

RECIPE FOR SUCCESS: SELLING FOOD PRODUCTS



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SELLING FOOD PRODUCTS: BUSINESS PLANNING GUIDE

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INTRODUCTION: TURNING A RECIPE INTO A PROFITABLE PRODUCT

Do you have a favorite recipe that everyone raves about? Have you often thought about producing and selling it? Whether it is your homemade salad dressing, marinara sauce, or jam, everyone says it is the best they have ever tasted. You feel strongly it will do well in the marketplace. Before you get started there are many things you need to consider. This guide has been developed to help get you started as a food entrepreneur.

Bringing your product to market can be exciting and rewarding, but may also be time consuming and back breaking. You need to consider some of the advantages and disadvantages to bringing your home-made product into the specialty foods marketplace.

Advantages:

- Creating your own work schedule
- Doing something you love/are passionate about
- Benefiting directly from your hard work
- Unlimited earning and growth potential
- Satisfaction of being your own boss
- Sharing favorite recipes with others

Disadvantages:

- Long hours
- Personal strain/change of lifestyle
- Financial risk linked to start up costs
- Filling many roles within the business
- Risk of regulatory violations
- Product failure

It is very important to understand the proper steps needed to turn a recipe into a profitable product. You can't simply make a food item in your home kitchen, place it in a bottle, and start selling it. You need to follow the many production and labeling requirements that exist to keep consumers safe. You need to understand the markets you want to enter. You need to get your product to those markets. You need to know your competition. You need to determine the correct selling price for your product and much more.

First, you must be honest with yourself. What is your vision for your business? Will it be a fun hobby? Do you expect it to remain small, providing only part-time income? Do you envision something larger with an expanding product line and future employees? Describing your vision of the business is best done through a business plan. This guide includes a discussion of the elements of a business plan. The **Small Business Development Center (SBDC)** can help guide you through the process of developing your plan.

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This guide will discuss creating a marketing strategy and offer an understanding of production and operational issues. A complete case study has been included to give you a glimpse of what one small business went through to bring its food idea to market. You will see that despite thorough research and planning, many unexpected issues and concerns can arise, causing delays and added expense. The guide includes sections on industry regulations and resources available in the State of New York.

Every effort has been made to make this guide as accurate as possible based on the authors' experiences and research. Rules and regulations in the food industry continuously change and evolve. They vary by county and state and are often determined by the food item itself. Contact the SBDC for free one-on-one counseling before venturing into the food business. To find the SBDC nearest you, go to the New York State Small Business Development Center (NYS SBDC) website at www.nyssbdc.org.

The purpose of this guide is to provide a general introduction to those seeking to bring food products to the U.S. marketplace. Each food category and cooking / packaging process involves different rules and regulatory agencies. The authors of this guide and the SBDC have neither liability nor responsibility for any harm caused directly or indirectly by use of the guide.

WRITING AN EFFECTIVE BUSINESS PLAN

A business plan is a comprehensive document that describes your business and represents the first step in your business journey. The Small Business Development Center specializes in assisting you with developing your business plan. This process forces you to take a realistic look at exactly what your business will involve and helps you estimate start-up costs.

- It enables you to organize and prioritize all of the great ideas you have for your business.
- It allows you to set realistic goals.
- It communicates your business ideas to others including lenders.
- It shows why your business venture is feasible and if it is profitable.

Your business plan must be focused, clearly define target markets, and prove to lenders that you will have sufficient cash flow to repay debt and cover all business expenses.

Business Plan Outline:

Statement of Cash Sources and Uses – Start Up/Expansion Expenses

This is also known as the Funding Request. It spells out the amount of money you need, where it will come from, and how you will spend it.

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Cash Sources

Owner Investment	_____	Loan	_____
Total*	_____		
<i>Cash Uses</i>			
Security Deposit	_____	Licenses/Permits	_____
Decorating Remodeling	_____	Advertising for Opening	_____
Fixtures, Equipment	_____	Sign(s)	_____
Installing Fixtures, Equip	_____	Misc. Expenses	_____
Services, Supplies	_____	Working Capital	_____
Beginning Inventory Cost	_____	Legal/Professional Fees	_____
Total*	_____		

*These two Totals must be equal. You can't spend more than you have available.

Executive Summary – The Executive Summary is a condensed outline of your plan designed to spark the reader's interest so they will want to read the rest of your plan. It should highlight the crucial information you present in the plan.

The information in this section must match elements included in the rest of the plan. It should include company information describing the product, your objectives, your background, and your management team. It should include a complete project description, describe market opportunities, and summarize the financial data detailed in your financial statements.

Business Description – The reader should be able to have a true understanding of what your business is all about. It should be clear and focused. This section should describe the following: why you are starting the business, the legal structure, the location of the business, and the hours of operation. It should describe your staff, how you will handle day to day operations, the manufacturing of the product, and your plans for the future (immediate and long term).

Personal History – This section describes key players in the business. The reader should be able to see that you and your staff have the expertise to run this business successfully. This is a great time to take a good look at your skills and determine where you need improvement or assistance. This section includes a description for you, the owner, and each person listed as management. For each person you should include education, employment history, technical training, depth of industry experience, practical business/ management experience, and other notable skills. Also include organizations you and your staff are associated with or plan to join.

This section should identify who will be responsible for various functions in the business. Formal resumes should be included in the Exhibit section for the owner and key managers.

Personal Finances – A significant number of small businesses fail each year. There are a number of reasons for these failures but a major concern is insufficient personal funds. Before starting a business, you must take a hard look at your personal finances. Are they in order? What is your credit score? You

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must clear up any issues before you seek financing. Can you survive a change in your family's current income? Most owners are unable to pull money from their businesses for the first six months or longer. Business expansions or downturns can also seriously affect the owner's personal finances. You will be expected to complete a personal financial statement detailing your assets and liabilities. Lenders may ask you to pledge personal assets as collateral for a business loan.

Management Structure/Professional Advisors – Provide an outline of your management structure that includes titles and job descriptions for key positions, and information on your lawyer, banker, business advisor, accountant, and insurance agent.

Operational Details – Describe your day to day operations. Identify staff functions and responsibilities as well as overhead expenses. Describe how your product will be manufactured, packaged, and distributed. If you will be using an outside entity to produce your product (a co-packer), describe how this will occur. Co-packing is discussed in the Operating Your Business section of the guide.

The Marketing Plan – This section should demonstrate your complete understanding of the competition, referral sources, and potential customer base. You must set realistic objectives and revenue targets. Your marketing strategy should include a product description and detail how it differs from the competition. Describe your distribution channels and whether you will focus on retail, wholesale, or both. Describe your target markets, how you'll create and maintain customer loyalty, and your competitive position. The competitive position includes price comparisons with existing products, the number and types of competitors, and what makes your product different. Describe your promotional strategies; website, brochures, flyers, advertising, referral network, and other outreach activities.

Financial Statements/Earnings Projections – You must show detailed projections (pro forma statements) of earnings and expenses for three years, including Cash Flow Statements, Income Statements, and Balance Sheets. Projections for the first year should be broken down month by month. Projections for years two and three should be shown on an annual basis. You must show your ability to repay any debt. You must include the assumptions you used to create your pro forma statements. It is best to underestimate revenues and overestimate expenses; be conservative.

Supporting Documents – The business plan narrative should flow without interruption. Supplemental materials can be added in the Appendix section. The SBDC recommends the following documents be included in the Appendix:

- Business Certificate / Corporation documentation
- Purchase Offer Agreement/Lease Agreement – Include any agreements made regarding the lease or purchase of equipment or property.
- Collateral – A list of assets that will be security for the loan, including estimates of the present market value for each item.
- Resumes for owners and key staff
- Labor Schedule – List job positions - current and to be created, the number of employees in each position, and approximate wages.
- Examples of marketing collateral if available – brochures, flyers, examples of labels and logos, screen shots of your website homepage or Facebook page, and articles about your business.

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Business Plan Tips

- You must write your own plan! Definitely seek assistance during the writing process, but you must take final ownership. You must have a clear understanding of everything that is in your plan. You will find the research and preparation phase to be a great learning experience.
- Your narrative should be clear and focused. It is very easy to go off on side topics. Supplemental materials should be added to the Appendix section so the narrative flows without interruption.
- Know your audience. Is this for your banker? Will employees be part of the development process or have access to the finished copy? You may only want your employees to see specific sections of the plan.
- Keep your language formal. Speak in a third person voice; don't use "I" or "we".
- Make your plan look professional but don't spend extra to have it bound or add an expensive cover. This will make you look extravagant to the reader.
- Don't use technical jargon that only those in your industry will understand. Explain any acronyms you use.
- Don't show a draft version of your plan to anyone but trusted advisors.
- Speak confidently but be realistic about your future plans. Don't be overly optimistic.
- Don't make unsubstantiated financial assumptions. If you project strong revenue growth, you must explain why it is feasible. If you project expense savings while your revenues are growing, you must explain how you will make it happen.
- Don't ignore obvious issues in your external environment. Address them and how you will cope with and/or overcome these obstacles.

Your business plan is never finished. You should review, and revise it if necessary, every six months or if you are undergoing major changes or issues.

TYPES OF BUSINESS ORGANIZATIONS

1) Sole Proprietorship

A sole proprietorship is a business that is owned by one person. As such, you own and control the business. Setting up a sole proprietorship is the simplest, quickest and least expensive way to go into business. Legally, all that is required for set up is to obtain a license as required by the federal, state or local government. If the business has a name other than your own, you must also register your name with your local county clerk. You do this through a Certificate of Doing Business under an Assumed Name for sole proprietor, commonly referred to as a "DBA" (doing business as) form.

The sole proprietor is held personally liable for any business related obligation. What this means is that if your business fails to pay a vendor, defaults on a debt, or loses a lawsuit, you are personally liable for the debt. In the eyes of the law, the sole proprietorship is not legally separate from the person who owns it. The sole proprietor simply reports all business income or losses on his/her individual tax return – IRS form 1040 Schedule C.

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Advantages:

- Easiest, quickest and least expensive type to organize
- Easy to discontinue if desired
- Minimum of legal restrictions
- Owner receives all profits
- Owner has complete control

Disadvantages:

- Owner has unlimited liability. Owner is legally responsible for business debts. Personal assets are at risk.
- Business dissolves upon death of owner
- More restrictions on deductibility of employee benefits

2) Partnership

This is a business owned by two or more persons who get together to run the operation. Partners can contribute capital, specialized knowledge, marketing or management skills, and other valuable tools. They also share the risk. Partners share in the right and responsibility of managing the business, and by law each partner is responsible for all debt and obligations of the firm. This means you are personally liable for the full amount of the partnership's debts, even if they exceed your investment and you did not personally consent to the debt. A formal written agreement should be prepared to properly define each partner's role in the business. In the absence of a partnership agreement, the New York State Partnership Law (New York State Consolidated Laws, Chapter 39) sets forth rights and duties of partners.

Partners must file a certificate of Conducting Business as Partners with the county clerk of each county in which the business is conducted, referred to as a "DBA" (doing business as) form. A partnership's profits and losses are included on each partner's personal tax return. The partnership files an information return with the IRS.

Advantages:

- Easy, quick and inexpensive to organize. However, time should be spent on a legal agreement: decisions, time spent, capital invested, profits, disputes, buyout agreement or new partner coming in, and steps to dissolve.
- Easy to discontinue if desired
- More than one source of funds
- Share skills
- Profits or loss flow to personal tax return

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Disadvantages:

- Partners are jointly and individually liable for the actions of the other partners
- Personal financial hardships of one partner can affect the business assets
- Profits must be shared
- Disagreements can occur
- More restrictions on deductibility of employee benefits
- The partnership may have a limited life; it may end upon the withdrawal or death of a partner

3) “S” Corporations and “C” Corporations

A corporation in New York State is an entity mutually exclusive of the individual(s) that own and manage the business. A corporation is authorized to sell, buy and inherit property in its own name and has legal rights, powers and duties. Corporations are operated for profit and may raise capital by selling shares of interest in the corporation. A corporation’s debts and obligations are distinctly its own. To create a corporation you must meet specific statutory requirements, which include filing a Certificate of Incorporation with the NYS Department of State, creating corporate bylaws, and issuing stock certificates.

Income and expenses of the “S” corporation flow through to investors in proportion to their share holdings, and profits or losses are taxed to shareholders at their individual tax rates. Not all corporations qualify for this status. Certain restrictions apply: no more than 75 shareholders, no non-resident alien shareholders, and the corporation may not own stock in other corporations.

“C” Corporations are separate, taxable entities that report income and expenses on a corporate income tax return and are taxed at corporate tax rates. Profits are taxed before dividends are paid. Shareholders pay taxes on dividends by reporting them as income. It may result in a double taxation.

Advantages:

- Shareholders have limited liability for corporate debts. Officers can be held personally liable if fraud or negligence exist.
- Lenders normally require officers to personally guarantee debt.
- Corporations can raise funds through the sale of stock.
- A corporation may deduct the cost of benefits it provides officers and employees.
- Can elect “S” corporation status if certain requirements are met. Profits and losses pass through to owner’s personal returns. Eliminates double taxation of corporate profits. IRS monitors for “reasonable compensation.”

Disadvantages:

- The process of incorporation requires time and money (filing fees and legal fees).
- Corporations are monitored by federal, state and some local agencies, and as a legal entity there is more paperwork to comply with regulations.

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4) Limited Liability Company (LLC) and Limited Liability Partnership (LLP)

An LLC combines attributes from corporations and partnerships (or sole proprietorships), protections from personal liability from business debts, and the simpler tax structure of a partnership. For tax purposes, one owner LLCs are treated the same as sole proprietorships. Profits are reported on Schedule C as part of his or her individual 1040 tax return. Multiple owner LLCs are treated as partnerships. The LLC files IRS Form 1065, Partnership Information Return. Profits are reported to each owner on a Schedule K-1. Each owner then pays taxes on this income on his or her annual 1040 income tax return. An LLP is a form of partnership with financial liability limited to the amount of each partner's investment. There must be at least one general partner who controls the firm and is responsible for its debt and obligations. The limited partner gives up the right to participate in the day-to-day management of the business. While the partnership does not pay taxes, it must file Form 1065 with the IRS. This form defines each partner's share of the partnership profits.

Advantages:

- Owners have limited personal liability
- Can elect to file as a corporation (certain requirements must be met)
- Business structure designed to provide the limited liability features of a corporation and the tax efficiencies of a partnership

Disadvantages:

- Relatively new business structure-limited case study
- Certain businesses cannot be LLC (banks, insurance companies, non-profit organizations)
- Requires filing fees and possibly legal fees



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SOURCES OF FINANCING

There are basically two types of financing:

Debt Financing – Debt financing is a promise or obligation to pay back the financing over a period of time with an associated interest charge. Most small business bank loans and personal loans are debt financing arrangements.

Equity Financing – Equity financing is the selling of ownership shares in a company, whether through the transfer of partnership rights (partnership, limited partnership), shares of stock (corporation), or shares of membership (limited liability company) in return for capital. There is no obligation or promise to pay back funds in an equity arrangement, which makes this type of investment an “at risk” investment.

Some alternate sources of financing include:

Personal Savings - The primary source of capital for most new businesses comes from savings and other forms of personal resources. Many mature entrepreneurs may consider funding their business with IRA or 401 retirement plan funds. Use of these funds to start a business may be subject to a withdrawal penalty. Please consult with an attorney, accountant or financial planning expert before using these funds.

Relatives and Friends - Family and friends may contribute financing for small business ventures.

Banks and Credit Unions - Banks and credit unions will provide a loan if you can show your business proposal is sound.

Angel Investors/Venture Capitalists - Angel investors are private individuals that invest into small businesses. Each angel investor will have different expectations on how he or she wants to structure a deal, so it is advisable to consult with legal and accounting professionals for advice before making a commitment to a deal. Venture Capitalists are more organized investors or investment groups that tend to look for a very large return on investment and usually seek a large equity portion and some form of management oversight.

Lenders often refer to the five “C’s” when evaluating a financing deal:

Capital – Is the ownership team investing any of its own funds into the venture?

Collateral – What is the business using to secure the financing (equipment, inventory, accounts receivable)?

Conditions – Is this the right environment for this business? Industry trends, economic vitality of a community, and amount of competition often figure into this analysis.

Capacity – Does the ownership team have other sources of repayment should the business venture not work? For example, if the business were to fail, could the business ownership team gain other employment to continue servicing the debt?

Character – Has the business and ownership team shown the ability to manage finances? This is often most evident in their credit history.

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HOW TO REGISTER A BUSINESS NAME

If an assumed name is to be used (“Doing Business As” or DBA), or if the business is to be a partnership, Section 130 of the New York General Business Law requires the filing of a business certificate with the County Clerk in the county in which the business will be conducted. Filing a DBA protects the business name from use by others in the county in which it’s filed.

Completing a Business Certificate

Purchase a Business Certificate (sole proprietorship) or Business Certificate for Partners (partnerships) at your local office or stationery supply store, or County Clerk’s office. A business owner may also consult with an attorney to have the appropriate forms drawn up, particularly if he or she is filing a partnership.

File the Certificate with the County Clerk where the business will be located. To find the County Clerk’s office in your area, visit: <http://www.dos.state.ny.us/lgss/partners.htm>

You typically will need three copies of the Certificates:

- File one Certificate with the County Clerk (considered the original).
- The bank requires a certified copy of the Certificate to open a business account.
- You may decide to obtain an extra certified copy for display at your place of business.

The filing fee for a Business Certificate varies from county to county, but is in the range of \$25-35. Some counties may charge a fee for the form as well.

If you require more than one certified copy, take duplicate copies of the original to the County Clerk’s office. The Certificate isn’t a license to do business in the county or NYS. To determine whether a special license is required for your business, contact the NYS Department of State, or the City or Town in which you wish to operate your business.

SELF-EMPLOYMENT TAX

What is it?

Self-employment tax (SE tax) is a social security and Medicare tax primarily for individuals who work for themselves. It is similar to the social security and Medicare taxes withheld from the pay of most wage earners.

Who must pay it?

You must pay self-employment tax if your net profits are \$400 or more for the year or you performed services for a church as an employee and received more than the current allowed amount. Visit the IRS website to learn the current allowed amount.

Why pay it?

Social security benefits are available to self-employed persons just as they are to wage earners. Your payments of SE tax contribute to your coverage under the social security system. Social security coverage provides you with retirement benefits, disability benefits, survivor benefits and hospital insurance (Medicare).

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How to pay it?

Estimated tax is the method used to pay tax (including SE tax) on income not subject to withholding. You generally have to make estimated tax payments if you expect to owe tax, including SE tax, of \$1,000 or more when you file your return. Use Form 1040-ES, *Estimated Tax for Individuals* to figure and pay tax.

If you are self-employed and you are also an employee, you may be able to avoid paying estimated tax by having your employer increase the income tax taken out of your pay. Use Form W-4, *Employee's Withholding Allowance Certificate*, to increase your withholding.

For additional information refer to the following IRS publications:

Publication 533: Self-Employment Tax

Publication 505: Tax Withholding and Estimated Tax

Or visit the IRS website at: <http://www.irs.gov>

EMPLOYER RESPONSIBILITIES CHECKLIST

- Apply for your SS-4 Federal Employer Identification Number (EIN) from the Internal Revenue Service. An EIN can be obtained via telephone, mail or online. If you obtain one by phone, the IRS representative may request that you mail or fax the signed SS-4 Form to them.
- Register with the NYS Department of Labor (DOL) as a new employer. NYS-100 *New York State Employer Registration for Unemployment Insurance, Withholding, and Wage Reporting* should be completed and sent to the Albany address that appears on the form. This registration is required of all employers for the purpose of determining whether the applicants are subject to state unemployment insurance taxes. The NYS DOL will follow up with you once their determination has been made.
- Obtain both Workers Compensation and NYS Disability Insurance from an insurer. The insurance company will provide the required certificates that should be displayed. Visit the **NYS Workers Compensation Board** website for more information - <http://www.wcb.state.ny.us>
- Order *Federal Tax Deposit Coupons* – Form 8109 – if you didn't order these when you received your EIN. To order, call the IRS at 1-800-829-1040; you will need to give your EIN. You may want to order some blanks sent for immediate use until the pre-printed ones are complete. Also ask for the current Federal Withholding Tax Tables (Circular A) – this will explain how to withhold and remit payroll taxes, and file reports.
- Order State Withholding Tax Payment Coupons – call 1-800-462-8100. Also ask for the current NYS Withholding Tax Tables. Visit the **NYS Taxation and Finance** website for more information - <http://www.tax.state.ny.us>
- Have new employees complete an I-9 *Employment Eligibility Verification* form. This form can be photocopied. You should have all employees complete this form prior to beginning work. Do not send it to Immigration and Naturalization Service – just keep it with other employee records in your files.

