



Food Processing Using a Co-Packer



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Do you make a great food item in your home but wish you could share it with hundreds, thousands, or even millions of people at a profit? Have you ever considered your options for mass-producing that food item? Your kitchen is not big enough for the job, and even if it was it isn't an inspected food processing facility. You could rent a licensed commercial kitchen for a few hours a day, but the available times and facility size may not suit you. You could license your idea, but that means giving up control of the idea and the products. If you have the capital, you can build and operate your own facility. Finally, you may want to find some existing processor to make your products. In essence, you may want to consider a co-packer.

Why Use a Co-Packer?

All of the reasons for using a co-packer can be summed up in two words: "expenses" and "regulations".

Richard M. White, Jr., in *The Entrepreneur's Manual*, said "Sixty-two percent of all new business that fail do so because of weak money leveraging efforts and lack of capital." In other words, many businesses fail because their owners run out of money before they start making money. The up-front expenses of building facilities can drain a small business of money. With a co-packer, there is no need for up-front money to build facilities, purchase equipment, buy permits, pay huge deposits for utilities, or hire employees.

Additionally, overseeing the operations of production facilities takes up valuable time that may be needed for selling and distributing products. Your time may be better used expanding the markets for your products. After all, if no one is buying your products, why manufacture them? Like Donald Trump said in *Trump: The Art of the Deal*, "Sometimes your best investments are the ones you didn't make."

Finally, the regulations (local, state, and/or federal) associated with manufacturing a food product can be complex, costly, and time-consuming. Solid waste and waste water disposal, the handling and storage of raw materials and finished products, licenses and permits, and the overall sanitation of the facility are examples of highly regulated processing concerns. By utilizing a co-packer, you avoid the money and time needed to deal with these issues. You also avoid plant health inspections, figuring wages and benefits for

processing plant employees, OSHA and workers compensation issues, and a myriad of record keeping requirements.

What Should I Look For in a Co-Packer?

Determining which potential co-packer could best meet your needs requires serious thought. Some of the questions to ask include:

1. *Who is producing a product similar to mine?* Generally, successful custom processing agreements are made with manufacturers already producing a similar product. For example, a person wanting to sell a specialty barbecue sauce would probably find his/her best deal with a bottled sauce/salad dressing/condiments manufacturer. The OSU Food and Agricultural Products Center can assist you in this area.
2. *Who has excess capacity?* Manufacturing establishments operating at less-than-full capacity often look for additional business to keep their plants functioning. These manufacturers can often earn extra income using their existing equipment and labor with only small increases in operating costs.
3. *Who is making a product similar to mine but with a different seasonal market?* You may be able to find a potential co-packer whose primary products have peak seasonal demands that differ from your products. For example, a small ice cream manufacturer whose production drops off considerably in the winter may be willing to co-pack for someone with a holiday egg-nog recipe.
4. *Does my product require specialized equipment?* Your choices for co-packer may be limited by the adequacy of their equipment. On the other hand, you may find a co-packer willing to accommodate your processing needs if you pay for all or part of the necessary equipment, which will then be incorporated in the existing processing facility.

How Do I Determine the "Best" Co-Packer For Me?

After determining which potential co-packers are physically able to manufacture your products, you should meet with as many as possible. Tour their facilities, get as much

information as you can, and determine which one best fits your processing needs at an appropriate cost. Remember the following points when meeting with potential co-packers:

- Treat each meeting as if you were interviewing a prospective employee or service provider. After all, you will be paying them to provide a service.
- Ask for a confidentiality agreement before discussing details of your product, recipe, or your marketing opportunities. Do not be offended if they ask the same.
- Ask specific questions about manufacturing procedures and controls, inputs procurement, process management, safety programs, quality assurance, and any other issues that may be important to you.
- Ask to see inspection reports.
- Ask about the specific costs associated with processing and handling your product.
- Ask about the financial stability of each co-packer. If a co-packer goes bankrupt or has to shut down operations, you will have no products to sell.
- Request information on any additional services they are able and willing to provide. This may include introducing you to brokers or distributors they work with, some of whom may be interested in marketing your products to retail store chains and/or institutional markets.

After choosing a co-packer, all that remains is developing the contractual agreement to ensure that products are manufactured according to your specifications in a timely manner. A contract with a co-packer does not have to be complex. A contract does not even have to be written to be legally binding, but a written agreement greatly decreases the chances of a misunderstanding. A simple order form may be sufficient for your needs if it contains the following five elements:

- The parties involved. Remember that this is an agreement between two companies, not between individuals. Make sure that the contract reflects this, even if both parties are sole proprietorships.
- The quantity to be produced.
- The quality to be produced. This is where you would specify the use of your recipe and any particular style or brands of ingredients you require.
- The price to be paid for the service. Be as specific as possible regarding the way the price is determined (i.e. per unit or per hour), payment deadlines, and the manner in which payment is to be made (cash, check, or other payment terms).
- The time period in which the work is to be completed.



Do not sign any contract without carefully reviewing the document. Include your attorney and/or accountant to ensure that the terms of the agreement are satisfactory and that you are legally and financially protected in the event of business and/or regulatory problems. Factors to be discussed with your attorney and accountant before signing a contract with a co-packer include (but may not be limited to) the following:

- Regulatory compliance of the co-packer's operations.
- Ingredient specifications.
- Quality control and monitoring by the co-packer.
- Completion/delivery dates for the finished products.
- Liability issues.
- Other contractual clauses that may be applicable for your specific product.

OSU Extension Facts are also available on the World Wide Web at: <http://agweb.okstate.edu/pearl/>

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