

## Raising The Bar

Krystal Gabert, Editor, Food Manufacturing

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Hearthside Food Solutions is a young company with deep roots. Co-founded in 2009 by a group of investors led by Hearthside Chairman and CEO Rich Scalise, the company strives to be the largest and best contract manufacturer of snacks in the country. With its headquarters in Downers Grove, IL, and several processing facilities in Grand Rapids, MI, Hearthside Food Solutions boasts a network of 13 processing facilities across the country.

Scalise and his investors “saw an opportunity to create a company with greater access to capital,” according to Brian McNamara, Vice President of Sales and Marketing. The company was founded in the wake of Peanut Corporation of America’s massive recall, and Scalise and Hearthside’s new owners saw an opportunity to create a contract manufacturer with a keen eye on food safety.

So in April 2009, Hearthside opened for business, buying four operating snack manufacturing facilities from the Roskam Baking Company in Grand Rapids, MI. McNamara calls it a “shotgun start,” with over 2,000 employees “right out of the gate.” Roskam’s primary focus was on granola and cereal bars, which still make up a large portion of Hearthside’s product portfolio.

Thirteen months after Hearthside’s initial acquisition, the company purchased two additional businesses, including a cereal and granola processing facility from Golden Temple in Eugene, OR, and the Consolidated Biscuit Company in McComb, OH, which specializes in cookies, crackers, and baked bars. The acquisitions tripled the size of the company.

Hearthside Food Solutions has continued to grow and now operates 13 processing facilities across six U.S. states. The latest acquisition brought Hearthside back to Grand Rapids, where the company has added a fourth Roskam facility to its stable.

With the exception of the Golden Temple acquisition, all of the Hearthside Facilities are involved in the company’s primary focus, which is co-manufacturing bar and snack products for what McNamara calls “premier food companies.”

### **Contract Manufacturing**

“We’re building a company and consolidating in these categories — baking, cookies, crackers, bars,” says McNamara. “Companies look to co-manufacturers. Small companies look to us because they don’t have the resources to launch and commercialize products. Big companies do it due to the potential complexity of a

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product or in categories where the cycle of innovation is such that they'd be continually investing millions of dollars every year to bring the product to market. We built a company in these categories that had the scale for the premier food companies to bring their ideas to market."

McNamara estimates that Hearthside currently has over 100 contracts that govern their business, with 80 to 85 percent of the business devoted to contract manufacturing. When acquiring new businesses, in many cases Hearthside also acquired the clients previously contracted with the facilities being purchased.

McNamara says the contract manufacturing process "really varies by customer and by project." Some clients approach Hearthside with recipe and instructions in hand. Others rely on a development partnership with Hearthside to help create a finished product that meets expectations.

Hearthside employs what McNamara calls "resident bar line wizards," who are able to work on the line with customers to "tweak and fine tune formulations" before they go into full production. Hearthside operates a product development lab in McComb that has the capability of handling all the lines and products made in all the Hearthside plants across the country. In addition to the R&D facility, the company has added a smaller bar test line inside one of its Grand Rapids facilities and a small R&D facility in Eugene.

McNamara sees real growth in this area of the food industry "as people look to where they want new ideas for products to come from. A co-manufacturer might have as well-developed an R&D team as a traditional manufacturer. That's evolving."

Contract manufacturing presents challenges beyond meeting customer demands and supplying the R&D necessary to keep customer products at their finest. Occasionally, when customers see greater than expected success with products processed in co-manufacturing facilities, the companies will eventually choose to process the products themselves, as the cost of employing the technology to do so is overshadowed by the savings generated from processing the products themselves. Though the contract itself, which specifies terms such as length of agreement, provides a certain level of stability to the contract manufacturing business, the ability for food companies to opt out when the contract is up can create a less predictable revenue stream for contract manufacturers.

But McNamara says that when clients move production from Hearthside facilities to their own, there are always new products waiting in the wings. "We might replace one product with two or three, which will impact our bottom line, but we have contracts in place, which are written to ensure operating expenses are taken into account."

"We don't advertise," adds Dawn Gillerman, Plant Manager of Hearthside's Grand Rapids facilities. "So we don't have a lot of the overhead costs. It allows us to be faster and flexible."

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### **Building a Bar**

Hearthside's newest Grand Rapids facility now processes granola, which is used in production at the company's bar processing facilities, including the one that sits directly across the street. The proximity eliminates many of the challenges typically associated with multi-facility production.

But keeping a complex production chain up and running requires precision and attention to detail. The granola production facility must operate based on the production needs of the facilities that rely on its resultant product for operation. The bar processing facilities must also bend to granola production to ensure they haven't planned to produce bars before any granola is scheduled to arrive in the facility.

This process is further complicated as the company processes over 500 SKUs in Grand Rapids alone. Many of these SKUs feature completely different product formulations, so production must be monitored and scheduled to ensure efficiency. Hearthside's scheduling department optimizes run schedules to achieve optimum plant productivity, ensuring that each plant schedule complements the schedules of the other facilities and that products are run in a logical order — light-colored before dark-colored, or uncoated before coated.

The process for creating a bar begins at Hearthside's granola plant, where the primary ingredient is made. This process involves coating and baking the raw product. Once the granola has been processed, it is sent to the bar manufacturing facilities.

The granola mixture is extruded and spread onto a long conveyor belt, and add-ins like nuts and dried berries are typically added on top of the granola. The granola-sheet is conveyed under a series of rollers that increasingly compress the mixture. This process flattens and condenses the bars, but it also pushes the add-ins down into the bars, which evenly disperses them throughout.

After being thoroughly flattened, the bars are cut by a series of blades and are then conveyed onto a slightly wider conveyor belt, which moves and separates the newly cut bars from each other. At this point, bars can be run over a liquid-covered conveyor belt to transfer chocolate or yogurt coating onto the bottom of the bar, or they can be run through enrobers to coat the entire bar.

### **What the Future Holds**

Hearthside Food Solutions looks to continue its upward trajectory, growing further into the contract manufacturing market for bars and other snacks. The company's large footprint and solid market presence positions it well for growth.

As the company expands its R&D capabilities and continues to work with clients to customize food products according to exacting specification, it expands its value-add offerings, which appeal to food companies large and small.

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“We really are very versatile,” says McNamara. “Our customers expect a lot, but that’s the business. We know how to deliver.”

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