



Turning on Your Specialty Food Business

“To accomplish great things, we must not only act, but also dream; not only plan, but also believe.”
— Anatole France

You’ve turned your idea into a fully developed product. Now it’s time to start thinking about your enterprise as a business. Economists agree that entrepreneurs often make three major mistakes during the business start-up phase:

- (1) Underestimating the financial needs to get the business going;
- (2) Underestimating how much time and effort it will take to get the business up and running; and
- (3) Neglecting to conduct the business like a business. Not using an accountant, talking to friends and neighbors about legal advice instead of an attorney, or not registering as a business in Maryland are just a few examples of poor business development and operation.

Why Write a Business Plan?

You need to formulate a business plan and consider how your business will be organized.

What financing do you need and how will you get it? What record-keeping system will you use to track production and sales? How will you handle marketing and distribution? These and many other questions sound overwhelming, but there is help available. You don’t have to do it all yourself, but you do need to be responsible for seeing that it all gets done. You’ll find a wide variety of business resource contacts listed in the last section of this manual.

There is a lot of controversy about the value of a business plan. Comments run from “business plans are useless” to “business plans are essential.” If you have someone else write your business plan or you use a pre-programmed computer program and guess at the numbers, the resulting plan will probably be useless.

But a business plan that you develop yourself, with some review and consultation from an Extension Farm Management Specialist or other business management professional can help you systematically think through the steps involved in developing your business. The planning process pays dividends.

A well-prepared business plan:

1. Helps determine the feasibility of starting the business;
2. Depicts the financial potential and capital needs;
3. Indicates the expected financial results;
4. Functions as your “blueprint” for charting goals, future directions and monitoring growth;
5. Serves as a sales tool for raising capital from bankers and outside investors; and
6. Provides the lender with detailed information on all aspects of the company’s projections.

The business plan that you develop and revise on an on-going basis will be a valuable tool. It doesn’t need to be a formal document, although there are times when a formal business plan is a requirement. If you need financing, for example, you’ll likely be asked for a business plan.

Business plans can take many forms. Lenders will consider whether your plan is realistic or if your projections seem too good to be true. Before you start writing your plan, consider the following nine questions. You’ll probably know the answer to many of the questions from your ongoing market research. Once you’ve answered the questions, you’ll be in a good position to write your business plan.

1. Describe your product: What is it and why should someone buy it?
2. Describe your market: Who are your customers and who are your competitors?
3. Describe yourself and your management team: What special skills do you or your team bring to this project, and what is your business background?

4. Describe your operating system: How will you produce your product and what will your day-to-day operations require, such as space, equipment, supplies, etc.?
5. Describe your personnel: Who will be your employees now and in the future, and what will your pay scale and benefits program be?
6. Describe your financial needs: How much money do you need? How is the money to be spent? How will it be repaid?
7. Describe your risk management strategies: What events or consumer trends could impact your business?
8. Describe your marketing strategy in detail: How will you attract customers? How will you distribute your product?
9. Describe your implementation strategy: What needs to be done and when? Describe your planning phase. Describe your target goals and projected completion dates.

You’ll probably know the answer to many of the questions from your ongoing market research. Once you’ve answered the questions, you’ll be in a good position to write your business plan.

You’ve Answered the Questions so Now it’s Time to Get Started on Your Formal Business Plan

You can use the following sample outline, formats offered by your area business consultant or contact the Maryland Small Business Development Center in your county for further assistance in completing your plan. A business planning workbook is available at <https://www.extension.umd.edu/mredc/business-modules/farm-business-planning-workbook>

The following outline covers the most important points for a business plan. Business plans can range from 10 to 60 pages; most average close to 30 pages. You may start with any section,

but it is advisable to complete one section before moving on to the next.

Business Overview

- ◆ Title Page: Start with the document title, the name of the business and the date the plan was prepared.
- ◆ Table of Contents: Add titles and page numbers of various sections of your plan.
- ◆ Mission Statement: Include a concise statement describing the purpose of your business.
- ◆ Business History: Discuss recent information on the development of your business.
- ◆ Executive Summary: Provide an overview of the business plan. Prepare this section last even though it will be one of the first read.
- ◆ Business Organization: Describe your type of business (partnership, sole proprietorship or corporation). Outline your management structure and the names of the principals.

Marketing Plan

- ◆ The Industry: Describe what part of the agricultural industry you operate in, the commodity you'll produce, where your operation fits, and size of operation.
- ◆ Market Sales: Indicate anticipated volume of sales and annual sales.
- ◆ Trends: Discuss past and current industry trends and the possible effects on your business.
- ◆ Legal Aspects of Marketing: Research and describe local, State and Federal regulations that affect marketing.
- ◆ Competition: Who are your competitors and what is your competitive edge?

- ◆ Customer Profile: Describe your market segment.
- ◆ Future Sales: Include sales targets, new markets for your product, and anticipated growth in market share and sales.
- ◆ Pricing: How did you determine price? Include calculation of costs, estimates of profit margins, and a comparison of market prices.
- ◆ Promotion and Advertising: Detail how you will make potential buyers aware of your product.
- ◆ Distribution: Describe your plans for inventory, shipping and delivery.

Human Resource Plan

- ◆ Organizational Chart: Diagram the management/employee structure of your operation.
- ◆ Employee Plan: How many employees will you hire? What are the hiring procedures and the required qualifications?
- ◆ Compensation and Benefits: Describe how staff will be paid, the amounts, benefits and incentives.
- ◆ Labor and Training Goals: What training will be necessary for owner and employees at various skill levels?
- ◆ Owners Skills and Background: What experience and skills do you have, particularly in managing a business?
- ◆ Job Descriptions: Describe duties for owner and all employees.
- ◆ Roles and Responsibilities: Specify the lines of authority.
- ◆ Employee Goals: List the goals of employees within the business.

