Cottage and Specialty Food Business Webinar

August 21, 2013

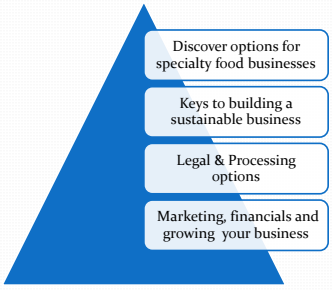
Important tips…..

- PLEASE…..
  - Turn off any computer speakers you have on (remote locations & headsets)
  - Free up your bandwidth and close other programs
  - Webinar is being recorded-you may access later
  - Everyone except Moderator and Presenter are on MUTE

Interaction

- Questions? Use the CHAT or Question button on bottom right side of your Dashboard
- Raise your hand-click on the hand
- Poll questions?
- Want handouts? Please mention on survey at the end of the webinar and we will email to you
- Q&A will occur during and at the end of the webinar

GOALS OF THE WEBINAR



Poll Question 1

Why Start a Food Business?

- Ease of entry – New laws
- Consumers concern about process foods
- Agricultural commodities at our doorstep
- Great recipe, great food business? No?
- Opportunities never better… to **commence, grow, sustain, or exit** a food business venture.

Specialty Food Characteristics

- Unique, Exotic Origin
- Processing & Design
- Extraordinary Packaging
- Limited Supply
- Unusual Application or Use
- Channels of Distribution

Other Characteristics

- Fresh, local ingredients
- Higher Prices – Generally use higher priced ingredients & labor costs.
- Geographical Appeal – Many products can be tied to favorable local areas (i.e. Local Ag products or regional foods (Cajun and Southwestern)
- Greatest Opportunities now for local distribution, with the internet

Specialty Food Trends

- Organic and Natural Food Market is Sizzling
- Local and fresh
- Export Market getting bigger & easier to Crack
- Spicy and Ethic Foods continue to grow
- Hard to Find Products now Easier

Checklist to Starting a Specialty Food Business

- Do Market Research, Determine Need
- Establish a Business Plan
- Determine Financial Needs
- Legal Aspects of Specialty Food
- Producing Your Products
- Specialty Food Marketing Strategies
- Success and The Internet

Getting Started

- It all begins with Market Research
- Identify your Primary Markets
- Learn ALL about your Customers
- Identify your Competition
- Analyze objectively your competitive advantages and disadvantages

Market Research

- Potential Markets for your Products…..
  - Traditional Retail Distribution
  - Distributors / Brokers
  - Catalog & Direct Mail Sales
  - Internet Activity
  - Institutional Food Businesses
  - Gift Basket Firms

Market Research

- Potential Markets for your Products…..NOW
  - Direct – Farmers Markets, fruit stands
  - Direct – To end consumers & restaurants
  - Direct – To food internet sites
  - Direct – To health food & specialty retailer
  - Direct – to gift or tourist shops
  - Direct – Over the web
  - Direct – to whoever will purchase

Who is Your Customer?

- Male? Female?
- Professional? Blue Collar?
- Age?
- Income?
- Neighborhood?
- How do they buy?
- Where do they shop?
- When do they shop?
- Where do they get information?

6-6

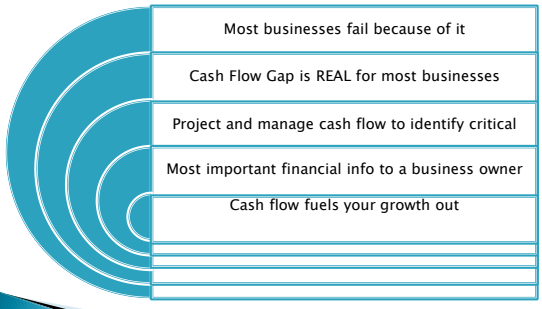
Why Write a Business Plan?

- To sell yourself on the business
- To obtain bank financing
- To obtain investment funds
- To arrange alliances
- To obtain contracts

What I Like in a Plan

- Solid background, history and story
- Market Analysis - Customers & Competition
- Market Strategy - Solid Marketing Plan
- Management Section
- Financials - Historic and Projections

Cash Flow – Or lack of it…



Production Options

- Produce yourself, at home
- Select Co-Packer to Produce
- Use Commercial Kitchen
- Use Other facility

Production Options

Produce Yourself, Your Facility

- Best for Quality Control
- Cheaper Per Unit after Initial Outlay
- Your Time Better Spent Marketing
- High Initial Cost (Time & Money)
- Appears Best for Expanding Food Businesses

