

Robert M. Kerr Food & Agricultural Products Center



FOOD TECHNOLOGY FACT SHEET

Adding Value to OKLAHOMA

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Ten Frequently Asked Questions of Start-up Food Business Owners

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Questions are a natural part of the business formation process. Francis Bacon, the famed English philosopher, once said “Who questions much, shall learn much and retain much.” One question spawns another, and eventually a body of knowledge is developed. While all businesses have common questions (for example, see OCES Fact Sheet T-9005), food business entrepreneurs usually have their own common set of start-up questions. The Robert M. Kerr Food & Agricultural Products Center (FAPC) at Oklahoma State University has helped entrepreneurs answer these questions since 1997. Ten of the most common are:

1. Is there a market for my food product?
2. What does it take to operate a food business?
3. What legal structure should I use for my business?
4. What are my production/manufacturing options?
5. What permits/licenses do I need, and where do I get them?
6. What is a business plan, and how do I develop one?
7. How do I “protect” my product’s name or logo?
8. How do I market my food product?
9. What are the appropriate food safety procedures for my product?
10. Where can I go for help?

1. Is there a market for my food product?

Most food businesses start with a product idea or a family recipe, but with little information on the market potential of the product. Family members and friends may have suggested the entrepreneur market the product, but does that constitute the product’s marketability?

A good starting point is to perform an Internet search for

similar products, and to visit a few supermarkets. If these searches indicate the availability of similar products, a market for the product probably exists. However, the presence of similar products also means the existence of competitors. Carefully consider how other products are made and their packaging, marketing tactics and prices. If your product has some unique advantages over the competition, but can also be sold within the same price range, there may be some market opportunities.

Ask store managers or wholesale representatives if they’d be willing to carry your product. Provide samples to people other than your family members and friends, and ask for their opinions on all aspects of the product (flavor, visual appeal, packaging, label, etc.). Take their advice into account when making decisions about your product.

2. What does it take to operate a food business?

Too often, a food business entrepreneur focuses on the product and not his/her ability to operate a small business. The start-up business owner must be able to fill several roles, or have partners or employees who can fill those roles. The answer to this question requires an honest assessment of your own capabilities and skills. It also requires an objective assessment of your weaknesses, your resources (i.e. money and time), and—if applicable—your family situation. Only you can answer this question, and you must do so before committing to the business idea.

You must be able to determine if you:

- Are a self-starter.
- Can make good financial and time allocation decisions.
- Have the physical and psychological stamina to operate a fledgling business.

- Have the ability to perform basic business record-keeping (e.g. production records, employee records, and accounting/tax preparation).
- Can work alone when necessary.
- Can balance the business and family life.

Rarely does a food-business entrepreneur possess all of these qualities. Some develop qualities while trying to establish their business: reading/researching, attending workshops, taking classes and/or finding business advisors. Others find a partner with complementary strengths or hire skilled people with general business or specific food industry experience.

3. What legal structure should I use for my business?

There are several options for business structure. Most small businesses in the U.S. are operated as sole proprietorships because they are simple to start and the business income is included as part of your personal income for tax purposes. However, sole proprietorships also have the disadvantage of unlimited personal liability exposure.

Because of capital needs or to avoid personal liability exposure, business structures other than sole proprietorships are very common for food businesses. Options include general or limited partnerships, limited liability companies (LLCs), subchapter S corporations or subchapter C corporations. Each structure has certain advantages and disadvantages. Start-up owners are encouraged to contact legal and accounting experts to determine the best structure for their business needs.

4. What are my production/manufacturing options?

Owners of start-up food businesses often cannot afford to buy or build their own facilities. As a result, they may use co-packers, incubator kitchens or otherwise rented commercial kitchens.

A co-packer is an already-established food processor who makes products for others at a contracted price. Co-packers already have all the equipment, licenses/permits, and personnel to meet your processing needs, and contracted production keeps those resources in use when the plant might otherwise be idle. The FAPC fact sheet titled “Food Processing Using a Co-Packer” (FAPC-106) can help you identify and select an appropriate co-packer.

Incubator kitchens are commercial kitchens designed specifically for use by start-up food businesses. Multiple start-ups share the facilities with each renting either space in the facilities or securing specific days/times to use the equipment. Incubator kitchens usually have stipulations on their patrons, such as required training or operating procedures. They are also generally intended to be temporary processing facilities with the expecta-

tion that the food business will eventually grow large enough to utilize a co-packer or develop its own processing facilities.