Production Plan

- ◆ Land, Buildings and Facilities: Describe the, buildings, or facilities to be used for production. Indicate why you selected this site.
- ◆ Operating Requirements: Explain the equipment, including office equipment, to be used in processing the product and operating the business. Provide detailed lists of equipment and fixtures. Include the proposed purchase prices of each asset.
- ◆ Materials and Supplies: Describe the materials needed, including raw product produced on the farm.
- ◆ Production Strategies: Be thorough so the reader can fully understand your product and how it will be produced. Itemize the product procedures, and discuss what and when to produce it, and when to market it.
- ◆ Production Schedule: Outline the time frame for producing your product, including any new facilities needed for production.
- ◆ Environmental Assessment Plan: Include the procedures for water quality and production safety controls you will adopt.
- ◆ Legal Aspects of Production: Detail the zoning, environmental policies, and laws that regulate your product. Explain quality control regulations and inspection requirements.
- ◆ Operations Flow: Describe the day-to-day operations, including hours of operation, seasonality of business and suppliers and their credit terms.

Financial Plan (As needed)

- ◆ Balance Sheets: Provide up-to-date financial data, including a balance sheet and an income statement.
- ◆ Financial Forecast: Prepare sales and expense forecasts for three years, giving a

full explanation of sales and pricing assumptions. Does your market research support these forecasts?

- ◆ Cash Flow: Include your cash flow projections for three years. This may be difficult for start-up entrepreneurs so it may be helpful to work with your accountant.

Request for Financing

This section on financing can be added to your business plan when needed. It should include:

- ◆ Amount Requested: How much money do you need?
 - Start-up Expenses
 - Working Capital to Break-Even
 - Personal Living Expenses
- ◆ Plans:
 - When do you need the money?
 - What will you do with the money?
- ◆ Your financing structure.
 - Sole proprietor, partnership, or corporation?
- ◆ Capitalization of your company.
 - Who holds the assets?
- ◆ Your repayment plan.
 - Short-term- paid back within 12 months, or
 - Long-term- payments beyond one year.

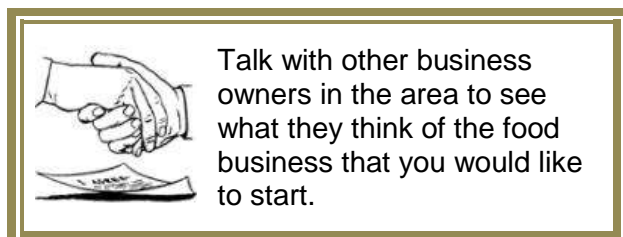
Supplementary Information

(Not mandatory, but recommended)

You may want to include:

- ◆ Letters of Intent from potential customers;
- ◆ Bank branch and manager's name with whom you've had preliminary discussions;
- ◆ Accountant's name and contact information;

- ◆ Results of market research;
- ◆ Professional references;
- ◆ Pictures of product, buildings, or construction site.



Before You Start Your Business, Seek Professional Assistance

You may already be working with a management team in your farming operation. Several of these people can be included on the management team for your new enterprise. Here is a list of various professionals who can help keep you stay on the right track.

- ◆ **Accountant:** Identifies the appropriate business forms, equipment, operating budgets, tax planning and bookkeeping system. Can assist you with the filing of the necessary government forms to start your business. However, many of these forms are now available on-line and can be filed directly from your computer. Your accountant can help you choose your annual accounting period (calendar or fiscal), your accounting method (cash or accrual), and your inventory method (FIFO, LIFO, or average).
- ◆ **Attorney:** Helps you select the type of business structure (i.e., sole proprietor, partnership, corporation), assists in properly filing legal documents, and interprets your rights and obligations as a business person.
- ◆ **Banker or Financial Consultant:** Gives financial expertise and service and can

assist in opening your business bank account.

- ◆ **Insurance Agent/Broker:** Evaluates your insurance needs and sets up a program for business protection, such as general, fire, liability coverage, and workers' compensation.
- ◆ **Business Planner:** Advises you on starting a specialty food business and can guide you on the relevant rules and regulations. A business planner can also assist you in developing and completing your formal business plan.

In Maryland, most county economic development offices are linked to local business resource centers. These centers can provide contact information for many of these professional services, and offer assistance and education in different aspects of business management at low or no participation fees.

Determining Which Type of Business Entity Best Suits Your Business is a Critical Decision

Neil Hamilton, in his book, "The Legal Guide for Direct Farm Marketing," states that the form of business you choose should serve you rather than hamper you.

You might want to consult an attorney about the legal requirements of setting up and operating a business in Maryland. However, the Maryland State Department of Assessment and Taxation can provide you with detailed information. The following information concerning "Forms of Business Organization and Incorporation Fees and Taxes in Maryland" was copied from the State Department of Assessments and Taxation's web page at: www.dat.state.md.us

Maryland has Regulations for Operation of all General Forms of Business Entities

In Maryland, a business is defined as any private trade, occupation, profession, calling,

operation, or private institution conducted for profit or not for profit. The various legal forms of business organization in Maryland are:

