eXtension
Entrepreneurs & Their Communities

Specialty Foods: Getting Started
presented by

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www.extension.org/entrepreneurship
Housekeeping Details

• Sharing your email address
• Webinar evaluation at http://tinyurl.com/37gyw4n
• Site orientation
• Recordings of webinars located at http://www.extension.org/pages/ETC_Webinar_Archive
Product and Niche Selection
Small vs. Big

- Small producers have product and seek markets to match
- Large companies have markets and seek products to match
- Know where your product(s) are among current trends
Major food industry trends

- Fresh
- Local vs. Organic
  - What is local? Regional?
- Safe
- New and Different
- “Authentic”
- Raw- (fading fad?)
Caution -

- The economy determines willingness to embrace a “fad” or “trend”
- Make your business real, not a fad
Understand the Natural Product Worshipper

- The Missionaries ~10%
- Almost Every Sunday ~20%
- The C+E’s (Christmas and Easter’s) ~20%
- The Atheists ~50%
How “Big Guys” select their products and markets

- The intelligent shot gun
- Beholden to stockholder meeting projections
- Leverage existing technology
- Line extension
  - But does it make sense to the consumer?
Where “little guys” have advantage

- Story, personality and connection
- Quality
- Fast
- Passion
Product Development
Types of new products

- Line extension
- Product improvement
- Reformulation
- Knock off
- New segment
Product and Process Development

- Structured, orderly and documented
- Finish one project and move on
- Multi-facings
- Know when you are in over your head
Product Stability

- **Shelf-stable**: 1 year+ for safety
  - Maybe less for organoleptic

- **Fresh**
  - Baked goods maybe one day
  - 7 to 10 most refrigerated
  - Thaw to sell option

- **Frozen**: 6 months for most
Shelf Stable Products (Canned)

- Formulated Acid
- Acidified
  - Scheduled Process
  - FDA FCE registration
- Low Acid
  - Retort
  - aW controlled
Shelf-life Analysis

- Misunderstood
- Microbiological vs. organoleptic
- Lab analysis is snapshot may or may not be representative
- DIY shelf life
Ingrediation

- Pre-chopped veggies
  - Fresh, canned and frozen processing issues
- IQF herbs
- Flavors and preservatives
- Starches and gums
- Use supplier resources- National Starch, Givaudan Access, Pacific Pectin
Development Process

- Refine general concept
  - Careful documentation of ingredients incl. weight, form, strength and brand
  - Subject to sensory eval/taste panel
  - Revise based upon sensory/taste panel
  - Avoid multivariate experimentation!
  - Resubmit for approval
Development process

- Scaling-up/batching up
  - Intrinsic knowledge of ingreds that do not behave in linear fashion
  - Flaws in measurement methodology multiplied
    - .9G inaccuracy in 1# batch = 900g per 1000#
    - Test batch size increases incrementally

- Scheduled process approval
Scheduled Process

- When - Acid or acidified, low-acid or aW controlled
- Cornell
  - Dr. Olga Padilla-Zakour
  - Contact Elizabeth Keller esk15@cornell.edu
- Recipe
- Sample

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Processing Options

- Shared-use or community kitchens
- Underutilized restaurants/bakeries
- Church kitchens, fire halls, schools
- Co-packers
- Home kitchen
- Own processing facility
Labeling
Elements of a Label- Required

- Brand or company name
- Product name
  - Fanciful- Vermonster, Chunky Monkey
  - Standard identity- “Crème Filled Chocolate Wafer Cookies”
- Weight (volume) Statement
- Ingredient Statement
- Statement of Responsibility
Elements of a Label- Optional

- Bar Code (UPC)
  - [www.uc-council.org](http://www.uc-council.org)
  - “barcodes-R-us”

- Nutrition Facts
  - Small producer exemption at fda.gov
  - Less than 10 FTE or 100,000 units
Labeling

- Appropriate investment for target market
- OK to step and scale
- Time and expense heavy
- Flex vs. digital
- Educational
- Regulatory
- Marketing functions
Designers Design, Printers Print

- Bad things happen to good people who ignore this rule!
- Know who owns the artwork
- DIY’ers beware!
Pricing and Cost Analysis
Start-up Costs

- Label design and printing
- UCC/bar code ($750)
- Research and development
- Insurance
- Business formation
- Facility and equipment (if not using outside facility)
- Deposits
On-going or Operational Costs

- Rent or mortgage
- Raw materials
- Packaging
- Label re-printing
- Insurance
- Taxes
- Legal and professional
- Labor
- Repair and maintenance
- Marketing expense
- Shipping and delivery
- Utilities
Pricing Methods

- **Bottom up**
  - Add all costs
    1. Raw material
    2. Packaging
    3. Label
    4. Labor
    5. Overhead
    6. Margin
    7. Mark-ups

- **Top down**
  - Benchmark through market analysis
  - Set hypothetical sale price
  - Back-off markups
  - Subtract above costs #1-5
  - Analyze final margin
Bottom Up Pricing Example

- Raw material-$0.65
- Packaging-$0.40
- Label (amortized)-$0.10
- Labor-$0.15
- Overhead-$0.25
- Margin-$0.33
- Sub-total-$1.88

- 25% distributor mark-up-$0.47
- Cost to retailer-$2.35
- 40% retailer mark-up-$0.94
- Selling price-$3.29
Top Down Pricing Example

- Target price-$4.95
  - Less retail m/u- $4.95/1.4= 3.54
  - Less distributor m/u=$3.54/1.25= $2.83

- Less-
  - Raw material-$ .65
  - Packaging-$ .40
  - Labor-$ .15
  - Overhead-$ .25
  - Margin= $1.38
Establishing raw material value

- Cheesemakers - set cheese price based on target cwt price, i.e. $15.50
- Tomatoes with $2.50/# value reduced to 40% for sauce = $6.25/#
Compare the Two

- Don’t leave any money on the table
- Don’t price yourself out of the game
- Know your upper and lower negotiation boundaries
On-line resources

- http://www.vermontfoodventurecenter.org
  - brian@vermontfoodventurecenter.org
- http://www.nysaes.cornell.edu/necfe/
- www.umass.edu/nefe
- http://foodinnovation.rutgers.edu
- www.ncsu.edu/foodscience/extension.htm
- www.cals.uidaho.edu/ftc/
- http://fpc.unl.edu
- http://www.gov.pe.ca/ftc/
- http://www.gftc.ca/

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Housekeeping Details

• Don’t forget to mark your 2010 -2011 calendars with the dates of the upcoming webinars – 2nd Thursday

• Coming Attractions…
  – October/November – Specialty Food series continues
  – December – Youth Entrepreneurship

• Evaluations please…