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- Have employees complete a W-4 *Employees Withholding Allowance Certificate*. This form also can be photocopied. A copy of this must now be sent to NYS for the New Hire Reporting Program.

Many mature entrepreneurs will have a home based business. If certain conditions are met many of the business expenses used in the home can be used as a business deduction. For additional information, refer to the *IRS Publication 587 - Business Use of Your Home*. Understand that having a home-based business may have a significant impact on estate planning, so consider consulting with an attorney, accountant or financial planning professional for advice.

The Occupational Safety and Health Administration (OSHA) can assist in assuring a safe and healthful workplace for your employees. A fact sheet is available with further information. It is important to document and report any employee injuries requiring medical treatment. Go to OSHA's website to read the *New Business Fact Sheet*: <http://www.osha.gov>

Lastly, you can obtain required employee notification posters by contacting the various agencies. Many agencies have websites at which the forms are available to download and print or the agencies can mail them to you at no cost. The NYS DOL lists posting requirements on its website - <http://www.labor.state.ny.us>. The US DOL lists workplace poster requirements on its Small Business Resources Center website - <http://www.dol.gov/oasam/programs/osbdu/sbrefa/main.htm>

OPERATING YOUR BUSINESS: RECIPE FOR SUCCESS

Now that we have discussed writing a business plan and business basics, it's time to discuss the core of your business: your operations. In order to be successful, you should approach the operations of your business as if you are following a recipe. Similar to a recipe, there are certain steps you need to follow to be successful. As with every recipe, there will be adjustments you need to make so your business comes out just right.

The Product

You're probably considered making a food product because you have a great recipe that tastes better than what you've found at your local grocery store. All of your friends and family have told you it's delicious and you want to turn that product into a business. Taking that recipe from your home kitchen to the grocery store shelf can be a daunting task, but with a little preparation you can avoid many pitfalls on your way to success. The following provides some step-by-step strategies for getting your prized recipe onto store shelves and into consumer's shopping carts.

Hopefully you've already figured out what you're going to make. Let's move on to the next step: getting to know your competition. Some aspiring food entrepreneurs think their product is so delicious and amazing that all they have to do is make their product and all competitors will bow before them. It's a nice thought, but unlikely to happen. Any product already on the market has many advantages. First, it is already on the shelf. Second, most of the mass-produced foods out there have been preceded by market research, advertising, sales reps, and more. By getting to know your competition, you can take advantage of what they've paid others to develop for them: information on what consumers like and don't like; what sells and what doesn't sell. It also helps you find ways for your product to compete. Grab your notebook and head to the nearest grocery store. Visit a variety of stores where you might want to sell your products.

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The first thing you want to look at is the price. You typically don't want your finished product to cost more than the most expensive one on the shelf. You also don't need to be the cheapest but you must be competitive. No matter how great your product is, it needs to compete on price to be successful. The most lasting impression many consumers have of your product is the price. Be comfortable with your price points. You have to make a profit, so price your product accordingly.

Many people set a competitive wholesale price and then find ways to manufacture their product for less than that amount. Others develop the product exactly as they envision it and then try to find ways to make the price lower, including changing the quality of ingredients and packaging, finding different methods of production or delivery, and so on. A small segment of the market sets the price at a level relevant for the quality of the product they are producing and aren't afraid to be the highest priced item on the shelf. Pricing will be discussed again in further detail.

The next component to look at is the packaging. When you start to examine sections of the grocery store you will notice the packages for similar items are often very similar in size and, to a lesser extent, have similar color schemes. It's important that your product is similar in these aspects as well. In addition, a major role of packaging is food preservation while at the same time making the product easy to use. Packaging will be discussed in further detail later in this guide.

An important issue on many consumers' minds these days is where food comes from. If you plan to use the locale of your production as a selling point, you better know where the competition's product is made. This may take more research than just reading the label. Often the address on the label is a distribution address or corporate headquarters. Don't hesitate to call the company and ask where their product is made. Large companies have staff dedicated to fielding calls and answering questions. They'll never know it was you calling or that you're plotting to take over their market share.

By the time you finish your survey of competitors, you should have an idea of how your product fits into the marketplace and what will differentiate it from the rest. Often, tasting better just isn't enough. The fact that it is your grandmother's recipe isn't guaranteed to draw in the average consumer. The appeal of your product will be a combination of many factors.

Commercializing Your Recipe

Once you have done your research, it's time to start turning your home recipe into a shelf-stable, marketable product. Your next step is to take your home recipe to a food scientist. In the State of New York, you have a few options. In addition to private food scientists, (which typically cost between \$200 and \$400 an hour), there are programs run by universities that offer discounted or even free services including analyzing your recipe, sourcing ingredients, and finding distribution channels. Three of the more notable programs in New York are Cornell University's Agricultural Experiment Station in Geneva, Nelson Farms, which is a SUNY Morrisville Project, and the Syracuse Community Test Kitchen at Syracuse University.

These entities can help you create what they call the "Gold Standard" or the best tasting version of your recipe. It's the standard by which you and the food scientist will judge all future batch runs of the commercialized product. Then they can help you turn the standard into the actual commercialized version of the product. In order to make your product shelf-stable, you may need to change some of the

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ingredients in your recipe. This may involve substituting cooked ingredients for raw ones, or adding acids to get the pH to an appropriate level for preserving the product in a can or jar. The goal in working with the food scientist is to fine tune a recipe and the process for creating a commercialized product.

Getting a shelf-stable product to taste like what you make at home may take some time. It is possible that it will never taste exactly the same. In some cases getting the recipe and process just right happens in a single session. In other cases it can be a lengthy process. It depends on the complexity of your recipe, how well you communicate with your food scientist, and your personal quest for perfection. Listen to your food scientist. The goal is to help you get your product as close as possible to the “Gold Standard.”

As noted in the Regulatory Roadmap section of this guide, shelf-stable foods and foods that are vacuum packaged require a Scheduled Process. A Scheduled Process is a detailed procedure for a single product issued by a recognized Process Authority that includes formulation, critical control points, processing steps, storage, distribution, and selling conditions/restrictions. A Process Authority, based on regulations, is a person or institution with the expert knowledge and experience to make determinations about the safety of a food process and formulation.¹

When developing your commercial formula always remember the “BASICS”:

- Balance: Balanced flavor based on consumer taste preferences
- Acidity: Acids can enhance other flavors and increase product stability
- Sweetness: Sweeteners may enhance other flavors or mask bitterness
- Intended flavor and texture: Visual appeal and consistency are important
- Color: Processing may degrade color
- Saltiness: Salt enhances flavor. It aids the cooking process and is a preservative

Reference:

1. *Small Scale Food Entrepreneurship: A Technical Guide for Food Ventures*, a publication of The Northeast Center for Food Entrepreneurship at the New York State Food Venture Center, 630 W. North Street, Geneva, NY 14456.



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Packaging

Now that you've decided what to make, it's time to determine how to package it. You've already started to work on this with your survey of the competition. You know what kind of packaging they are using and you don't want to stray too far from what works for them, especially the size. This may seem counterintuitive. It's natural to want to make a product that stands out on the shelf. Taller than all the rest! Bigger than the competition! You may want people to see your jar as soon as they come around the corner, and say, "Wow, look at that jar." This is when you need to fight your instincts.

Unique packaging is expensive and when you're producing goods at a small scale you need to watch costs. One of this guide's contributors, Martin Butts, owner of Small Potatoes Sales & Marketing, once found a truly unique and striking jar that a yogurt maker was using. He recommended it to a pudding producer thinking it would catch customers' attention. Further research revealed that the jars were from Italy. The yogurt producer visited Italy regularly, making it much easier and cheaper for him to obtain them. For the pudding producer, it would have doubled her production costs, and the jar wouldn't fit with her co-packer's production line. (You can read more about co-packers later in this guide.)

Customers will compare your product to neighboring products. If your product is 20 ounces and the competition is 16 ounces, it will make your product seem more expensive, even if the cost per ounce is the same, or less. Perception goes a long way in a consumer's mind, and they won't pore over every detail on your label the way you will when you are designing it. You want a level playing field in the consumer's mind.

Retailers want a product that fits in with the others so they don't have to rearrange their shelves. If barbecue sauce usually comes in 6-inch bottles and yours is 8 inches tall, the retailer will need to take the entire section apart and reset the shelves so your product will fit. Your bottle could make the grouping look off balance and cause a gap above the product, something retailers try to avoid. It's also in your best interest to use a package that stacks well. Products that are easy to stack (without crushing) make better displays, and displays get people's attention. There's a saying in grocery stores: "stack 'em high and watch 'em fly."

You'll notice that in some areas of the store there are similar color schemes on products. Salsa is a great example. Almost every salsa on the shelf contains red, yellow and/or green in its label. You rarely, if ever, see blue or purple. This is not an accident. Red and yellow are considered "hungry colors." Research has shown these colors increase appetite, while blues tend to decrease appetite. If all of your competition uses a similar color scheme, you should consider whether it has value for you as well. Don't copy your competition's design, learn from it. They've spent a lot of money to determine what works with consumers. With some careful examination, you can put that research to work for you.

The Internet is a gold mine for information about package sourcing. You can ask your food scientist, co-packer, shared-use kitchen, or other food producers who they use for packaging. Your co-packer may have specific sizes of containers that fit in their production, so if you decide to work with them, ask them in advance about the size limitations. Shop around. Ask for samples. It's smart to get a package from more than one source. If there is a problem with your supplier, you don't want to halt production while you're searching for a new supplier. This is good advice with all your vendors, whether they supply ingredients, labels, printing, or co-pack your food product. Losing a supplier should not prevent you from

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filling orders. It is important to have a back-up plan.

When considering packaging, carefully weigh the benefits and drawbacks of what is available. Darker colored glass can help protect food from sun damage, but clear glass gives a better view of your product. Plastic may keep products fresher than paper, but isn't biodegradable, which many consumers prefer. Note that you have to determine the jar, bottle, box, or bag the product comes in, and also the case it ships in. A typical case of grocery store product holds 12 pieces. That is something else to consider when choosing a package. As your business grows, you'll need to learn what retailers need, for example, the number of cases on a pallet.

Labeling

The U.S. Food Drug and Administration (FDA) is responsible for establishing food labeling regulations. The FDA's guide on labeling requirements is a lengthy read and one that you should become familiar with. You can find it by going to the FDA's website at www.fda.gov and searching for "Food Labeling Guide".

If you have a simple product you may have fewer regulations to follow. Keep in mind that the regulations governing a food product are more complicated if you want to make any sort of health claim, for example low fat, high fiber, etc. If you keep it simple, you can learn much of what you need to know from the competition's labels.

As we mentioned earlier, you should look for common color themes in the labels of similar products. Trends in the food industry change quickly. Take these trends into account and make decisions accordingly. You don't want to change your label every year, but you also don't want your product to look antiquated or stale. First you'll want to establish the creative part of your label: the logo, the font, all the fun stuff. Then you'll need to deal with the compliance issues. This section will cover the fundamentals.

There is some basic information you should have on the front of your product label. The FDA refers to this part of the label as the "PDP" or "Principal Display Panel." The first is the common or usual name of the food. So if it's potato chips, the label should say potato chips, even if you call them "Wondrous Wanda's Thin Fried Tater Crispies." The common name of the food needs to be prominent. The PDP should also include the amount of product in the package. It must show the net contents in both metric (grams, kilograms, milliliters, liters) and U.S. Customary System (ounces, pounds, fluid ounces) terms, in no particular order. The font must be large enough and clear enough to read.

The next section of the label is the information panel labeling. There are three pieces to this section: Nutrition Facts, Ingredients, and Manufactured By. Federal law requires that the information panel be located to the right of the PDP. These three items need to be placed together, without any other information interrupting them.

Nutrition Facts

The Nutrition Facts label is not mandatory for your product unless you sell more than 100,000 units of your product or if your company has more than 100 employees. If you fall under these thresholds, you can file for a small business exemption. However, if you make any kind of health claim on your product, you are not eligible for an exemption. Some of these health claims include "low glycemic index," "high fiber,"

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“low fat,” etc. These terms are regulated. Before you make any health claim about your product, check the FDA standards.

To check the standards, you can go to the FDA website – <http://www.fda.gov> – and type “Food Labeling Guide” into the search box in the upper right corner of the page.

Food Labeling Guide
September 1994; Revised April 2008

Paper copies are available from:
Office of Nutrition, Labeling, and Dietary Supplements
HFS-800
Center for Food Safety and Applied Nutrition
Food and Drug Administration
5100 Paint Branch Parkway
College Park, MD 20740
(Tel) 301-436-2373

Additional information is available at the FDA website under Food. Click on “Food” on the first page, then look for the headings “Food Ingredients and Packaging” and “Industry Resources.”

Even if your company qualifies for an exemption, you should include a Nutrition Facts label. It’s a trusted part of packaged food and many grocery stores won’t buy your product without it. New York City requires all restaurants and food vendors to post the calorie content of every item served. As a result, it is nearly impossible to sell a product in New York City without a Nutrition Facts label. That alone makes it worth investing in this from the very beginning.

This label must be displayed in a box format, even if your label is round, and located near the ingredient list and the name and address of the producer/packer/distributor. It must be presented together on the label. It is also mandatory that this information be found to the right of the Principal Display Panel. Check the products in your pantry and you’ll find that every single nutritional fact labels is to the right. You can utilize the resources mentioned previously to get the nutritional information for you: food scientists, co-packers, universities. You can calculate the percentages by hand or buy software to do it.

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Nutrition Facts	
Serving Size 1 cup, chopped 67g (67 g)	
Amount Per Serving	
Calories 33	Calories from Fat 4
% Daily Value*	
Total Fat 0g	1%
Saturated Fat 0g	0%
Trans Fat	
Cholesterol 0mg	0%
Sodium 29mg	1%
Total Carbohydrate 7g	2%
Dietary Fiber 1g	5%
Sugars	
Protein 2g	
Vitamin A 206%	Vitamin C 134%
Calcium 9%	Iron 6%
<small>*Percent Daily Values are based on a 2,000 calorie diet. Your daily values may be higher or lower depending on your calorie needs:</small>	
	Calories 2,000 2,500
Total Fat	Less than 65g 80g
Sat Fat	Less than 20g 25g
Cholesterol	Less than 300mg 300mg
Sodium	Less than 2,400mg 2,400mg
Total Carbohydrate	300g 375g
Fiber	25g 30g
<small>Calories per gram: Fat 9 • Carbohydrate 4 • Protein 4</small>	

Ingredients

Ingredients must be listed “in descending order of predominance.” That means whatever ingredient is used most in the recipe, by weight, is listed first. Then the ingredient that is used second most is listed, and so on. The font size must be at least 1/16 of an inch in height, and you should use the common name of the ingredients.

According to federal law, you must also clearly identify the allergens and potential allergens. If your product may contain an allergen, be sure to carefully read the allergen section in the FDA labeling regulations. You can list allergens in one of the following two ways.

- 1) You can add a line after the listing of ingredients that reads: “This product contains...” and name the allergens.
- 2) You can identify an allergen in parentheses after the name of that ingredient. Example: “Apples, sugar, whey (from milk), cinnamon, and lecithin (from soy).”

If you work in a facility that may contain allergens, you should list potential allergens. You can write:

- “Processed in a facility that may contain...”
- “Processed in a facility that contains...”
- “Manufactured on equipment that is also used to manufacture products containing...”

As noted in the FDA Food Labeling Guide, there are 8 allergens that must be identified on the label:

- Milk and all milk products
- Eggs
- Fish
- Crustacean shellfish
- Tree nuts
- Peanuts
- Wheat
- Soybeans

Another required safety label is the expiration date and the product’s storage needs, such as: “Keep Refrigerated,” “Refrigerate after opening,” or “Keep Frozen.”

Manufactured By

The third portion of the “information panel labeling” is “Manufactured By.” This is the name and address of the manufacturer, packer, or distributor. If you make your product in your home kitchen, this is your address. If you use a co-packer, then it should read: “Manufactured at” and the name and address of your packer. If it is produced in another country, it should say: “Distributed by” and the name of the distributor.

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One portion of the label not mandated by federal law, but required by many retailers, is a Universal Product Code (UPC) or bar code. You can launch your product without a UPC, but if you are looking to grow into regional or national distribution, you will need a UPC. While UPCs are now found on all sorts of products, they were initially developed for grocery stores to speed up the check-out process and to help stores keep better track of their inventory. They are now standard on almost all food products. Getting one is easy and affordable and makes your product look more professional.

Every product requires its own unique UPC. If you make one product in two different sizes or flavors, each size or flavor should have its own UPC. If you plan to produce more than 100 different products, you should join GS1-US, the organization that administers UPC codes. GS1-US assigns “manufacturer identification numbers.” Their website is www.gs1.org. This I.D number will stay the same for all of the products you produce and UPCs you are assigned.

If you plan to have few products and buy individual codes, you are not required to obtain the manufacturer identification number, which can save you some money. There are a number of reputable online resources for buying UPCs, including the following four websites:

- www.upccode.net
- www.buyabarcodes.com
- www.simplybarcodes.net
- www.gs1.org/barcodes

Typical UPC with the key components labeled:

Labeling: New York State Agriculture & Markets

While the federal government is responsible for establishing food labeling regulations, the New York State Department of Agriculture & Markets reviews food labels to ensure compliance by entrepreneurs in New York. NYS Ag & Markets provides a pamphlet with a brief summary of the labeling regulations governing foods offered for sale in New York State.

This pamphlet is available on their website at www.agmkt.state.ny.us/ and is included in Appendix A.



The basic label requirements outlined in the pamphlet include:

- Identity of food in package form
- Name of manufacturer, packer, or distributor
- Place of business
- Ingredient declaration
- Net quantity of contents
- All information must be provided in English.

You should contact the Food Safety and Inspection Division of NYS Ag & Markets for a review of your label. This review is not a requirement but is strongly recommended because your label may be reviewed

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during a state inspection. There is no fee for the review of your label. Depending on issues identified during their review of your label, you will either receive an email noting the deficiencies, or a follow up phone call from a NYS Ag & Markets representative. Be sure to add lead time for the review when you are timing the printing of your labels. Labels may be sent for review by fax at 518-457-1762 or by email.

To send a label by email, first go to the NYS Ag & Markets website at www.agmkt.state.ny.us/ and select “Contact Us” from the menu on the left. This will generate an email form. In the subject line, indicate that you would like to have your label reviewed and provide your email address and phone number. A representative from NYS Ag & Markets will contact you with his or her email address. When sending the label by email, it is important that the label be sent in its actual size. In addition, be sure to include your name and contact information in the text of the email.

You may also contact NYS Ag & Markets at 1-800-554-4501 to request a label review. During the design process, you will find that your product’s label is a work in process. As discussed in the case study that starts on page 48, be prepared to contact NYS Ag & Markets to review any changes made to your label before sending it to the printer.

