From Farm to Fork: Innovations in the Chicago Food Industry
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The Polsky Center for Entrepreneurship at the University of Chicago Booth School of Business and the Chicagoland Entrepreneurial Center (CEC) are pleased to sponsor and present this White Paper, From Farm to Fork: Innovations in the Chicago Food Industry. This paper, and a conference by the same name held in April 2009, are part of the Polsky Center’s Exploring Entrepreneurship Series — which focuses on one industry a year that plays a vital role in our regional economic growth. The Exploring Entrepreneurship Series is made possible by the generous contribution of the Donald W. Hamer, ’58 Small Business Initiative.

This past year, the Series focused on the food industry. As a logistics and distribution hub, as well as center for innovation and research, the state of Illinois and the city of Chicago are well positioned to lead the global food industry. From John Deere’s invention of the steel plow in 1837 that revolutionized agricultural production, to Chicago’s rich history of meat packing and culinary delights, Illinois has been innovating every step of the way.

The conference brought together industry leaders, entrepreneurs, investors, growers, researchers, government officials, faculty and students, and representatives from economic and workforce development agencies to discuss the challenges and opportunities to advance the region’s leadership and growth in all areas of the food value chain.

This paper captures key points made during the conference and further explores the trends and opportunities for innovation within this sector. It also puts forth several recommendations for advancing the food industry in the regional economy.

Today, with a critical mass of talent within this industry, we must come together to think strategically about how we can continue adding value to make our food supply safer, healthier, and more efficient, while creating more regional jobs.

We hope this paper generates further discussions and actions to ensure that our food industry will continue to innovate and be recognized as a global leader.

Sincerely,

Linda Darragh
Director of Entrepreneurship Programs, Polsky Center for Entrepreneurship
The Polsky Center for Entrepreneurship at the University of Chicago Booth School of Business advances the knowledge and practice of entrepreneurship and innovation across the university and in the greater business community. Organized in 1998 through a grant from the Kauffman Foundation and endowed by leading energy entrepreneur Michael Polsky in 2002, the center is the leading resource for students and alumni as they pursue entrepreneurial endeavors and private equity careers. The center supports entrepreneurial development through its cutting-edge curriculum, innovative hands-on learning experiences, leading faculty research, conferences, and community and global outreach programs.

Entrepreneurship is the second largest concentration at Chicago Booth and, with an impressive growing network of students and alumni as entrepreneurs, the Polsky Center is dedicated to expanding and capitalizing on this vibrant sector of our economy.

For more information visit www.ChicagoBooth.edu/entrepreneurship.

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The Chicagoland Entrepreneurial Center (CEC) works at the intersection of business success and civic engagement. It identifies the region’s most promising entrepreneurs and helps them build high-growth, sustainable businesses that serve as a platform for economic development and civic leadership for the Chicagoland area.

The CEC works with high-growth entrepreneurial ventures through one-on-one advisory services, programs and events. Since 2003, CEC helped secure $229 million in new revenues for its clients. With the CEC’s assistance, more than 200 companies received financing services and secured $430 million in debt and equity financing. Additionally, the CEC awarded over $1.9 million in grants to businesses for sales and financing-related services. CEC efforts also led to the creation and retention of more than 5800 jobs.

The CEC is a nonprofit affiliate of the Chicagoland Chamber of Commerce and provides services through its relationship with the Illinois Department of Commerce and Economic Opportunity as an Entrepreneurship Center and as a member of the Illinois Entrepreneurship Network.

For more information please go to www.chicagolandec.org
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From Farm to Fork: Innovations in the Chicago Food Industry
Introduction

Books and news articles proliferate with the message that the United States has lost its innovation edge. Even more is written about the dire lack of innovation in the Midwest. Our view is that the word innovation has become synonymous with “Silicon Valley high-tech” and we have become blinded to the fact that innovation occurs in many other industries — particularly in those industries that are at the core of our Midwest economy.

“Revolutionary” innovation, which results in changing consumer behaviors and disrupting a given marketplace, is not the norm. More often, innovation is “evolutionary” and is the result of incremental advances to particular technologies and processes. In order to maintain a competitive advantage and generate continual economic growth, every industry should strive for evolutionary innovation.

In Chicago, the industries upon which this region was built include transportation, logistics, food processing and commodity exchanges. These industries are rarely considered to be innovative by the general public. However, these industries have been affected by continual evolutionary innovation and are still a major force in the economic growth of the region.

The Polsky Center of Entrepreneurship at Chicago Booth would like to transform the discussion of innovation in the Midwest. Instead of trying to compare the Midwest to other centers of innovation, we should focus on enhancing innovation in those industries that have always been the key drivers of our economy. To this end, the Polsky Center launched the Exploring Entrepreneurship Series in 2006 to study innovation and entrepreneurship in specific Chicago-based industries. In 2006-07, students, faculty and industry experts analyzed the futures trading industry that has become a global force in innovation and has generated significant entrepreneurial activity in the region. In 2008-09, the Exploring Entrepreneurship Series chose the food industry as the focus.

In April 2009, the From Farm to Fork: Innovations in the Chicago Food Industry conference brought together industry leaders, entrepreneurs, investors, growers, researchers, government officials, and representatives from economic and workforce development agencies to discuss the challenges and opportunities to advance the region’s leadership and growth in all areas of the food value chain. Attendance was double the number expected and there was significant enthusiasm among the attendees that this was the first time a conference represented all sectors of the food industry and highlighted innovation and entrepreneurship.

For this project, Chicago Booth partnered with the Chicagoland Entrepreneurial Center (CEC) to conduct further research into the Illinois food industry. The result of this effort is twofold. This White Paper presents an overview of the past, current and future potential of innovation in the region’s food industry. It also offers recommendations on how innovation could be advanced even further. The second outcome is a handbook and database that aggregates some of the area’s great resources in order to assist food industry entrepreneurs to launch and grow their companies.