Sole Proprietorship	The sole proprietorship is the simplest form of business organization, requiring no legal entry formalities except compliance with state and local licensing and taxation requirements.
General Partnership	In Maryland, a partnership does not need permission from the state to operate. (A partnership is defined as any association of two or more persons or corporations to operate as co-owners of a business for profit. A partnership exists if a contract to act as partners exists, even if it is not called a partnership. However, a written agreement is not necessary to form a partnership.
Limited Partnership	Limited partners are liable only for the amount which they invested. All limited partnerships are required to register with the State Department of Assessments and Taxation.
Limited Liability Company	A limited liability company (LLC) is an unincorporated form of business with both limited duration and limited liability for all members. An LLC thus combines the tax advantages of partnerships with the liability limits of corporations. To create a Maryland LLC, Articles of Organization must be Filed with the State Department of Assessments and Taxation.
Limited Liability Partnership	A limited liability partnership (LLP), a form of LLC, may be formed by any existing legal partnership without dissolving or otherwise changing its form of organization. An LLP generally protects a partner from personal liability for debts and obligations of the partnership arising from negligence, wrongful acts, or omissions of the LLP. To create a Maryland LLP, a form describing the LLP must be filed with the State Department of Assessments and Taxation. Either a state-provided or self-created form may be used, as long as the required information is provided.
Limited Liability Limited Partnership	A limited liability limited partnership (LLLLP) is a sub-class of limited partnership that protects the assets of general partners from judgments against other general partners. It is formed in the same way as an LLP, by submitting a form to the State Department of Assessments and Taxation.
Joint Venture	A joint venture is formed by two businesses contributing capital to a new corporation for an equity interest or by two businesses entering into a partnership agreement. All joint ventures are required to register to do business with the appropriate county clerk of the court.
Corporation	<p>Maryland (domestic) corporations and foreign (out-of-state) corporations are subject to slightly different incorporation procedures. A domestic corporation is organized and exists under the laws of Maryland. A foreign corporation is a corporation, association, or joint-stock company organized under United States law or the laws of another state, territory of the United States, possession or district of the United States, or a foreign country.</p> <p>Articles of incorporation must be filed with the state, in addition to paying all relevant taxes and fees. Amendments to corporate charters must also be reported to the State Department of Assessments and Taxation. When the state accepts the articles of incorporation, the proposed corporation becomes a corporate body under the name and subject to the purposes, conditions, and provisions stated in the articles.</p> <p>To qualify to conduct business in Maryland, a foreign corporation must submit to the State Department of Assessments and Taxation certification of incorporation.</p> <p>Special types of corporations in Maryland include professional service corporations, non-stock corporations, private foundations, and cooperatives.</p>

For further information contact: Corporate Charter Division, State Department of Assessments and Taxation, 301 West Preston Street, Room 809, Baltimore, MD 21201, (410) 767-1350, www.dat.state.md.us

Consider the Repercussions of New Entity's Structure on Your Farming Enterprise and Personal and Family Goals

In his book, Hamilton emphasizes that certain business forms involve technical legal requirements for operating the company. It is important to remember that for some business forms, like a corporation, you can't form it and then continue to operate the business like nothing has changed. Hamilton suggests entrepreneurs ask themselves the following questions to help them clarify their decision.

How large do you hope your new business will become?

The larger and more complicated the business becomes, the easier it is to justify the time and expense of forming a corporation. Also, consider the liability protection that a corporation can offer you in protecting your current farming operation.

How many people are involved now or possibly in the future, in the ownership and management of the business?

This is an important consideration, particularly if the new business venture will be an avenue for bringing in the next generation. The more people involved in the business, the more valuable it will be to have a formal business structure that defines how decisions are made and how people acquire or relinquish ownership interests in the business.

Who will be involved in the business?

The number of people involved will determine if a corporation, rather than a sole proprietorship, may be needed.

Do you intend to be liable for the debts and obligations of the other owners or do you want to limit each party's risk?

When people are general partners, they share not only the profits and decision-making, but also the risks and obligations. If you do not want this joint liability, then a business form such as a limited partnership or a corporation may provide limited liability.

Do you have the time and money to keep up the recordkeeping and legal paperwork that some business forms require?

Corporations require corporate meeting minutes and resolutions when making decisions. If you want to run the business without meetings, minutes or getting approval from other owners, then a sole proprietorship or closely held corporation may be a better fit.

Do you have other businesses or other personal assets you do not want to place at risk?

If all of your assets are tied up in your new business, it may not make much difference which type of business form you choose, since everything you own may already be at risk. But if you have another separate business or have property or other assets you want to protect, then you should choose a business form that limits your potential liability and exposure.



Determine both the good and bad points about having your own food business, having a partner, and incorporating your business.

Selecting the Name of Your Specialty Food Business and Products is Very Important

The name you choose for your business is a personal choice, but remember that it reflects both the character of your operation and the quality of your product. You will spend a considerable amount of time and money in trying to establish good will and name recognition of your product.

You should begin by finding out whether any other businesses or products are already using the name you are considering. Enter your prospective name in an Internet search engine site and see what references the search finds. This will help you run a very cursory name search. Check your local municipality records, library listings, trade journals, and telephone books for names and products similar to yours. Be sure to select a name that won't be confused with any existing business or product name.

In Maryland, you will need to conduct a name search and file a name registration with the state. For information on trade name availability and forms, contact:

State Department of Assessments and Taxation
Trade Name Search and Registration
301 West Preston Street
Baltimore, MD 21201
(410) 767-1340
www.dat.state.md.us

For information on corporate name availability and forms, contact:

State Department of Assessments and Taxation
Corporate Name Availability
301 West Preston Street
Baltimore, MD 21201
(410) 767-1340
www.dat.state.md.us



You May Also Want to Protect Other Words, Symbols and Phrases that Identify Your Product

These are your trademarks and are not protected simply by registering your business name with the State of Maryland. The following questions and answers concerning trade name registration in Maryland are taken from the Maryland Secretary of State's webpages at <http://www.sos.state.md.us/Registrations/TradeMarks/Trademark.pdf>

Where is a trade name registered?

A trade name is registered with the Department of Assessments and Taxation, 301 W. Preston St., Baltimore, MD 21202. (410) 767-1350.

May a trademark or service mark be registered with the Secretary of State before it has actually been used in the sale of goods and services?

No. A trademark or service mark must be in commercial use before it may be registered with the Maryland Secretary of State.

Is a person required to register a trademark or service mark in Maryland?

No. Registration of a trademark or service mark in Maryland is optional.

What are the benefits of registering a trademark or service mark in Maryland?

The primary benefit of registering a trademark or service mark with the

Maryland Secretary of State is to give public notice of a person's claim of ownership of the trademark or service mark. This will reduce the likelihood that another person will inadvertently choose a mark confusingly similar to the registered mark. A person can check on the availability of a mark for registration in Maryland by calling the Office of the Secretary of State.

