UPGRADING OUR LOCAL CONTRACT AND SOURCING INFRASTRUCTURE

The City's network of contract manufacturers and other shared production resources — from sewn products, to food/ beverage co-packers and commercial kitchens, to the web of providers of wood, metal, plastic and other materials — will either enable or limit the growth potential of many manufacturers. The existence of a strong and accessible contract/sourcing infrastructure is a bell weather for how much further our sector can grow. While the City has always been able to attract designers across all disciplines, the past decades of outward migration of manufacturing has cost this, and other US cities, critical mass in the urban production infrastructure. For example, the City is currently lacking in contract co-packaging and bottling capacity. We also have very limited capacity in metal and woodworking, and our capacity in other materials (plastics, powder-coating, steel shaping) is almost non-existent. Even though we have a healthy number of factories in the sewn products sector, there are clear gaps in capacity, particularly the ability to produce higher end designer clothing and items made from leather and more technical fabrics. In the next year, SFMade will continue to work in partnership with local manufacturers and the City to identify the gaps and to grow and attract resources into the City.

RE-IMAGINING THE “MAKER-FORCE”

Perhaps the greatest risk to sustaining the current pace of growth of the manufacturing sector lies in the continued availability of a skilled and motivated local workforce. Through SFMade's Hiring Made Better program, we have helped many local manufacturers hire for a wide range of positions. We have observed that many of the manufacturers are creating jobs at a faster pace than they are being filled. In some instances, we find skill mismatches between the needs of an individual manufacturer and the community. But perhaps the larger issue is that manufacturing has fallen off the radar of the next generation. Will we be able to fill new manufacturing jobs when the existing workforce retires? Will an over reliance on the skills of the first generation immigrants to fill the most technical of artisan production roles lead to a worker shortage as their own children elect to pursue other careers?

As San Francisco's manufacturing sector continues to mature, the time is now to amplify the opportunity to young people. In 2013, SFMade will launch a new initiative — YouthMade! — aimed at exposing young people (ages 16–24) to the possibility of a career in manufacturing, through a combination of education and apprenticeships. The great hope lies in the opportunity to reimagine the possibility of what “making work” looks like to the next generation “maker-force”.

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SFMADE MANUFACTURERS:
A Time of Growth

In San Francisco, the local manufacturing sector continues to grow by all measures and is picking up speed. SFMade membership has swelled to over 400 companies — up from 250 at this time last year — who are all headquartered in and producing their products in San Francisco. This vibrant sector now employs over 3,200 people, the majority of whom live in San Francisco. This year’s Second Annual State of Local Manufacturing Report is the result of our annual survey of these vibrant member companies. The report incorporates revenue and workforce data from the entire SFMade network, complemented by further detailed workforce, sales, and supply chain data from 60 of the manufacturers, representing the full breadth and depth of the sector.

In addition to growth in our two largest sectors — apparel/accessories and food/beverage — we are also seeing strength in emerging sectors, including furniture, green building products and alternative transportation, and an increasing range of small accessories that combine traditional materials like wood, metal, and fabric with technology. While the majority of our companies continue to make consumer products, we are also seeing growth in the essential network of contract manufacturers who offer skilled trades, and are the drivers behind many of our growing brands. And growth in all of these sectors has led to a significant growth in jobs.

SFMade is the 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.

Photos courtesy of Laila Bahman and Nora Lalle.
In 2012, San Francisco manufacturers picked up the pace of job creation, adding 12.5% net new jobs, as compared to 10.5% in 2011. Companies hired across the spectrum — by size and by role — from young companies making their first hire, to growth-stage companies hiring their first senior management role (8% of companies surveyed), expanding their production workforce (55%), customer service (27%), and sales/business development positions (50%).

San Francisco has also seen an increase in the pace of new company creation. Close to 40% of the San Francisco manufacturer base (up from 31% at this time in 2010) — representing 312 manufacturers — have launched their companies within the past 3 years. At the same time, established manufacturers ranging in age from 3–111 years old are also enjoying continued growth. Of the companies surveyed, over 85% expect to be profitable in 2012. And a vast majority of the companies are planning for further growth in the upcoming year — expressing their main “challenges” often in terms of finding capital and people to sustain their growth and focusing on developing new markets and distribution channels.

San Francisco as Incubator: 122 New Manufacturers Since 2010

San Francisco’s manufacturers make a big impact on the local economy. Collectively, they drove $325M in direct economic impact in the local economy and added further economic impact to the Bay Area economy through strong local supplier connections. 47% of surveyed companies produce 100% of their product in-house, while an additional 40% produce the majority of their product through a combination of San Francisco and Bay Area manufacturing partners. Only 11% partner for any portion of their manufacturing overseas.

Local manufacturers drove $325M in direct economic impact into the economy.

An equally interesting trend, as the collective “SFMade” brand of San Francisco manufacturers continues to grow in recognition, national (and even international) retailers are showing an increased interest in incorporating SFMade brands into their product mix. For instance, at San Francisco International Airport, a national airport concessionaire is in the final stage of launching three dedicated SFMade stores inside the interna-
tional terminal, bringing locally made products into the hands of the millions of annual visitors to the Bay Area. The first major national retailer to curate a dedicated SFMade “store-within-a-store” — Banana Republic — plans to replicate their 12-month running San Francisco store to flagship locations in Chicago, Los Angeles, and New York. Incorporating authentic, locally made products into mass retail clearly has provided a new opportu-
nity for large retail brands to connect to the local market. And, most importantly, these local stores are profitable both for the manufacturers and their retail partners.