PRODUCTION OPTIONS: HOME PROCESSING, SHARED KITCHENS, AND CO-PACKERS

At this point, you have identified your product, commercialized your recipe, determined your packaging, and finalized your labeling. You should have a professional-looking version of your product in hand. Now you must produce a large enough quantity to sell. You have several production options:

- Home processing
- Processing in a shared use (or rental) kitchen
- Setting up your own (out of the home) production facility
- Utilizing a co-packer

There are advantages and disadvantages to each, and you should research each option to determine which one will work best for you.

Home Processing

Home processing may be a legitimate way to start your business depending on your food item. However, unless you plan to build a commercial kitchen in your home, it is likely just a temporary solution. The first thing you need do, if you plan on home production, is contact the New York State Department of Agriculture & Markets. This agency will certify your home kitchen if your food item and production process fall under their jurisdiction.

Don’t be intimidated by the licensing process. You need to follow some common sense rules and ask your inspector in advance what is expected of you. The contact information for the regional NYS Ag & Markets offices is included on page 55. If you don’t fall under the jurisdiction of NYS Ag & Markets, you will need to contact your local health department before you begin. Information about local health departments is provided in the Regulatory Roadmap section of the guide.

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Here are some of the common sense rules of home processing:

- Keep your work area clean. There should be no pets in the kitchen if you are producing food commercially! If you have a cat or dog, you should have a door to your kitchen.
- Use dedicated equipment that is just for your commercial production (spoons, bowls, cutting boards, etc.). You don't need to buy a separate stove and oven. But if you can get a small refrigerator, it will make keeping track of your ingredients easier and safer.
- Put dates on every perishable ingredient you use, as well as every batch of food you produce.

With home production, the amount you are able to produce will be limited by the size of your space and equipment, but you'll be able to work whenever you want, control the quality of your product, and the rent is great. Maintaining a consistent taste and consistency for different batches can sometimes be an issue in this type of small scale production. Check out the Regulatory Roadmap section of this guide for additional information on home processors.

Shared-Use Kitchens

If your home kitchen is not suitable, consider renting a shared-use kitchen. Shared-use kitchens are licensed facilities that provide food producers with a production space. Shared kitchens typically have larger equipment, which can enable you to operate more efficiently and produce larger batches. Many shared-use kitchens provide other services, such as help commercializing your recipe or help getting it into the marketplace. They may also help you identify vendors for ingredients and packaging.

Some churches rent out their kitchens to food producers, but if you need specialized equipment, you'll likely need a more sophisticated set-up than most church kitchens provide. It is best to use a facility that allows you to lock up your ingredients (including separate refrigerated items) and equipment. Ask other small food producers you meet for kitchen recommendations. You can also look for not-for-profit community kitchens in your area. You must still apply for your own permits when using a shared commercial kitchen. Cleanliness standards are vital and are detailed in the next section.

Separate Production Facility

Layout

The kitchen/production facility should be designed so it can be cleaned quickly and effectively.

- Work flow must be established that will minimize the amount of time food spends in the danger zone - the temperature range in which bacteria grows. A good work flow minimizes the number of times food is handled. For example, locate storage areas near the receiving area to prevent delays in storing product. Prep tables also should be near storage areas.
- A good layout will minimize the risk of cross-contamination. Place equipment strategically to prevent splashing or spilling from one piece to another while allowing for the effective and safe movement of production personnel.
- Equipment accessibility provides adequate room to clean around and under each piece.

When renovating and or designing a facility, consider how the equipment and workspace will be kept clean. Facilities should be arranged so contact with contaminated sources such as garbage or dirty utensils and equipment is not likely to occur. Consider hiring a professional commercial kitchen designer to help you set up your production facility. This will save you time and money.

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Plan Review

Before any construction or remodeling can occur, you must meet with your local building inspection department and or health department/ NYS Ag & Markets Office. This will ensure that your facility design meets all codes and creates a safe flow of food. It saves time and money to have the plan reviewed before construction or remodeling of the facility has begun. When leasing property, have the layout approved before signing the lease. Don't take the landlord's word that it is in compliance.

Sanitary Standards for Equipment

It is important to purchase equipment, new or used, that has been designed with sanitation in mind. Complete sanitizing instruction can be obtained from NYS Ag & Markets Division of Food Safety and Inspection. Surfaces that come in contact with food should be: non absorbent, durable, able to withstand repeated cleaning, smooth, and resistant to pitting, chipping and scratching. Equipment surfaces not designed to come in direct contact with food but exposed to splash and spillage should be constructed of smooth, non- absorbent, corrosion- resistant material that is free of unnecessary ledges, projections, and crevices and approved by the NSF International and UL (Underwriter Laboratories). You can read more about food safety at the NYS Ag & Markets website -

<http://www.agmkt.state.ny.us/FS/industry/circs.html>

Key Practices for Ensuring Food Safety

You should learn more about storing and organizing your ingredients whether you decide to become a home processor, use a shared kitchen, or set-up a production facility. To keep food safe in your operation, you should focus on the following things:

- Proper food storage. Control the temperature of products, including ingredients and the finished product. Proper temperatures must be maintained at all times.
- Prevent cross contamination of food. Cross contamination occurs when microorganisms are transferred from one surface to another. This often occurs when a work or cutting surface is used to cut or prepare raw meat/seafood/poultry and then not properly cleaned and sanitized before it is used for other food preparation. Contamination also occurs when raw foods touch or drip fluids onto other food ingredients or ready-to-eat foods or hands are not washed properly.
- Practice good personal hygiene. Learn the rules for hand washing, hair coverings, and glove requirements as they pertain to your set-up and production steps.
- Clean and sanitize floors, surfaces, and equipment following guidelines provided by the governing agency for your food product. Clean surfaces with a basic grease cutting dish detergent and then wipe them with a water and bleach solution. Purchase test strips to check the level of bleach/ sanitizing solution you are using. These can be purchased through your cleaning supply vendor and are inexpensive.
- Understand proper procedures for cleaning equipment, utensils, and other cooking equipment. A three compartment sink set-up allows you to have one clean and one dirty drain board, a soap and water wash compartment, a rinse compartment, and sanitary compartment.
- Attend a yearly, four hour, food safety refresher course offered through various groups and some local health departments.
- Be very selective when choosing suppliers.

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Choosing a Supplier

Your operation supply chain may include growers, shippers, packers, manufacturers, distributors, and local markets. A number of factors go into selecting the right suppliers. Make sure suppliers can meet or exceed your standards and deliver safe food.

- Use approved and reputable suppliers. An approved supplier is one that has been inspected and is in compliance with local, state, and federal laws.
- Develop a relationship with your suppliers and get to know their food safety practices. Consider reviewing your supplier's most recent inspection from USDA and/or FDA. Also order and pick up your supplies occasionally so that you can do your own inspection of their facility.
- You must decide whether your priority is finding ingredients of the highest quality, items that provide the best value, or items that can be ordered the most efficiently. Using many suppliers will enable you to find those that specialize in specific product lines. However this could lead to more complicated ordering and delivery processes, because you'll have to coordinate several vendors. Pricing may be higher with specialized vendors, but the quality should also be higher.
- Arrange deliveries so they arrive one at a time and during off peak hours. Products should be delivered when your staff has time to make inspections. By establishing procedures for inspecting products, you can reduce hazards before they enter your establishment.
- Train your employees to inspect deliveries properly and immediately. Assign responsibility to select employees to receive and inspect product. They should be trained to know proper temperature expiration dates and recognize the signs of thawing and refreezing.
- Plan ahead for shipments. Make sure there is enough space available in coolers, freezers, and storerooms prior to delivery.
- Inspect and store an entire shipment before receiving another shipment.
- Have correct information on hand. Receivers should have an order guide to cross reference with the suppliers invoice. Inspect each shipment immediately. Once you sign for the product and the driver leaves, you are legally responsible for paying. File all packing documents and invoices.
- Put products away quickly and appropriately.
- Keep receiving area clean, sanitary, and well lighted to discourage pests.

Rejecting Shipments

You have the right to refuse any product that does not meet your standards. This may put a crimp in your production schedule, but it will ensure that your product will remain consistent and of high quality. Steps to rejecting a product include:

- Setting the rejected product aside.
- Explaining to the driver exactly what is wrong with the item. Do this as tactfully as possible; remember they are just the delivery person.
- Getting a signed adjustment or credit slip from the delivery person and attaching it to your invoice for processing.
- Tracking issues by vendor. This will help you decide if it may be time to change suppliers.

Hazard Analysis and Critical Control Points System (HACCP)

HACCP is a system used to control risks and hazards throughout the flow of food production. HACCP is based on identifying significant biological, chemical, or physical hazards at specific points within a product's flow through an operation. Once identified, the hazard can be prevented, eliminated, or reduced to safe levels. As of the date of this printing, the federal government only requires use of HACCP for the

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processing of juice, meat, poultry and seafood to prevent food borne illness.

A HACCP system must be based on a written plan that is specific to each facility. A plan is based on seven basic principles outlined by the National Advisory Committee on Microbiological Criteria for foods. Each principle builds on the information gained from the previous principle. You must therefore consider all seven principles when developing your plan. The principles are designed to help you:

- Identify and evaluate your hazards,
- Establish ways to control the hazards, and
- Maintain the HACCP plan and system.

Recordkeeping requirements under HACCP include the following actions: monitoring activities, corrective action taken, and checking the working condition of equipment.

For additional information, go to the U.S. Food & Drug Administration's website at www.fda.gov and perform a search using the key word HACCP.

Co-Packers

Unless you plan to build your own production facility, at some point you'll need to use a co-packer as your sales volume increases. A co-packer is able to manufacture your product on a much larger scale for a fee. They have commercial equipment, professional staff, and the ability to buy ingredients and packaging at a lower cost than a small individual producer. Co-packers can provide a range of services important or essential to the development and production of food products:

- Canning and jarring (fruits, sauces, blends)
- Liquid products and bottling (beverages, sauces, supplements, cooking aids)
- Dry products (foods, cereals, seasonings, baked goods)
- Ingredient pre-blends (produce, fruits, spice or flavor mixes/additives)
- Labeling & packaging service only (meats, fruits, produce, baked goods)
- Product development/recipe conversion or scaling

Using a qualified contract packer enables a small business to devote time to management and marketing, while avoiding the enormous expense and responsibility of operating a food production facility. Some co-packers will provide only packaging. Others may help with formulation, recipe scaling, production, packaging, and labeling process. Many will offer a low or no cost initial consultation as part of their service. Some co-packers also offer marketing and distribution support.

Keep in mind when making your co-packing choices that the food industry is, in general, a narrow margin industry and that each added layer of service has financial implications. Balance the margin pressures with the value received and the access to services that may dramatically improve your market presence, access, and reach. For example, a good co-packer may have more ready access to certain types of packaging. They may be able to obtain ingredients at better pricing as they combine your purchases with other products on their production schedule.

Other reasons to work with a co-packer include compliance with regulation and market expectations.

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Typically, food production requires permitting, registration, batch control, and a host of other compliance issues. Carefully select a co-packer that is familiar with the segment of the food industry you are seeking to enter or expand into. Particular markets may also have shipping, labeling or packing ‘norms’. Is there a standard case size or count? Do customers prefer banding or shrink wrapping on pallets? What is the bar coding sequence being used beyond the individual UPC for cases, bulk pack, etc.? What is the dating/labeling format that is preferred? Good co-packers will share their experience in the industry with you. This can be instrumental in planning, saving you from mistakes and revisions.

Your work with a co-packer will be defined by the co-pack agreement. It is vital to have all contracts reviewed by competent legal counsel representing you and your interests. The co-pack agreement in simplest terms defines the business arrangement between you and the business entity that will be sourcing, producing, packing, labeling or in some other way playing a role in the preparation or delivery of your food product. There are some key elements common to many co-pack agreements.

- Protection of intellectual property – this will include the recipe or formulation, confidentiality of process, ingredients, sources, brand materials, and the description of process (what exactly is being done; preparation, packaging, labeling, shipment, etc.)
- Roles – who is providing what? Key ingredients, flavor or spice mixtures that may be sourced from other than the co-packer, packaging materials, etc.
- Compliance – your access to certificates of insurance, registration, inspections, batch records, type and data included in batch records.
- Time frames – set realistic time frames for each segment of the processes you are having performed from sourcing to prep to storage to packing and shipping.
- Quantities – how much product, what is the storage life at the co-packer, what is the required transit time, what is the shelf life, and what is the lead time from order to finished product?
- Nutritional statements and compliance – will the co-packer prepare these to assure label compliance, will they calculate or test the ingredients, who is responsible for the ingredients panel and interaction with labeling graphics services?
- Boilerplate – no agreement is complete without the structures and terms your legal counsel will provide for your protection. From payment terms to communication to duration of agreement to penalties, this area requires skill and forethought to integrate it with your plans and needs as well as the co-packer’s needs and requirements.

Developing a good relationship with your co-packer is vital. Get to know them in advance. Don’t be afraid to ask for references. Make sure you are comfortable that they will be able to provide you with the service you need. The last thing you want is to buy 100 cases of product that doesn’t meet your standards, or to sell out of your product and not be able to get another batch for several months.

Shopping for a co-packer is like shopping for a car; there are always trade-offs. While one co-packer may be willing to do a test-run for free, another that may charge for a test-run may be cheaper over the long term. Some of the concerns that may arise when working with a co-packer can be: loss of quality control, confidentiality risks, scheduling concerns, and high costs. For more insight on working with a co-packer, you may want to read “Choosing and Using a Copacker,” an article by John E. Rushing, a Ph.D from North Carolina State, which is available at the North Carolina State University website: www.ces.ncsu.edu/depts/foodsci/ext/pubs/co-packers.PDF

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Listing of Commercial Kitchens and Small Co-Packers

A listing of shared use kitchens and small co-packers is available at the Northeast Center for Food Entrepreneurship website - www.nysaes.cornell.edu/necfe/resource_main.html . At the website's main page select Small Co-packers and Commercial Kitchens. You also can ask your local Small Business Development Center to research local resources.

PRICING YOUR PRODUCT

You are getting closer to being ready for the marketplace. You've created a great product, decided where to make it, and packaged it in a great jar wrapped with a professional label. But there is one last vital piece of the puzzle: the price. For some stores and consumers, the only thing that matters is the price. If you plan to turn a profit, you need to price your product appropriately.

You should plan to set a price that you can live with for an extended period of time. A common mistake is setting a price that only reflects the current cost of production, without taking into consideration the increased costs as the business grows. Many people begin by making their product in their home. As they grow and move to a co-packing facility or set up a permanent production site and hire employees, their costs increase. To stay profitable, they have to reflect these costs in their pricing strategy. Cost increases can alienate retailers and consumers that started buying a product while it was new.

Another common mistake is setting the price unsustainably low in order to seem more attractive when entering the market. This strategy leads to the same scenario of cost increases down the road that could have been avoided. Undercutting the competition may seem like a smart way to grow your business, but your early gains will be washed away if your product suddenly jumps in price. The retail partners who took a chance on you may feel that you don't know what you're doing. Even worse, they may feel that you're taking advantage of their initial loyalty to your product.

You should set your price where you think it will need to be in future years, right from day one. This will allow you some flexibility to offer introductory pricing and periodic "sales". This strategy also provides a little more income as you launch your product, enabling you to invest in your company's growth, and it sets the fair value for your product.

There are three prices you should set for your product: the wholesale price, the retail price, and the distributor's price.

Retail vs. Wholesale Price

The wholesale price is a good starting point as it often helps determine the other two prices. The wholesale price is typically about twice what it costs you to make your product. If it costs \$1.75 per piece to produce, many businesses will wholesale that product for \$3.50. There are no hard and fast rules here. Ultimately you need to set an amount that is sustainable for your business and will leave enough gross profit to cover your fixed costs. You can have a strategy in which the price increases or decreases from there, but you need to be competitive. If you are making three pallets of your product at a time, it's hard to envision a way to undercut the huge corporate food producers and it is best not to try. You don't need to have the cheapest product in your category, but you don't want to have the most expensive one either. Try

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to set a price that is within a dollar of the price set by the rest of the competition especially if you are selling a product that retails for \$10 or less.

From there, you can calculate a suggested retail price by knowing that a retailer is generally going to apply a 35-50% margin, depending on the product and the store's pricing strategy. The margin is the difference between the sales price of the product and its cost. To calculate this, take your wholesale price and divide it by one, minus the margin. That's $\text{cost}/(1-\text{margin})$. So, to apply a grocery store's margin of 35% to your wholesale price of \$3.50 would look like this: $\$3.50/(1-.35) = \5.38 as a retail price. If the store uses a 50% margin, your item will cost \$7.00. That means stores will sell your \$3.50 product for anywhere between \$5.39 and \$6.99.

Do the math and determine your retail price. This is the price you should use when selling your product one at a time, directly to consumers at farmers markets, online, or in your own retail space. You should use this number as your suggested retail price. This is the price you give to retailers if they ask for it. Keep in mind that a suggested retail price is just that, a suggestion. Retailers choose their retail price based on their own costs for owning and maintaining a store, as well as their particular pricing strategy. Some producers want to control the price that consumers pay in retail stores, but it's not up to you to determine price at the store level. If you want your product to be sold at a lower price, then you need to charge less for it.

Distribution Price

Lastly, you can calculate a distributor's price. When the time comes to use third party distribution, you will probably have to lower your wholesale price in order to keep it low enough for your retailers. Distributors that buy your product wholesale and sell it to the retailers have their own set of costs and in turn will need to mark the price up. They typically apply a margin of 15-50%.

These "down the line" costs underline the importance of setting a beginning price that you can live with for an extended period of time. Take into account future expenses that come when you expand production. Stores and consumers don't like to see price increases. Having to raise the price as your product gains popularity can be risky. If you must increase your price, let your retail partners know in advance. A phone call or note with a delivery that lets your partners know when a price change will be taking effect goes a long way toward maintaining a good relationship.

Martin Butts, contributor to this guide, worked as a retailer for ten years and experienced a number of instances when a price increase led to his store no longer purchasing a product. In one such case, he had agreed to buy meat from a farmer who had to ship his orders. The store and farmer agreed to a price per pound and the store placed its first order. When the order arrived, the shipping charge was an extra \$75 above the agreed on price. The extra charge amounted to a price increase of 25%. Mr. Butts contacted the farmer and explained that the new price was more than he was willing to pay and that he was troubled that the farmer had not made the shipping cost clear in advance. The store agreed to sell the meat, but had to pass that extra cost on to the consumer. The next order received from the farmer had a slightly lower shipping charge, but a price increase on the meat of \$1.50 per pound. Again, the expense had to be passed on to the customer. Mr. Butts contacted the farmer to let him know that the price needed to stabilize before another order could be placed. Consumers complained to the store about the newest price increase, which was especially noticeable since the store had promoted this great new local product just a week

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earlier. The third delivery was two weeks late and the store didn't order the product again.

If you price your product appropriately, you should be able to sell it consistently at an agreed-upon price and still have some flexibility for sale, incentive, and introductory pricing. These issues will be covered further in the section about "Getting (and Staying) on the Shelf."

DISTRIBUTING & SELLING YOUR PRODUCT

Distribution

When it comes to distribution, you've got two options: doing it yourself or having someone else do it for you. Many retailers won't buy directly from small producers, so you may not have a choice as you grow but to use a distributor. In the meantime, distributing your own products is a viable option.

If you are working with stores local to you, you can make deliveries yourself. It is common for vendors to charge a fee for delivering, so delivering your product enables you to offer a discount. You can offer free delivery if the store buys a minimum amount, for instance, buy three cases, get free delivery. Or you can offer free delivery on the first order, which is a good initial incentive. The other option is to use one of the many shipping agents out there: the U.S. Post Office, UPS, FedEx, or DHL. Their rates will differ depending on what you're shipping and where you're shipping it. Check with all of them to find the best pricing. You can send ship orders to yourself or to friends to see how long it takes, how the product survives the process, and what it costs.

