

# Guide to Starting a Culinary Business

Our guide is specific to the food industry. It does not concentrate on the details of business start-up and management that apply across industries. We advise you to seek one of the numerous books on starting a business for more information on basic accounting, hiring, operations, etc. and hope that this guide provides you with more detailed insight into the world of culinary entrepreneurship.

## ***Experience***

You need experience in both your craft and in management. A culinary degree or internship provides a starting block, but you should also work in the front and back of the house in the type of business you wish to start in order to gain an understanding of how the business works.

Small business courses such as those offered at your local Small Business Office can give you a basic understanding of management and accounting tools if you do not feel comfortable with this aspect of the business.

The most important thing is to accurately identify your strengths and weaknesses:

- What skills do I contribute to the business?
- What do I need to learn in order to run this business effectively?
- What skills should I likely outsource to other professionals?

Make sure that you are ready to take the plunge into running your own business.

## ***Start Small, Think Big***

One of the greatest advantages to starting a food business is that is fairly easy to start small and slowly grow into your goals, given adequate planning. Once you have built your customer base and can demonstrate profitability, you can move on to funding.

Never purchase your business plan from a website! These are automatically generated by software and easy to spot by any banker or potential investor. Most importantly, they negate the most valuable aspect of the business plan - what you learn in the process of writing it. Creating a business plan forces you to concretely identify critical aspects of your business. If you do not take the time to do this yourself, your business will lack vision and cohesiveness; you are setting yourself up for failure.

Farmer's Markets and vendor booths at events are the best way to start selling your product on a small scale, along with friends and family. You must, however, have a basic presence online to get word of your business out to the public. Business cards, a basic website and social media tools are all essential first steps.

## ***Build Your Brand***

Samples and similar promotions are always the best way to get your product to market. Offering to teach courses for free or for charity events can help market your products. You must be willing to invest in promotion in the early stages without necessarily seeing profits.

In order to effectively build your brand, you will need a comprehensive marketing strategy that carefully plans out how you will present your product and what mediums you will use to reach your target market.

One of the best ways to begin building a brand is to establish a network within your community that can effectively reach your target market. Most cities have various clubs and groups focused on food. Seek them out, make friends and connections and develop an understanding of what people are looking for and how they will react to your product and your marketing materials.

### **A food by any other name would not sound as tasty.**

Never underestimate the marketing potential of your business and product names. A good name will strike a balance between describing your product and reflecting upon your company culture. That culture is really determined by your own personality.

The name needs to be short and immediately identifiable to the product. Avoid using adjectives that would imply a different product entirely. Also avoid generic names such as “Martha’s Cakes” or “Bill’s BBQ.” Such names do not communicate anything about the product beyond who made it.

If your name has a background story, make sure to communicate this effectively to your customers. It is part of your brand identity.

To begin deciding upon a business name, make a list of the adjectives that describe your product and how it is better than the other products on the market.

Make sure to run your potential names by trusted sources for feedback to make sure that there are no embarrassing or negative alternate meanings or pronunciations that you may have overlooked. It is surprising how many businesses do not catch this!

### ***Develop a Niche***

Launching any business must always begin with an assessment of the competition. Study the local market to find potential untapped markets. If you think you have a specialized product from a secret recipe, make sure to sample competing products. Ask your friends to sample the products in blind tasting sessions to provide accurate feedback on where your recipe stands.

Stay on top of the industry through trade associations, publications and websites. This will keep you aware of emerging trends and ready to take ideas that may be blossoming in other areas to your local market.

### ***Compliance is Critical***

While you may learn of many businesses that seem to operate well outside the legal limits, they are at great risk and will likely be shut down. If you want to build a business, you need to think long term. A single closure for failure to comply with your local regulations can destroy your reputation and wipe out a loyal customer base. Take every step necessary to insure that you are 100% compliant with all local regulations for your business at all times.

## ***Consistency is Key***

Most people will judge your entire operation based off a single visit involving a single product. That means that one undercooked muffin can genuinely hurt you. With the increasing popularity of crowd-sourced review sites such as Yelp and the popularity of food blogging, news travels fast. In a tight-knit community such as Houston, this is even more important. Your most valuable customers will be your repeat customers.

## ***Funding***

Proper forecasting and cash flow management are the critical to your new business. The quality of your product and other skills cannot succeed without financial management. Private investors or lenders such as friends and family are your best and most likely funding source. If this is not a possibility, there are local lending organizations and community banks that may provide a loan. If you chose this route, you will need a comprehensive business plan, adequate collateral and, if you do not have a second job, a co-signer. Community banks are more likely to lend to small business while local branches of the larger banks will usually not consider anything under \$200K and even then, they will only finance the purchase of large assets such as real estate.