Other options for processing may include using a restaurant’s kitchen (on off days or after operating hours), or even a licensed/inspected kitchen in a church or school. Before considering such options, make sure local zoning laws do not prohibit “manufacturing” activities in the city areas where these kitchens exist.

5. What permits/licenses do I need, and where do I get them?

Some licenses and permits are common for virtually all businesses, such as zoning, sales and use tax permits, and an Employer Identification Numbers (EIN). These may vary by city and/or state. Other licenses and permits are specifically related to operating a food business. Food-specific licenses and permits are generally similar for all businesses operating in the same state. Importantly, there may be instances where both the business and you as an individual are required to have separate licenses.

Information on most common business licenses and permits can be obtained from sources such as a city/county clerk’s office, the county Cooperative Extension Service office, the local chamber of commerce, the Oklahoma Tax Commission or the State Department of Commerce. For example, zoning permits are typically received from a city or county office. The Oklahoma Tax Commission can provide sales and use tax collection permits, a manufacturer’s sales exemption permit, and help you set up an Oklahoma tax withholding account. An EIN, which is necessary for any business with paid employees, requires that the business owner contact the Internal Revenue Service. A local building permit may also be required if you are building or renovating facilities for your food business.

Before a food business pursues specific licenses and permits, it needs to be registered with the U.S. Food and Drug Administration (FDA). According to the 2002 Bioterrorism Act and the Food Safety Modernization Act of 2011, any facility that manufactures, processes, packs or holds food intended for human or animal consumption must register with FDA before starting its activities.

Food-specific licenses and permits vary by the type of product manufactured and how/where the product is sold, and may include local, county and state permits/licenses. A food-manufacturing permit and a plan review application are common requirements for food processors. Food-service vendors may also need a food-service establishment permit, a mobile food-service license, a temporary (mobile or non-mobile) food service permit, food-handler permits, Food-Service Operator Certification, and/or a peddler’s license. State and local health departments can help you determine the appropriate licenses and permits for your business.

6. What is a business plan, and how do I develop one?

A business plan serves as the guidebook for how you will operate the business and includes your goals and objectives for the venture. It also identifies the products/services, the market and the management team. A complete plan includes a market study, promotional strategies, current and projected balance sheets, income statements and cash flow analysis. Business plans are useful as a guide for you and your partners, but they may also be required by potential investors, lending institutions and grant-providing entities. In some cases, customers such as large retailers require you to show them your business plan.

There are many resources to help you develop your business plan. Small Business Development Centers and the Service Corps of Retired Executives (SCORE) are excellent sources for plan-development assistance. Additionally, computer software programs are available to “walk you through” the steps of business plan development, and many websites exist that provide example plans. Workshops for developing a business plan are offered by universities, community colleges and career-tech schools. FAPC offers a workshop specifically for food business entrepreneurs developing a business plan and provides a fact sheet titled, “Developing a Business Plan for Value-Added Agricultural Products” (AGEC-909).

7. How do I “protect” my product’s name or logo?

The name and logo for a company’s products are intellectual property and are important to the development of brand recognition. To protect your intellectual property, make sure you trademark the name and logo. Trademarks are available on three levels: local (very limited geographic region), state and federal. State trademarks can be received from the Oklahoma Secretary of State’s office and receive only in-state protection, while federal trademarks awarded by the U.S. Patent and Trademark Office (USPTO) are nationally protected.

Assistance with trademarks can be obtained from a number of sources, including the OSU Patent and Trademark Resource Center (affiliated with the USPTO) located in OSU’s Edmon Low Library. The Oklahoma Cooperative Extension Service also provides a fact sheet titled “Intellectual Property: Protecting Your Business Assets with Patents, Trademarks, Copyrights and Other Tools” (T-4147) to help you pursue trademark protection.

