Checklist for Start-Up Food Processors

Starting a food processing business involves a doable but sometimes difficult process. This checklist is a basic list of critical steps in setting up a food processing business. Each step will involve various contacts before it is complete. Check off each step as it is fully completed.

Managing

_____ Step 1: Complete business plan.
To help insure success, this step is a "must" not a "maybe." Business plan formats are available through many outlets including: Small Business Development Centers (through Colorado Office of Economic Development & International Trade), Chambers of Commerce, private consultants and books on writing business plans. Click here for an online guide to developing a business plan.

_____ Step 2: Recognize your support group.
As you talk to people while working on your business plan, note which individuals and organizations are interested in and capable of supporting your effort. Continue to network with these people during up and down times.

_____ Step 3: Determine regulatory requirements.
Entrepreneurs need to arrange for licenses (federal, state and local), taxes, insurance, trade name registration, and workers' compensation. Click here for a list of required licenses. Also check with your city and county for regulatory requirements. Visit www.cofarmtomarket.com for additional information.

_____ Step 4: Recognize management strengths and weaknesses.
Entrepreneurs should inventory management skills of company principals. These skills should be compared to the company's management needs including production, marketing, finance, etc. If all the management needs are not met by company principals, the expertise needs to be hired on a consultant or permanent basis.

_____ Step 5: Determine the legal implications of business choices.
Review with a lawyer the legal implications of your business decisions. What legal form of business organization is best for your circumstances (sole proprietorship, general partnership, limited partnership, S or C corporation, limited liability company, or co-operative)? What concerns need to be dealt with when buying an existing business in order to avoid commercial fraud? Can you get a patent or copyright on your product? If so, what process is involved?

Marketing

_____ Step 6: Determine your market.
Determine the most available and appropriate market for your product. Should you sell through independent markets, gift stores, gourmet shops, chain markets, mail order, basket companies, farmers' markets, local craft shows, trade shows, or food service? Establishing a track record with independent stores may make it easier to approach the chain stores later on. The guide Developing a Marketing Plan for Your Food Product is available through the Colorado Department of Agriculture.

_____ Step 7: Determine your competition.
Know your competing products as well as your own. Recognize how the competition's strengths and weaknesses compare to that of your product in price, quality, packaging and uniqueness. Resolve your product weaknesses if possible. Market to your product's strengths.

_____ Step 8: Commit to promoting your product.
Determine the most cost-effective method of promoting your product to the designated market. This may be couponing, in-store demonstrations, newspaper ads, radio or trade shows. When financing is a problem, you may be able to find ways of cutting marketing costs; i.e., participating in local trade shows, sharing a trade show booth with another processor and delivering product to radio station personalities who may mention it on the air.

_____ **Step 9: Determine if a broker or distributor is needed.**
Food brokers act as sales agents for manufacturers. Product generally is delivered from the manufacturer to a warehouse, but may be delivered from the manufacturer to a retail store. Brokers do not take ownership of the product. Payment, therefore, normally goes direct from the retailer to the manufacturer. Food distributors buy product from the manufacturer and sell to the retailer. Product is delivered to the individual stores. Since a distributor takes possession of the product, you'll want to feel comfortable with the financial stability of the firm.

Producing

_____ **Step 10: Determine if you wish to do your own processing or have the product packed for you.**
You can process your product yourself (in a commercial kitchen, or in your own processing facility) or have the product packed for you (by a co-packer). Remember, if your processed product contains more than 2% cooked meat or 3% raw meat, USDA will need to inspect it in addition to the county or state health department.

_____ **Step 11: Processing at home.**
Approval of a home facility for food processing is rarely granted. When permitted, the requirements may make it cost-prohibitive. Check with the county and/or state departments of health to determine the requirements. If considerable processing is done, commercial grade equipment may be required.

_____ **Step 12: Processing in a commercial kitchen.**
Your least-expensive option is usually to process in a commercial kitchen. A commercial kitchen refers to a health department-inspected kitchen such as that often found in a restaurant, church, school or service organization. One may be able to contract for use of these facilities during off-hours or off-days. Visit the Colorado Co-Pack Directory for a list of commercial kitchen space for rent.

_____ **Step 13: Processing through a contract packer.**
When your business outgrows the commercial kitchen, you may wish to contract pack. A contract packer or co-packer is an existing food processor that is willing to pack for others. In this instance, you are marketing the product only. It is extremely important that you and the co-packer agree in writing as to how the business agreement will be handled. You may wish to have a lawyer draw up a contract. The Colorado Department of Agriculture has developed the Colorado Co-Pack Directory to help processors find kitchens to rent or a contract manufacturer.

