Food Processing and the Wisconsin Economy: Small or Large Businesses

The recent update of the Contribution of Agriculture to the Wisconsin Economy revealed that between 2012 and 2017 the total contribution increased across several measures of economic activity. Much of the increase can be attributed to growth in the food processing sector. Somewhat surprisingly, the growth in the food processing sector is not attributed to a growth in the number of firms, but rather growth of existing businesses. This is somewhat unexpected because at the national aggregate level, and Wisconsin follows the same pattern, nearly all job growth comes from the creation of new businesses. Indeed, existing firms remain the same size, expand or contract but contractions outpace expansions. This observation, however, generally applies to employment and has not been confirmed, or refuted, for revenues, gross state product, or income.

Like most businesses in Wisconsin, the majority of food processors could be classified as “small businesses”: about one in five have fewer than five employees and just over half has less than 20 employees while only 18% have 100 or more employees (Figure 1). Comparing the distribution of food processing firms by size from 2000 to 2016, however, there is some evidence that there is a small movement from the industry dominated by smaller firms to slightly larger firms. This is most evident in dairy processing and bakeries (Figure 2). Given the dominance of these two sectors to food processing in general, it is these two industry trends that are driving the aggregate patterns. But companies that make animal food (feed for livestock and pet foods) the trend appears to be toward smaller firms as well as confectionery oriented businesses.

Examining the distribution of total employment across food processing firms by employment size, a slightly different picture of the industry is provided (Figure 3). Although firms with less than 20 employees accounts for just over half of all food processing businesses,
they account for just less than 5% of total employment in the industry. Similarly, businesses with less than 100 employees account for eight in ten food processing businesses, they account for just over one in four jobs in the industry. The small handful of “large” firms (more than 100 employees) account for 75% of all employment in the industry. These large firms tend to be concentrated in dairy processing, meat and poultry processing and fruit and vegetable processing and specialty food processing. Clearly food processing in Wisconsin is diversified not only in product lines but also in size of businesses.

These patterns introduce an interesting economic growth and development question. If food processing is a growth sector for Wisconsin, should limited public resources be focused on new food processing start-ups (food entrepreneurship) or increasing the profitability and growth of existing food processors? Much of the research on growth and development suggests that the focus should be on business start-ups, but appears that for food processors in Wisconsin perhaps the focus should be on existing businesses.

Ideally, Wisconsin should focus on both at the same time: create an environment that is supporting of new food entrepreneurs as well as working with existing businesses to improve profitability. Ideally, one approach should not come at the expense of the other. For example, nearly all food processing businesses can use technical assistance to improve the efficiency of production processes as well as business management practices. Existing businesses can benefit from assistance in identifying new market opportunities, perhaps including foreign exports. New businesses, or those that are in the planning strategies, often struggle to secure funding because traditional sources of finance, specifically banks, have little of a track-record to base credit risk. Here, small grants or loans underwritten by public entities can help minimize the risk faced by traditional sources of finance. In this same vein, loan guarantee programs have proven to be successful. Perhaps the simplest strategy to provide networking opportunities for smaller food processors to gather and learn from each other. These interpersonal relationships can form the backbone of an effective food processing cluster.