Production Options

Use Co-Packer or Food Processor

- Safe Food Handling
- Good for Quality Control
- Low Initial Costs
- Greater Economies of Scale on Ingredients
- May Have Contacts in Distribution
- No or Fewer Employees to Hire
- Cost may be an Issue in Small Production

Production Options

Shared use Commercial Kitchen

- Good for Quality Control
- Often Cheapest Cost Per Unit
- Very Low Initial Costs
- Less Flexibility, More Scheduling Issues
- Not Always in Convenient Location
- Often Limited on what Can be Produced

Origin of Cottage Food Operation

- State law passed in 2012, California Homemade Food Act (AB 1616)
- Regulated by County Environmental Health
- State law may have different interpretion by county. Lots of gray areas

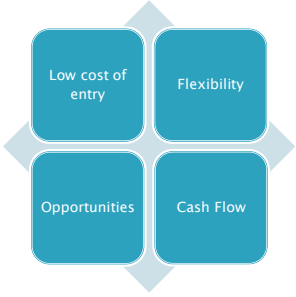
What is a Cottage Food Operation?

- Process foods out of the home kitchen
- Cottage Food Operation **IS** regulated
- Limited to "non-potentially hazardous foods"

What is a Cottage Food Operation?

- CDPH – Must produce food safety course
- Nearly 35 states have Cottage Food Laws
- Black, white and shades of gray

Benefits of Homemade processing



Approved Cottage Foods

- Baked goods, no meat, custards or cream
- Candy & chocolate covered non-perishable foods (nuts, dried fruit)
- Dried fruits, pastas, baking mixes, granola
- Fruit pies, fruit tamales and empanadas
- Rubs, spice blends
- Jams, jellies, preserves

Approved Cottage Foods

- Jams, jellies, fruit butter, other gourmet Refer to *21 CFR Part 150* of the Code of Federal Regulations for specific application

Potential Hazardous Foods?

- Foods that require time or temperature control to limit pathogenic micro-organism growth or toxin formation.
- These will have the statement "Perishable Keep Refrigerated"

Legal Aspects

- Local Requirements
- State & Federal Regulations
- Specific Food Requirements
- Insurance Requirements
- Legal Entities

CA State Processed Food Registrations

- General foods such as; bakery products, noodles, seafood, fruit juices, snacks, nuts, oils, processed or packaged vegetables, candy, etc. are regulated by the PFR food in California. The PFR provides evidence to your customers and regulatory agencies that you are licensed and inspected by FDB.

Legal Aspects–General Rules

- Meet Class A or B requirements
- Complete food processor training course
- Prepare foods on approved list
- Meet preparation and sanitation rules
- Label products per state and feds
- Not exceed amount sales limits

CA State Processed Food Registration

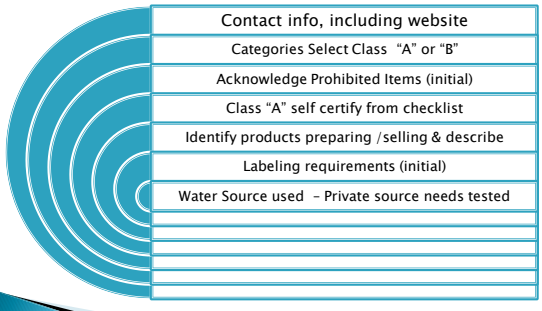
- Fee based on three major factors:

- 1) the size of the facility
- 2) number of employees
- 3) your firm's activities (e.g., manufacturing or warehousing)

CFO Gross Sales Limitations

2013	$ 35,000
2014	$ 45,000
2015	$ 50,000

Kern County Registration Form: California Homemade Food Act



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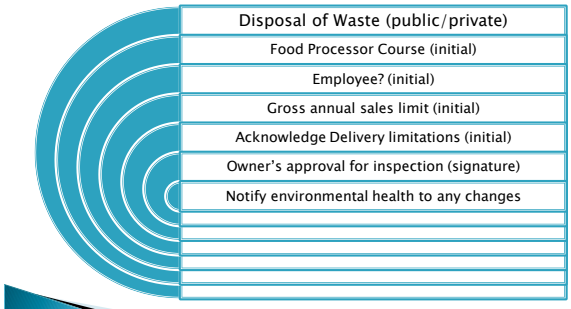


Legal –Kern County

- Contact Environmental Health
- http://www.co.kern.ca.us/eh/ or call 661.862.1740
- Fees Class A $ 75/yr
  - Class B $ 75 app. & $100hr)/ year
  - Temp. Food Facility Permit
  - $ 75 App., Permit $ 90 / year

Class "A"

- Direct sales with-in the county of origin
- Direct sales include:
  - Craft fairs
  - Fruit stands
  - Farmers markets (if certified farmer)
  - Holiday events
  - Community events
  - Community Supported Ag (CSA) subscriptions

Class "A" Operation

- Self certification and agrees with conditions
- Inspection required if consumer compliant or foodborne illness.