We want to continue the dialogue that began with the conference and stimulate action around regional innovation and entrepreneurship. While this paper provides a starting point, we encourage further comments and suggestions at http://www.chicagoboost.edu/entrepreneurship/research/index.aspx.
Section I: Drivers of Innovation

The food industry has long been a focal point of Chicago’s economy. Chicago’s geographic location and innovative transportation system helped it become the center of America’s food chain — receiving, processing, and distributing commodities from the food producing regions of the rural Midwest to the rest of the nation.

History of Innovation in the Chicago Food Industry

Dating back to the city’s birth in the mid 1800s, grain milling and meatpacking were the foundation of the industry. Growth in these segments soon led to innovation in food processing, safety, and exchange. Additionally, Chicago has been an ongoing destination for migrants who brought unique flavors to Chicago and cultivated continued innovation in agriculture, transportation, production, and foodservice.

In order to understand the entrepreneurial landscape of the Chicago food industry today, it is important to look back at the region’s rich history of innovation and growth. For decades Chicago food entrepreneurs have shown that opportunities for improvement exist along all parts of the value chain. Knowledge of the history of the region will help today’s entrepreneurs better understand and take advantage of its resources. The following highlights some of the major points along the value chain.

Transportation

In 1848, following the dredging and expansion of the city’s harbor, the Illinois and Michigan Canal was opened. This system linked the Chicago and Illinois Rivers, thereby connecting Lake Michigan and the Mississippi River system. Then, in the 1850s, the first railroads were built to join Chicago with the West. The city then became the principal transshipment point between eastern and western rail networks. In 1865 the Union Stock Yards were opened, a 465-acre transportation hub and livestock market located at Halsted and Exchange Streets. Soon after, major meatpackers began to co-locate near the stockyards where they could swiftly receive, process and ship livestock. Technological innovations, such as the refrigerated railroad boxcar, facilitated this symbiotic relationship. Rail remained the principal form of transportation until the emergence of interstate trucking in the 1950s.

Grains

Early in Chicago’s history, grain milling was the most important food activity. By 1860 Illinois was the number one producer of corn and wheat in the United States. Wheat, oats, barley, rye, and corn arrived to Chicago from Iowa and other Midwestern breadbasket states. The invention of the grain elevator facilitated a more reliable delivery system, minimized the loss of grain to a single seller, and provided for the speculator who could easily buy or sell the stored grain. Millstones, bake-houses, and steam-powered flour mills supported the highly industrialized milling and cereal business.

Meatpacking

Chicago was the center of the meatpacking industry from the Civil War to the 1920s. The “Big Three” — Philip Armour, Gustavus Swift, and Nelson Morris — and dozens of other meatpackers were located in or near the
Union Stock Yards, which housed the livestock market. The meatpacking industry thrived as companies developed innovations such as ice-cooled rooms, which allowed for year-round processing. Secondary industries sprouted up and, with the help of chemists, transformed by-products into glue, fertilizer, glycerin, ammonia, and gelatin.

**Food Safety**
The successful rise of the meatpacking industry in Chicago did not come without a cost. At the turn of the century Upton Sinclair’s novel *The Jungle* exposed the industry’s unsanitary processing facilities and dangerous working conditions. This led to the 1906 Pure Food and Drug Act and the Meat Inspection Act, which put federal inspectors in all packinghouses whose products entered interstate or foreign commerce. The reform also resulted in the establishment of the Bureau of Chemistry that became the Food and Drug Administration in 1930. In 1909 Chicago also became the first city in the United States to require compulsory milk pasteurization.

**Commodities Market**
Chicago’s geographic location as a hub of exchange in the food industry led to the creation of the Chicago Board of Trade (CBOT). The CBOT was first organized in 1850 as a voluntary association of businessmen that implemented regulations for grading grain. The board provided a platform that allowed farmers and livestock owners to access markets across the United States and world, provided price stability, and stimulated interest and re-investment in agriculture. Merchants went from handling grain in bags to buying and selling bulk grains for cash, storage, or future delivery. Through the twentieth century the CBOT began to diversify its trading out of agricultural commodity futures. Eventually, the CBOT was recast as a futures exchange for financial instruments and other commodities.

**Food Processing**

**Baked Products.** At the turn of the century, access to an abundance of milled grains and the increasing industrialization of the food industry squeezed out smaller, more diverse players such as kitchens and small bakeries, and gave rise to mechanized bread factories and chain grocery stores and bakeries. Notable baking companies with roots in Chicago include the Quaker Oats Company, Nabisco, Keebler, and Sara Lee. Quaker was founded in the early 1900s when smaller industry producers, American Cereal Co. and Great Western Cereal Co., were purchased by Quaker. Nabisco was formed in the late 1800s (then known as the National Biscuit Company) as the result of a series of cracker mergers. Brands included Uneeda biscuits, Fig Newtons, and Oreos. Keebler was founded in 1927 — then called the United Biscuit Company — and was based in the Elmhurst neighborhood of Chicago. Sara Lee, best known for its line of cheesecakes, was founded in the mid 1900s by Charles Lubin, and soon became a leading baked goods company.

**Canned Foods & Processed Meats.** The thriving meatpacking industry triggered the growth of many successful canned foods and processed meats companies. By the late 1880s Chicago canners, including a subsidiary of Swift & Co., were packing 35 million cans annually. Mayer (Oscar) & Co. is one noteworthy company with roots in Chicago. What started in 1883 as a small sausage-making operation led by German immigrants became a billion-plus dollar business producing hot dogs, cold cuts, and bacon.

**Dairy.** Proximity to the dairy stronghold of Wisconsin helped Chicago become the home of many major dairy processors, including Beatrice Foods, Dean Foods, and especially Kraft Foods. Founded in 1903 by
James L. Kraft as a cheese delivery business, a series of mergers and acquisitions led Kraft to become a major industry conglomerate with products ranging from natural cheeses to frozen pizzas.  

