



## COLORADO DEPARTMENT OF AGRICULTURE

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## Do's and Don'ts for Food Processors

### Do's and Don'ts for Food Processors

### Managing The Business

#### Do

- Know if you have the personality to be a successful entrepreneur---i.e. self-starter, lots of energy, hard worker
- Work from a business plan and continually update it
- Be flexible and organized
- Commit the necessary time to the business
- Form a team with your banker, accountant, and lawyer
- Recognize your management strengths and weaknesses compensating when necessary with personnel, advisors, consultants
- Contact your state and local economic development representatives to determine available resources, regulations, taxes, zoning restrictions
- Determine how you can personally cut costs, serve the customer, improve productivity, and innovate
- Define each person's responsibilities clearly, including if it's a family business
- Allow decisions to be made by employees closest to the information J Keep updated with skills and knowledge
- Have more than one supplier for all key components (ingredients, packaging, mailing service) in case of price or supply problems

#### Don't

- *Begin without establishing goals and objectives*
- *Make common business plan errors---too long, no indication of management skills, no recognition of competition*
- *Resist change when it is necessary to further success*
- *Lose sight of your mission*
- *Lose sight of the fact that financial success is the bottom line*

*Be afraid to take necessary risks*

- *Forget to obtain insurance coverage*
- *Assume you know the best legal structure for your business. Research it.*
- *Buy an existing business without researching it with the help of a lawyer*
- *Buy a franchise without shopping around for the best investment*
- *Grow too quickly---plan it carefully*
- *Be afraid of learning and sharing through networking*

## **Marketing Your Product**

### **Do**

- Know your competition
- Know your competitive edge by comparing your products' strengths and weaknesses against the competitor's
- Anticipate customer needs and fill them
- Look for low-cost advertising and promotional methods
- Consider nutritional labeling even if exempt, unless the nutrition facts will hamper sales
- Start out with markets close to home and work out gradually
- Make your products indispensable to your customer
- Market any customer service you're capable of delivering
- Always be thinking of new marketing ideas
- Figure out your break-even price
- Recognize the demographics of your market
- Use the demographics to target your market
- Evaluate all marketing efforts when completed
- Learn how to write an effective news release
- Prepare for sales presentations to buyers

### ***Don't***

- *Lose touch with your customers*
- *Gloss over your company's weaknesses---know how you're going to market around them*
- *Lose sight of your marketing strategy*
- *Continue to market products that aren't selling well*
- *Work without a marketing budget*

- *Forget to budget for advertising and promotional needs*
- *Lose sight of changing market trends*
- *Under price your product or out price yourself from the market*
- *Forget to track your monthly sales and compare to previous year*
- *Forget to compare actual sales to projected sales*
- *Limit how you might market your product for other uses in order to expand the market*
- *Choose a location that will not provide the necessary traffic or expansion possibilities*
- *Allow poor packaging to adversely effect sales*
- *Lose touch with good media contacts*
- *Forget to review trade publications specific to your segment of the food industry*

### **Producing Your Product**

#### **Do**

- Compare the costs of processing your product yourself in a rented commercial kitchen or using a co-packer versus establishing a processing facility
- Recognize that packaging can make the first sale but product quality will encourage repeat sales
- Co-op buy ingredients and packaging materials with other processors to reduce your unit cost
- Determine a "food-safe" processing method
- Consider hidden costs in buying used equipment
- Establish a quality control program including a Hazard Analysis Critical Control Point (HACCP) program
- Eliminate unnecessary production steps
- Consider adding a UPC code if you might market to stores with scanning equipment
- Consider ingredient substitution if an existing ingredient is unavailable or too expensive
- Make necessary ingredient substitutions gradually so product uniformity is retained
- Take advantage of accelerated shelf life studies through CSU
- Use code lots for recall purposes

#### ***Don't***

- *Buy expensive equipment or buildings at start-up*
- *Choose ingredients that are sometimes unavailable*
- *Take chances with food safety*

- *Buy ingredients from grocery stores---find a less expensive commercial source*
- *Hesitate to ask large suppliers for needed information and service*
- *Set up a working relationship with a co-packer without an acceptable written contract*
- *Complete shelf life tests with ingredients and packaging different from what you market*
- *Forget to redo shelf life tests if you change the formulation or packaging*
- *Allow your product uniformity to change, causing consumer rejection*
- *Overlook all product changes that may adversely effect sales---microbial, color, flavor, textural, separation*
- *Forget to keep lot samples (ingredient and finished product) for quality control and legal reasons*
- *Underestimate the need for tamper proof packaging*

### **Financing Your Business**

#### **Do**

- Establish banking relationships prior to needing a loan
- Find lenders receptive to small business
- Apply to more than one bank for a loan
- Provide financials to all investors, including when they are family and friends
- Reinvest profits in the business when starting up
- Keep accurate financials
- Do cash flow projections
- Determine available private and public sector funds
- Contact your state and local economic development representatives to determine potential grants, loans, bonds, tax benefits
- Base financial assumptions on the data in the financial statements
- Plan funding strategies far in advance
- If applicable, investigate finance programs available for minorities and women

#### **Don't**

- *Miss out on free financial counseling and financial packaging available through government sources, i.e. SBDC (Small Business Development Centers), SCORE (Service Corps of Retired Executives)*
- *Allow accounts receivable to build up*
- *Lose control over accounts payable*
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- Underestimate fixed asset needs*
- *Overpay yourself*
- *Underpay your management team*
- *Undercapitalize*
- *Overspend in any one area of the business*
- *Improperly structure debt service resulting in an inability to cover principal and interest payments on time with revenue*
- *Assume buying is always the best option---consider leasing*
- *Be financially illiterate---understand the balance sheet, profit and loss statement, key ratios, i.e. current, debt to equity, inventory turnover*
- *Overlook the perspectives of different finance partners in the deal*

**Do: Remember the help you received and pass it on!  
Enjoy what you're doing!**

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