Class "B"

- Direct and indirect sales (May sell outside county if permitted by that county)
- Inspection Environmental Health Dept.
- Indirect sales include:
  - Restaurants
  - Markets
  - Other business establishments

"Class B" Operations

- No other domestic activity permitted
- No children, pets allowed in kitchen
- Kitchen utensils & equipment well maintained

"Class B" Operations

- Surfaced washed, rinsed and sanitized
- Food areas free of insects and rodents
- Smoking prohibited in all prep, packing storage and handling areas

Legal: "Class B" Operators ensures

- Person with contagious illness refrains
- Washing of hands, exposed arms
- Water meets potable water standards

Legal – Mono County

- Contact Environmental Health:
- Fees: Class A $ 10 / year
  Class B $ 20 / year
- **(760) 924-1845**
  Monday Through Friday
  8:00 a.m. – 5:00 p.m.

Legal – Inyo County

- Contact Environmental Health:
- Fees: Class A $ 50 / year
  - Class B $ 146 / year
- **(760) 873-7866**
  Monday Through Friday
  8:00 a.m. – 5:00 p.m.

Labeling Checklist

- Key Selling and Promotional Aspect
- Principal Display Panel – Key Label identifying product, name, and quantity
- Information Panels – Located on Right Side of PDP, Name and Contact Info

Labeling Definitions

CFO's disclosures

- Use food grade materials if in contact
- Used as an ingredient retail consumer told

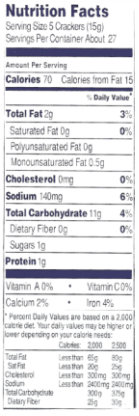
PDP…. example

Labeling Checklist

- Ingredient List – By descending order of weight usually on IP, can be on PDP
- Statement of Net Quantity – Weight of the Food in Package.
- Tamper Proof – Can be function of either Packaging of Labeling

Labeling Regulations

- Nutrition Labeling - Marketing
- Use to promote benefits in products
- Implies a higher end product



Nutrition Facts
Serving Size 5 Crackers (15g)
Servings Per Container About 27

Amount Per Serving
Calories 70 Calories from Fat 15

	% Daily Value*
Total Fat 2g	3%
Saturated Fat 0g	0%
Polyunsaturated Fat 0g	
Monounsaturated Fat 0.5g	
Cholesterol 0mg	0%
Sodium 140mg	6%
Total Carbohydrate 11g	4%
Dietary Fiber 0g	0%
Sugars 1g	
Protein 1g	

Vitamin A 0% • Vitamin C 0%
Calcium 2% • Iron 4%

* Percent Daily Values are based on a 2,000 calorie diet. Your daily values may be higher or lower depending on your calorie needs:

	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	2400mg	2400mg
Total Carbohydrate		300g	375g
Dietary Fiber		25g	30g

Labeling Definitions

CFO's Must have

- Contact info
- "Made in Home Kitchen"
- Reg. or Permit #
- Ingredients

Labeling Definitions

CFO's Must Show

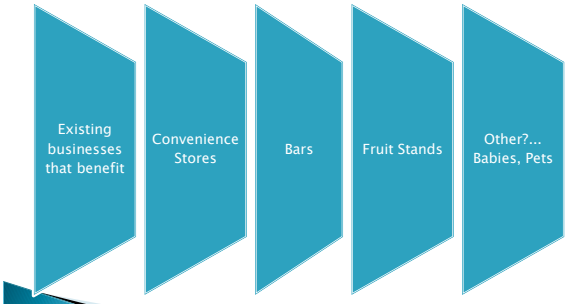
- Quantity or weight
- Major Food Allergens
- When using 11 claims

Labeling Definitions

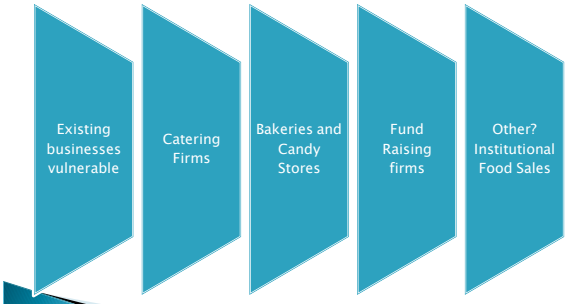
CFO's Must Show

- Use Health Claims
- Nutrition Facts
- Clarity / be in English

Winners and Customers?