Does registration of a trade or service mark with the Secretary of State mean that I own the trademark or service mark?

No. Ownership of a trademark or service mark in Maryland is acquired by using the trademark or service mark in commerce.

What office of the federal government serves as a registry for trademarks and service marks?

The U.S. Patent and Trademark Office (USPTO) of the Department of Commerce (<http://www.uspto.gov>.) The phone number for that office is (800) 786-9199.

What is the legal significance of federal registration as compared with state registration?

Information about the legal significance of federal registration can be obtained from the U.S. Patent and Trademark Office. If you believe this is an issue for you, you should also consult a private attorney.

Will the Office of the Secretary of State take action against a person using a mark confusingly similar to a mark already registered to another?

No. The Office of the Secretary of State does not resolve conflicts regarding mark ownership. A person should consult private legal counsel if another has infringed on a mark owned by the person.

If the Secretary of State of Maryland registers a trademark or service mark, may the registrant use the ® designation with the mark?

No. This designation is reserved for trademarks and service marks registered with the U.S. Patent and Trademark Office. A person who claims ownership of a particular trademark or service mark may use the designation "TM" or "SM" regardless of whether the mark is registered with any office.

How does a person apply to register a trademark or service mark?

To apply to register a trade or service mark, a person files:

- 1) An application on a form prepared by the Secretary of State;
- 2) Three (3) specimens of the mark as used in commerce; and
- 3) A fee of \$50 (check made payable to the Secretary of State).

You are not required to register your trademarks in Maryland, but you may still want to consider registering them with the U.S. Patent and Trademark Office. As on the state level, the Federal Government recognizes your rights to your trademarks either by you actually using the mark or by filing an application with the U.S. Patent and Trademark Office in Washington, D.C. The application notifies the Department of Commerce of your intent to use the trademark. The U.S. Patent and Trademark Office has a booklet titled, "Basic Facts about Registering a Trademark," that details the application and includes sample forms. It is available from:

U.S. Department of Commerce
Patent and Trademark Office
Washington, D.C. 20031
(703) 308-HELP or (800) 786-9199
<http://www.uspto.gov>

Your specialty food business may be built around a family honed recipe or a particular marketing idea. When putting your business together, you may need to disclose some of your recipe to the laboratory that tests your product or to a co-packer. Copyright laws don't protect recipes or ideas. Some possible alternatives to help protect your recipe or idea are confidentiality agreements, proprietary statements and non-disclosure agreements. Consult your attorney for more information on your protection alternatives.

Copyright laws do protect the artistic work on your label. A "c" on the label means U.S. Copyright Laws protect the work. For more information regarding the copyright application process, contact:

Copyright Office
Library of Congress
101 Independence Ave, S.E.
Washington, D.C. 20559-6000
(202) 707-5959 or 1-877-476-0778 (toll free)
<http://www.copyright.gov/>

Keeping Good Records is Essential to Operating an Efficient and Successful Business

Good records allow you to measure your fiscal performance, develop marketing plans, document product development, track sales, control expenses, monitor inventory, evaluate employee performance and support loans. But the overriding reason to keep good records is to help you at tax time.

As a start-up entrepreneur, keep your business and personal accounts and records separate. Open a separate bank account for your new

business. Your accountant can assist you in determining your financial record keeping requirements.

Sales of Food in Maryland are Subject to Sales and Use Taxes but there are Exceptions

Food sales are not taxable if a person operating a substantial grocery or market business sells the food for consumption off the premise and is not a taxable prepared food. The tax exemption does not apply to the sale of an agricultural product by a farmer, nor does it apply to the sales of flowers, sod, decorative trees, shrubs and any other product usually sold by a nursery or horticulturist.

A caterer serving food at a customer's premises must collect the tax on the food sold. If you open a catering business and serve more than your own products, you must collect sales tax.

For additional information, call Taxpayer Service at 410-260-7980 or toll-free 1-800-638-2937 from 8:00 AM to 5:00 PM or e-mail: taxhelp@comp.state.md.us. Request the publication "Tax Tip 11- Sales and Use Tax Exemptions for Agriculture" or view online http://taxes.marylandtaxes.com/Resource_Library/Tax_Publications/Tax_Tips/Business_Tax_Tips/bustip11.pdf

Your Business Start-up Costs Will Depend on Your Circumstances and Product(s)

Business counselors agree that you need to have some additional source of capital for perhaps as long as three to five years after start up to help cover your costs. Consider renting or leasing space in a licensed commercial kitchen before you invest in a facility of your own. Buy well-maintained used equipment whenever possible. Label your product by hand in the beginning. This will save you money and will

allow you to experiment with different kinds of labels until you find the best fit. However, you should invest in the skills of a good graphic artist to help you develop a professional “look” for your product. Your label should imply quality and safety.

Start-up costs for a specialty foods processing business should include but are not limited to: your business organizational costs, postage, travel, office supplies, promotion, telephone, fax, utilities, rent, product ingredients, product packaging, and transportation. Remember, businesses also incur tax liabilities, whether anything is being produced or sold.

Establishing your business’s operating budget is an integral part of your business plan. You should plan to review and revise your budget as needed at least on a monthly basis. In addition to providing a guide for your company’s expenditures, your budget will help you determine your costs of goods and services; that is, what it costs you to produce a unit of your product, deliver it to market and collect payment for it. This figure is imperative in the process of pricing your product.

A business has both fixed and variable expenses. Fixed expenses are those that do not change, such as rent. There are also one-time expenses, such as licensing fees, equipment purchases, and association memberships.