Working with a third party distributor offers many benefits. They take orders from many different stores and make sure the delivery is the same time every week. Retailers prefer to work with distributors because they can place one order for thousands of items and have everything show up at once and on one invoice. It enables them to more efficiently schedule staff and get products onto the shelves. The downside of working with a distributor is that they need to get paid too. If you charge \$50 per case to sell your soup directly to a store, then ideally you want your distributor to sell it for \$50 as well. That means you have to sell your product to the distributor for less. As previously stated, distributors add 10-50% on top of the cost they pay. Shop around to see which distributor is a good fit for you. Many distributors have sales reps working for them. Sales reps go from store to store giving out samples and offering sale pricing. They can very effectively increase your business. Ask the distributor if it uses reps, and if it does, ask what it can do to promote your product.

SELLING YOUR PRODUCT

Retailer Expectations

Selling your product to retailers offers challenges that are very different than the ones you encounter when producing your goods. After you've spent months and maybe years perfecting, developing, and learning how to produce your particular item on a large scale, it can be discouraging if you don't have immediate success selling it. The food industry is diverse and competitive. Some of your competition is entrenched on store shelves. Those producers are more sophisticated at producing, marketing, and distributing their products. They are better funded and have established relationships with retailers and

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distributors. Introducing a new food into the market is an uphill battle. But if you know what you're getting into, have a quality product, and have a well thought out plan, you can be successful.

Some retailers simply don't buy directly from small-scale producers. It takes more work and if the products don't fly off the shelves the way the brands they're replacing do, the retailers lose money. Some food producers have unrealistic expectations of retailers or of the marketplace. The big companies offer free cases of new products to retailers to try out. They have sales teams available to help sell the product and answer questions. Their products are easy to order, come in on time, have frequent sale prices, have marketing campaigns under way so the customers often already know them. There is not much you can do to change that reality, so you need to find an advantage. For instance, you can offer a great product and superior, personalized service. Be consistent and focus on what you can do well.

Retailers expect you to offer payment terms. Few stores pay on delivery, so expect to send an invoice with the shipment and receive payment later. The standard is called 10/2/30 terms. This means the retailer has 30 days to pay you, but if they pay within 10 days, they get 2% off the total of the invoice. Some companies also offer 14 or 21 day terms. Determine what you can afford and what is typical in your area. Be willing to offer something to the retailers. You need to trust the retailer is going to pay, but have a regular policy on how to proceed in case the retailer doesn't pay. Friendly reminders when payments are late are appropriate, and so are late fees if the policy is clearly stated on your invoice. Give the payment reminder to an employee in charge of payments and not to a clerk stocking the shelves. As a start-up business, you will be expected to pay immediately for your ingredients, packaging, and typically the co-packing charges. You need to anticipate the timing of cash coming into your business to keep up with your bills.

Set a standard for ordering and delivering. Make sure whatever method you choose is clear to the people that buy your product. Let them know how to order, the order lead time, and when and how delivery will occur. Orders are typically placed over the phone or through email. If you get an email order, send a confirmation email that shows you received the order and the expected delivery date. When shipping the product, be sure the invoice is included with the shipment. You must respond to inquiries quickly. This can be difficult if you are still maintaining other employment, but it is vital to maintaining quality customer service.

Retailers expect you to be consistent in all you do: pricing, delivery and ordering systems, product quality, packaging, and customer service. If you need to work on any of these components, practice before you aggressively hit the market. Spend time working with just a handful of stores. Try one close to home and a second that you'll need to ship to, maybe 60 to 100 miles away. Begin by targeting retailers that sell local food products. Don't worry if it doesn't all go smoothly at first. Selling food takes practice. Learn from mistakes and do not repeat them.

Consider getting a farmers' market booth for a season. Getting up at 5am to drag a display and stacks of product that you sell one at a time may not seem like the short path to success, but the experience you gain will be invaluable. You'll learn first-hand what people look for in your product. You'll get to see their reactions to your food. You'll also learn to give your sales pitch a couple hundred times every week, and it will build a little buzz in the community as you launch your product. Remember, your customers at the farmer's market pay full retail price in cash. If you spend a summer working the farmer's market

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while selling wholesale to a couple of accounts, you can be ready to start making your pitch to a larger market in late summer or early fall. This is when many trade shows are scheduled and many new products are released. It's also the start of the busiest sales quarter of the year for grocery stores. Stores are looking for new products, especially items their competition does not have.

According to the U.S. Department of Agriculture, the number of farmers' markets tripled from 1,755 to 5,274 between 1994 and 2009. According to a survey conducted in 2005, sales at farmers markets were slightly over \$1 billion annually. As of the summer of 2010, there were over 450 farmers' markets in the state of New York. To find those closest to you contact the NY Federation of Farmers' Markets at www.nyfarmersmarket.com. Scroll down the home page and click on "visit their local farmers' market" and to find a list of farmers' markets.

Insurance

Retailers expect your product to be insured. Whether you make it yourself or use a co-packer, you will need liability insurance. A million dollar policy is pretty standard. Not only will most stores refuse to work with you without it, it is also a best practice. If someone gets sick from eating your food, whether it is your fault, your suppliers, or your co-packer's, you need to be protected. Shop around for insurance to find an agent experienced with food products.

Sell Sheets and Marketing Packet

Most sales don't happen the moment you make the pitch. They come later after the buyer has pondered your product, talked to co-workers, and looked at the items he or she wants to replace. While you can't be there during this process, your marketing materials can speak for you. They should be clear and comprehensive. It is vital to have a sell sheet, which outlines the nuts and bolts of doing business with you. See Appendix C for a sample sell sheet.

You make your pitch on the front side of the sell. It should outline the reasons your product is great: 3-5 bullet points that are easy to remember. Make sure your logo stands out and include compelling pictures of your product, your production facility, ingredients, and so on. The back side of the sheet should have everything a store needs to know about doing business with you: pricing, delivery and ordering information, and your contact information. Make it clear and well organized.

You also should include in your marketing packet sample size products, copies of any media coverage you have received, and educational information if possible. For instance, if your product is high in antioxidants, include an article on health benefits. (Be careful about making direct health claims.) If your product is made with fairly traded ingredients, include a brochure about Fair Trade. Don't overdo it, but give retailers compelling reasons to buy your product instead of a competitor's.

Getting On (and Staying On) the Shelf

It is important to know how the competition gets on the shelf. They routinely offer free or deeply discounted cases of new products to any retailer. They offer sale prices three or four times a year, typically 20-30% off. They have teams of sales reps that not only promote products, but also offer merchandising assistance. They may give stores equipment, split ad space with them in local newspapers and magazines, and provide product to give away at events. At large retail chains they pay for shelf space.

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You may feel you can't compete with these tactics but don't panic. There are things you can do to get your product on the shelf. First, when approaching a store about selling your product, make an appointment to talk to the buyer. Grocery store buyers are very busy and showing up unannounced makes you look unprofessional. Once you have an appointment, be prepared to make your sales pitch. Have professional marketing materials with you at all times. Be prepared to offer an introductory price or a discount on the first order. By doing this, the store can immediately put your product on sale. A sale sign in front of a new product draws attention and encourages customers to try something they haven't seen before. You can offer free shipping on the first order, as well as provide a sampling kit (also called a demo kit). With careful planning you can get on the shelf, with a sale price, and customers will be able to taste your product before they buy it.

After all of your careful planning you must remember to be patient. It is often said in sales that it takes six contacts with a buyer before he or she will buy. Some store buyers may buy the moment they see your product. Others are never going to buy—don't take it personally. Listen to what the buyers are telling you. Be polite, even when they turn your product down (especially when they turn your product down). Mr. Butts, contributor to this guide, stated that when he worked as a buyer he once had a product pitched to him several times over two years. He saw the product at trade shows, had multiple sales reps pitch it to him every three months, and ate multiple samples. He wasn't sure it would sell, and passed on it over and over. After two years, he had three customers in one week ask him to carry it. He finally brought it into his store.

There are affordable ways to build a good long term relationship with potential retail partners. You can be available to give away samples at the store, offer shelf signage and recipe cards, and offer sample product for staff meetings. Ask if the retailer has a newsletter (email or print) and ask to be interviewed for it. If sales are slow, offer a discount on the next order. Ask the store to pass the savings on to consumers. Selling on a consignment basis isn't recommended. This means that you still own the product while it is on the store shelf. If a retailer hasn't purchased your product outright they won't have the commitment required to truly sell it. Also you would have to accept back any unsold items. This does not work well with food items that are typically perishable.



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ADDITIONAL THOUGHTS

After reading through this guide, you may wonder if you can be successful when there is so much to know and learn. Success is possible but it requires special skills and continual learning. You need to be detail oriented, adaptive, and open minded. You need to honestly assess the taste and quality of your product. Co-packers often have to tell excited would-be food entrepreneurs that their food item isn't tasty enough or worthy of the marketplace.

As with any venture worth undertaking, the effort you put into it will determine the rewards you get out of it. With perseverance and determination, you can be successful. Remember that the best recipes are those that are given the most care.

Take the success story of a small food producer that worked with the Niagara SBDC. The owner began her business in her home in 2005. Her initial focus was on breads and cookies that she baked in her home kitchen. She went through the proper procedures to begin production in her home. Right from the start, she focused on doing everything by the rules. She made many phone calls, including contacting her town for zoning approval.

Over time, the focus of the business changed to snack style foods. The business owner began working with nuts and chocolate, with pecan pralines being a specialty. This meant additional licensing and inspections. The business owner regarded each additional layer of regulation and each inspection as a learning opportunity rather than just a burden.

This business owner attributes her success to remaining open to the advice of others. She recently had an eye opening experience when she met with a retail manager of a wine and specialty store. The manager asked very detailed questions about her cost and pricing structure, questions that she could not answer. After this conversation, she "put the pen to paper" to estimate the true cost of her product. She had never considered the cost of items such as the bags used in her packaging, the electricity used in her home, and the mileage expense associated with buying supplies and delivering product.

She contacted the Niagara SBDC and broke down the cost of each ingredient in her recipes. In the end, she realized she had been undercharging for her product. She decided to charge for delivery. She also learned that it is a good idea to provide retailers with a suggested retail price.

As her business grows, this owner continues to adapt and learn. In 2009, she converted her laundry room into a separate kitchen. She also adjusted her product mix. When she learned that pralines do not hold up well in the summertime heat, she began trying new recipes. She recently took a food safety course and was surprised about the new things she learned. She is still working with the SBDC on her marketing materials.

In conclusion, she offers great advice. Ask questions not once, but twice. Utilize the resources available to you, especially the SBDC. Get organized and keep up with your paperwork. Keep clear records right from the start. When you call others with questions, keep notes on who you spoke with and the answers you received. Work with your accountant and keep a daily ledger of your business transactions. Keep a sense of humor and don't lose sight of what got you into the business in the first place.

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MARKETING YOUR SPECIALTY FOOD PRODUCT

What are Specialty Foods? Specialty food products are foods and beverages that exemplify quality, innovation, and style in their category. They are often known for their authenticity, ethnic or cultural origin, commitment to specific processing rules or traditions, superior ingredients, limited supply, or extraordinary packaging. Before you can begin making your product you must understand the market.

Specialty Food Industry at a Glance

According to the National Association for the Specialty Food Trade (NASFT)'s Annual State of the Specialty Food Industry 2009¹:

- The specialty food industry represents more than \$60 billion in U.S. sales.
- Eighty percent of specialty foods and beverages are sold through retailers, including supermarkets, natural food stores, and gourmet shops.
- Specialty food accounts for 15.9 percent of all retail food sales.
- Specialty food is purchased by 138 million American consumers.
- Consumers ages 18 - 34 are most likely to purchase specialty foods.
- Retail sales rose 8.4 percent in 2008 to reach \$48 billion in annual sales.
- Specialty food sales in natural food stores grew 17.4 percent in 2008 versus 2007.
- Cheese/Cheese Alternatives is the largest specialty food category, with \$3.4 billion in sales in '08.
- There were 2,349 new product introductions in 2008, with significant growth in chocolate, confectionery products, desserts, ice cream and alcoholic beverages.

When people hear the word “marketing” there are usually two words that come to mind. One is “advertising” and the other is “selling”. Advertising and selling are two components of marketing, but there is actually a great deal more involved in the process of marketing.

A textbook definition of marketing is “the process of creating value for customers and building strong customer relationships in order to capture value from customers in return”² What does that really mean? Where will your customers find value? Hopefully they find it in your product, their dealings with your company, in the ease of purchasing the product, all balanced with the price they pay. Where does your company find value? Hopefully in being able to charge a price that will enable you to make a profit, while building a relationship with the customer that will ensure repeat business.

A good working definition of marketing is offering the right product at the right price to the right target market, offering it in a place where the market can access it, and being able to promote it in such a way that the target market can discover it. This definition helps us to understand what is known as the four “P’s” of marketing: product, price, place (distribution), and promotion.

Before exploring the 4 Ps of marketing, there are three activities that should be completed first: a SWOT analysis, a determination of a competitive advantage, and identification of target markets.

References:

1. “About Specialty Foods”, <<http://www.specialtyfood.com/nasft/about-specialty-foods/>>
2. *Marketing, Armstrong and Kotter, Pearson, 8th edition 2008.*

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SWOT Analysis

If you are reading this guide, you probably have an idea for a product you would like to market. It is essential to do what is called a SWOT (strengths, weaknesses, opportunities, and threats) analysis. Large companies typically perform a SWOT analysis on their company as a whole, their competition, and their product. For the beginning entrepreneur with a single product, this can be combined into one analysis.

Strengths and weaknesses are those things that are internal to your business, or things over which you have control. Perhaps you have a strong background in using computers and are comfortable with technology. This could be a strength for marketing your product. Perhaps you know that you have a tendency to be disorganized. This might be considered a weakness. Make a list of strengths and weaknesses for both yourself and your product.

Opportunities and threats are those things that impact your business but over which you have no control. As you start to think about this category you might feel overwhelmed about where to begin. To make it easier to identify opportunities and threats, you can focus on several general areas: the economy, technology, socio-cultural trends, laws and regulations, and your competition. Take the economy for example. What effect does a declining economy have on the sale of your product? You may feel that it would adversely affect sales. However, when you take a look at socio-cultural trends you might find that, depending on your product, a declining economy might actually help sales. For example, you want to market party dips to be served with crackers. When people are eating out less, they may be entertaining more at home. Consumers may actually be looking for products they can use in home.

Perhaps the greatest threat to the small entrepreneur in the specialty food market is a larger competitor entering the market with a similar product at a lower cost, utilizing economies of scale. Knowing this can help you focus on what is special about your product and where the consumer truly finds value.

You might ask “Why should I be doing all of this now when what I really want to do is to start selling my product?” The time to do it is now, before you become consumed with the day to day running of your business. Having a list of strengths and weaknesses, coupled with a list of opportunities and threats updated on a regular basis, will help provide direction to you now and in the future.

Your Competitive Advantage

One of the threats just mentioned is a larger competitor offering a lower priced item that is comparable to yours. In today’s food markets there are many similar products. What is important is whether the consumer feels they are similar or sees a distinct difference between “like” products. If they see a difference, will they pay extra for that difference?

Why would a consumer want to purchase your product rather than the competition’s? It is essential to understand what the consumer values in your product. If you don’t understand why consumers want to purchase your product, it is doubtful that consumers will understand this either.

What comprises a competitive advantage? It might be particular attributes of your product, for example, the ingredients or where the ingredients come from. It might be the story behind how your product was conceived or the history of the recipe.

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Attributes you can differentiate on may include:

- Higher product quality
- Higher level of service
- Market Innovation

It is essential that you communicate the advantages to the consumer. This will be discussed further in the section on product packaging and promotion.

Your Target Markets

Who do you want to direct your marketing activities to? This is your target market. A market can be defined as a group of consumers with similar characteristics that have the desire and the ability to purchase your product. What comes first, the product or the market? That is, do you find a market you are interested in and then think of a product that would interest them, or do you conceive of a product and then think about who you will market it to? The truth is that it happens both ways.

As previously stated, the National Association for the Specialty Food Trade (NASFT) data indicates that consumers most likely to purchase specialty food products were those with the following characteristics:

- Income of \$65,000 or higher
- Two people living together
- Ages 35-44
- No children in the household
- Homeowners
- College graduates

These are the most basic shared characteristics of a specialty food market. Depending on where you are located, this may or may not be representative of your local demographic. It challenges you to think beyond your local community. With the advent of Internet sales and proper promotion you may be able to reach larger target markets.

Can you put your target market into words? Can you associate adjectives with this market? It is essential to do this as it will help you as you think about the “4 Ps” of marketing your product.

The First “P” of Marketing: Product

Imagine you have been asked to give a presentation to an investor along with a group of other entrepreneurs. The investor has money to spend but you only have thirty seconds to capture his or her attention and secure the money. You practice and prepare what you would say about yourself and the product. In the marketing world, this is called preparing an elevator pitch.

It isn't easy to do, is it? You might find it difficult to say everything you want to convey in just 30 seconds. You may not find the right words to effectively describe your product. Many entrepreneurs say “If I could only get people to try it!” Convincing customers to try the product for the first time is critical.

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Why try this exercise? Because it gets you thinking about what is special and important about your product and how to gain the consumer's attention. If your product is on a shelf, how will the consumer notice it? When personally selling the product, perhaps at a trade-show or merchant fair, how will you entice consumers to try the product for the first time?

In an elevator pitch you have about 30 seconds to communicate your message with words and non-verbal communication. You won't have thirty seconds at a merchant fair to draw people in to try the product. If the product is sitting on a store shelf, it will have to speak for itself.

Where do you begin? Start with the name of the product. What does it say about the product? You probably won't name your product "The Very Best Salsa You Have Ever Tasted, That I Sunk All My Savings Into, That Is Made From a Recipe That My Great-Grandmother Passed Down From the Old Country" – but you might want to! What could you call it? How about "Grandma Nell's Authentic Salsa" and in smaller letters "made from an Old World recipe".

In addition to the name of the product, you must develop the rest of the label. Does the design of the label capture the essence and feeling of the product? When you think of a few adjectives to describe your company, your product, and your target market, are they the same, or comparable, adjectives someone might use to describe the label?

In the "The Devil is in the Details" case study included later in this guide, the most challenging choices the CEO Club faced were choosing a bottle type, a design for the label, and font style for the brand name. They realized the label is what the consumer notices first when scanning the store shelves. It conveys a great deal about the contents. Much of this is personal preference, but it is helpful to get the opinions of people you trust.

The CEO Club also realized that one of their strengths was their connection to Genesee Community College and the positive feelings people in the community had about the college. How could they communicate that to consumers? Club members mention the story when they are personally selling the product, but how could they tell the story at a retail location? The Club designed a hang tag that goes around the neck of the bottle. The hang tag tells the story and is a good complement to the overall packaging design. You will often see these kinds of tags or sections of a label that talk about the "farm" or the "family story" behind the product. They often include information about the origins of the recipe and the use of traditional ingredients.

The Club added the tag to each bottle with an attractive tie. This was time and labor intensive but avoided the extra expense of having the co-packer add the tags. While the tags are visually effective, with today's "green" trends any extra packaging might be viewed unfavorably by some. You need to weigh the pros and cons of this type of marketing.

Your name, your logo, and any symbols you use in packaging become a part of your "brand". Your brand helps the consumer identify you and differentiates you from your competitors. Your choice of name, logo, and packaging communicate a message about your product. Make sure that you are consistent with that message by using the same styles in your flyers, business cards, signage, clothing, website, social media, and any other auxiliary item you use to help market your product.

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Visit the U.S. Patent and Trademark Office at www.uspto.gov to learn more about copyrighting a name and having your logo become a registered trademark.

The Second “P” of Marketing: Place

How will you get the product to the marketplace? This is also referred to as the distribution network or channel. Chances are you don't have access to a fleet of trucks and can't afford to buy shelf space with a major retailer. Where will you place your product so that the target market can see it and purchase it? Many new entrepreneurs begin by selling products at events, like community or merchant fairs. Consumers attend events because of the number and variety of vendors participating. It gives you a chance to do some personal selling. You can tell the consumer more about the product and explain its features, advantages, and benefits. You can offer samples and gauge the market's response.