Cottage Food Losers?



Packaging Tips

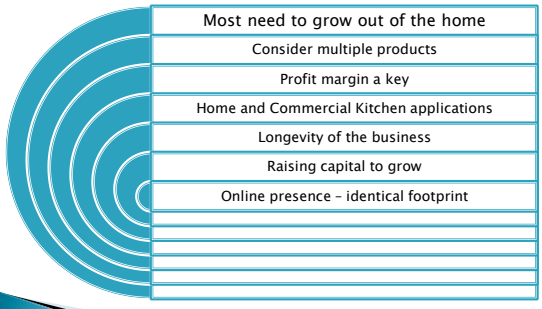
- Use Packaging that delivers well
- Use Packaging that Fits on Shelves
- Check out Competitors Packaging
- Packaging Must Conforms to any State, or Federal Regulations
- Check Trade Shows, and Co-Packers
- Consumers really like glass

Packaging Checklist

- Packaging Consistent with Positioning
- Package Size What Consumer Demands
- Special Shipping or Handling Required
- Carton or Case Lot Consistent With Industry
- Packaging Consistent With Expectations of the Industry

Seasonal or Gift?

Sustainability : Building a food business



Plan to GROW

- Need more revenue
- Grow the product line
- Reinvest in your business
- Plan for Profitability
- Strive for Sustainability

Product Mix

- How Many Products to Sell
- Develop or Sell Additional Goods
- Selling Your Product to Others
- Private Label
- Buy / Sell in Bulk
- Key is to compliment existing

Production Options

Use Co-Packer or Food Processor

- Safe Food Handling
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- Low Initial Costs
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Poll Question 2

Marketing- CFO Toolkit

- Market Analysis
- Marketing a unique product
- The Web
- Social Media
- Promoting

Market Research & the CFO

- Home based gives time to find your market
- Target the "ideal" customer
- Find Trends, predict winners and losers
- Competitive strengths and weaknesses
- React quickly to market info
- Evaluate market opportunities

Marketing- A Homemade Product

Good and Bad

Some consumers will not buy homemade

Emphasis on value added, high quality local products that are fresher and healthier

Packaging on gourmet need to resemble a commercial product

Marketing–Use Social Media

- Share new products and product availability
- Create the buzz and spread the word
- Share recipes or application or use

Rural…High speed internet

ESCRBC
Eastern Sierra Connect Regional Broadband Consortium

Is Coming!
Get your Business Ready!

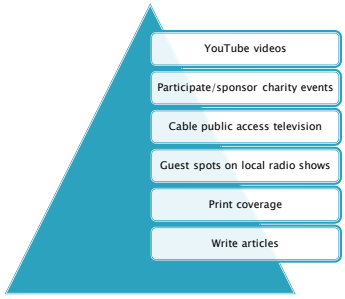
Marketing – Promoting

- Community Events
- Networking
- Demo product
- Strategic Partners
- Publicize
- Find the tourists
- Promote the benefits

Marketing–Networking

- Professional organizations
- Community organizations
- Mixers/networking groups
- Make presentations
- Teach classes

Marketing–Publicity



Financial Concerns

Alternative Funding Ideas

- Cash derived from savings, cash flow
- Cash from friends, family & fools
- Cash from credit cards
- Cash obtained by negotiating with suppliers
- Cash through strategic partnering
- Financing through customer pre-payments
- Term loans from 401k plans
- Leasing as financing tool

Other Funding Idea

Crowdfunding

- Multiple platforms, options available
- Great for customer research
- Can be pre-selling tool
- Supporters / Investors can be your greatest customers and advocates for your product

Price

- Are you a price taker or maker?
  - What are your costs?
  - What will your customer pay?
  - What image do you want to convey?
  - What does the competition charge?
  - What will the market bear?

7-5

You Must Understand Your Costs

Selling your organic apple butter

Selling Price direct:	$ 10.00
Less: Raw material	3.00
Labor	1.20
Sales Expense	1.00
Shipping/Delivery	.60
Packaging	1.15
Total Costs	6.95
Profit	$ 3.05

SBDC Services

- Free one on one business consulting
- Webinar–Wednesdays is a way for small business owners to get quick information on a key business topic
- Coming in January 2014 comprehensive business classes

Our Next Webinar

- ***High Speed Internet & Your Business***
- ***Nate Greenberg, GIS Manager Tech Guru for Mono County***
- September 4, 2013, 12:05 – 1:00 pm
- Digital 395 is bringing a great opportunity for businesses. Learn more…..
- gotowebinar.com id # 139-018-499
- **Space is limited for webinars**

Thanks!

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Questions?