Confections. The late 1800s and early 1900s also saw the development of the confectionery industry in Chicago. Founded in 1891, the William Wrigley, Jr. Company included chewing gum brands Juicy Fruit and Wrigley’s Spearmint. Tootsie Roll Industries, home of the Tootsie Pop and Junior Mints, has been located on Chicago’s South Side since the 1960s. Chicago is also the birthplace of sweets icons Cracker Jacks, Milk Duds, and Brach’s.

Foodservice
From fine dining and street food to fast food, the foodservice industry in Chicago developed as the city became a crossroads for hungry workers and visitors who were forced to eat away from their homes. Downtown workers spurred a “cheap eats” boom, including hot dog stands. Cafeteria and lunch counters created in the 1890s gave way to diners and fast food establishments in the 1950s. Founded by Oak Park, Illinois, native Ray Kroc, global quick-service chain McDonald’s opened its first franchise in Des Plaines in 1955. In 1923 Fred Mann opened the first-ever themed restaurant — a seafood restaurant featuring maritime décor, complete with fish nets and waiters dressed as sailors. By the late 1970s Richard Melman had followed in Mann’s footsteps, opening R.J. Grunts in Chicago and building it into the nationally recognized chain, Lettuce Entertain You. In sum, Chicago has a long and storied history of dining enterprises beginning locally and spreading to the rest of the nation and world.

Ethnic Influence
The confluence of land and sea routes brought people to Chicago from all corners of the world. Germans, Irish, Polish, Italians, African Americans, Hispanics and Swedes arrived first. Later French, Greeks, east Indians, Japanese, Koreans, and Spanish settled in Chicago. Each group brought its own flavors and culinary traditions, which influenced innovation in the industry. For example, in the 1850s immigrants from Italy’s Genoa region arrived in Chicago. By the late 1800s Italians made up less than 1% of Chicago’s population but owned over one quarter of the city’s grocery stores and 20% of its restaurants. By the 1920s non-Italian Chicagoans discovered Italian food and helped make it the most popular ethnic cuisine in America.

Food Industry Trends
Five key trends are affecting innovation in the food industry today. First, challenging economic times are putting pressure on retailers, foodservice operators, and manufacturers to minimize costs through processes and products. Second, shifting demographics in the United States are creating powerful, new consumer segments of the population. Third, as epidemics like obesity and diabetes sweep the nation, Americans are increasingly concerned about health. Fourth, recent outbreaks of food-borne illnesses have peaked consumers’ and regulators’ interest in the issues of food safety and traceability. Finally, concern about global warming and diminishing resources has turned the industry’s attention toward sustainability and responsible business practices.

1. Challenging Economic Times
Typically, in tough times the food industry is touted as recession-proof. Regardless, the current downturn in the economy has put pressure on companies to reduce costs in order to maintain margins at a time when
consumers are increasingly frugal. According to Bob Goldin, Executive Vice President at research firm Technomic, the foodservice industry is contracting — people are dining out less often or trading down to less expensive dining options. Consumers’ new habits of brown-bagging their lunch and brewing their coffee at home instead of stopping at Starbucks have been a boon for packaged food manufacturers. Retailers, however, are reducing costs by shrinking the number and variety of products they carry, which leaves more room on their shelves for higher margin private label products. This puts small food producers looking to break onto the shelves at a disadvantage.

Food and beverage executives report that inventory management, cost controls, sales efforts, acquisitions, innovation and process improvements all contribute to improving both top and bottom line of their businesses.

Globalization is also having an impact on food prices. As the incomes of emerging countries increase, people are demanding foods that are further up the protein chain. Demand for grains and meat in India and China has increased significantly, which has put pressure on world food prices. Cathy Jaros, Managing Director of Amherst Partners, stated that even in the recession, food prices are still higher than they were three years ago. Grant Thornton reports that “suppliers have raised raw material prices nine times in 11 months.”

As the economic trend of increasing input prices collides with consumer demand for cheaper food options, the food industry is struggling for margins and being forced to cut costs through elimination or innovation. According to Grant Thornton, in 2008, profitability was most adversely affected by fuel and energy costs (80% of food manufacturers), ingredients material costs (68%), the state of the economy (52%) and health insurance costs (32%).

2. Shifting Demographics
The composition of the population is changing rapidly in the United States. The Baby Boom generation, born between 1946 and 1964, makes up more than 25% of the total population. This generation is notable for its higher than average disposable income and its preoccupation with aging. Boomers are keen to seek out functional products that propose solutions to issues of heart health, diabetes, hypertension, chronic pain, and joint issues. PepsiCo Chicago’s Quaker Oats division, for example, has had great success with its Take Heart line of instant oatmeal, proven capable of lowering levels of LDL cholesterol.

At 46 million and counting, Hispanics are another segment of the population that has a significant impact on the food industry. In 2008 Latinos wielded more than $980 billion of purchasing power. The availability of ethnic foods in general is on the rise as ethnic populations grow and Americans become increasingly interested in more sophisticated tastes and flavors. For example, Azteca Foods — a manufacturer of Mexican food products located on the southwest side of Chicago — has come out with new, innovative product line extensions to meet consumers’ demands including fat-free, trans-fat-free, low-carb, whole grain, and organic tortillas.

3. Health Concerns
As the cost of healthcare continues to increase and diseases like obesity, heart disease, and diabetes continue to spread among Americans, interest in dietary solutions to help counter these effects is on the rise. Sales and availability of organic foods continue to increase even as the industry struggles to outline industry standards. There is increasing demand for products that claim to be “all natural,” “whole grain,” and “kosher,” and have no preservatives or additives. Functional foods like probiotics, superfoods like pomegranates, and
no-calorie sweeteners like the ones derived from the stevia plant are increasingly popular. New research on the ill-effects of diets high in sodium also points to coming changes in formulation of products in an effort to help consumers reduce salt intake.

