the trend toward having at least one physical retail outlet has been accelerating amongst SFMade companies. In the last year alone, Betabrand, Marine Layer, and Turk and Taylor — who collectively support jobs across seven local garment factories — all launched dedicated retail stores. In the food and beverage sector — while distribution remains largely beholden to wholesale channels such as grocery stores — companies are opening combined retail/manufacturing models, with young manufacturers like Dandelion Chocolate, Southern Pacific Brewery, and Cellars 33 notably all expanding their direct retail. **Currently, 98 SFMade companies have their own retail outlets.**

Beyond investing in physical retail space, local manufacturers are making significant investments in other assets, including spending capital to lease and perform significant tenant improvements on space, purchasing new equipment, and investing resources to hire and provide training to new workers. **Overall between 2012–2013 SFMade companies collectively accessed more than $35M in new capital, in the form of loans, equity, and crowdfunding**, the vast majority of which has already been reinvested locally. This significant amount of investment in relatively fixed or long-term assets — facilities, equipment, people — is a bellwether for the manufacturers' confidence in the local market. It also highlights the need to continue to innovate to drive capital into the sector. The City of San Francisco's new twin revolving loan funds — collectively designed to provide loan capital in the range of $50K–$1M — are a welcome addition to the local capital landscape.

Finally, SFMade companies are reaching more visitors and locals alike, as the SFMade brand is made increasingly visible through partnerships with local organizations: examples include SFTravel, which now houses an SFMade store at their Visitor Center; the ongoing partnership with airport retailer Host, which operates several SFMade kiosks at SFO; and an ongoing rotating SFMade retail kiosk at the Westfield San Francisco Shopping Center. **Building the SFMade brand locally — and combining using our local assets to promote the brand — pays dividend for our manufacturers, even as they reach beyond the Bay Area.** Utilization of the SFMade brand remains the number one reason

why companies join SFMade. SFMade companies report that our local brand helps drive distributor and retail interest in other countries, particularly in strong Asian markets such as Japan and China, in the UK and other parts of Europe, and now in Latin America. As this report went to publication, venerable San Francisco bag maker Timbuk2 launched their first retail store in Asia. In a notable twist, the bags sold in this new Singapore-based store will be made in San Francisco.

THE RISE OF **ADVANCED MANUFACTURING**

Over the past 3 years, the designer/maker/creative community in San Francisco has been quietly developing all sorts of new products — in art studios, at local universities like California College of Art, and in shared maker spaces like Noisebridge and TechShop. Companies like eMotimo, which developed an innovative computer-controlled photography device, Type A Machines, which makes 3D printers and was incubated at TechShop, and the Other Machine Company, which designs and manufacturers desktop CNC machines in the Mission, all represent a vibrant next generation of San Francisco design and manufacturing. All three companies trade both on the creative and engineering prowess of the San Francisco design community *and* on the new digital design and "desktop" manufacturing platforms of what some call the Third Industrial Revolution. Increasingly — albeit more slowly — more traditional SFMade manufacturers are also beginning to incorporate these same technologies into their process: for example, jewelry manufacturer Sarah Graham now uses 3D printing to create the molds, that inform her still largely hand-made nature-inspired creations.

The digital manufacturing trend is significant to San Francisco on several levels: first, as digital/desktop design and manufacturing software and hardware become more accessible, even the smallest SFMade manufacturer will have the opportunity to incorporate these innovations into their process. **These are transformative technologies that play squarely into the strengths of San Francisco's nimble manufacturers, enabling rapid design of new products, small-batch manufacturing, and the rapid customization of individual products to individual customers.** At the same time, these same technologies are clearly driving both new company formation in San Francisco and even relocation: SOMA-based satellite manufacturer Planet Labs deliberately moved to San Francisco after they launched to be in closer proximity to a skilled workforce, capital, and other allied companies. For San Francisco, capitalizing on this emerging digital manufacturing cluster presents a real opportunity to claim our own stake in advanced manufacturing.

MANUFACTURING AS **SHARED ECONOMY**

Urban manufacturing 3.0 is fundamentally organized differently than the manufacturing economies of the industrial revolution (1.0) and mass production (2.0). Where in the past the predominant US manufacturing model hinged on large, individual companies owning all their productive assets, **modern manufacturing in San Francisco is largely about new models of collaboration and shared economy**. In many cases, this model has been fueled by necessity: ever more companies crowding into small spaces, or needing access to equipment that cannot be justified for only a small manufacturer. But increasingly, urban manufacturing benefits from shared models — and companies seek them out even after they have grown to the point where they could afford dedicated assets/space/retail/workforce. Examples of the manufacturing shared economy are plentiful. Crowdfunding — more than 50% of newly launched SFMade companies now use crowdfunding campaigns (Kickstarter and IndieGoGo are the two most popular platforms) — often capitalizes new companies, while even established manufacturers now also use crowdfunding to add additional capital into their business, to generate PR buzz, and to reach other potential customers and investors. Shared space and equipment represents another form of sharing. In this year's survey, close to 30% of companies who plan to seek new space are looking to share space, both to economize on cost but also to be in a more collaborative work environment. Shared retail models allow companies to aggregate their products and attract more customers. And finally, companies are even sharing their workforce — using vehicles such as the SFMade Job Board to find skilled individuals who often have gained experience at other SFMade companies.