_____ **Step 14: If you wish to establish your own processing facility.**
Starting your own processing facility may prove the most-expensive option due to equipment and renovation costs. A commercial realtor or local economic development person can help you identify potential facilities. Determine your building, payment, transportation, raw material, storage, employee, and utility needs prior to starting your search. Have the county or state health department inspect the facility prior to lease or purchase. If upgrading the facility is necessary to process food, obtain several bids and factor this into your decision.

_____ **Step 15: Determine your ingredient and packaging needs.**
Ingredient and packaging materials may be purchased direct from the supplier or through local distributors. Local suppliers, when available, may prove to be the least-expensive option due to lower transportation costs. If minimum purchase amounts are a problem, you may be able to co-op buy with other local processors if you use the same ingredients or packaging materials.

_____ **Step 16: Determine an accurate processing method.**
Check with the Colorado State University Food Science and Human Nutrition Department or a private analytical lab to determine an accurate processing method for your product. This may require testing; i.e., pH testing and water activity level. Information on the location of Colorado food analytical labs is available through the Colorado Proud Service Guide.

_____ **Step 17: Determine your equipment needs.**
Information on suppliers of new and used equipment is available through trade shows, the yellow pages of the phone book, and the Colorado Department of Agriculture. If you are considering used equipment, determine its location, description, condition (check in person), previous usage (may restrict usage for food processing), upfront and hidden costs (i.e., travel to examine equipment, ongoing costs-such as gas versus electric power, removal from current site, repair and parts, maintenance, transportation), and remaining warranty.

_____ **Step 18: Determine your nutritional labeling requirements.**
The Food and Drug Administration and the United States Department of Agriculture are involved in food labeling. Both agencies allow specific small business exemptions to the nutritional labeling requirements. Some foods containing no significant amounts of nutrients are exempted; i.e., plain coffee and tea, some spices, and flavorings. Meat and poultry processors should contact the USDA and other processors should contact the FDA to determine if they are exempt from the labeling requirements.

_____ **Step 19: Determine your label design.**
Graphic designers and advertising agencies can provide assistance with label design. Printers then produce the label. Visit the FDA Food Labeling Guide for food label requirements.

_____ **Step 20: Determine your transportation method.**
Determine your least-expensive, acceptable method of transportation. Dependent upon market location, this may mean UPS, LTL (less than truckload) shipments, or using a distributor. If a co-packer is used, it may be possible to use truck lines that currently service that processor.

_____ **Step 21: Determine a HACCP Plan.**
A Hazard Analysis Critical Control Point (HACCP) system identifies points along the production chain where contamination can occur. Safeguards implemented at these points help prevent food safety hazards. Seafood and most meat/poultry processors are required to implement HACCP. Although not required, all other processors can better safeguard against food safety problems with a HACCP plan. For further information, click here .

Financing

_____ **Step 22: Complete a business plan and financials prior to approaching any person or organization for financing.**
You and your accountant should complete financial statements which generally include actual or projected balance sheets, profit and loss statements, cash flow projections, breakeven analysis, sources and uses of funds, tax returns, schedule of existing indebtedness, and, if a privately-held company, personal financial statements.

_____ **Step 23: Commit your own financial resources.**
Financing for start-ups comes primarily through personal funds and loans. You may have options with personal funds, loans from private investors (family, friends, business associates, suppliers), home equity loans, refinancing of real estate, credit card lines of credit, cash value on life insurance policies, and co-signing possibilities.

_____ **Step 24: Be aware of other potential financial resources.**
Revolving Loan Funds (RLFs) are available in many areas throughout the state. The Small Business Administration and local banks and businesses may be additional sources of financing. Sometimes there are loans for the socially-disadvantaged. Local economic developers can assist you in determining financial resources in your area. Tax-exempt bond financing is possible through the Colorado Agricultural Development Authority.

_____ **Step 25: Be aware of available tax benefits.**
Much of rural Colorado and portions of urban areas are located in Enterprise Zones (EZ). These zones are geographical areas of the state set aside for economic improvement. Companies locating within zone boundaries may be eligible for specific tax benefits. A summary of EZ tax benefits and a listing of local administrators are available through the Colorado Department of Local Affairs. Some of these incentives may be applicable for the food processor. Local economic developers are familiar with the local EZ administrator, and the tax benefits available at the city, county and state level.

Information Resource List

Colorado Office of Economic Development & International Trade

Colorado Business Assistance Center

Colorado Farm to Market (Navigating the Rules and Regulation Maze)

United States Department of Agriculture, Food Safety Inspection Service

Colorado Department of Public Health, Consumer Protection Division

Western Colorado Business Development Corporation

Colorado State University Food Science and Human Nutrition Department

Colorado State University Farm to Table Food Safety

Food and Drug Administration (nutrition labeling information)

Colorado Department of Agriculture, ICS

Small Business Administration

Colorado Department of Local Affairs

GS1 (obtaining a UPC number)

Service Guide

Business Development Tools

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