4. Food Safety and Traceability
Recent recalls of widely used food products — peanut butter (2009) and hot peppers (2008), for example — have caused alarm and distrust among consumers. Improvements in technology have made solutions for traceability more available. Sara Lee’s Good Origin brand of coffee, for example, allows consumers to go to the company’s website and enter a code stamped on the product to learn about the farm where the beans were grown. Lawmakers have also proposed new bills that aim to tighten industry oversight. In June 2009, Congress weighed legislation that would give the FDA authority to order food recalls, impose new civil penalties, require companies to follow food-safety standards, and require the agency to inspect so-called high-risk food facilities. Additionally, as packaged foods and food ingredients are increasingly imported from around the world, it is becoming more difficult for FDA inspectors to monitor quality.

5. Sustainability
Despite the economic downturn, food manufacturers continue to invest in responsible business practices that focus on issues such as energy and water use, waste and emissions reduction, and land stewardship. Manufacturers have found that these practices make business sense: Reducing packaging enables more goods to fit into one truckload, lightens loads, and reduces transportation costs. In fact, Grant Thornton reports in its survey that 75% of food and beverage manufacturers indicated that they are pursuing green practices in order to achieve cost reductions. Fifty-seven percent are adopting green practices “for the good of the earth” and another 52% cite marketability as key objective.

Retailers are also encouraging these practices. In 2008 industry giant Wal-Mart instituted a scorecard practice, requiring all suppliers to increase the transparency of their manufacturing and transport processes in an effort to reduce the impact of their global supply chain. Consumers continue to respond positively: A study from the Grocery Manufacturers Association and Deloitte reports that 54% of grocery shoppers say they “actively consider” a brand’s sustainability characteristics before purchase. Consumers are also increasingly interested in products that are “locally grown,” which affirms their desire for foods that are fresh and safe, support local farmers, and help the environment because they are not trucked in from such great distances.
Section II: Innovation along the Value Chain

The value chain of the food industry is highly complex and encompasses myriad players. There are a multitude of ingredient suppliers, manufacturers/co-packers, packaging suppliers, distributors, wholesalers, and retailers. At each point in the value chain there is innovation potential. Key trends such as cost reductions, sustainability and food safety are forcing changes along the value chain that demand improvements.

1. The Need for Collaborative Innovation

Given this inherent complexity, new products, processes and even packaging have repercussions throughout the entire value chain. For example, a new cost-reducing package will affect distribution, warehousing and finally planograms in retail locations. However, instead of collaboration along the value chain, the complexity of the food industry seems to have resulted in the creation of “silos” that focus sector associations around specific segments of the industry.

One only has to search the internet to find the extent of silos in the food industry. There are hundreds of associations related to the food industry but we could not find one overarching association. By comparison, the medical industry has associations for every practice imaginable, but there is also the American Medical Association which tries to serve the entire medical community. At the From Farm to Fork conference, numerous people acknowledged that this was the first time they had been at a conference with companies from other parts of the value chain. As one attendee said, “packagers never talk to the food processors, and they do not talk to us.”

As various parts of the value chain distance themselves from each other, it becomes ever more challenging to create an environment conducive to innovation. As discussed earlier, given the interlocking nature of the food industry, it is important that businesses up and down the value chain work together. However, the vast majority of food and beverage manufacturers choose to keep their R&D and product development activities in-house: 68% report they do not outsource product development, and another quarter of respondents outsource from 1% to 25%. Among manufacturers that outsource some product development, 56% indicate they do so to gain “access to technology/equipment” and 47% hope to find “access to new ideas.”

Before describing the various segments of the food industry value chain, it is important to clearly understand the “open innovation” concept and how it can apply to the food industry.

Open innovation has traditionally been linked to fast-growing, technology-intensive industries such as the information and communication technology sector. Companies like Apple, P&G, Google, and Netflix have gone beyond their R&D groups to ensure that innovation is an integral part of their organizations and their extended value chains. According to A.T. Kearney’s Best Innovator Survey, innovation leaders generate 44% of their ideas from external sources. In doing so, these companies not only achieve notoriety but also a significant competitive advantage.

Historically, the food industry has not been engaged in open innovation. Most ideas for new products, processes and services have been generated internally. However, industry leaders have realized that in order to survive in today’s competitive environment, they have to open up to external sources of ideas. The market leaders such as Illinois-based Kraft, which was recognized as the most innovative company in 2008 by the Grocery
Innovation is no longer the sole province of a company’s research and development division...innovation is an integral part of their organizations and their extended-value chains...The best companies are committed to “open innovation”... They are not afraid to collaborate up and down the value chain, capturing and sharing ideas with customers, suppliers, distributors, scientists, and countless others.

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Manufacturers Association, along with General Mills and Cadbury started to embrace the open innovation approach to meet the constant need of filling their pipelines with new product ideas.

Open innovation has become a top priority on these companies’ executive agendas. Kraft and General Mills launched open innovation programs (Innovatewithkraft.com and G-Win) to try to locate the next idea or problem solution from several different sources, including suppliers, customers, consumers, entrepreneurs and academia. The search is conducted through dedicated websites, internal search teams and intermediaries such as Nine Sigma, Innocentive and IXC.

Open innovation presents a unique opportunity for entrepreneurs as there is a clearly defined path to approach large companies. If a leading company is interested in a proprietary product or service, entrepreneurs can get access to a large company’s resources through licensing agreements or acquisition. Some recent examples include Kraft’s Bagel-ful, “All Out Squeeze” Miracle Whip and Mayo, and “Snack ’n Seal” resealable packaging (see sidebar: Kraft and Bagel-fuls).

2. Ingredient Innovation
Ingredient development and innovation are in the cross-hairs of trends affecting the food industry. Ingredients are not only important in relation to product taste, texture and appearance, but also perform in the arenas of food safety, nutrition, sustainability and cost. As described previously, these trends are evolving at a rapid pace, and parties all along the value chain must be cognizant of new government regulations, shifts in consumer tastes, and continual pressure on the bottom line that are all affected by choices in ingredients. The following are two types of ingredients attracting significant innovation.