Investors understand the competitive nature of the food industry, so financing for these ventures is particularly tight. You might here of stories of “angel investors” and “private equity” but rest assure that this is uncommon in the food industry and unheard of at the start-up phase. You would need an established product and a clear plan of use of funds before this could even become an option. Do not let websites trying to sell you “access” to such investors or materials take advantage of you.

Carefully examine your cost structure to determine your needs. This is part of your feasibility analysis. If you do not have the money to make the business work, then it is not feasible. You must carefully project out the following costs:

- Production space
- Any equipment purchases
- Transportation
- Ingredients and packaging
- Staffing requirements and reasonable salaries (don't forget to pay yourself!)
- Overhead costs such as advertising and accounting

Once you have these estimates, you can determine your required financing.

## ***Production***

### **Who will do the work?**

Making the transition to self-employment is challenging on its own, without the added tasks of establishing a new business. If you can manage it, start your business slowly as a side business in your part time while maintaining a regular job. This will also allow you to qualify for better financing packages for your endeavor. While hiring employees is complex and expensive, many of the taxes and filing requirements can

be avoided by hiring subcontractors instead. For example, instead of hiring a cleaning person, simply outsource to a service that will come in and clean when needed. This will allow you to save critical cash resources and minimized fixed costs (high fixed, not variable costs are a common business killer). Websites such as Craigslist provide a great resource for subcontracting.

If your business is a partnership, make sure to outline, in writing, all responsibilities of the partners to ensure that the work distribution is fair and avoid disputes.

### **Where will you make your product?**

While you may be able to make your product at home in a few states (see here for more information on cottage laws), this is not an option for most aspiring culinary entrepreneurs. Building your own commercial kitchen is extremely expensive and we strongly advise against it for new businesses. Instead, try to arrange a rental agreement for production in an existing kitchen. Churches, community centers and even caterers rent their kitchens when not in use. Ideally, you may find a shared-use kitchen in your community like Kitchen Incubator that specializes in providing kitchen rental and other services that help small food businesses.

Once your recipe is established, you can also hire a co-packer to process and package your product. However, we do not recommend this until you have been selling your product for some time and have established your recipe and brand name, as this is an expensive process requiring large-scale production.

### **Pricing Strategy**

A well thought-out pricing strategy uses both cost-based and competition-based techniques to arrive at a pricing structure. The competition-based technique analyzes prices in a given market for similar goods. You should start off with a simple chart of similar products and their prices. If you think your product is worth more, you have to be able to explain to the customer exactly why that is true. This is where many people stop in forming their pricing strategy and it is the reason many businesses fail.

The next component is a cost-based analysis. You must determine all of the fixed and variable costs that go into making your product. Fixed costs are those that are determined by set rate independent of your sales, such as rent, while variable costs are those that vary directly with the amount that you sell, such as ingredients. To perform a cost-based analysis, you must calculate the break-even point for your product. [Learn how to calculate break-even](#), perform the calculation over a range of possible prices within your competitors pricing and use it to decide on the best price. Penn State offers a useful pricing worksheet [HERE](#).

While many businesses think that they can use low, introductory prices, they often fail to take into account the price elasticity of their product. Price elasticity is a measurement of how customers react to a change in price for a given product. For a discretionary and often luxury purchases, such as a specialty food, people are not likely to react well to an increase in price. They will not understand why they have to pay more for the same product than they used to. It is far better to offer coupons or even giveaways in the early stages of promotion than discount your product price.

## ***Business Insurance***

A sound business insurance policy, in addition to your personal insurance plans, is essential to protecting you and your growing business. Not only does it protect your business and assets, but it is also required by most banks when administering small business loans, wholesale distributors when purchasing your products, and by facility providers such as kitchen rental services and co-packers. Kitchen Incubator requires all new clients to provide proof of Business Liability Insurance with “Kitchen Incubator LLC” listed as an additional insured in the amount of at least \$1M. While this amount seems large, it is actually the minimum for most plans and is surprisingly affordable at less than \$1,000 per year for most small food businesses.

In addition to liability insurance, we encourage you to seek additional protection with product liability insurance. This protects your business against claims of injury due to your product specifically. If you have business assets, you may also seek property insurance to protect them against theft or damage. Additionally, if you have employees, you will likely be required by your State to take on worker’s compensation insurance or if you have a vehicle you may require commercial auto insurance.