8. How do I market my food product?

The first step is determining the marketing channel on which you plan to focus: food service, retail or fundraiser. Each channel requires different marketing efforts. Once a channel has been selected the process for developing a “marketing mix” begins. “Marketing mix” is a general phrase used to describe the various strategies incorporated by a business to reach its intended

customers. Using the four “P’s” – Product, Price, Place, Promotion – is one way a company may create the marketing effort that works best for the goals of the company. The four “P’s” can be described as follows:

- **Product:** Each product has three levels. The core level includes the actual functional benefits that consumers demand from products in this food category, such as specific ingredients, nutritional characteristics, flavor and convenience factor. The next level is the actual physical image of the product. The quality of packaging, package shape/style and the visual branding of the product all play important roles. The final level of a product is the augmented level. This level is the non-physical part of the product that adds a perception of value to the consumer. One example of the augmented product level is a product guarantee or warrantee.
- **Price:** Pricing issues are related to the nature of the target market. Higher prices may be expected for a unique, high-end gourmet or specialty product, but an item that is more homogeneous with other food products in a given category will most likely be competitively priced. A wise entrepreneur will determine price based on several factors, including the price range of competitors, the cost of manufacturing the product plus an acceptable profit margin, and/or consumer willingness-to-pay for a specialty product with an identified set of product characteristics (e.g. gourmet, organic, etc.).
- **Place:** Place is also commonly referred to as distribution. Distribution plans differ for products that are sold directly to the consumer versus products that are sold in retail or food-service outlets. A company focusing on Internet sales is marketing directly to the consumer. Conversely, a company focusing on retail grocery store sales will generally have a distribution chain that includes a wholesaler or distributor.
- **Promotion:** Promotion relates to how a business persuades consumers to purchase its products. There are many methods for promoting a product, and each one reaches the target market in a different way. Tradeshow, couponing, direct mail and advertising are all different promotional aspects of a marketing plan.

The four P’s determine a company’s ability to reach and retain members of its target market. Research and experimenting with the marketing mix are beneficial in creating successful results for a company.

9. What are the appropriate food safety procedures for my product?

Food safety procedures vary somewhat by-product and process, but the basic food safety procedures for all foods include the following steps:

- Conduct an analysis of food-safety hazards associated with your food or with your manufacturing process. Common

examples of analyses include checking for bacterial pathogens, soils, chemicals and insects in the food product.

- Identify and implement tools to reduce or eliminate food safety hazards. This may include improving temperature controls, appropriate ingredients and usage, water/moisture control and storage conditions.
- Package your food products so they remain safe and clean.
- Label your food so consumers know exactly what they are eating but without revealing your recipe. This includes listing allergens and nutritional information.
- Label your food so consumers know how to handle your product once they receive it. This might include listing appropriate storage or cooking temperatures, expiration, or “best by” or “use by” dates on the packaging.

Food business owners must learn and understand various food safety protocols, such as HACCP (Hazard Analysis and Critical Control Points), GMP (Good Manufacturing Practices) and GFSI (Global Food Safety Initiative). Assistance with food-safety procedures for specific products and educational programs for food safety protocols are provided by FAPC. Health inspectors can also provide recommendations for safety procedures and training materials.

10. Where can I go for help?

There are a number of local, state and national resources to help answer questions from food business entrepreneurs. FAPC is a good place to start, and its team of business and marketing professionals can answer many of your questions or point you to the appropriate agency for answers. Contact FAPC at 405-744-6071 or learn more about FAPC’s helpful materials and educational programs at www.fapc.biz.

Other sources for information and assistance include:

Oklahoma Department of Health
800-522-0203
www.ok.gov/health/

Oklahoma Department of Agriculture, Food and Forestry
Market Development Division, 405-521-3864
www.oda.state.ok.us/mktdev

Oklahoma Department of Commerce
800-879-6552
www.okcommerce.gov/

Oklahoma Tax Commission
800-522-8165
www.tax.ok.gov

Small Business Administration
800-827-5722
www.sba.gov

Small Business Development Centers
800-522-6154 (ask for the nearest office)
www.osbdc.org

Service Corps of Retired Executives (SCORE)
800-827-5722 (ask for nearest office)
www.score.org

REI Oklahoma
800-658-2823
www.reiok.org

Internal Revenue Service
(Form SS-4, Employer Identification Number)
800-829-3676
www.irs.gov

Local Chamber of Commerce

Career Technology Centers

Online Information

Summary

These 10 questions are only some of the questions a food business owner might ask. Business owners may also need answers to questions about ingredients suppliers, finding and using a food broker, insurance, employee issues, confidentiality and non-disclosure agreements, and others. The resources listed in this fact sheet are excellent places to get help for the additional questions you will have.