Functional Foods
There is growing interest in foods that claim to have health-promoting or disease-preventing properties. Functional foods provide an additional physiological benefit beyond that of meeting basic nutritional needs. Baby boomers as well as active young adults want food that will not only taste good, but has ingredients that will have medicinal qualities to support their health and well-being. As healthcare becomes more
cost prohibitive, this expands the market for high-end, but relatively low-cost, food products that can maintain or improve one’s health.

The development of functional foods has become the domain of both large pharma companies as well as entrepreneurs. Pharmaceutical companies, such as Illinois-based Abbott Laboratories, have been active in the development of nutraceuticals or extracts of foods claiming to have a medicinal effect on human health. As of 2003, these products require a qualified health claim that must be approved by the FDA. Pharmaceutical companies have an interest in nutraceuticals because they have R&D capabilities and competence in the FDA process, and some companies including Abbott have a distribution system in place that can be leveraged for nutraceuticals.

Entrepreneurs are entering the world of functional foods in a variety of ways. Some companies are focused on processing naturally healthy ingredients into new forms. For example, whey protein is known as one of nature’s most complete and easily digestible proteins. Most athletes obtain whey protein by mixing whey powder into liquid. Illinois-based Tula Foods has developed a unique process to combine whey protein in yogurt and soon will launch other whey-based products. Likewise, Bean and Body, an early-stage Chicago beverage company, is combining such functional foods as pomegranate, acai berries and herbs with coffee to make the “healthiest coffee in the world.”

One of the issues facing entrepreneurs is their lack of resources and knowledge to obtain FDA approval for claims on the medicinal and health-enhancing properties of their products. Brian Sambor of Tula Foods states, “The development and implementation of functional foods are certainly resource intensive. For the

The Case of Kraft and Bagel-fuls

When Gary Schwartzberg and his partner developed a tube-shaped bagel filled with cream cheese — an all-in-one, portable breakfast for the on-the-go crowd — they called it a Bageler. The men managed to get the product into supermarkets and schools in the Miami area, where their company, Filled Bagel Industries LLC, is based, however, they couldn’t achieve the scale they thought the product deserved.

To help the product reach a desired scale, Mr. Schwartzberg approached Kraft with his idea. By coincidence, Kraft had been working on something similar, in an effort to market its cream cheese in the growing portable-breakfast category. The company didn’t have bagel-making expertise and hadn’t been able to get the product just right. Mr. Schwartzberg, on the other hand, had a patented process for “encapsulating” the cream cheese in the center of the bagel without the cream cheese escaping during the baking process.

After Kraft looked into the production process to make sure the bagels could be produced on a national scale, it structured the deal as a strategic alliance where Mr. Schwartzberg had some “skin” in the game. Two years later, the products are known as Bagel-fuls, and are widely distributed in U.S. supermarkets. They don’t bear Mr. Schwartzberg’s or his company’s name, but they are branded as a Kraft Foods Inc. product, and are filled with Philadelphia Cream Cheese—the best-selling cream cheese in the United States, which is also made by Kraft.

Mr. Schwartzberg has continued working with Kraft to develop different flavors for the filled-bagel product — including a plain bagel filled with strawberry cream cheese.

entrepreneur, the time, dollars, and risk tolerance (i.e., conflicting clinical results) required even prior to a marketplace entry are difficult for any individual entity to bear. Even after a confident implementation, clinical studies may continue to progress that confirm, conflict or confuse a once clear claim strategy. These studies command a high price tag.”

This is an area where collaboration with large corporations could facilitate FDA approval and hence growth of entrepreneurial functional food companies. Sambor adds, "A partnership with an industry leader, trade organization, or industry consortium is an advantage to all players to develop functional foods from pre-clinical screening to multi-center clinical trials. This approach still allows for the development and protection of intellectual property.”

Natural, Local, and Sustainable Foods
While the legal dispute regarding the label “natural” continues, ingredient innovators recognize that this tag can be a powerful incentive for consumers (5%-10% boost in sales with “natural” labeling) and are developing products, packaging, and methods of delivery to match this demand.

Related to the growth of the natural food trend is the increased interest in local and sustainable foods. From an ingredient perspective, this carries challenges in transportation, ingredient availability due to climate and location, and production in a way that preserves the food. This adds even more variables to the already complex ingredient production process.

The greater Chicago area has an active community involved in local procurement. Jim Slama founded FamilyFarmed.org to “increase local and organic food sales in the region to create new jobs, sustainable economic development, and rural revitalization.” The FamilyFarmed Expo, website and other programs have increased the market and capacity of local farming in Illinois. Local celebrity chefs and philanthropists have raised the profile of Green City Market, Chicago’s only year-round farmers’ market promoting local sustainable farmers, producers and chefs by connecting them to the public through educational programming and special events. Even local innovations in technology have enhanced food procurement from the region. Food Industry Market Maker is a website created in 2004 by a team from University of Illinois Extension to more easily connect food-producing farmers with economically viable new markets. The site also serves as an aid in the development of quality driven food supply chains.

Food Safety
One of the most important factors in ingredient innovation is food safety. After multiple high-profile food poisoning cases in the past few years, consumer anxiety over the safety of food is high. Food producers must be cognizant of what they are placing into their products and how it affects the longevity and safety of their food. Innovations to tackle the issue of food safety with respect to ingredients can be grouped into three areas: traceability, testing and enhancing ingredients.

Traceability. Innovations track ingredients throughout the value chain with regard to where they originated.
In the case of widespread food-borne illness, the ultimate goal is to rapidly identify the contaminated field or plant. In 2008, the fresh tomato industry was hit hard financially when the inability to rapidly identify the source of the contaminated ingredient led to falsely linking the salmonella outbreak to tomatoes until it was finally determined to be a field of jalapeno peppers.

**Testing.** Although there are many new technologies and processes for testing food at all stages of the supply chain it is impossible to “test” for all food safety problems. It is critical that companies involved in the food industry, from farmer to retailer, proactively implement the latest food-handling practices and procedures in their operations.