The advantages to selling at events include low costs for table or booth space and promotion by the event planners. The larger and more popular events expose you to larger audiences but usually have higher entry fees and may include products that compete with yours. You have to find the right events for your product and get your registration papers submitted properly. Booth accessories such as signage, props, and company clothing make you look established and convey a brand image. Invest in a vendor tent if you plan to do a number of outdoor events.

Consider selling beyond your local community. Internet sales through established online “Stores”, on your own website, or as a part of a group can give you much greater exposure. Please remember however that you must be ready to service these new customers in a timely manner and with a level of service that enables you to develop strong customer relationships. Many new food product entrepreneurs have been overwhelmed by the high volume of internet requests for their product.

The Third “P” of Marketing: Promotion

Ask the question about how someone plans to attract people to their new business venture and usually you will hear the rather generic term “I'll advertise”. What you really want to do is promote your business venture, and advertising is just one component. It is important to understand the many segments involved with promotion because advertising alone can be expensive and sometimes ineffective.

As with marketing, promotion encompasses a number of different components. These components are referred to as the promotion mix. The promotion mix includes public relations, advertising, sales promotion, and personal selling. Public relations is usually considered a free form of advertising. It is communication about your business or product that you do not purchase. Will the local newspaper run a story about your product? Are there local newsletters, both in print and online, in your community that might run a story about you? In the “The Devil is in the Details” case study, the CEO Club donated some of their product to the local Father's Day Fly-In Breakfast. This generated publicity for the club and the product, Apple Cider Syrup, and gave the club positive exposure in the community.

Advertising can quickly consume a budget! Advertising is paid communication and it can come in many different forms. There are newsletters, newspapers, television and radio ads, mailers, phonebooks, Internet ads... it seems there are always new ways to advertise. Before you pay for advertising carefully compare the rates. Think about where your target market looks for information or entertainment and what you want to communicate about your product.

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One of the newest ways to advertise and communicate with your target market is through social networks like Facebook. Social networks allow you to combine your “address book” with the “address books” of everyone you know for a multiplier effect. This concept is very appealing when you think about the number of people you can reach. But remember, just as you throw out junk mail and delete e-mails, others may ignore your message. If your audience isn’t entertained and informed by your communication, you’ll soon find yourself without an audience!

It is easy to create a Facebook fan page. If you are not familiar with Facebook, you likely know someone who can assist you. Carefully plan your postings. What would consumers like to see? Would they enjoy a recipe using your product? Would they like to share recipes with other fans of the product? Would they upload pictures of people enjoying your product? Make it fun and make it worthwhile for the customer! Set a schedule for yourself. Update your page regularly but don’t overwhelm your fans. Be sure to not let your message become stale. It makes the customer wonder if you are still around!

Social networks enable you to take advantage of a phenomenon known as viral marketing. Viral marketing describes any strategy that encourages individuals to pass on a marketing message to others, creating the potential for exponential growth in the message's exposure and influence. Like viruses, such strategies take advantage of rapid multiplication to explode the message to thousands, to millions.³

Personal selling will probably be a large component of your activities, especially in the beginning. Not everyone can envision themselves as a salesperson; many are not comfortable selling. Think about it this way...if you tried something great (a restaurant, a doctor’s office, a breath mint), don’t you want to tell others about it? If you believe in a product, don’t you often recommend it to others? You need to share your passion for your product with others. Everyone finds his or her own style of selling with time and experience.

You can shorten the path to becoming an effective salesperson. Just remember the acronym “FAB” which stands for features, advantages, and benefits. Customers always ask themselves “What’s in it for me?” They are looking for the benefit (i.e. the value). Help them find the benefit by explaining the features and advantages of your product to them in a clear and knowing voice! Sincerity sells itself.

The very best form of advertising is good word of mouth. People trust the good reviews of other consumers that have used your product. Keep in mind that negative word of mouth can be destructive to all of your efforts. Treat each transaction with the level of service that you would expect if you were the consumer! Referrals and momentum will slowly build.

Sales promotion is a catch-all category for anything that isn’t advertising or public relations. It includes coupons, “buy one, get one free” offers, bundle or case pricing, and loyalty cards. These additional efforts may help capture a new customer and build product loyalty. One aspect to be considered in all promotional efforts is building in the ability to capture information about your customers.

Reference:

3. Dr. Ralph F. Wilson, “Six Simple Principles of Viral Marketing”, February 1, 2005, <<http://www.wilsonweb.com/wmt5/viral-principles.htm>>.

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One of the core components of marketing is building relationships with customers. In your promotion efforts, you should capture information from your customers such as: customer name, e-mail address, first time buyer or repeat, and any suggestions or comments they may have about your product.

The Fourth “P” of Marketing: Price

What does the price convey about the product? Consumers expect to pay more for a specialty food item, but how much more are they willing to pay? Is your price what the target market expects? What are your closest competitors charging for their product? All of these are questions you need to ask as you begin to think about pricing your product. The most basic question however is - can you make a profit over time?

The marketing equation of life for consumers is: “Cost versus Benefit = Value”

If the consumer feels the benefits of a product outweigh the cost, he or she finds value in the product. If the opposite is true, if the consumer can't find the benefit to justify the cost, he or she won't find value in the product. Typically if the consumer doesn't find value, the product won't be purchased again.

Maybe you or someone you know likes high end salsas. Some consumers will pay more for these salsas because they find value in them. Others are very happy with a generic store brand salsa but may still purchase a higher end product as a gift. Is there really a difference in taste between the generic and the high end? Is the difference real or based on the look of the label and the price? Many specialty foods are of a superior quality and worth the extra expense to the consumer. Keep in mind the price bracket your product fits into when determining your own price. Price will often convey a perceived value to the consumer that may have little to do with fact! Pricing is discussed in detail in the Operating Your Business section of the guide.

Conclusion

It is time to return to the working definition of marketing: Offering the right product at the right price to the right target market, offering it in a place where the market can access it and promoting it in such a way that the target market can find out about it.

Know your target market. Know your product. When you understand your market and your product, you begin to understand where the consumer will find the value in your product and the reasons he or she will purchase it.

TRADE SHOW TIPS

You have decided to go to a major trade show to see what products directly compete with your product. You also want to learn about the latest market trends. Attending a trade show is a great way to see your competitors and learn what is new in the market, all in one venue. Attending a trade show can save you hours of research.

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Here are some hints to get you ready help you prepare for the show:

- Research the types of shows available that include products similar to yours. One of the largest industry food shows is the Fancy Food Show held twice a year in New York City. It is run by the National Association for the Specialty Food Trade*.
- Be sure to apply for admission well in advance; registration fees will be lower early on.
- You will receive a listing of vendors in advance; take the time to review the list before attending.
- Comfortable clothing and shoes are a must. You will be on your feet for 6-8 hours a day.
- Bring a good supply of business cards.
- Arrive at least 1-2 hours before the show begins. There will be a show book with detailed descriptions of vendors and their products as well as a layout of the building to help you plan your day efficiently.
- Many shows include industry related workshops. These typically require advance registration and involve fees. Review the list to see if any are appropriate for you and plan accordingly.
- Be sure to take an empty tote bag as you will be gathering a lot of information.
- If possible, request to have all printed material sent to you. This will lighten your load.
- Limit sampling. It is important to taste all products related to yours, but the key word here is limits. Take a bite, let your palate work, and throw the rest away. Take notes on all items you taste and packaging materials. Carry a bottle of water and drink after each tasting.
- Halfway through the day, take a break, sit down for lunch, and review the morning.
- Be sure to give your information to every vendor that interests you and ask them to send you their information. Make note of any interesting websites for future research.
- Review all information within a week of arriving home, so it will be fresh in your mind.

* The National Association for the Specialty Food Trade is a not-for-profit business trade association established in 1952 to foster trade, commerce and interest in the specialty food industry. The NASFT is an international organization composed of domestic and foreign manufacturers, importers, distributors, brokers, retailers, restaurateurs, caterers and others in the specialty foods business. As of July 2010, the organization has more than 2,700 current member companies throughout the U.S. and overseas.

Reference: <http://www.specialtyfood.com/about-nasft/>



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ACCOUNTING & RECORD KEEPING

Accounting refers to the procedures used to report on the economic activities and financial condition of a business. The primary economic activities of a business are its revenues and expenses. In simpler terms, accounting is the way that a business keeps score.

This scorecard helps answer both basic and key questions necessary to make important decisions. Is my business profitable? Is my cash flow positive? How much do I owe in taxes? How much inventory should I purchase? Should I expand into new products or markets? Accounting is therefore both a scorecard and a decision making tool.

Record Keeping

To effectively keep score, you will need to apply good record keeping skills. Being a good record keeper means being organized and developing a system that works for you. Remember, your record keeping system will determine how professional you look to your customers, vendors, and potential lenders. Your record keeping system:

- Must be accurate, consistent, & reliable
- Must be easy to use / maintain
- Must keep the IRS /NY Tax Department happy

Businesses can expect to maintain the following basic types of records:

- Sales records – Invoices, sales slips, records by customer, log of monies owed to you by customers (Accounts Receivable)
- Cash receipts – Checks received, cash register tapes and paper receipts
- Vendor/supplier records – List of invoices owed to your vendors / suppliers (Accounts Payable)
- Cash disbursements – Check stubs, receipts or title for assets purchased
- Bank records – Bank statements, deposit slips, copies of cancelled checks
- Payroll records – Employee tax forms, tax reports and payments to government agencies
- Inventory records –Rolling log of activity including items received, sold, and ending balances

Accounting Systems

Manually tracking financial activities can be cumbersome. Using the shoebox method may seem effective at the start but it can be time consuming and costly, particularly if you hire an accountant to pull together the financial reports. Another option is to purchase a computerized accounting system. There are many economical options, including software programs starting at less than \$100. These systems offer user friendly interfaces for entering and tracking these transactions and provide basic financial reporting.

Many local SBDC's offer free or low-cost workshops on popular software packages.

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Basic Financial Reports

The scorecard of a business includes three basic financial reports or statements:

- Balance Sheet – A snapshot of assets, liabilities, and net worth at a particular point of time.
- Income Statement – Summarizes the net income, or profitability of a business over a period of time by presenting revenues less expenses.
- Cash Flow Statement – Summarizes the cash inflows and the cash outflows for a period of time and presents an ending cash balance.

Financial statements provide you with the opportunity to compare your current status to projections and to review trends on a year to year basis. In addition, financial statements enable you to anticipate and plan for months with tight cash flow and to project borrowing needs.

Basic Accounting Terminology

As the listing of financial statements indicates, you will need a general understanding of some basic accounting terminology as you move forward with your business. Here is an explanation of some key accounting terms:

- Assets – Property owned by the business that is used to generate revenues
- Liabilities – Debts owed by the business
- Owner's Equity – The owner's investment; net worth; assets less liabilities
- Basic Accounting Equation: $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$; balance sheet format
- Accounts Receivable – Money customers owe the business; an asset to the business
- Accounts Payable – Money the business owes to vendors; a liability of the business
- Inventory – Assets that will be resold as part of regular business operations
- Revenues – Money earned by the business from normal business activities; generated using assets
- Expenses – Money the business spends to generate revenues
- Net Income = Revenues – Expenses; also called Earnings
- Cash method of accounting – Recognizes revenues and expenses when cash changes hands; chosen by many businesses initially as it is similar to keeping a checkbook; large expenses will distort net income for a given time period.
- Accrual method of accounting – Recognizes income when it is earned and expenses when they are incurred regardless of when cash changes hands; preferable method but requires more detailed analysis of transactions.

Inventory Considerations

One of your key assets will be your inventory. When managing inventory, you need to address the following questions:

- How can I best protect inventory?
- How much product has sold?
- How much cash is tied up in inventory?
- How quickly can product be reordered?
- Are suppliers reliable?
- How long are re-order lead times?

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- Will there be storage costs?
- Are there minimum order sizes or discounts for buying in bulk?
- Is the inventory perishable or could it quickly become obsolete?
- Are processes in place for re-ordering?

Sales Tax

If you sell product(s) in New York State that are subject to sales tax, you are required to collect the tax from the person to whom you make the sale. Taxable sales are sales of tangible personal property and services generally referred to as specifically enumerated services.

The NYS Department of Taxation and Finance Publication 750, *Guide to Sales Tax in New York State*, further defines taxable sales and services. You can contact the NYS Department of Taxation and Finance at 1-800-698-2909 for assistance in determining your requirements.

Some food items are taxable. Contact Taxation and Finance at www.tax.state.ny.us and click on “Sales and Use Tax.” Look for publication 880, *Taxable and Exempt Foods and Beverages Sold at Retail Food Markets and Similar Establishments*, which includes a list of taxable food and beverage items, as well as food stamp information. If you are required to collect sales tax on your direct sales to consumers, including Internet sales to New York residents, you can get your sales tax application online.

If you are required to collect sales tax, you must register as a vendor with Taxation and Finance and obtain a Certificate of Authority. You also must be registered to issue or accept New York State sales tax exemption documents. There is no charge to apply but you must apply at least 120 days before you begin operating your business.

DTF-17 *Application for Registration as a Sales Tax Vendor* is used to apply for your authority. There are three types of certificates issued:

- Regular Certificate of Authority
- Certificate of Authority for Show and Entertainment Vendors
- Temporary Certificate of Authority

You can register by mail by completing and signing a DTF-17 form and mailing it to:

NYS Tax Department
Sales Tax Registration Unit
W A Harriman Campus
Albany, NY 12227

You also can apply online at: <http://www.tax.state.ny.us>

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As a registered vendor, you are required to file a sales and use tax return summarizing your business activities. Failure to do so may result in a penalty being imposed, in the minimum amount of \$50. When you first register, you will be classified as a quarterly filer. Sales tax returns are due no later than 20 days after the quarterly period.

<u>Quarterly Period</u>	<u>Return Due Date</u>
March 1 to May 31	June 20
June 1 to August 31	September 20
September 1 to November 30	December 20
December 1 to February 28	March 20

Deciding to Buy or Lease Equipment

Leasing equipment instead of buying it can be the best option for your business. However, there are many components that need to be considered and reviewed. What are the true costs of the lease? Are there use restrictions? You should be careful of scams. While favorable leases can be a sound financial choice, unfavorable ones can burden a new venture and even live on after the business has ended.

While doing your own legal homework can help prevent bad deals, you should always have a lawyer review all leases before you sign. You can find additional guidance on leasing versus buying on the U.S. Small Business Administration's website at www.sba.gov by performing a search using the keyword "Leasing."

Accepting Credit Cards

Another key consideration is whether to allow customers to make payments using credit cards, which will require that you apply for a credit card account or merchant services. Because this service increases your expenses, you should carefully consider the pros and cons before adding this payment option.

Pros:

- Credit cards are easy to use and make store purchases hassle-free for customers.
- Credit cards enable customers to make impulse purchases.
- Many customers expect a credit option.

Cons:

- Credit cards come with an increased fraud risk.
- Accepting credit cards incurs additional costs.
- Ongoing processing fees range from 1.5% to 3% of the sales amount.
- A terminal is needed to accept credit cards. You can buy or lease a terminal. Prices can vary widely. Shop around and ask other small business owners who they use for merchant services. When considering leasing, be aware that some leases can't be terminated before the end of the lease term, which could be as much as three years in length.
- Other fees, including application and set-up fees, vary by the merchant service provider.
- Accepting credit cards requires additional bookkeeping steps, which should be discussed with your accountant prior to opening a merchant account.

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There are several types of companies that offer merchant services including banks, third party processors, independent sales organizations, associations, and financial service providers such as American Express. Be sure you understand the costs involved before signing anything.

Know Your Numbers & Your Accountant

While record keeping activities and financial reporting may seem overwhelming, following these tips will help you stay on the right track.

- Set up a solid record keeping system from the start and make sure you always track and understand the transactions that impact your business.
- Keep personal and business finances separate. Balance your business bank account at least once per month, even if you are using online banking services.
- Get to know your accountant. To select an accountant, ask for referrals from others in the business community. It is important to maintain a continuous working relationship with your accountant—not just a once a year tax visit. Ask questions and remember that you are ultimately responsible for the quality of your financial information.
- Know your numbers. You know your business better than anyone else and this should include your financial information. By staying close to the numbers, you will reduce the risk of employee theft and fraud.

Accounting and record keeping are tools for managing your business and keeping score. Make sure you are in it to win it!



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CASE STUDY: THE DEVIL IS IN THE DETAILS

Implementation - Getting SCHOLARS Apple Cider Syrup to Market

In 2007, a group of business students at Genesee Community College, participating in a Collegiate Entrepreneurs Organization (CEO) Club, began a journey to "experience" a business start-up. The intent of the project was to create a "real life" experience where students learn by doing. Advised and encouraged by the college's business faculty, student members of the CEO Club (hereafter referred to as "the Club") chose to market a specialty food product, Apple Cider Syrup, under the brand name SCHOLARS. The apple pie flavored syrup could be used on breakfast foods such as pancakes or ice cream and in pork/meat recipes. The product was launched in November 2008 at a promotional pancake breakfast at the college sponsored by the Club. While this is a student project, the Club's process matches that of a for-profit business.

As in all businesses, the marketing, operational, and financial functions of the SCHOLARS brand Apple Cider Syrup business needed to be researched, decisions made, and a business plan written. As with most entrepreneurial endeavors, this was a first time experience for students. Continuous research was required to ensure the best decisions were made. The following case study highlights actual details of the decision making process used to bring SCHOLARS brand Apple Cider Syrup to the marketplace.

Marketing

Identifying Customers & Target Markets

Early on, it was evident that Apple Cider Syrup, a faculty member's family recipe, was not available on grocery shelves and was not familiar to consumers. After multiple student tasting trials, the Club determined the product worthy of creating a business opportunity, but that it should not be sold from a shelf in a national grocery food chain. The syrup should be sold as a specialty gourmet food. The Club determined that they needed to "educate" gourmet consumers about the taste and use of the syrup in order to sell this unknown product. Educating consumers is not unusual when selling gourmet foods. The Club decided to plan sampling as part of its marketing strategy to make sales.

Target market(s) were identified using data from the National Association for the Specialty Food Trade organization, which identified consumers most likely to purchase specialty food products as those with incomes over \$65,000, living in two person households, between the ages of 35 to 44, with no children, homeowners, and college graduates. The Club also identified seasonal gift givers as a target market.

The Club discovered that gourmet food is often sold in specialty food retail stores. One such store near Syracuse is run by the co-packer the Club would eventually use to bottle the syrup. The co-packer agreed via a set-cost marketing contract to represent and resell the syrup to other specialty food retailers throughout NY State. The Club also sold the product to local wineries and farmers' markets. These retail buyers would purchase a minimum of two cases and would be charged a retail price of \$6.00 per bottle to cover the cost of the processor and to ensure profitability for the Club.

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Direct to Consumer Sales

Direct to consumer sales opportunities have been the most important method of distribution for the Club. After two years in the business, over 80% of sales are direct to the consumer. The Club researched potential special events attended by gourmet food consumers. Local events included: fairs, farmers' markets, arts/crafts shows, home shows, fall harvest events and bazaars, pancake breakfasts, and holiday events. The Club felt strongly that they needed to sell the syrup in the fall/harvest season and should also offer the product as a unique gift purchase for holiday gift shoppers. The Club researched appropriate local events and contacted local Chambers of Commerce to find direct to consumer sales event opportunities. The Club participated in several events, including Wyoming County Apple Pumpkin Festival, Genesee County Farmers Market, Batavia - Christmas and Summer in the City events, and Church Christmas bazaars. Some events provide state or national exposure. For example, arts/crafts shows often have exhibitors from outside the region that are members of national associations.