MAKING IS COOL AGAIN

Now is the time to help young people understand the modern day manufacturing landscape and the employment and entrepreneurship opportunities it presents for them. In 2013, SFMade launched dual programs aimed at exposing San Francisco high school youth to careers in manufacturing. *Inside Manufacturing*, a new high school-based partnership with SFUSD, engages youth with local manufacturers through both classroom and in the field experiences. And *YouthMade*, our flagship youth apprenticeship program, run in partnership with Juma Ventures, is placing 40 low-income young people (ages 16–24) into paid internships in 2013–14 with SFMade companies. **By engaging our youth now, we can ensure that our manufacturers will find a diverse, technology-savvy workforce.**

Challenges and Opportunities

SPACE: **WE NEED TO DO MORE, AND SOON**

The *2012 State of Local Manufacturing Report* showed that while industrial space remained relatively affordable, that vacancies in many of our industrial areas were dropping, making it harder for growing manufacturers to find expansion space. This challenging trend has only worsened: industrial vacancies in areas zoned PDR-1 (light industrial) are almost nonexistent; rents have risen to upwards of $2–3/sqft in popular neighborhoods such as SOMA and the Mission; and of the space searches we conducted for manufacturers in 2013 through our *Places to Make Program*, only 13% of the companies have found space. At least one major SFMade brand — Tcho Chocolate — has publicly announced they are looking for space in the East Bay, after an unsuccessful year-long search for new space in San Francisco, and surely, others will follow. **Bottom line: San Francisco's increasing lack of affordable, transit-accessible, available industrial space is perhaps the greatest threat to sustaining the growth of our manufacturing sector.** Indeed, surveyed companies listed finding space, and finding capital to support build-out of space among their top concerns.

What is to be done? For starters, San Francisco needs to continue to proactively examine any and all vehicles to enable better utilization of existing industrial stock. Some of the solution lies in further evolution of our zoning controls, to allow for more shared accessory use in multi-tenant buildings inhabited by manufacturers so that space for retail or even office can be used more efficiently. The City must also continue to explore ways to make the Bayview, where there is still more vacant and underutilized industrial space — more transit accessible. Given the trend for more workers to commute in from outside the city, transit accessibility will only become a larger issue for growing manufacturers.

Most importantly, through either public-private partnerships or by outright land dedication, San Francisco *must* develop new industrial space dedicated to manufacturing. A 2012 study commissioned by the City of San Francisco, part of a larger collaborative process undertaken by SFMade to examine ways to provide for more industrial space, demonstrated that the production of new industrial space *does not pencil out.* We cannot wait for the private sector to provide for an estimated additional need of (conservatively) 300,000–500,000 sqft a year of new industrial space for manufacturing and allied design/engineering sectors. Solutions to be considered include 1) encouraging cross-subsidization of uses in the most expensive areas of the City, where the income from high rent yielding office or even storage uses could be allowed to offset the cost to produce new industrial space, 2) dedicating existing City-controlled property explicitly for manufacturing (general "industrial" designation is not enough), and finally 3) considering forming a permanent non-profit development entity, to act as an "affordable industrial developer" as other cities such as New York City and Philadelphia have done.

TECHNOLOGY & CRAFT: **OLD SCHOOL MEETS NEW SCHOOL**

Finally, with all the excitement around new manufacturing and design technologies, there is another side: for every story of a "new school" technology-based SFMade company, there are scores of other "old school" traditional manufacturers — from garment manufacturers to makers of furniture, jewelry, and even food — that have not yet perceived the benefits of exploring ways to combine new productive technology into their business models. In this year's survey, only 40% of SFMade companies report that they plan to add technology in the next year, most saying that they do not think they need it or they do not understand how they could use it. This is a worrisome trend, as we see manufacturers in these very same sectors in other cities using technology to move ahead. Investment in newer equipment and labor-saving technology lies at the root of this growing divide. **Our opportunity over the coming years will be to marry old world craft with new world, technology-informed production.**

SFMADE

SFMade's mission is 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.

Photos courtesy of Ferron Salniker and Nora Lalle.

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