**Enhancing Ingredients.** Ingredients can also be treated to decrease the possibility of contamination. Illinois-based National Pasteurized Eggs Inc. has developed a patented, all-natural pasteurization process to eliminate harmful salmonella bacteria and viruses like Avian flu in eggs. This entrepreneurial company has received funding from an Illinois-based venture capital firm, Hopewell Ventures, to speed its growth and further R&D.

### 3. Packaging

Packaging is important at every stage of the value chain. A modern food package has many functions, but its main purpose is to physically protect the product during transportation from one point in the supply chain to the next until the product finally reaches the consumer.

Development of packaging is a highly technical area that incorporates the talents of engineers, scientists, lawyers and graphic designers. Like other parts of the food industry, packaging at all points in the value chain is being transformed by the trends of cost reduction, food safety and even sustainability.

The goal to enhance food safety through packaging has led to a series of innovations in packaging materials, processing and sensors. One of the areas focused on by the packaging industry is “active and intelligent packaging.” Active packaging plays a dynamic role in food preservation and allows packages to interact with food and the environment. Many areas of packaging have advanced with the developments in active packaging, including controlled respiration rate, delayed oxidation, moisture migration, and microbial growth. Smart or intelligent packaging enables firms to monitor and communicate information about food quality, with the help of time-temperature indicators, radio frequency identification, ripeness indicators, and biosensors, among others.  

**Dr. Charles Sizer**, a speaker at the Farm to Fork Conference, is an Illinois entrepreneur and a scientist in the packaging industry. He holds more than 50 patents in processing and sterilization technology and has been awarded more than $22 million in grants during his career.
The pressure to minimize costs has led to the re-engineering of packaging so that less material encloses more volume and thereby reduces the costs of both materials and transportation. Chicago Consulting, a firm that optimizes supply chains for corporations, has developed formulas to determine the most efficient packaging for different food products and reduced costs of materials and transportation up to 42% along the supply chain.68 Innovations in optimal packaging will likely continue with the introduction of new regulations to minimize “slack fill” or the extra “air” in packaging.

Another trend is the movement toward smaller pallets and smaller cases. By reducing the overall volume of food shipped at a time, the retailer and distributor have less real estate dedicated to a given product, turnover in inventory is increased and the product on the shelf is fresher.

The goal of sustainability has also affected packaging as the industry tries to reduce waste by minimizing the amount of material used in packaging and using materials that are biodegradable. Advances for green packaging have been driven by Wal-Mart, which implemented its Packaging Scorecard in February 2008 to evaluate the packaging used by suppliers in terms of its eco-friendliness through the reduction of waste as well as packaging and transportation costs.69 A large number of manufacturers report implementing green packaging, including the reduction in amount of packaging, biodegradable or compostable packaging, use of recycled materials and use of soy ink on packaging.

Currently the Chicago area is globally recognized as a leader in the packaging industry with the world headquarters of companies such as Smurfit Stone, Pactiv, Uline and the U.S. headquarters of Tetra Pak. Many of the packaging companies have R&D facilities located in Illinois, which has spawned consulting and engineering companies that focus on packaging. The result is that the Chicago area is a key location for packaging innovation.

4. Retail Distribution and Sales
This topic covers such a wide area that the discussion will focus on only two areas — innovations in foodservice and grocery retail.

Foodservice
The Chicago region has long been known as an innovator in the foodservice business. The year 1955 is often cited as the birth of fast food, when Ray Kroc opened his first McDonald’s in Des Plaines and soon transformed the franchise into a milestone of efficiency and cleanliness. This innovative business model has grown into a $60 billion corporation.

The Chicago area continues to be a center of innovative business models in the foodservice industry. Homemade Pizza has a lean and efficient operation that offers customers fresh pizzas to take home and bake. iCream offers the ability to customize one’s ice cream, yogurt or sorbet on the spot.

Other innovative business models are not tied to the usual retail store model. Many entrepreneurs sell their products only through their websites and have various ways to deliver products to consumers. Seattle Sutton’s Healthy Eating (SSHE) is a family-owned, Illinois-based healthy meal replacement company. The company offers a meal program that is scientifically designed to help address patients’ need to lose weight or address other health issues, such as diabetes, hypertension, heart disease or obesity. The business model is based on online and phone ordering and direct delivery to the home or office. SSHE prepares and home-delivers thousands of healthy meals weekly in all 50 states.
Grocery Retail

Chicago is the birthplace of the online grocery delivery business. Started in 1989, Peapod was one of the first Internet startups. Over the years, its founders, Tom and Andrew Parkinson, have continually evolved the business model, which successfully led to an IPO followed by an acquisition by Royal Ahold. The company’s headquarters are still in Skokie, Illinois, and the company provides service in 11 states. The Peapod website continues to innovate to not only incorporate real-time measurement and re-ordering but also to make the shopping experience more intelligent and intuitive.

Some of the most significant innovations in the grocery business have occurred behind the scenes. The business of providing market insights for consumer packaged goods (CPG) is in high demand. Understanding how consumers make purchasing decisions and how companies can impact choices is an ever-evolving business. Information Resources Inc. and The Neilson Company are both headquartered in the Chicago region and are global leaders in consumer intelligence.

Within this industry there is a driving force to provide better data that link the characteristics of the individual consumer with an actual purchase. In Context Solutions is a local early-stage marketing research firm specializing in virtual store research. Although other companies can create virtual stores, In Context Solutions has developed a web-based technology that can create a virtual store setting and stream specific scenarios to consumers for their immediate feedback. Another early-stage firm, ReTel Technologies, uses existing in-store video recordings to analyze consumer behavior and employee productivity in a cost-effective manner. Given the proximity of large CPG companies in the Chicago area, increased innovation in the area of market insights will likely continue.
Section III: Human and Capital Resources

Labor

Labor is an area in which food industry insiders resoundingly believe Chicago excels. According to some national education databases, Illinois has 85 higher education institutions that offer some agricultural programs. In addition, Illinois has some of the top agricultural research universities in the country, including Northwestern University, the University of Chicago and the University of Illinois at Urbana-Champaign. These universities are pioneering research in food inputs, food safety, packaging and more.