Variable expenses change from month to month and can include such things as ingredient costs, supplies, utility bills, and advertising. Determining all of your costs and breaking them down into monthly budget projections can take some time, but is imperative for your cash flow planning. There are several small-business software programs that can assist you in determining your costs. Be sure to include in your total costs calculations:

Ingredients	Production costs
Packaging	Packing
Containers	Labeling
Marketing costs	Shipping
Administration	Insurance
Salaries	Promotion
Advertising	Overhead
Bad debt	Credit card fee

The following expenses will quickly become significant as your business grows:

- ◆ Overhead for kitchen, equipment, and delivery vehicle.
- ◆ Utilities used in food preparation.
- ◆ Recordkeeping and required sales reports.
- ◆ Accounting and legal fees and labor (can become major expenses).

Consider Several Factors When Establishing an Appropriate Price for Your Product

You must ensure that you are charging enough to allow your business to grow and meet your expenses. At the same time, you should be sure to not over-charge, which will discourage purchases. Consumers constantly compare products based on price. Your price must also allow for retailers, wholesalers or caterers who move your product to make a profit as well.

Much of the information for determining the price of your product can be garnered from the marketing research you did to determine the feasibility of starting a specialty foods business.

Know Your Product’s “Ceiling Price”

The better you understand your customers’ wants, needs, food buying habits and food dollar expenditures, the more accurately you’ll be able to price your product(s). Your market

research should help you determine the “price ceiling” for your product. This price is sometimes determined by the perceived value of the product by the customer. You cannot exceed this price without somehow changing the perceived value of the product in the customer’s mind.

Calculate All of Your Costs The most basic element of pricing is to know your costs, including variable and fixed costs. Be sure to calculate all the costs included not only in production, but also for marketing and distribution. The numbers generated for your proposed operating budget will allow you to calculate your per-unit costs. You can estimate projected per-unit costs by dividing total production costs per batch of product by the number of units produced in a batch.

Marketing costs must be calculated on a per-unit basis as well and included in the product costs. This cost varies with the sophistication of your marketing program. Finally, determine how much it will cost per unit to get your product to your target customers. Many new business owners keep start-up costs low by taking responsibility for product distribution to retailers or by selling directly to customers.

Your total cost per unit helps you establish your break-even point, which is defined as the point where sales or revenues equal expenses. There is no profit made or loss incurred at the break-even point. This figure is important to know since the break-even point sets the starting-point for determining profit margins. The break-even point becomes very important when calculating a strategy for net profit.

Setting Realistic Profit Expectations

During the start-up phase, some entrepreneurs make the mistake of underpricing their product in the interest of establishing a customer base. As a result, the business flounders without

profits to fund business growth. Other entrepreneurs price the product over the “price ceiling” level, stifling sales.

The specialty food trade consists of products that move in low volumes. Thus, the industry uses margins instead of markups (production costs plus profit) to develop prices. A margin is the selling price minus your profit. Using a margin pricing strategy, the selling price minus the profit margin equals the cost.

To understand this pricing system, calculate the “gross margin” of your product by subtracting your cost of goods from your selling price. The result is the dollar gross profit margin. Take the dollar gross margin result and divide it by the selling price to get the gross profit percent.

Selling Price – Cost

Gross Profit Margin %= Selling Price * 100

General guidelines in the specialty food market suggest a gross margin of 40% to 60%. Any less than 40% indicates that you probably won’t be able to support the product; over 60% will invite competition.

Don’t leave money on the table when pricing your product. The following examples illustrate the difference between markup and margin pricing:

Markup (Cost plus profit)

The unit cost of your Jammin’ Jelly Preserves is \$1.25. If you were to use a 45% markup, your selling price would be \$1.81. To determine your selling price:

Selling price = per unit cost x (1 + percent mark-up)
= (\$1.25 x \$1.45)
= \$1.81

Margin (Selling price less profit)

The unit cost of your Jammin' Jelly Preserves is \$1.25. You decide to use a 45% gross profit margin. To determine your selling price:

$$\begin{aligned}\text{Selling price} &= \text{Cost} / (1.00 - \text{margin}) \\ &= \$1.25 / (1.00 - .45) \\ &= \$1.25 / (.55) \\ &= \$2.27\end{aligned}$$

Planning How to Market Your Product Can Be the Most Difficult Part of a Starting a Specialty Food Business

You have a passion for making your product. That's the easy part. You must also have a passion and plan for how you intend to sell your product and get it to your customer. The number one rule in marketing is simply to listen to your customers. Find out what they like or dislike about your product. Ask them or your distributor for customer feedback. Train your employees to do likewise.

In addition to talking to customers, other ways to solicit feedback is to include suggestion boxes and contact information on your product label where customers can send their comments. Other good sources of information to learn about your prospective market include:

- ◆ Extension Educators who specialize in your product area;
- ◆ Neighbors, family, and friends;
- ◆ Similar operations that are successful; and
- ◆ Employees.

One of the most cost-effective ways to get customer feedback is through product sampling and direct sales. Offer to provide in-store product sampling days for your retail

customers. Marketing your product at farmers' markets, roadside stands, and at festivals allows you to garner invaluable feedback directly from customers about the flavor, appearance and packaging of your product. This information will be very valuable when you are developing your marketing plan for positioning your new item in the competitive specialty foods market.

Marketing is almost everything that is not production. It is a cyclical process involving determining what your customers want, revising or refining your product to suit their wants or needs, then providing it at a profit to the seller. Successful marketing requires planning. Your marketing plan needs to include clear and specific goals and strategies.

Your marketing goals should be:

- S** Specific: For example, you may want to earn \$35,000 in net sales by the second full year in production.
- M** Measurable: Establish market shares in at least three different types of sales outlets.
- A** Attainable: Are your goals too high, at least for early in the business?
- R** Rewarding: You have to like what you're doing given the resources you're investing.
- T** Timeline: Adopt short-term and long-term goals.

Once your marketing goals are clearly defined, you must describe your target customers and select a marketing mix. Your target customers are defined through market research. Primary research comes from talking directly to prospective customers.

Secondary research includes determining the demographics of your target customers: age,

spending habits, lifestyle, upcoming changes, etc. You can obtain demographic information from the U.S. Census either online or through your public library.