Participation in direct to consumer sales events varied. Most events were scheduled during a weekend. Depending on the event, the costs for event space could range from nothing to well over \$300. Sometimes product donations were required to participate in the event. Event fees depended on the event's size, length, and location. Most offered a 10' X 10' space. Some events supplied 10 ft tables and offered access to an electric outlet. The Club purchased a 10' X 10' "tent" for outdoors events at a cost of \$250. The Club set-up includes a club banner, a table, sales inventory (bottles of syrup), thermos of warmed Apple Cider Syrup for sampling, thawed frozen mini pancakes to be cut in quarter pieces, toothpicks, paper plates, plastic gloves, cash box w/petty cash, clean-up supplies and table top display/decoration.

Product flyers explained the product, and Club business perspectives, and shared product recipes. Direct to consumer sales events usually required two people to work the normal hours of the event; one managing the sampling and the other making the sale. The process of gathering inventory and sales supplies, transporting everything to/from the event, and display set-up and tear-down requires at least an additional two hours of time per event.

Sales to Fund Raisers

Another sales opportunity is using the product as a fund-raiser for non-profit organizations. While this is a "middle-man" situation, the expectation was that sales would increase if the purchase price of the product was reduced. To date, the Club has used fund raising with only one organization in which two cases (24 bottles) were sold. Product was sold to the fund raising organization at the retailer price of \$6.00 per bottle. Fund raising is difficult because non-profits typically do not have the time to support the sampling process required to close the sale, nor do they have the same depth of knowledge about the product.

Pricing: How much will the customer pay for Apple Cider Syrup?

One of the most critical decisions the Club had to make was determining the wholesale, distribution, and retail pricing. The cost of producing the product was the first criteria requiring research and review of competitor products. The Club completed a break even analysis to support the price setting decision. The Club also wanted to make a reasonable profit with business proceeds going to a student scholarship fund.

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All these variables impacted discussion about the right price to sell the product to consumers and to retail middlemen. The Club decided to sell the product direct to consumers for \$9.99 per twelve ounce bottle.

Packaging/Labeling

It was important to choose a product container appropriate for marketing/selling Apple Cider Syrup. It needed to communicate the contents appropriately and also be cost effective. While this process does not sound particularly difficult, the options are so many that selecting the right container and packaging label for the product took time and research.

To choose the right container shape, size and material (plastic or glass), the Club reviewed similar products already on the market. The size of the container impacts the showcasing of the product, its cost, the bottling process, the quality, and safety (tampering). The package even impacts how a consumer uses the product. All such variables needed to be considered before putting the recipe in a container. Reviewing a catalog of container options from a packaging company recommended by the co-packer initiated the process. Bottles were ordered just prior to the processing of the recipe.

The Club ordered 1,200 twelve ounce glass bottles with caps delivered directly to the co-packer for the first order. Club members learned that with the production of specialty food products, smaller batch runs carry higher costs than larger quantities.

Logo & Labeling Decisions

Once the container was selected, the Club focused on designing the container's label. Always consider a logo that is appropriate for the business. Graphic specialists design logos and container labels for gourmet foods based upon the entrepreneur's concepts and industry research, but ultimately it is the entrepreneur's choice based on what he or she wants to convey to the customer. Large corporations often use customer focus groups to select designs, a process that is costly but effective. This is not cost effective for most small businesses. The Club reviewed competitor products and design choices and discussed what the label should convey. The Club selected a high-end but old fashioned bottle look and they have received many comments that their label represents quality. There is no right or wrong choice.

While the design of a label is important, there are label specifications that are required. As previously discussed in this guide, a label must include the logo, company name, a list of ingredients, nutritional information, bottle size/weight, a batch number for tracing, distribution information, and "how to use" instructions. The co-packer recommended that the Club consult the Northeast Center for Food Entrepreneurship located in Geneva, NY for assistance. The Center provided critical product support and developed a Scheduled Process for the syrup. Determining the right words for the label was important, as were decisions on the font type, size, and color of the label wording. The Club compared competitor syrups and other food products to ensure a good presentation of the product and compliance with regulatory requirements.

Other Labeling Considerations - Pride of New York Logo, UPC Code, and Printing Labels

Adding the Pride of New York logo is optional and requires space on the label, so it needs to be planned early in the design. Using the Pride of New York logo is inexpensive (\$25 one-time fee) and provides a broader endorsement of a specialty product from NY State. When visiting specialty food retailers, you will often see this logo, and NYS grocers often have Pride of New York sections. The payback was very

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worthwhile. For more information on the Pride of New York program, refer to the Programs and Resources section of this guide.

A UPC code also is optional. In its second year of business, the Club decided to invest in a UPC bar code for the syrup as a means of providing value to larger specialty retail stores. To date, the Club has not found a good return on the bar code investment of \$750 plus an additional annual fee. The Club needs to sell the product to larger retail stores to provide a good rate of return.

To select a printing company, the Club considered both cost and experience producing food labels. The co-packer provided recommendations, and an electronic file was submitted to some companies for review and pricing quotations. Discussions with the companies focused on the type of paper to be used, label gluing, and the fit with the processing equipment. The printing company selected to produce the labels submitted the Club's label to NYS Department of Agriculture & Markets for review.

The Club was required to make adjustments on the label's bottle weight. Before printing, the Club approved the final set-up and decided on the quantity of labels to be printed. Because the product was made in small quantity batch runs, the cost per label was higher. The Club needed to ensure that the processor's labeling equipment and the labels were compatible. The Club ordered a double-batch run quantity to gain better pricing for higher volume label printing. The Club learned a valuable lesson: to order the smallest batch of labels for first runs, because unforeseen changes in the recipe or instructions may require adjustments to the label. Once the label review was completed, labels were printed and sent directly to the co-packer. 1,200 bottles of Apple Cider Syrup were produced in the first batch run in early October 2008.

Operations: Who will produce the CEO Club's Apple Cider Syrup?

The Club located a co-packer in Central New York that specializes in small batch gourmet food processing. The facility met all kitchen processing requirements, state/federal health department regulations, and processes gourmet food. They also assist gourmet food entrepreneurs by providing marketing assistance.

Club members took a sample of the Apple Cider Syrup and the recipe to the co-packer in December of 2007. They toured the facility and spoke to expert staff members. The Club completed a contractual agreement with the co-packer and paid a minimal fee to begin the process. A co-packing agreement required the Club to obtain a certificate of insurance to hold the co-packer harmless. The co-packer coordinated with suppliers for all recipe ingredients except the Apple Cider. The Club identified the Apple Cider supplier and ensured delivery to the co-packer. The co-packer recommended label printing companies and bottle vendors, created batch run quantities for all of the Cider Syrup recipe ingredients, and provided cost specifications before the Club approved product processing. The co-packer did not guarantee product sales.

During the first tour of the co-packer, Club members shopped in the specialty food retail store. The good news was there were no other products exactly like the Apple Cider Syrup on the shelves! Club members saw competitor products, pricing, and packaging. Research of the competition was critical in determining SCHOLARS' product packaging and pricing.

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Food processing items were finalized including: pH level, production approval with NYS Food Venture Center, and product shelf life based on the syrup being a shelf-stable product. The co-packer then submitted samples of the syrup to the Club for quality review before approving production. The batch run size was finalized at 600 twelve ounce bottles to be shipped twelve bottles to a case.

Early Operational Issues: Quality Control

Club members observed the processing of their product's first batch run at the co-packer. It was interesting to see the large quantity of ingredients placed into two large kettles for cooking. One of the last steps included the automated bottling system and label application. At that point, all the research and decisions became a "real" outcome. Once the bottles were cool enough, food security plastic tamper evident sleeves were added over each bottle cap. The sleeve color was chosen to accent the bottle.

Unexpected product quality issues surfaced with the first batch run. Once the product cooled in the bottle, it was quickly discovered that the finished product was much too thin or liquid in the bottle to be considered syrup and could not be used over breakfast food or ice cream. The product was rejected, and the co-packer recommended that the syrup be re-cooked with more corn starch added to the recipe to improve the product's thickness in the bottle. Additional costs to re-cook and rebottle the product were incurred but no changes were required to the label's ingredient list.

Samples of the re-cooked product were sent to the Club for approval before the entire batch was reprocessed. Once the appropriate amount of cornstarch was added and the thickness of the rebottled syrup was acceptable, over 1,300 bottles of syrup in 12 bottle cases were shipped to the Club. Sales began in early November 2008.

Club members discovered that when planning ingredient quantities for volume processing, the volume of the main ingredient in the recipe does not equal the volume of finished product processed. The finished product outcome volume is the sum of ALL ingredients. The Club needed less apple cider than planned to make the first six hundred batches. Correct amounts of recipe ingredients impacts costs as well as number of bottles of product processed.

The Club sold more than 1,200 bottles of syrup in the four weeks following delivery. Over 90% of these sales were direct to consumers and 10% to local retailers. The product was sold at \$9.99 per twelve ounce bottle. Consumer case purchases were set at \$8.99 per bottle with 12 bottles per case. The Club was so pleased with sales volume that another small batch of 600 bottles was ordered using the adjusted corn starch recipe to ensure optimal thickness. Bottle labels remained from the first run, and getting ingredients and bottles/caps and sleeves for this new batch run was not difficult. The second batch was delivered in mid-December 2008, in time to capture holiday sales.

Sales volumes dropped quickly as the holiday season ended. The Club had less than 600 bottles of syrup left in inventory. Over the period of the next four weeks, the Club discovered that the product had become too thick while sitting in the Club's inventory closet. Feedback from customers over the November and December 2008 sales period indicated that customers were also experiencing "too thick" product condition. The good news was that the product taste was not affected. Once the product was warmed per the label instructions, the product was very edible and delicious. The shelf life of the product was not affected. The problem was the its appearance and difficulty in getting the syrup out of the bottle.

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The Club discussed the "too thick" issue with the co-packer. Customers that had purchased the product were forgiving, with no one asking for a replacement bottle. The fact that the CEO Club was a student group likely negated a recall or replacement of product. A for-profit business would have suffered a financial set-back if it needed to compensate customers or take returns. The Club did not want to sell the too thick batch of syrup to customers.

Modification of the Recipe – Getting it Right!

This modification generated a lot of discussion with the food experts at the NYS Food Venture Center and the co-packer. What was causing the product's consistency to thicken so much over time? Why was it really too thin at the onset? There was discussion about the chemistry of the apple cider used in the product. The cider producers could not guarantee the same species and sugar levels of their cider with each production run. The co-packer recommended using modified food starch as an alternative to corn starch for the syrup to improve the consistency of the end product. The modified food starch was not impacted by the variable sugar content of various species of apples. Multiple trial samples using the new ingredient were reviewed for their taste and visual appeal. The Club agreed to replace the corn starch with the modified food starch, and a third 800 plus bottle small batch was ordered. Changes in the label were required to reflect changes in the recipe causing 600 labels already at the co-packer to be obsolete. Minimal changes in the cost of this new ingredient did not impact the overall cost of the product processing. The co-packer did charge the Club for the new sampling required to resolve the quality thickness issue.

The syrup is currently made with modified food starch. The syrup thickness is now appropriate and the switch has not negatively impacted the syrup's taste or shelf life. The 600 bottles in the "too thick" batch run left in inventory work well for sampling once warmed up, but they won't be sold. This difficult decision turned 600 bottles into an expense but is important to ensure that only quality products are sold to the customers.

In the fall of 2009, the Club introduced a complementary product, SCHOLARS Apple Cinnamon Pancake Mix. The detail decisions required in packaging and processing the specialty pancake mix with apple bits commenced again! The product was delivered to the Club in time for holiday giving. The pancake mix and a bottle of syrup were sold together as a gift pack for \$14.99.

Financial: How much does it cost to bring a gourmet food product to the marketplace?

Estimating costs are always difficult because unpredictable events are likely to occur in the process of bringing a food product to market. Original financial plan costs for the CEO Club's syrup were estimated as noted in the following chart. Notice the difference between the estimated costs and actual costs. As a note, the CEO Club is part of a college - a non-profit entity – that enjoys opportunities not available to for-profit businesses, including reduced costs for insurance, graphic design work, and labor with the use of student volunteers. Profits of the CEO Club are returned to students via student scholarships.

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First Batch Run - Estimated 1,200 Bottles

Estimated VARIABLE Costs for Apple Cider Syrup per Bottle	Actual VARIABLE Costs for Apple Cider Syrup per Bottle
Recipe Ingredients \$.42	Recipe Ingredients \$.32
Apple Cider .34	Apple Cider .38
Processing Cost (Labor) .75	Processing Cost (Labor) 1.50
Bottle/Cap .89	Bottle/Cap & Sleeves .98
Labels .75	Labels .75
Transportation .22	Transportation .25
TOTAL \$3.37	TOTAL \$4.18

Estimated FIXED Costs for Apple Cider Syrup per Bottle	Actual FIXED Costs for Apple Cider Syrup per Bottle
Marketing \$1,000	Marketing \$3,000
Administration \$750	Administration \$1,000
(legal, insurance, fees)	(legal, insurance, fees)
Misc. \$350	Misc. \$350
TOTAL \$2,100	TOTAL \$4,350

The labor costs demonstrated in the actual variable costs column reflect the re-cooking of the first "too thin" batch run of the SCHOLARS Apple Cider Syrup. The major difference in the fixed cost of the syrup was clearly the cost to market the product. Additional costs for events included ordering T-shirts to clearly identify student staff, sampling supply costs, banners and product flyers, and a 10' X 10' tent that cost \$250. Additional costs included the marketing contract with the co-packer and the investment in the bar code at a cost of \$750. Most of the additional marketing costs can be spread over future product batch runs.

New Information: Your Business is a Learning Process

During the research and business plan phase, the entrepreneur assumes that he or she has discovered and become knowledgeable about ALL the necessary information that he or she needs to be successful. That is never the case. There is always new information that requires new decisions that ultimately impact the business, the product, and/or the customer. This is ongoing and very normal. An entrepreneur must adapt to these occurrences and make the appropriate decisions to keep moving the business forward. Hopefully, this part of the entrepreneurial experience does not become overly expensive and negate the success of the new business.

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REGULATORY ROADMAP

As you consider starting your own specialty food business, you will need an understanding of the various regulatory requirements. Two key regulatory agencies within New York State with whom you will have to interact on an ongoing basis include the NYS Department of Agriculture & Markets and your regional or local County Health Department. In addition, there may be some U.S. Food and Drug Administration (FDA) reporting requirements that apply to your business.

Rules and regulations are always subject to change. Accordingly, when it comes to these regulations your first step should always be to contact the agencies to confirm your understanding of the required licensing/permits. A rule of thumb is that if you're dealing with food, you will need a permit from someone. Make sure you understand the rules and regulations that apply to your type of business. To find the contact information for these agencies, check the contact information at the end of each agency summary in the following pages of this guide.

In addition, make sure that you contact your local town and/or village Zoning Board to ask whether you need to obtain a zoning variance to operate a business from your home. A zoning variance is an authorization to allow an exception to certain standards as outlined in a zoning code.

NEW YORK STATE DEPARTMENT OF AGRICULTURE & MARKETS

Website: www.agmkt.state.ny.us

The mission of the NYS Department of Agriculture & Markets is to foster a competitive food and agriculture industry that benefits New York State producers and consumers alike. Their website includes useful information on applicable regulations, responsibilities, and programs they administer. The following pages summarize two topics applicable to your business: licensing and inspections. NYS Ag & Markets' role in facilitating reviews of food label requirements is discussed on page 20-21.

Licensing

Food processing establishments are required to obtain a Food Processing Establishment License (Article 20-C license) from NYS Ag & Markets. As of July 2010, the fee for this license, which covers up to a two year period, is \$400. A food processing establishment is defined as any place that receives food or food products for the purpose of processing or otherwise adding to the value of the product for commercial sale. It includes, but is not limited to, bakeries, processing plants, beverage plants and food manufactories.¹ There is an exemption for some home processors, as discussed on the next page. Licenses are location specific. You may not transfer your license if you change processing facilities, the fees for the license period will not be prorated, and there are no refunds.

A complete listing of foods subject to the requirements is included on the NYS Ag & Markets website. At the website, select 'Licensing & Registration' from the left hand menu, then select 'Food Establishment', and choose 'Description of Food Processing' under the Article 20-C discussion. The approval process for your license should take two to four weeks.

Reference:

1. "Article 20-C Licensing of Food Processing Establishments",
<http://www.agmkt.state.ny.us/FS/industry/04cirs/Art20CLicofFooCIR951.pdf>

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An Article 20-C application may be obtained and submitted in one of three ways:

- Obtain a copy of the application from the local inspector or go to the NYS Ag & Markets website and click on Licensing and Registration in the left column to download a copy of the *Food Processing Establishment License Application*. Complete the application and submit it by mail to the NYS Ag & Markets with payment of \$400.
- Apply using E-licensing on the NYS Ag & Markets website by selecting 'Licensing & Registration' from the left hand menu, then selecting E-licensing, and then Food Processing Establishment License.
- Apply using the NYS Online Permit Assistance and Licensing (OPAL) website at www.nys-opal.com. Online applications may be obtained by selecting Online Applications from the menu on the left side of the home page and selecting Department of Agriculture & Markets. The License is included in the listing of online applications. OPAL will electronically submit your application to the NYS Ag & Markets. This is the fastest way to receive an approval. For more information on the OPAL website, refer to the Resource Listing on page 65.

Licensing Exemption for Home Processors

Processors of home processed foods, that sell or offer for sale such foods, may be exempted from the licensing requirements of Article 20-C, provided that the following conditions are met:

- All finished product containers are clean, sanitary, and properly labeled. For additional guidance on keeping containers sanitary, go to the NYS Ag & Markets website at www.agmkt.state.ny.us and perform a search using the key words 'Circular 933 – *Good Manufacturing Practices*.'
- All home processed foods produced under this exemption are neither adulterated (contaminated) nor misbranded.
- Glass containers for jams, jellies, marmalades and similar products are equipped with suitable rigid metal covers.

In order to protect public health and to minimize the potential of food product adulteration, this exemption is restricted to the following non-potentially hazardous home processed foods:

- Bakery products, i.e., bread, rolls, cookies, cakes, brownies, fudge, and double-crust fruit pies for wholesale marketing or retail agricultural venues such as farms, farm stands, farmers' markets, green markets, craft fairs and flea markets.
- Traditional fruit jams, jellies, and marmalades
- Spices or herbs
- Snack items such as popcorn, caramel corn and peanut brittle
- Candy (excluding chocolate) – tempering chocolate for molding/dipping is not allowed.

In addition, you should take note of the following clarifying points:

- Internet sales are not allowed under this exemption. If you sell your product over the Internet, you are subject to the Article 20-C licensing requirements.
- Any finished food product that requires refrigeration is not allowed to be produced by a home processor. Items not allowed include, but are not limited to fruit/vegetable breads, relishes, pickles, cheesecakes, vegetable oils, wine jellies, and butters.

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- Home processors whose residences contain separate segregated facilities for food processing, may apply for licensing under Article 20-C.
- Home grown unprocessed raw produce does not require a home processing exemption.
- All operations should consult with their local zoning officials before beginning operations.²

This exemption relates only to Article 20-C licensing. The exempt firm will be subject to inspection by the Department of Agriculture & Markets as discussed in the section on Inspections. For more details, please contact the nearest regional office (contact information provided at the end of this section).

Food Safety Course

NYS Ag & Markets requires certain operators to take a food safety education course. This requirement only applies to retail stores and businesses with greater than \$3 million in annual sales. While this requirement may not apply, you should consider taking this course as it is very informative. It is available online at a reasonable cost. Courses are often available through local health departments.

Inspections

Food processors meeting the requirements of Article 20-C licensing are subject to annual inspections. Inspections are unannounced and performed by local inspectors. However, if you are renting time in a commercial kitchen, the inspection will be scheduled because it has to occur while you are processing food. Inspections for home processors are discussed separately below.