Bob Goldin of research firm Technomic notes that management-level needs in the industry are changing. With two top-tier business schools such as Chicago Booth and Kellogg, Chicago has always had a reliable pipeline of managers with strong marketing and finance backgrounds. Goldin notes, however, that there is a need for savvy management in less “sexy” areas too — operations, R&D, supply chain, and technical support. Given the economic fluctuation of the last year, knowledge of cost management processes such as Six Sigma has especially become a skill that is in high demand.

Some of the students and alumni at the conference mentioned that there are relatively few MBA students who seek careers in the food industry. Although some are following career tracks in market and corporate finance and end up in the food industry, few identify the food industry as a career path. Given the variety of careers in the food industry, it was suggested that the MBA career service departments become more proactive in highlighting these opportunities.

The founder of Azteca Foods, Art Velasquez, also notes that labor needs in the industry are more sophisticated than ever. State-of-the-art manufacturing facilities, like the one Azteca recently spent several million dollars to upgrade, call for skilled mechanics, electricians, and engineers with advanced computer skills. Well-trained supervisors are critical too. When Azteca upgraded its manufacturing and packaging equipment it partnered with nearby community college, Westside Tech, to retrain employees. Azteca also partners with Westside Tech to create inner-city programs that prepare students to go into foodservice positions.

However, community leaders are calling for more graduates from the Chicago area to serve the food industry jobs statewide. The Chicago High School for Agricultural Sciences was established in 1985 and has become a national role model for preparing urban students for careers in the agriculture and food industries. Given this success, another agricultural science high school has been considered. Marc Schulman, president of Eli’s Cheesecake Company, is a leading advocate of these initiatives and is chair of the advisory boards for both the Chicago High School of Agricultural Sciences (CHSAS) and Wright College. He is also active in hosting farmer’s markets on Eli’s property organized by Wright College and the CHSAS faculty and students.

Given that “69% of Illinois’ job growth is related to agriculture, and 9 percent growth is projected in the next decade,” it will be important for community leaders and educational institutions to continue to prepare a skilled labor force for the future demands of the food industry.

Financial Investment and Capital for Growth

During the From Farm to Fork conference, there was general consensus that investments in food have a strong and bright future as people will always need food and in increasing quantities in spite of land constraints.
Positive Aspects of Investing in the Food Industry

The "30 -100 - 70 -32" formula applies to the food industry: "In the next 30 years we need to increase our food supply by 100% to feed the globe, with 70% new technology on 1/32 of our land mass (today we’re using 1/20 of our land mass)." Investors believe that this increase in food supply will be driven primarily by technology development and therefore investors focus heavily on agriculture, food ingredients and agricultural technology.

Further along the production chain, strong market trends such as organic/natural, specialty/gourmet and ethic foods, have seen tremendous growth in recent years and such products have attracted investments from both middle-market and buy-out investors. For example, Kraft’s purchase of Illinois-based Boca Burger allowed Kraft to quickly enter and capture a significant portion of the high-growth meat-alternative market. In 2006, Illinois-based Lifeway Foods, a supplier of the cultured dairy product Kefir, acquired fellow U.S. firm Helios Nutrition, a privately held producer of milk- and kefir-based products for a reported $8 million, resulting in Lifeway Foods consolidating market share in the rapidly growing market for organic dairy products.

In addition to these market trends, there has been a proliferation of functional foods in the marketplace, however investors look past the "berry of the week" trend and focus on sustainable growth with good products that solve medical needs via food or beverage (example Viactiv chocolate chewables with calcium). The bottom line is that consumer products are attractive to investors when there is a defined and strong consumer need and the product is of high quality with potential for long-term growth.

Angel and Venture Capital Landscape

Of 68 venture capital firms listed in the 2008 Illinois Venture Capital Association Directory, 30% have interest or have invested in food-based businesses. There are also 30+ angel groups in the Midwest that have expressed interest in investing in food-based businesses. Similar to later-stage investors, angel investors have a strong focus toward food technology and food manufacturing rather than retailing and consumer products. However, more so than institutional funds, there are individual angel investors, usually former food executives, who are
actively seeking opportunities in the branded products and food staples market. Examples of Chicago-based companies that secured capital from angel and early stage venture investors include National Pasteurized Eggs, Argo Tea and Potbelly’s.

As far as getting access to target angel group and institutional investors, there are not many organized forums where entrepreneurs can engage investors. The American Food Venture Forum (AFVF, www.foodventureforum.com) is based in Iowa and is the only venture capital and angel investor event in the country focused solely on the food industry and value-added agriculture. This is an example of a traditional venture forum template that has been applied to a specific industry. Interestingly, AFVF was launched to coincide with the World Food Prize, an international award recognizing achievements in improving the quality, quantity or availability of food. The 2008 AFVF hosted 12 venture capital firms representing a total of $835 million in funds, including Petra Capital (Nashville), Prolog Ventures (St. Louis), LFE Capital (Minneapolis) and Smith Whiley & Co. (Evanston, Ill.). In 2009, 22 companies were invited to present and three were Illinois-based.

Corporate Investment Landscape

Some corporations have investment arms that focus on finding and financing opportunities that have synergies with their business model or product offering. For example, the Emerging Business Accelerator (EBA) is a business unit of Cargill, an international provider of food, agricultural and risk management products and services. Cargill EBA’s mandate is to help accelerate Cargill’s growth by building a global portfolio of new business opportunities with the potential to generate revenue within three years and to become new Cargill Business Units. Ultimately, the goal is for these businesses to graduate into the broader world of Cargill. The EBA is not focused exclusively on food-related products, but on finding innovations in areas that leverage Cargill’s core competencies. Innovations are sourced both from within the company and outside, creating an opportunity for startups to create financing and strategic opportunities with a larger corporate player. However, unlike angel or venture capital investors, corporate partners — because they are investing financial, management and other corporate resources — usually take significant ownership stakes in companies, including buying IP and installing their own management team.