### **How General Liability Works**

Covered liability claims include bodily injury, property damage, personal injury, and advertising injury (damage from slander or false advertising). The insurance company also covers compensatory and general damages. General liability insurance policies always state a maximum amount that the insurer will pay during the policy period. For example, if a company has a \$1 million occurrence cap in its liability policy and it’s successfully sued for \$1.5 million, the insurer would pay \$1 million and the business would be responsible for paying \$500,000. To cover these types of situations, many companies purchase umbrella liability insurance, which picks up where their general liability coverage ends.

### **Obtaining a quote**

Always check with your current insurance provider (for your home, car, etc.) first as they will likely be able to bundle your insurance packages and provide the best rate. Below is a list of a few insurers that offer affordable business owner’s policies and offer packages tailored to small food businesses.

#### **Travelers Food Manufacturers Commercial Insurance**

**Wells Fargo** 1-888-705-2379

**Nationwide** 1-877-669-6877

**State Farm**

**Farmer’s** 1-800-327-6377

**The Hartford**

**Allstate** 1-888-322-3070

Prior to speaking with an agent you should be prepared to answer detailed questions about your business. The insurance agent will ask you about your business,

employees, the area your business is located in and your revenue history. You should have the following information at hand:

- Description of the business location, exact size, year it was built and construction
- Annual sales and payroll data (you will have to forecast this for a new business)
- List of employees with a breakdown of full time, part time and contractors
- Details surrounding the products and equipment you handle
- Social Security or Federal Tax ID number (EIN) for credit check purposes

## ***Food Labeling***

Food labeling is regulated by the US Food and Drug Administration (FDA) and dictate the type of information that must be on the label and where the label can be placed on the package. All food packages must display the following information:

- Name of the food
- Net quantity of contents
- Name and address of the food business
- List of ingredients

A single label may be used to display all required information. However, it is common to have two distinct label areas on the container, the principal display panel and the information panel.

The Principle Display Panel (PDP) is the portion most likely to be seen, usually on the front of the package and shows the name of the product and the net contents of the container. The Information Panel (IP) is the label immediately to the right of the PDP. This area is reserved for the list of ingredients, the name and address of the food business, and nutritional information.

New regulations developed to help consumers avoid food allergic reactions require that foods containing milk, eggs, fish, crustacean shellfish, peanuts, tree nuts, wheat, or soy must declare the presence of the ingredient in plain language.

Small businesses with fewer than 100 full-time equivalent employees and that produce fewer than 100,000 units of product per recipe per year are exempt from nutrition labeling, unless a health or nutrient claim is made. Exempt companies may still include nutritional information on the label as long as the Nutrition Facts panel format is used. Federal regulations limit the kind of claims you can make about the nutritional content of your product or any health benefits for consumers.

Many packaged foods are labeled to indicate the last date that the food should be sold for optimum quality or safety. “Sell by” or “best before” dating is not required by regulations for most packaged foods. Typically, wholesale customers may require you to date your product so they can better manage their inventory.

Although not a regulatory requirement, most large grocery store chains require UPC labels. However, if your sales will be strictly limited to small specialty food stores, farmers’ markets, your own retail store, or over the Internet, the extra expense may not be worth the cost.

## The Start-up Checklist Top 10

We know this information can be overwhelming, so we created a Top 10 list of items to get you on track to starting your business. Complete these 10 tasks in this order and we promise everything else will start to fall into place.

### 1. Feasibility Study

Identify your product requirements, target market and the competitive state of the market to determine readiness and likelihood of success.

### 2. Formation

Decide on entity structure for your business and file the paperwork to legally form your business as a sole proprietorship, partnership, LLC or type of corporation.

### 3. The Business Plan

Write a focused business plan using the information from your feasibility study.

### 4. Marketing Strategy

Your strategy should focus on how you differentiate your product. Write a step-by-step marketing plan on how to implement that strategy for short and long-term goals.

### 5. Develop Your Network

Target individuals and organizations that could help and benefit from your success.

### 6. Financials

Forecast, in detail, your budget and financial statements for at least two years.

### 7. Online Presence

Register a domain name and social media sites. Don't forget e-mail, as generics such as @yahoo detract from your brand and legitimacy.

### 8. Marketing Materials

Create a logo, business cards, brochures and other product presentation materials.

### 9. The Paperwork

Ensure that you have all of the appropriate business permits and insurance policies to run your business legally and safely.

### 10. Implementation

Create a timeline of next steps to begin implementing your marketing strategy and prepare to open your business.

**Kitchen Incubator can help with any of these steps - visit our [Advisory Services](#) for more information on what we offer as a one-stop shop for the culinary entrepreneur.**