Inspections include the following:

- Review of facilities for current good manufacturing practices, i.e. sanitation.
- Review of Scheduled Process documentation for applicable products - Shelf-stable foods and foods that are vacuum packaged require a scheduled process, which is defined on page 15 of this guide. Frozen or refrigerated foods do not require a scheduled process. Failure to have a scheduled process will result in an inspection violation.
- Review of licensing documentation – It is important to keep a copy of your Article 20-C license for your records. Many processors mistakenly schedule an inspection before obtaining their license. If this happens, the local inspector will provide the licensing application at the time of the first inspection. The business owner has 60 days after the first inspection to obtain the license. If a license is not obtained within this 60 day window, the processor is subject to a \$600 penalty for operating without a license. After 120 days, the penalty increases substantially to \$1,200.

Inspection Report

The inspector will provide you with an inspection report that will include any violations discovered. The inspection process provides food producers 60 days to remediate the violation, at which time the follow up inspection is performed. The inspector will provide you with guidance on how to best remediate the violation. A penalty may be imposed at the first failed inspection, at the discretion of NYS Ag & Markets, for grievous violations such as spoiled food. For routine violations, a penalty and fine of \$600 is only imposed after the second failed inspection.

Reference:

2. "Home Processors", <http://www.agmkt.state.ny.us/FS/consumer/processor.html>.

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The fines increase with subsequent failed inspections. After five failed inspections, the information is forwarded to the legal department for the next appropriate action, including possible revocation of the license.

The most common violation is equipment not being properly cleaned. Equipment should be disassembled and cleaned on a daily basis.

Inspections for Home Processors with an Exemption

Home processors who are exempt from the licensing process should register with NYS Ag & Markets for a one-time inspection. Most farmers' markets and other venues require that you provide a copy of this inspection report entitled "Home Processing Exemption Inspection Report" before you sell your goods. The Farmer's Market Federation of New York includes this report on their checklist of required documentation. This checklist can be found in Appendix B.

The home processor inspection includes examining the cleanliness of the facility, inspecting the storage and refrigerator, and review of the potable water results if the home has a well rather than municipal water. There is no fee associated with this inspection other than water testing, if it is required. Additional inspections may be performed if NYS Ag & Markets receives complaints. Every two years, a home processor will receive a letter asking them to confirm that their exemption is still valid. Processors of homemade foods that have an exemption are required to obtain a permit through their regional or local county health department and are therefore subject to local health department inspections. The next section of this guide contains a discussion of health department requirements.



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For further information, you may contact the NYS Department of Agriculture & Markets at 10B Airline Drive, Albany, NY 12235; Phone: 1-800-554-4501 or 518-457-1215; or email them using the Contact Us link on their website at www.agmkt.state.ny.us. In addition, you may contact the regional offices at the numbers and addresses below.

BUFFALO (716) 847-3185

Electric Tower Bldg.

535 Washington Street - 2nd Floor, Suite 203

Buffalo, NY 14203

For Counties: Erie, Cattaraugus, Chautauqua, Genesee, Niagara, Orleans, Wyoming

ROCHESTER (585) 427-2273

900 Jefferson Road Suite 1200

Rochester, NY 14623

For Counties: Allegany, Cayuga, Chemung, Livingston, Monroe, Ontario, Schuyler, Seneca, Steuben, Tioga, Tompkins, Wayne, Yates

SYRACUSE (315) 487-0852

New York State Fairgrounds Art & Home Center

581 State Fair Blvd.

Syracuse, NY 13209

For Counties: Broome, Chenango, Cortland, Delaware, Dutchess, Franklin, Herkimer, Jefferson, Lewis, Madison, Oneida, Onondaga, Orange, Oswego, Otsego, Putnam, Rockland, St. Lawrence, Westchester

ALBANY (518) 457-5459

10B Airline Drive

Albany, NY 12235

For Counties: Albany, Clinton, Columbia, Essex, Fulton, Greene, Hamilton, Montgomery, Rensselaer, Saratoga, Schenectady, Schoharie, Sullivan, Ulster, Warren, Washington

METRO NEW YORK & LONG ISLAND (718) 722-2876

55 Hanson Place,

3rd Floor, Room 378

Brooklyn, NY 11217-1583

For Counties: Bronx, Kings (Brooklyn), Nassau, New York (Manhattan), Queens, Richmond (Staten Island), Suffolk

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NEW YORK STATE REGIONAL/LOCAL COUNTY HEALTH DEPARTMENTS

The NYS Department of Health administers a statewide sanitary code for food service establishments through the local county health departments. The focus of the regional or local county health departments is typically restaurants and food service establishments and food processing falls under the NYS Department of Ag & Markets.

When home processors eligible for the licensing exemption receive their letter from NYS Ag & Markets as described in the previous section, a common misconception is that their business is not subject to further regulation. However, a home processor that has an exemption under the NYS Ag & Markets licensing process then becomes subject to meeting the standards of the NYS Sanitary Code enforced by the regional or local county health departments. As such, home processors are required to obtain a permit from their regional or local county health department and are subject to their regional or local county's health inspection process.

Permit Process

The application for a permit is typically a two page document. Home based processors will have an inspection performed of their workspace as part of the permit approval process. It can take up to three weeks for a permit to be approved.

The permit system operates using risk ratings, and fees for permits vary depending on the risk associated with the food service or process. The risk is assigned based on characteristics such as the amount of pre-preparation and temperature changes required to process or serve the food.

To ensure compliance with the NYS Sanitary Code, regional or local county health departments will perform a plan review of the kitchen facility. This plan review includes reviewing a sketch of the work area and the menu of foods to be prepared. A pre-operation inspection also is performed.

You should contact your regional or county health department for a copy of the NYS Sanitary Code, which is the minimum standard for all counties within NYS, an application for a permit, and a fee schedule as these may not be available online. For a listing of New York State local health departments by county with links to their websites, go to www.nyhealth.gov/nysdoh/lhu/map.htm. In addition, be sure to ask your regional or county health department if they provide a summary of food service guidelines - a cliff notes version of their sanitary code.

One outcome of the permitting process is that you most likely will find that extensive modifications are required to bring your home kitchen into compliance with the NYS Sanitary Code. It is very difficult to get permission to make food products in your home. You cannot use the same preparation areas, storage areas, and cooking equipment that you use for your family's food preparation. Be sure to ask your local health department before you begin any work from your home!

A viable alternative is to move operations to a facility that already has a permit. This alternative is a great way to test out your business before investing in major renovations. If you're renting space through a facility with an approved permit, you'll still need to obtain a separate permit. (i.e. If a baker produces goods at a fire house or church kitchen that has an established permit, a separate permit is still required.)

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Regional or county health inspectors typically find people operating without a permit by reviewing advertised events and performing follow up on any food vendors at these events. In addition, the regional or county health departments may identify people operating without a permit through complaints or anonymous calls.

Inspection Process

Facilities subject to permitting by their regional or local county health department also will be inspected at a minimum of once per year. Inspections are unannounced and may occur more frequently than once per year. Violations are written up on inspection reports.

Violations are coded as either critical (red) or non-critical (blue). Examples of critical violations include food with mold or temperature issues. Critical issues are required to be remediated within two weeks, at which time a follow up inspection will occur. In some instances, the inspector may require that the violation be remediated immediately while the inspector is on site. If violations are not remediated within two weeks, business owners may be fined and subject to a pre-hearing process. Depending on the outcome of the pre-hearing and subsequent hearing processes, a business faces the possibility of having its permit revoked. Typical non-critical issues include cleanliness and garbage storage. For non-critical violations, a follow up inspection occurs at the discretion of the inspector.

Food Safety Courses

Many regional or local county health departments offer a food safety training course. This food safety training course explains the importance of establishing and maintaining food safety procedures as described in the NYS Sanitary Code and provides education on ways to eliminate common problems discovered in inspections. Contact your regional or local county health department for more information on the availability of this training. Take advantage of this resource!

Contact Information:

The NYS Department of Health website is www.nyhealth.gov/. For a listing of NYS local health departments by county with links to their websites, go to www.nyhealth.gov/nysdoh/lhu/map.htm

U.S. FOOD AND DRUG ADMINISTRATION (FDA) REQUIREMENTS

FDA Guide: What You Need to Know About Registration of Food Facilities.

“This guide is intended to help any entity, regardless of size, to comply with the regulations that require domestic and foreign facilities that manufacture/process, pack, or hold food for human or animal consumption in the United States to register with FDA.”¹ The booklet was created to inform domestic and foreign food facilities about the new food facility registration law and regulations. The complete guide can be found on the FDA’s website at www.fda.gov. At the main FDA page, type “Registration of Food Facilities” into the Search Box.

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Please note: If your facility is involved in one of the following activities, it does NOT have to register with FDA (as of the summer of 2010):

- Private residences of individuals, even though food may be manufactured/processed, packed, or held in them.
- Non-bottled water drinking water collection and distribution establishments and structures, such as municipal water systems.
- Transport vehicles that hold food only in the usual course of their business as carriers.
- Farms — i.e., facilities in one general location devoted to growing and harvesting crops (washing, trimming outer leaves, and cooling produce are part of harvesting) and/or raising animals (including seafood). The term “farm” also includes facilities that manufacture/process, pack, or hold food, provided that all food used in those activities is grown, raised, or consumed on that farm or another farm under the same ownership.
- Restaurants — i.e., facilities that prepare and sell food directly to consumers for immediate consumption, including pet shelters, kennels, and veterinary facilities that provide food directly to animals. Facilities that provide food to interstate conveyances, such as commercial aircraft, or central kitchens that do not prepare and serve food directly to consumers, are not restaurants for purposes of the rule.
- Retail food establishments, such as groceries, delis, and roadside stands that sell food directly to consumers as their primary function, meaning that annual food sales directly to consumers are of greater dollar value than annual sales to other buyers.
- Nonprofit food facilities, which are charitable entities that meet the terms of § 501(c)(3) of the Internal Revenue Code and that prepare or serve food directly to the consumer or otherwise provide food or meals for consumption by humans or animals in the U.S. This includes central food banks, soup kitchens, and nonprofit food delivery services.
- Fishing vessels that harvest and transport fish. Such vessels may engage in practices such as heading, eviscerating, or freezing fish solely to prepare the fish for holding on board the vessel and remain exempt.
- Facilities regulated exclusively and throughout the entire facility by the U.S. Department of Agriculture, that is, facilities handling only meat, poultry, or egg products.

How to Register Your Facility

Registrants must use Form 3537 to register or update a registration. This form is available online and in paper form. You can save time by registering online at www.access.fda.gov. This website offers online help and operates 24 hours a day, seven days a week.

FDA Guide: What You Need to Know About Establishment and Maintenance of Records

“This guide is intended to help any entity, regardless of size, to comply with the regulations that require domestic persons in the U.S. who manufacture, process, pack, transport, distribute, receive, hold, or import food for human or animal consumption, or foreign persons who transport food within the U.S., to establish and maintain records needed to identify the immediate previous sources and immediate subsequent recipients of food.”² The guide can be found on the FDA’s website at www.fda.gov. At the main FDA page, type “Maintenance of Records” into the Search Box.

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For non-transporters, i.e., persons who own food or who hold, manufacture, process, pack, import, receive, or distribute food for purposes other than transportation, the records have to:

Identify the immediate non-transporter previous sources, whether foreign or domestic, of all foods received, including:

- The name of the firm, address, telephone number, fax number and e-mail address, if available
- Type of food, including brand name and specific variety (e.g., Brand X cheddar cheese, not just cheese; romaine lettuce, not just lettuce)
- Date received
- Quantity and type of packaging (e.g., 12 oz. bottles)
- Identify the immediate transporter previous sources, including the name, address, telephone number – and, if available, fax number and e-mail address. Persons who manufacture, process, or pack food also must include lot or code number or other identifier, if the information exists.

Identify the immediate non-transporter subsequent recipients of all foods released, including:

- The name of the firm; address; telephone number; fax number and e-mail address, if available
- Type of food, including brand name and specific variety
- Date released
- Quantity and type of packaging
- Identify the immediate transporter subsequent recipients, including the name, address, telephone number – and, if available, fax number and e-mail address. Persons who manufacture, process, or pack food also must include lot or code number or other identifier, if the information exists.
- Information that is reasonably available to identify the specific source of each ingredient that was used to make every lot of finished product.

Reference:

1. *What You Need to Know About Registration of Food Facilities*, a publication of The U.S. Food and Drug Administration, November 2003.
2. *What You Need to Know About Establishment and Maintenance of Records*, a publication of The U.S. Food and Drug Administration, November 2003.

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PROGRAMS AND RESOURCES

PRIDE OF NEW YORK PROGRAM

The NYS Department of Agriculture & Markets “Pride of New York Program” was developed to promote and support the sale of agricultural products grown and food products processed within New York State. The Program’s growing membership now includes farmers and processors, retailers, distributors, restaurants and related culinary and support associations - all working together to promote wholesome, quality New York State products.¹ As of July 2010, the Pride of New York Program had more than 2,500 members and receives approximately 20+ new applications per month.

Food and agricultural products produced in New York State or food products processed in New York State, including beer and wine, are eligible for participation in the program as long as the products meet or exceed applicable requirements of New York State and federal laws. For a listing of approved products, go to the website at www.prideofny.com and select Join Pride of New York and then Product Standards. To apply for the program, participants must submit an application and a one-time fee of \$25.00. This fee covers all eligible products of the business. The timeframe to process an application is 14 days.



Participants in the program use the Pride of New York logo on their products. This logo identifies to consumers products that are top-quality, fresh, wholesome, and healthy. The Program offers point-of-purchase materials at no charge, but supplies are limited. Members aren't required to use the logo (downloadable) but it's highly recommended.

The application and payment may be mailed to:
NYS Dept. of Agriculture & Markets, 10B Airline Drive, Albany, NY 12235
ATTENTION: Pride of New York Program

If accepted by the Department into the Pride of New York Program, participants must pay the initial fee and abide by the following requirements:

- The Pride of New York logo must only be used on products, containers/packaging, or marketing materials that meet the following requirements: a) agricultural products grown as well as food products processed or produced within New York State and b) meet the standards.
- Retail displays of products maintained by the program participant must be kept clean and orderly.
- Participants must maintain records concerning the use of the logo and allow the Department to examine such records.
- A private logo or mark must not be misleading or detract from the Pride of New York logo or Program in any way, as determined by the Department solely. In the event that the Department gives notice that the logo used has been found to not be in compliance, the Participant must immediately end such use or modify it to the Department’s satisfaction.

It is not a requirement that every product have 100% of its ingredients sourced from New York as there will be instances where the ingredients may not be available within New York. The Program relies on its members to represent their products appropriately. The Program is set up to be a marketing and promotional program rather than a regulatory one.

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Contact Information: To find the application, product standard listing, and logo downloads, select the Join Pride of New York option in the menu listing on the left hand side of the Pride of New York's website: www.prideofny.com. For further information, contact the Pride of New York Program at 10B Airline Drive, Albany, NY 12235; Phone: (800) 554-4501 or (518) 457-7229 or email to prideofny@agmkt.state.ny.us

THE NORTHEAST CENTER FOR FOOD ENTREPRENEURSHIP AT THE NEW YORK STATE FOOD VENTURE CENTER

The Northeast Center for Food Entrepreneurship at the New York State Food Venture Center provides comprehensive assistance to beginning and established food entrepreneurs to promote the sustainable economic development of rural communities. In conjunction with the New York State Agricultural Experiment Station at Cornell University located in Geneva, NY, the Center offers services, outreach, and research development opportunities in four critical areas: process development, product safety, process/product technology transfer, and product commercialization.¹ The Center serves New York State. Requests from other areas are accepted upon availability of resources on a cost recovery basis.

The Center assists entrepreneurs by providing educational materials, workshops, direct assistance, and referrals to appropriate organizations, in the following areas:

- Food Entrepreneurship Courses
- Product Process Development
- Product Safety Evaluation
- Linkages to Business Assistance
- Guidance in Local, State and Federal Regulatory Compliance
- Referrals to Local Suppliers and Service Providers

Every year the Center receives over 1,000 requests for assistance and provides in-depth support to 200 entrepreneurs to ensure the safety and commercialization of over 500 food products. The majority of those who call the Center and use their services are small-scale specialty food producers and farmers. The Center works with entrepreneurs that are processing shelf-stable fruits, vegetables, and some meat products. The Center provides referrals for processors that work with fish and dairy.

The primary work of the Food Venture Center is to serve as a Process Authority. In NYS, food processors are required to have product process approval (scheduled process) for certain food items, and the US Food and Drug Administration requires product process review for acidified foods. While compliance with these agencies does not ensure business success, it is required for a food processing business to operate.

The Center has found that the biggest issues food entrepreneurs encounter as they get started include funding, lack of business plans, and production space or co-packer availability. A listing of contact information for small co-packers and commercial kitchens in New York State may be found at the Center's website under the heading "Small Co-packers and Commercial Kitchens."

SELLING FOOD PRODUCTS: BUSINESS PLANNING GUIDE

The Center offers the following advice to beginning entrepreneurs in the specialty food industry. Research the market of your product before launching it. Test the product beyond family and friends before making a big money investment. Be prepared to invest your own money and time in the production, distribution, and marketing of your product.

The Center has published a great resource entitled *Small Scale Food Entrepreneurship: A Technical Guide for Food Ventures*, which can be requested by visiting the Center's website.

Contact Information: Website: www.nysaes.cornell.edu/necfe

For further information, you may contact the Center at 630 W. North Street, Geneva, NY 14456; Phone: 315-787-2273 or Fax 315-787-2397 or email them at necfe@nysaes.cornell.edu.

NELSON FARMS AT MORRISVILLE STATE COLLEGE

Nelson Farms is a not-for-profit co-packer able to manufacture product on a larger scale for a fee. Nelson Farms works with specialty food processors, farmers, growers, and producers by offering commercial equipment, professional staff, and the ability to buy ingredients and packaging at a lower cost than a small individual producer. Nelson Farms assists with taking a recipe from idea to reality.

Nelson Farms provides a range of services including: processing/co-packing, product development, dairy incubator, distribution, marketing and sales, education and training. The facility offers an on-line course for Food Safety that is approved by the New York State Department of Agriculture and Markets for establishments with a 20-C processing license. The facility operates a retail country store on site in Nelson, NY and an online store at www.nelsonfarms.org.

Nelson Farms refers clients to the Northeast Center for Food Entrepreneurship at the New York State Food Venture Center for food science and scheduled process work. It is important to note that once a client has an established scheduled process and printed labels, Nelson Farms is required to follow the scheduled process during their production of the client's product. The reason for this is not only consistency in the finished product, but also to ensure that the ingredient list and the nutritional facts (if on the label) match with what is actually contained in the product and in the proportions as laid out in the scheduled process.

Nelson Farms meets all requirements of the U.S. Food and Drug Administration and the New York State Department of Agriculture & Markets. Inspections by both agencies occur on a regular basis. In addition, Nelson Farms has several employees who that have attended the Better Process School, which enables them to oversee production of acidified products.

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Nelson Farms provides a complete packet of information to new potential clients that want to take their recipe to the marketplace. Included in the packet are items such as:

- A contact list for vendors of required items such as bottles, labels, insurance, scheduled process, UPC codes, etc.
- Information on NY State labeling laws
- Nelson Farms fee schedules
- Information on Nelson Farms' policies and procedures such as Good Manufacturing Practices, what is required prior to their first production along with at time line, not changing the recipe during production, etc.

Nelson Farms works with many entrepreneurs in the specialty food business and is always interested in forming new relationships with those who wish to make their specialty food dreams a reality.

Contact Information:

Nelson Farms

3261 Route 20 Cazenovia, NY 13035

Website: www.nelsonfarms.org

Phone: 315-655-8831 or Fax 315-655-8847.

For more information, contact Dave Evans, Director, by email at evansdl@morrisville.edu.

THE SYRACUSE COMMUNITY TEST KITCHEN

The Syracuse Community Test Kitchen (COMTEK) is a project of the Whitman School of Management at Syracuse University. It supports new and existing food entrepreneurs with training and guidance to commercialize home recipes. New Entrepreneurs receive training in the areas of commercialization, from the development process of formulating scratch recipes into full scale-up production formulas, marketing, sales, and distribution. Food entrepreneurs that want to grow their business to the next level of profitability are offered a variety of training programs and culinary product improvement sessions.