An excellent resource is www.marketresearch.com. Other good resources for conduct secondary market research include:

- ◆ The Internet.
- ◆ Local public libraries and specialized Land Grant University libraries;
- ◆ Associations that specialize in your product area;
- ◆ Specialized publications and newsletters.

During your market research, ask yourself:

- ◆ Who are my target customers and why should they buy my product(s)?
- ◆ Who are my competitors and why are my target customers buying their product(s)?
- ◆ How will my product(s) be better/different than my competitors?

The answers to these questions will help you determine how to promote your product and where to sell it.

Promotion Programs Attempt to Influence Customer Product Concepts, Beliefs and Buying Behavior

Articles about developing your marketing strategy often refer to the four “Ps” of marketing-- price, product, promotion and placement (distribution). Pricing and product development were discussed earlier in this publication.

According to Charles Schlough of Cornell University, successful food marketing must consider four basic product characteristics that consumers look for:

- ◆ Is it healthy?
- ◆ Is it safe?
- ◆ Is it gratifying?
- ◆ Is it convenient?

Apply these as a test when designing your product’s promotion program.

There are a number of promotion options that you should consider as part of your marketing strategy.

Advertising: This is paid promotion. While media advertising can deliver your message to thousands of people through TV, radio, or newspaper ads and direct mailings, it is very expensive. To be most effective, media advertising needs to run more than once in the same place and be narrowly targeted to your specific customer audience. Advertising does not deliver sales quickly but can be helpful in forming your potential customers’ beliefs about your product.

When preparing your advertising campaign, check where your competitors advertise and consider how your product is different. Most publications have a media package available that they will mail to you upon request. In this package, you will find an advertising rate card, publication and readership demographics. There will also be an advertising account contact listed.

Publications often have an in-house artistic designer who can help you develop and produce your ads. Or you can design your own ads on a desktop computer. There are several relatively inexpensive computer design programs available that don’t require extensive publishing experience.

Sales Promotion: Sales promotion is about getting your customer to buy your product. Examples of sales promotion activities include coupons, discounts, in-store displays, trade shows, samples, in-store demonstrations, and contests.

Sales promotional materials should be fairly simple and straightforward. Use attractive, eye-catching colors, keep the type fonts easy to read and always include your company name, logo and contact information. Make sure you maintain clean copies and rights to all your promotional materials so you can work with a different publishing company, if necessary.

Point-of-purchase (POP) cards work well to draw customer attention to your product. They contain information designed to compel a consumer to buy your product. POP promotions may include tent cards, posters, or shelf-talkers. Check with the store manager concerning company policy on placement, size and content before you spend time and money to design and produce them for a particular outlet.



Public Relations: Promotions and advertising take cash out of your operating budget. No one will purchase your “Jammin’ Jelly” if they don’t know it exists or what makes it different from all the other jellies on the shelf. Public relations are promotions aimed at the media--newspapers, radio or TV--to get them interested in your company and product.

Public relations materials such as press releases, which you can create yourself, can generate free publicity for your product. If you

are successful, the media will write positive stories about your enterprise and provide you with a highly visible endorsement from a third party.

Your press release should be concise (keep it to one page or less), factual, and well written. The press release format below is available at no charge from Press-Release-Writing.com. Their homepage (www.press-release-distribution.com) includes a list of their complete services.

PRESS RELEASE TEMPLATE

FOR IMMEDIATE RELEASE:

CONTACT:
Contact Person
Company Name
Telephone Number
Fax Number
Email Address
Web site address

Headline

City, State, Date — Opening Paragraph (should contain: who, what, when, where, why):

Remainder of body text - Should include any information relevant to your products or services. Include benefits, why your product or service is unique. Also include quotes from staff members, industry experts or satisfied customers.

If there is more than one page use: “more” at the bottom of page 1.

Abbreviated headline (page 2)

Remainder of text.

(Restate contact information after your last

paragraph):

For additional information or a sample copy, contact: (all contact information)

Summarize product or service specifications one last time

Company history (try to do this in one short paragraph)

(Indicates Press Release is finished)

Trade Shows: Trade shows can be a great way to introduce your product to consumers, retailers, buyers, and brokers. Before signing up for a show, consider several factors.

- ◆ How much will it cost? There will be a booth space fee.
- ◆ You'll need plenty of well- designed promotional materials to distribute.
- ◆ Your product packaging and labeling must be attractive and appealing.
- ◆ You'll need to design and set up an attractive display.
- ◆ You or one of your employees will have to spend time away from your operation to work the booth.

There are various kinds of shows with different target audiences. At retail shows, you can sell directly to consumers at retail prices. At wholesale trade shows, you will sell to buyers. Some shows have separate days for each category of buyers. Certain trade shows require the exhibitors to be members of the sponsoring associations. Some associations require you to be in business at least two years before you can be accepted as a member.

If your co-packer, broker, or distributor attends trade shows, consider developing a business relationship with them that includes having them exhibit your products in their booth. The Domestic and International Marketing Divisions of The Maryland Department of Agriculture participate in a variety of food trade shows annually. The Department often offers a portion of the space within their display to a limited number of specialty food processors from Maryland. Working under this scenario can help reduce costs and get you marketing experience that might otherwise be beyond the reach of your business. Trade shows offer many resources under one roof, whether you attend as a participant or a spectator. They present an opportunity to see new equipment and technologies, and some offer seminars on new techniques. While attending a show, you can:

- ◆ Meet customers, sales reps, brokers, and regulatory agents.
- ◆ Learn about your competition.
- ◆ Test your product pricing.
- ◆ Evaluate product packaging.
- ◆ Identify consumer and product trends.
- ◆ Evaluate various promotion techniques.
- ◆ Make sales.