Investors, be they individuals or venture firms, tend to look for business models that have been “proven.” As discussed at the conference, “A $5 million to $10 million business is never proven; usually there is a one- or two-customer concentration for businesses in this stage; we look for proven success along this curve.” Proof of concept can take the form of strong market trends and strong customer traction, validation that the technology works and has immediate application in the industry, and finally an experienced and strong management team. Investors also look for validation in the form of initial friends and family investors, angel investors and strategic investors. Corporations with investment arms tend to focus exclusively on the technology and the fit with corporate core competencies.
Section IV: Conclusions and Recommendations

As outlined in this paper, the Illinois food industry has a long and rich history. Illinois can lay claim to key food innovations; major food industries including confections, processed meats and cereals; some of the largest global food companies; a plethora of ancillary industries supporting the food industry including packaging, manufacturing and retailing; and successful food entrepreneurs who continue to innovate, developing exciting new food products and concepts.

Even with this compelling history the local food industry has a need for organizations that facilitate dialogue and collaboration among the different entities that support the food industry across the value chain. There is also a need for organizations to support Chicago-based food entrepreneurs in the development of their products and business plans. The University of Chicago Polsky Center for Entrepreneurship and the Chicagoland Entrepreneurial Center (CEC) have helped identify this issue and can provide some limited support for the initiatives listed below, but there is still a greater need for comprehensive collaboration among government, academia and business to develop a support center for food industry companies and entrepreneurs.

Recommendations

1. Hold an annual conference to facilitate collaboration among representatives from all parts of the food industry.

The April 2009 From Farm to Fork conference, sponsored by the University of Chicago Polsky Center for Entrepreneurship and the Chicagoland Entrepreneurial Center (CEC), brought together a wide range of food industry experts from organizations large and small. Many participants in the conference noted that they had never attended a conference where so many people from different areas of the food business (agriculture, ingredients, food technology experts, packaging experts, food safety experts, retailers, investors, large company food executives and entrepreneurs) had come together to discuss issues and opportunities. The Polsky Center and the CEC are pleased that FamilyFarmed.org has committed to organizing future From Farm to Fork conferences that facilitate dialogue among regional food industry players. The Polsky Center and the CEC will continue to support and participate in these conferences.

2. Provide entrepreneurial support by establishing an organization that supports food industry entrepreneurs through all phases of food business development.

Across the United States programs are bringing together the resources of state agricultural and extension services, universities and businesses to form organizations to support food industry entrepreneurs through all phases of food business development. Unfortunately, Illinois is one of the few states without this type of organization.

Two examples of these programs are the Food Innovation Center (FIC) in Portland, Oregon, and the Northeast Center for Food Entrepreneurship based at Cornell University in New York. The FIC brings together the resources of Oregon State University and the State of Oregon Department of Agriculture. The Northeast Center for Food Entrepreneurship combines the resources of the New York State Food Venture Center at Cornell University and the Center for Food Science at the University of Vermont.
The FIC provides food entrepreneurs with product and process development support, consumer sensory testing and research, processing and package engineering, shelf life testing, market access and development, and business plan development support. The onsite facilities include a product development lab, analytical lab, processing lab, a licensed kitchen, temperature/humidity chambers, cooler and freezer storage rooms, and other processing and packaging equipment. Clients for the FIC include producers, processors, marketers and entrepreneurs.

The Northeast Center for Food Entrepreneurship offers services, outreach and research development opportunities in four critical areas: business and product process development, product safety, process/product technology transfer and product commercialization. The Center provides educational materials, workshops, direct assistance, and referrals to appropriate organizations in the following areas:
- Business development and entrepreneurship training
- Strategies and tools for marketing
- Product process development
- Product safety evaluation
- Guidance in local, state and federal regulatory compliance
- Links to business assistance and potential financing sources
- Referrals to local suppliers and service providers

Chicago and the State of Illinois have the academic resources, food industry experts and entrepreneur support organizations to collaborate and develop a resource similar to the New York and Oregon food innovation centers. The Polsky Center for Entrepreneurship and the Chicagoland Entrepreneurial Center are committed to working with the State of Illinois and an Illinois university to create a support program for food entrepreneurs in Chicago.

An Interim Step
As an interim step, the Chicagoland Entrepreneurial Center is offering in-depth mentoring to several promising food industry entrepreneurs and is publishing a resource guide for any entrepreneur interested in launching or growing a business in this sector.

Mentoring
Although the Chicagoland Entrepreneur Center has primarily been associated with technology-based companies, in recent years there has been a proliferation of innovative food companies that work with the CEC. In 2009, 15% of the CEC’s clients were food businesses. The CEC recently launched a federally sponsored initiative called the Cluster Acceleration Program (CAP). The program is designed to promote the growth of the professional networks and entrepreneurial ventures that anchor some of Illinois’ key emerging industry clusters, namely consumer products (including food), alternative energy and information technology. Established Illinois entrepreneurs doing business in these clusters can gain access to year-round networking support by registering for the “CAP 200 List,” which the CEC uses to identify and facilitate matches with relevant professional and peer entrepreneur contacts. In addition to supporting cluster formation for particular industries, the CEC works with a group of 20 companies that are competitively selected for the program. Each CAP 20 participant receives:
• A matched CEC staff advisor to provide guidance on company growth plans while also harnessing supplemental resources to support plan execution
• Ongoing support with refining 12- and 24-month growth plans
• Three volunteer mentor matches: peer, seasoned entrepreneur/industry expert, and business development expert
• Brand exposure opportunities

Resource Guide
Information gathered at the From Farm to Fork conference and through the pro bono work of A.T. Kearney has yielded a robust list of resources for entrepreneurs in the food industry. The CEC has now compiled this information and is publishing this resource guide in order to support and fuel entrepreneurial innovation in the food industry in Illinois.

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