The goal of the Community Test Kitchen is to help entrepreneurs create new products that are profitable. Participants are trained in the areas of business planning, market research, recipe development, sensory analysis, and FDA requirements while working in the Test Kitchen. The Test Kitchen also serves as a shared-use rental kitchen for food producers and caterers. The Test Kitchen has a variety of commercial grade pieces of equipment. To learn more, go to their website at <http://comtek.syr.edu/>.

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RESOURCE LISTING & RELATED WEBSITES

New York State:

NYS Small Business Development Center – www.nyssbdc.org

NYS Department of Agriculture & Markets – www.agmkt.state.ny.us

NYS Online Permit Assistance and Licensing – www.nys-opal.com

New York State provides a helpful website to help you access information about special permits by industry. Enter Specialty Foods in the Business Type Search at the bottom left hand side of the home page. Answer a series of questions and you will be provided with a series of useful links, including links for the online applications, business structure links, and other useful information sheets.

NYS Department of Taxation & Finance – www.tax.state.ny.us

This website provides access to NYS tax publications, instructions, and forms.

NYS Department of Health - www.nyhealth.gov

For a listing of New York State local health departments by county with links to their websites, go to www.nyhealth.gov/nysdoh/lhu/map.htm

Northeast Center for Food Entrepreneurship at the NYS Food Venture Center (NECFE) - www.nysaes.cornell.edu/necfe

NECFE provides comprehensive assistance to beginning and established food entrepreneurs. This website includes information on business and marketing, product assistance, and regulatory updates.

Federal Government:

U.S. Small Business Administration - www.sba.gov

This website provides information on the programs offered to start-up and existing businesses including resources on business planning, marketing, and financing.

U.S. Food & Drug Administration (FDA) – www.fda.gov

Food Safety.Gov - www.foodsafety.gov

FoodSafety.gov is the gateway to food safety information provided by various federal government agencies including the FDA, Food Safety and Inspection Service, and Centers for Disease Control and Prevention. In addition to providing highlights of recent food safety news from these various agencies, the website provides guidance on inspections/compliance and educational training materials.

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Associations & Other Resources:

***Cornell Cooperative Extension* – <http://cce.cornell.edu>**

Cornell Cooperative Extension is a key outreach system of Cornell University that offers programs in five broad areas: Agriculture & Food Systems; Children, Youth, & Families; Community & Economic Vitality; Environment & Natural Resources; and Nutrition & Health.

***Syracuse Community Test Kitchen* – <http://comtek.syr.edu>**

Syracuse Community Test Kitchen (COMTEK) is a project of the Whitman School of Management at Syracuse University. Located within the South Side Innovation Center, it supports new and existing food entrepreneurs and provides guidance to the commercialization of home recipes. Extensive training programs are available.

***Nelson Farms* – www.nelsonfarms.org**

Nelson Farms provides entrepreneurial agri-business opportunities for specialty food processors, farmers, growers, and producers. Opportunities include: processing/co-packing, product development, dairy incubator, distribution, marketing and sales, processing, distribution, education and training, and inclusion in their country store.

***National Association for the Specialty Food Trade (NASFT)* – www.specialtyfood.com**

This organization is a not-for-profit business trade association established in 1952 to foster trade, commerce and interest in the specialty food industry. The NASFT is an international organization composed of domestic and foreign manufacturers, importers, distributors, brokers, retailers, restaurateurs, caterers and others in the specialty foods business. As of July 2010, the NASFT has more than 2,700 current member companies throughout the U.S. and overseas. The NASFT hosts two annual trade shows that connect 45,000 motivated buyers with 250,000 specialty food products. As of July 2010, an initial membership requires a submitted application and a \$100 annual fee.

***Small Scale Food Processors Association of New York* – www.nyssfpa.com**

This association was initially organized in response to the changing business climate facing New York family farms. The association is now organized to represent small-scale food processors across 11 regions within New York State. Working together, members in this association work to conduct joint marketing and have access to specialty food shows, provide mentoring to new processors and those considering starting up businesses, purchase cooperatively, advertise together and assemble directory information, access food processing and small business technical assistance, showcase companies on their website. The cost of an annual membership is \$30.

***Food Export USA - Northeast* – www.foodexportusa.org**

This is a non-profit organization that promotes the export of food and agricultural products from the northeast region of the U.S. The organization has been helping exporters of northeast food and agricultural products sell their products overseas since 1973. Food Export USA, in conjunction with its member states, provides a wide range of services to facilitate trade between local food companies and importers around the world. These services include: export promotion, customized export assistance, and a cost-share funding program. These services assist U.S. exporters with exporter education, market entry, and market promotions. To learn more, visit their website or contact them at 215-829-9111.

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Retail Bakers of America - www.retailbakersofamerica.org

The Retail Bakers of America (RBA) is a not-for-profit, national association representing the baking industry. The RBA works to connect buyers and sellers to build profitable bakeries. Together with its members, the RBA creates industry-specific training programs and develops small business programs. The RBA provides a forum for exchange of industry and business information, as well as networking, learning opportunities and mentoring among bakers, future and existing. As of July 2010, individuals considering, or in the process of, opening a retail bakery, pastry shop, or decorating business may become a member of the RBA by submitting an application and an annual fee of \$50.

Food from New York - www.foodfromnewyork.org

Food from New York is an initiative to help strengthen the food manufacturing sector within New York City. Funded through a not-for-profit organization called the New York Industrial Retention Network (NYIRN), Food From New York provides free services to food manufacturers of all sizes to help them grow and create jobs. Their website provides helpful information for manufacturers, distributors, service providers, and buyers looking for diverse quality food items made locally in New York City. The website content is free and includes directories of local distributors, co-packers, food brokers, and consultants.



SELLING FOOD PRODUCTS: BUSINESS PLANNING GUIDE

ACKNOWLEDGMENTS

Lynn Oswald, Director of the Small Business Development Center (SBDC) at Niagara County Community College (NCCC), coordinated the development of this guide through the expertise of many individuals. The NCCC SBDC wishes to thank the following for their hard work and contributions:

Martin Butts: Owner and operator, Small Potatoes Sales & Marketing, a sales firm working exclusively with small scale food and body care producers in Central New York. He is the Director of the Syracuse Community Test Kitchen, assisting aspiring food entrepreneurs to commercialize their recipes.

Amy Conley: Instructor of Accounting at Genesee Community College (GCC). She has more than 15 years experience in the fields of accounting and business, and previously served as the chief financial officer for a major subsidiary of a publicly held company for eight years. Amy is a certified public accountant and has experience in both auditing and taxes.

Loretta Kaminsky: President of Loretta Kaminsky & Friends, gourmet food specialists and consultants. Loretta was the previous owner of Lou-retta's Custom Chocolates for 25 years. She is the current Chair of the New York State SBDC Advisory Board. She is a recipient of the Governor's Award for Excellence in Business.

Lauren Paisley: Assistant Professor of Business at Genesee Community College (GCC) where she has taught for the past 8 years. She is the 2010 recipient of a SUNY Chancellor's award for Creativity and Scholarship in the classroom. She is also an adjunct faculty member at Buffalo State College, teaching classes in sales methods and sales management.

Mark Mistriner: Professor, Culinary Arts at Niagara County Community College for 16 years, the last eight as coordinator of the Culinary Arts Department. He is certified as an Executive Chef thru the American Culinary Federation and the Vice President of M2 Food Service Consultants, which provides complete guidance to food service operations; from concept to day-to-day operations.

Barb Shine: Business & Entrepreneurship Faculty member at Genesee Community College. She has been instrumental in implementing a "students in business" project for students at the college over the past three years. Her background includes more than 20 years in multiple business management experiences.

Thanks also to the following individuals and organizations for their contributions to this manual.

- Ms. Cheryl Leach, Extension Support Specialist at the New York State Food Venture Center
- The Northeast Center for Food Entrepreneurship at the New York State Food Venture Center
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- Michelle Cerone, Owner of Naturally Nuts
- Environmental Health Division of the Niagara County Health Department
- New York State Department of Agriculture & Markets
- The Team at Nelson Farms at Morrisville State College
- Thomas Morley, Director of the Rockland Community College SBDC
- The staff of NCCC SBDC, especially Pauline Soeffing and Angela Brown

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APPENDIX A

NEW YORK STATE FOOD LABELING

The following pages are a brief summary of the labeling regulations governing foods offered for sale in New York State. It is not meant to be all inclusive of all of the labeling requirements. It is strongly suggested that labels be submitted to this agency NYS Department of Agriculture & Markets for review prior to printing.

For specific information write to:
State of New York Department of Agriculture & Markets
Division of Food Safety and Inspection, Attn: Economic Section
10B Airline Drive, Albany, NY 12235
FSI-514 (Revised 5/01)

Website Reference: www.agmkt.state.ny.us/FS/pdfs/FSI514.pdf

Five Basic Label Requirements:

1. Identity of Food in Package Form
2. Name of Manufacturer, Packer or Distributor
3. Place of Business
4. Ingredient Declaration
5. Net Quantity of Contents

Identity of Food in Package Form

- A. The principal display panel of a food label in package form shall bear as one of its principal features a statement of the identity of the commodity by its common name.
- B. Where a food is marketed in various forms (grated, sliced, diced, etc.) the particular form shall be considered as part of the identity statement.
- C. The statement of identity shall be present in bold type on the principal display panel and shall be in a size reasonably related to the most prominent printed matter.

Name of Manufacturer, Packer or Distributor

- A. In the case of a corporation, only the actual corporate name, and this may be preceded or followed by the name of the particular division involved.
- B. In the case of an individual, partnership or association, the name under which the business is conducted shall be used.
- C. When the food is not manufactured by the person whose name appears on the label, a qualifying phrase such as “Manufactured for _____”, “Distributed by _____”, or other expression of facts, shall appear with the name.

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Place of Business:

The place of business shall include the street address, city, state, and zip code. However, the street address may be omitted if it is shown in a current city or telephone directory.

Ingredient Declaration

- A. The ingredients shall be listed by their common or usual name in descending order of predominance by weight, on a single panel of the label.
- B. The name of the ingredient shall be a specific name and not a collective name.
 - 1. If the ingredient is a designated spice, flavoring or natural color, it need only be stated as spices, artificial color, or artificial flavor. Colorings subject to certification (FD&C) must be listed by their specific name, i.e. FD&C Yellow #5.
 - 2. If an ingredient used in the product conforms to a standard of identity or is a multi-ingredient product, its ingredients are required to be listed on the label.
 - 3. When blends of fats and/or oils are used, the common or usual name of each fat or oil used must be listed in parenthesis following the term vegetable shortening, animal fat or marine oil.
 - 4. If an individual fat and/or oil ingredient is used, not a blend, the common name of that product must be listed in the correct order of predominance.
- C. No abbreviations of an ingredient's common or usual name are permitted, unless explicitly provided for in the statutes.
- D. Water used in fabricated foods shall be declared on the label in its order of predominance.

Net Quantity of Contents

- A. The principal display panel of a label for a food in packaged form shall bear a declaration of net quantity of contents.
 - 1. The declaration shall be expressed in terms of avoirdupois pound and ounce, volume, and/or numerical count.
 - 2. The declaration shall appear as a distinct item within the lower 30 percent of the principal display panel. The declaration shall be printed in boldface print or type in letters and numbers in a size in relationship to the total square inches of the display panel.

<u>Area of Display Panel</u>	<u>Minimum Type Size</u>
5 sq. inches or less	1/16 inch (1.6 mm/6 point)
> 5 sq. inches, but < 25 sq. inches	1/8 inch (3.2mm/14 point)
> 25 sq. inches, but < 100 sq. inches	3/16 inch (4.8mm/20 point)

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General Label Information

- A. **Principal Display Panel:** The term “principal display panel” as it applies to food in packaged form means the part of the label that is mostly to be displayed, presented, shown or examined under customary conditions of display for retail sales. The principal display panel shall be large enough to accommodate all the mandatory label information required to be placed thereon with clarity and conspicuousness and without obscuring design, vignettes, or crowding.
- B. **Information Panel:** The term “information panel” as it applies to packaged food means that part of the label immediately contiguous and to the right of the principal display panel as observed by an individual facing the principal display panel.
- C. **Labeling Information Requirements:** All information appearing on the principal display panel or information panel shall appear prominently and conspicuously, but in no case may the letters/numbers be less than one-sixteenth of an inch in height, except for those requirements previously addressed.
- D. **Language:**
 - 1. All required label information shall appear in the English language.
 - 2. If the labeling bears any statutory information in a foreign language, all the required labeling information shall appear in both languages.
- E. **Imitation Foods:** If any food product is an imitation of another, and is nutritionally inferior to that product, it must be labeled “Imitation _____”, with the space being filled in with the name of the food imitated, and with the word “imitation” in type of uniform size and prominence as used for the name of the food.
- F. **Packaging:** A package or commodity in packaged form means any commodity put up or packaged in any manner in advance for retail sale. This should include cellophane wrapped products kept in a closed display case, even if these products need to be weighed and priced at the time of sale.
- G. **Nutrition Information:** Information as to the requirements for inclusion of nutrition information on a label should be addressed to this agency.

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APPENDIX B

FARMERS' MARKET FEDERATION OF NEW YORK - MARKET MANAGERS' CHECKLIST: PERMITS/LICENSES/CERTIFICATES REQUIRED FOR FARMERS' MARKET SELLERS

The following is a checklist that will help you understand the permits, licenses, and certificates that are required of sellers of various products commonly found in farmers' markets. This checklist is not exhaustive, but is a general guideline. Always consult the inspection agencies for further assistance.

Fresh Produce

- No permits, licenses, or certificates required, if raw, uncut, and unprocessed.

Plant Sales

- Only one nursery license is required and must be posted in public view at the time of sale.
- NYS Department of Agriculture & Markets Nursery Growers License, if engaged in the production of plant material intended for sale. A nursery grower is also permitted to purchase and resell plant material under this same license.
- NYS Department of Agriculture & Markets Nursery Dealers License, if purchasing and reselling plant material only and the vendor is not involved in any growing of potted plant material.
- Valid NYS Sales Tax Certificate.

Eggs

- No permits, licenses, or certificates required, cleaned shell eggs maintained at 45 degrees F or less and eggs must be from farm owned hens (not purchased eggs).

Honey, Maple Syrup

- No permits, licenses or certificates required, if single ingredient products.
- Article 20C License from NYS Dept. of Agriculture & Markets, if additional ingredients are added to the products; i.e. maple mustard, maple cotton candy, etc.

Baked Goods

- 20C Exemption from NYS Dept of Agriculture & Markets if home baked, non-hazardous; ie. Bread (no breads containing fruits or vegetables), rolls, cookies, cakes, brownies, fudge & double crust fruit pies. (Quickbreads are considered potentially hazardous and can't be done under 20C Exemptions.) No Internet sales or advertising allowed.
- Article 20C License from NYS Dept. of Agriculture & Markets on all other baked products provided the business does 51% of its sales at wholesale. (Requires a separate, commercial kitchen.)
- All other baked goods must come from a licensed NYS Department of Health facility.

Cider/Fruit Juice

- Article 20C License from NYS Dept of Ag & Markets for manufacturers/bottlers.
- All cider and fruit juices must be pasteurized or UV treated.

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New York State Wines

- Farm Winery Permit, issued by the NYS Liquor Authority and a Valid NYS Sales Tax Certificate.

Processed Foods

- 20C Exemption from NYS Dept. of Agriculture & Markets, for non-hazardous foods only; including traditional fruit jams, jellies and marmalades; candy (excluding chocolate); spices and herbs (repackaging only) (this looks like a stray parenthesis); and snack items such as popcorn, caramel corn and peanut brittle.
- Article 20C License from NYS Dept of Agriculture & Markets, prepackaged and labeled in accordance with NYS Food Labeling Law: Identity of food in package form; name of manufacturer, packer or distributor; place of business; ingredient declaration in descending order of predominance by weight; and net quantity of contents.
- County Board of Health Permit if processing is on-site; i.e. cutting of baked goods to be sold by the piece, slicing of cheese to be sold by the pound; cooking and selling ready-to-eat foods.
- Home processing of canned fruits and vegetables is not permitted. All canned fruits & vegetables must be done under 20C License & registered with Federal government as a food processor.
- Article 20C License from NYS Dept. of Agriculture & Markets is required for dehydrating herbs and spices or for the blending of any spices for repackaging.

Meats

- License is required if grinding or processing. License is not required for cutting.

Processed Meats

- Article 20C license from the NYS Dept. of Agriculture & Markets

Fish

- No permit, license or certificate required when selling whole, non-protected freshwater species.
- Article 20C License from NYS Dept of Agriculture & Market if fish is pan-ready.
- NYS DEC hatchery permit required if selling protected freshwater species.
- NYS DEC permit required if re-selling any protected freshwater species.
- NYS DEC Food Fish License to catch and sell marine fish.
- NYS DEC Food Fish and Crustacean Dealers & Shippers License to resell marine fish purchased from a licensed fisherman.

Cheese & Other Dairy Products (such as yogurt, butter, sour cream)

- For producers, Part II Permit, issued by the NYS Dept. of Agriculture & Markets Division of Milk Control and Dairy Services.
- If cut and wrap cheese, need Part II Permit issued by Division of Milk Control and Dairy Services unless part of a food establishment regulated by Division of Food Safety, in which case just need Article 20C License.

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Milk and Fluid Milk Products (such as 2%, 1% and non-fat milk)

- Milk must be pasteurized.
- Producer must have Part II Permit issued by Division of Milk Control and Dairy Services.
- Producer and any distributor must have a Milk Dealers license issued by Division of Milk Control and Dairy Services unless amount handled is less than 3000 pounds per month.

Grains and Legumes (prepackaged – cannot be packed on site)

- No permits, licenses or certificates are required.

Fresh Cut/ Dried Flowers and Crafts

- Valid NYS Sales Tax Permit.

For additional information, call NYS Dept. of Agriculture & Markets, Division of Food Safety:

Albany Region: 518-457-5459

Rochester Region: 585-427-2273

Syracuse Region: 315-487-0852

Buffalo Region: 716-847-3185

New York City: 718-722-2876

NYS Dept. of Ag & Markets, Division of Milk Control & Dairy Services: Albany: 518-457-1772

NYS Dept. of Ag & Markets, Division of Plant Industry: Albany: 518-457-2087

NYS Dept. of Environmental Conservation, Permitting Office: 631-444-0471

** Compiled by the Farmers' Market Federation of New York, 2009*



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APPENDIX C (Sample Sell Sheet)

NIAGARA VINEYARD'S GRAPE JELLIES



- **Handmade**
- **Organic**
- **Made with Fair-Trade Sugar**
- **All Grapes Grown on Site**

Always New York Grown

Niagara Vineyards Grape Jellies are always handmade in Niagara Falls, NY. We never use anything except fruit grown at our vineyard. We use recipes passed down through our family for generations. Now you can share our family secret with your family.

Niagara Vineyard's Grape Jellies

Pricing:

Product	case size	Price per unit/case
White Grape Jelly	12/18 oz	\$1.75/\$21.00
Red Grape Jelly	12/18 oz	\$1.75/\$21.00
Grape Blueberry Jelly	12/18 oz	\$1.75/\$21.00

Ordering & Delivery:

You can place orders over the phone at **(888) 555-8122**, Monday-Friday 9am-5pm.
Place orders 24 hours a day at sales@niagaravineyards.com.

All orders are shipped within 2 business days via UPS ground shipment and take 7 days to arrive.
Free shipping for all orders over \$100.

When you order, don't forget to ask for a free demo kit or POS materials!

Niagara Vineyards Grape Jellies
PO BOX 224 Niagara Falls, NY 14123
(888) 555-8122
www.niagaravineyards.com
sales@niagaravineyards.com

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