Social Media: In the past two years, social media has seen tremendous increase in participants, advertisers, and tools for analytics. According to Nielsen's Social Media Report, consumers continue to spend more time on social networks than on any other category of sites—roughly 20 percent of their total time online via personal computer (PC), and 30 percent of total time online via mobile. Additionally, total time spent on social media in

the U.S. increased 37 percent to 121 billion minutes in July 2012, compared with 88 billion in July 2011.

Social media tools have become a “Digitized Word of Mouth” form of marketing and communications due to the exponential effect of their reach. But how can farmers and rural entrepreneurs effectively connect with potential customers through social medial platforms?

Consider strategically using social media platforms to (1) connect with your existing customers; (2) expand your reach to potential customers; and (3) connect with the larger agriculture community and others to discuss timely issues and educate ourselves.

Other promotional materials or events include your company publications, such as a newsletter or company brochure; sponsoring events; community involvement or time invested in local interests and activities; and your identity media, such as business cards, stationery and signs. Keep all your promotional activities integrated to deliver a consistent and positive message.

Distribution is How You Get Your Product into the Hands of Your Customers

There are a variety of distribution channels, some which will fit your product better than others. How you distribute your products must satisfy your customers’ needs; provide you with an edge over your competition; and fit with other aspects of your operation, particularly your production schedule.

Match your production output with the number of distribution channels you cultivate. Your distribution plan must be built on the availability of product. While it’s often best to have a mix of distribution outlets, don’t overextend yourself by selling to too many outlets too soon. Retailers want you to guarantee you can fulfill your

orders in a timely fashion. Never open a new distribution channel if the pressure to deliver jeopardizes your product quality.

Direct Sales: You can sell all your product(s) directly to the consumer, like at a farmers’ market, or to a retail outlet. Direct marketing by mail, phone, website, or in person can be very effective and increases your profitability since it eliminates paying a sales commission.

Early in your business, direct sales can provide excellent opportunities to collect feedback about your product directly from your customers. Direct sales often require developing and maintaining a database of contacts. It is also very time consuming. If you also are responsible for the bulk of product production, you may have limited time to devote to direct sales.

The primary markets for direct retail sales include specialty food stores, independent grocery stores, craft fairs, gift shops, delicatessens, gift basket businesses and caterers. Before calling on these venues, give some thought to your presentation. Have a prepared packet of information about your product and contact information to leave with the retailer for future reference. Call in advance and schedule a time to make a brief presentation. Retailers are busy people too.

Detail what’s special and unique about your product, but don’t knock the competition. Don’t get discouraged if you don’t make a sale on the first visit. Be prepared to make a cordial follow-up call and keep it simple for the retailer to reconsider. If you do make the sale, deliver your product promptly and expect payment on the agreed-upon terms.

Distributors: A distributor takes possession of your product and then re-sells it at a profit to his customers. The advantage of using a distributor is that he does the selling for you. Services can

include warehousing your product, featuring your product in a catalog, selling directly to retail accounts, and handling all ordering and invoicing for sales.

Distributors are experienced in their sales territories and know what sells at what price. They are looking for products that sell well, generate a profit, and are delivered on time. Distributors attend trade shows and can showcase your product to potential buyers that you may not be able to reach.

Distributors can help you grow your business. However, they charge fees. All distribution contracts are negotiable, but expect the fees to start at around 25 percent; that is, the distributor will mark-up your wholesale price by 25 percent. Get references from other producers and discuss fees and sales territories early in your negotiations when selecting a distributor.

Brokers: Brokers don't buy your product. They sell your product directly to distributors or retail outlets in return for a commission. They often handle several products and cover a specific geographical area. You can think of a broker as a company salesman. A broker may also help you locate the right distributors.

If you choose to use a broker, find one who likes your product, has a proven record of selling your type of product and can generate new sales. Prepare a written contract between you and your broker. Commission fees generally range between 5 and 15 percent of the wholesale sales revenue. Also, make your terms of product payment clear to a broker or distributor so that problem accounts can be avoided.

Mail Order: If your product can be shipped, you may want to consider selling it by mail, direct to consumers. According to USDA's Economic Research Service, catalog and mail order sales

account for over 27 percent of all U.S. retail sales of specialty foods. Mail order sales allow you to target your sales effort to a pre-selected audience since most catalog companies have already done demographic research to determine their distribution lists.

Whether conducting your own direct mail order marketing program or selling through catalogs or cooperative marketing listings, you need to create a mini-catalog and attractive order form that lists your products, prices, shipping costs and terms of the sale. You can solicit mail orders through catalogs, postcards, newsletters, print ads, TV, radio or on the Internet.

While mail order can broaden your marketing outreach, you must also consider shipping costs and determine how to receive payments. How will you handle complaints, deal with lost shipments and manage your inventory? Offering a money-back product satisfaction guarantee helps assure your customers that your product will meet their expectations and reduces returns and product complaints.

You can purchase lists of names and addresses from list brokers that match your target customer profile. You can locate the names of list brokers in the Yellow Pages or on the Internet. In the beginning, you may want to make up your own target list from your contacts in the community, local businesses, school groups, service organizations and your family and friends.

Browse specialty food catalogs and magazines that handle products similar to yours. Contact them with a letter of inquiry. Be sure to include your product promotion materials, pricing, and payment information. Follow up just as you would with other potential accounts.

Internet Sales: The Internet has become the great equalizer among marketers since

company size doesn't dictate the extent of online offerings or a company's online success. Thousands of large and small food and beverage companies worldwide are trying to attract the attention of Internet shoppers. These shoppers have many of the target customer characteristics common to specialty foods shoppers—older, higher income, and well educated.

Savvy marketing requires that you keep your product name in front customers and that you make it easy for them to purchase your product. Attractive, well-maintained web pages can serve both of these purposes. You may choose to construct and maintain your own site. Or, you may want to have your web pages hosted on a site that promotes other specialty or locally produced food products.