City Government as Partner: While San Francisco remains, in the eyes of surveyed manufacturers, one of the more compli-
cated and expensive places to do business, San Francisco’s City leadership has persistently been changing the tone of how manufacturers are engaged and supported. Major successes in 2012 have included the decision to fund a dedicated “manufac-
turing liaison” position within the Office of Economic and Workforce Development as well as a focused garment manufacturing initiative, Fashion SF. But perhaps the most significant reform — on the November ballot at the time of this report — will be reform of the current payroll-based business tax system, which disproportionately hits labor intensive companies such as manufacturers. By replacing this tax with a more progressive tax, based on income (gross receipts), and in doing so normal-
izing San Francisco’s business tax system to be consistent with all other major US cities, San Francisco is setting the stage for manufact-
uring a strong signal that yes, indeed, manufacturers are wanted here and that our tax approach reflects it.

Fashion SF — Designed and Made Here: Apparel and other sewn product manufacturers represent one of the city’s most important growing sectors. Collectively, local manufacturers of apparel, accessories and other sewn products comprise 49% of local manufacturers and by far represent the largest segment of manufacturers under three years old. San Francisco has always been a beacon for creative types and designers. But now more of them are intentionally aspiring to produce their designs locally as well — in part inspired by the SFMade movement, and largely enabled by the still substantial contract garment manufacturing sector remaining in the City: close to 80% of locally-made clothing brands partner with one or more “contract manufacturers.” The realization that San Francisco sewing factories are capable of producing small batch and customized runs with quick turnaround times is perhaps the most essential key to enabling established brands to consider repatriating portions of their overseas manufacturing. The Fashion SF Initiative — launched by Mayor Ed Lee and in partnership with SFMade — is testament to the visibility and the support this key sector has accrued. Garment manufacturers in San Francisco now employs hundreds of people — largely Chinese and other Asian immigrants — across several dozen sewing factories.

Made Locally for (Inter)National Retail: SFMade manufacturers largely make products for sale to consumers, and increasingly, they are becoming their own retailers and selling direct to their customers. A whopping 77% of companies sell direct through web sales and an additional 35% through company-owned physical stores — both in stand-alone retail stores and increas-
ingly in “factory” stores. Local manufacturers have discovered that by selling directly to their customers, they not only retain more of their sales value, but they also build critical direct con-
nections between their customers and their brand. Beyond direct retail, local manufacturers are also developing retai-
ler relationships to other local independent retailers, as evidenced by the more than 70 local retailers appearing in the first edition of SFMade’s Discover Locally Made map.

ERIC’S USER EXPERIENCE

EMERGING TRENDS AND SUCCESS STORIES

CHALLENGES AND OPPORTUNITIES

As local manufacturing continues to grow in San Francisco, the survey also highlighted a number of key opportunities — and continued challenges — that will be important to address, to ensure that companies can continue to start here, grow here and stay here.

Place Matters: As the size of the local manufacturing sector, and the size of some manufacturers has grown, pressure is being placed on San Francisco’s already tight commercial real estate market. In an effort to find additional space, close to 40% of surveyed manufacturers plan to look for expanded space in the next 12 months. In 2012 alone, SFMade’s Places to Make program, which works with manufacturers to find lease (or buy) space, has placed more than 15 companies in spaces ranging from 500 sqft to more than 60,000 sqft. Rents, ranging from 75 cents to $2 per sqft, have remained relatively affordable in the Northeast Mission, the Central Waterfront, and the Bayview, all areas close to good public transit. In evaluating options, manufacturers favor locations well served by public transit (for their own workforce) and well suited for factory retail. As a result, industrial areas closer into the down-
town core have especially limited vacancies. In SOMA and the Central Market corridor in particular — which do not enjoy the same degree of zoning controls for dedicated industrial use as other industrial areas and where there is still competition from other uses — rents are high and vacancies almost non-existent. On the other extreme, the Bayview District continues to offer more space — but for some manufacturers, the lack of transit is a strong disincentive. A focus on providing better transit connections to the outer lying industrial areas will be critical to ensuring more manufacturers can grow in San Francisco.

Solutions could take the form of expanded Muni service, private shuttles, ride sharing, and improved bikeways into the industrial areas of the city.

As with location, size also matters. Of the companies placed into space by SFMade in 2012, the majority of searches were for under 5,000 sqft and the 1,500 “starter space” is in highest demand. As there are few stand-alone small spaces, it is becoming increasingly important to facilitate space sharing amongst the manufacturers and, where possible, to design new or to subdivide larger buildings to suit the needs of smaller companies. The City might consider targeting an incentive program to the owners of the largest industrial buildings to help them subdivide their space — an approach now being piloted in New York City. The City also has a very limited larger space for manufacturers (50,000 sqft and higher). The City must make the best possible use of what large space remains — especially Port property — to ensure there is room for our most successful manufacturers to grow. The City should also continue to evolve our development incentives to ensure that new industrial stock will be built.