If you chose to build your own site, you will need a computer, high-speed Internet connection, software and a service provider. Many on-line services offer their customers free space on their host services to establish a modest Internet home page. While cost effective, the space will probably limit your site to only promotional material and no e-commerce. Consider hiring some help from a local student or through your local community college to develop a more merchant-friendly site. The disadvantage of using itinerant help is that you will regularly be looking for someone to assist with site updates. You may want a higher level of web design assistance, but be prepared to pay for it.

When establishing your web site, you will need to register your domain name; that is, your web site address. You may choose to establish your web presence by participating in a directory listing. Many State Department of Agriculture homepages are now hosting links to locally grown and processed food merchants. Other host sites, such as localharvest.org will list your

site with a link to your home page for free or for a very small fee.

When designing your web site, be sure to list your prices, including shipping costs. Offer customers a money-back product guarantee. You should have the capability to accept credit cards, and be sure to list your contact information with a link to your e-mail. Answer all e-mails to your site promptly. Consumers expect quick e-mail responses and automatic acknowledgement for orders. Do not sell or lease e-mail addresses. Include a privacy statement on your site that assures your customers that you won't sell your customer information.

In addition to being a distribution outlet, your web page also serves as a pathway for communicating with established and potential customers through e-newsletters, special promotion offers and advertising. Put your web page address on all your product literature, labels, business forms and advertisements. Keep your web site interesting and updated regularly.

Even Small Businesses Need Good Insurance Coverage

Many small business owners decide not to purchase professional liability insurance because of the high cost of premiums. However, out-of-pocket costs for a legal defense or settlement of a claim can far exceed premium costs. In some cases, the costs of a claim could be enough to shut down a small business.

Liability insurance can protect a business owner from the risks of liabilities imposed by lawsuits and similar claims. A comprehensive general liability insurance policy has three parts: Premise and Operations, Subcontractors, and Products Liability. The Premise and Operations portion covers claims for property damage

whether it occurs on or off your property. As a rule, this portion of food processors' exposure to loss is small, depending on the cost of your facilities.

The Subcontractor's section provides coverage if a third party that you hire causes injury to someone. Co-packers are technically subcontractors for food processors. Your co-packer should have product liability insurance. Subcontractor insurance will provide your business with "back-up" protection for any subcontracts you utilize.

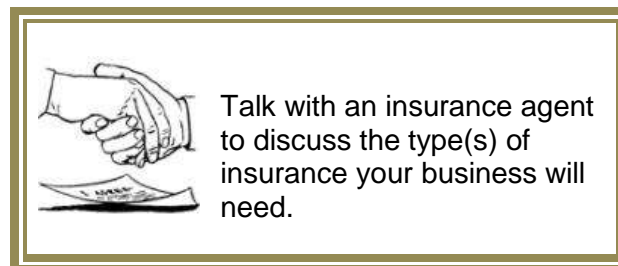
Product liability is the food processor's largest risk. If your product makes someone sick, your general farm liability insurance will not cover the claim. No matter where or when the injury occurs, the processor is held liable. Most retail outlets "require" that a product have a minimum level (normally \$1 million) of product liability coverage before they agree to stock the product. Stores selling your products may request a Certificate of Insurance as proof of your coverage.

The cost of food product liability coverage varies with the specific product characteristics. Most companies will be able to give a quote on a \$1 million policy, based on a standard set of questions about your business and how your product is produced. While premium rates vary, one "rule-of thumb" estimates the premiums for a \$1 million policy will be around \$1,000 annually. The level of gross sales and prior claims history are variables that seem to significantly contribute to the price.

The U.S. Small Business Administration's (SBA) "Insurance for Small Businesses" is a very helpful reference. The information in the SBA booklet will help you prepare for the discussion of your food business insurance needs with your agent.

Other product-related coverage that may benefit your company includes:

- ◆ Property Coverage:
 - Brands and labels
 - Property in transit
 - Property at fairs and exhibits
 - Spoilage
- ◆ Food Industry-Specific Risks:
 - Refrigeration equipment insurance
 - Rejection insurance to cover the cost of a shipment of food in case it is rejected by USDA
 - Internal "shrinkage" and theft coverage on bulk liquid products



Most Businesses Need Several Kinds of Insurance

State law mandates some kinds of insurance like workers' compensation and vehicle insurance. Others, such as liability, fire, business interruption, disability and key-person, are strongly recommended. Discuss your insurance needs with your agent in great detail. Be honest about every aspect of your business and make sure the agent understands exactly what it is you do. If you don't disclose the full nature of your food processing business, then the insurance you buy may be inadequate to cover a future claim.

Types of coverage to discuss include:

Commercial Auto: Including "non-owned" auto liability insurance if your vehicles are used to support your business.

Medical Payment: Payable if someone is injured in your business, whether it's your fault or not.

Workers' Compensation: Provides benefits for on-the-job injury.

Business Interruption or Earnings

Insurance: If your business is damaged by fire or other causes and you must suspend operations.

Disability Income Protection: A form of health insurance if you become disabled.

Umbrella Insurance: Provides an additional layer of coverage over other liability policies (General Liability, Product Liability, Workers' Compensation and Commercial Auto) in the event of a major incident.

Keep all your insurance records in a safe place, either with one of your management consultant team members such as your accountant, in a safe deposit box, or in a fireproof safe. Keep a list of your policy numbers, the insurance company's full name, and the contact information for your agent. Be sure your family members and business partners know where

you keep this information. As your business grows, periodically review your insurance needs and coverage amounts to be sure your business is adequately protected.

And Now a Checklist to Follow as You Turn Your Idea into a Specialty Food Business

- **1.)** Write a detailed business plan.
- **2.)** Select your business structure and advisors.
- **3.)** Select a business name and file the necessary forms with the Maryland Office of Assessment and Taxation.
- **4.)** File all required local permits and license applications.
- **5.)** Develop your pricing and marketing strategies.
- **6.)** Obtain needed facilities (i.e. land, building, equipment).
- **7.)** Obtain adequate residential or commercial insurance for the building.

Ginger S. Myers

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