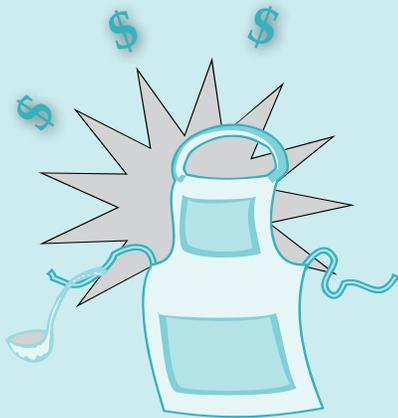


Starting any business is no easy task, and becoming a food entrepreneur is a special challenge. You'll have to prepare yourself for the hard work and dedication it takes to succeed in the food business. You will need to learn and understand financial, marketing, and management issues. You will also need to learn about food regulations, processing and packaging technologies, and safe food-handling procedures. This fact sheet provides some considerations in becoming a food entrepreneur.



## Before You Start

### Entrepreneurship: Are you the type?

An entrepreneur is a builder—one who sees an opportunity, sizes up its value, and finds the resources to make the most of it. Entrepreneurs are innovators introducing something new to the marketplace, putting a different spin on a product or a process. Ask yourself these questions to see if you fit the description of a successful food entrepreneur.

- Am I a **self-starter**? It will be entirely up to you to develop projects, organize your time, and follow through on details.
- How well do I **get along with different personalities**? Business owners need to develop working relationships with a variety of people, including customers, vendors, staff, bankers, and others such as lawyers, accountants, or consultants.
- Am I **good at making decisions**? Small-business owners are required to make decisions constantly, often quickly, independently, and under pressure.
- Do I have the **physical and emotional stamina** to run a business? Can you face six or seven twelve-hour workdays every week as you are getting your business underway?

Now that you've decided that you are entrepreneur material, you probably already have an idea of the product you want to sell. Here are some more questions to think about as well as some advantages and challenges you should consider.

### Where will you make your product?

- You may be able to make your product **at home**. Certain foods may be prepared in the home kitchen, while others cannot due to food safety concerns. You will need to discuss the options for your particular product and your particular household situation with your Pennsylvania Department of Agriculture (PDA) sanitarian. If you are allowed to make your product in your home, then you will have to get your kitchen up to state standards before beginning production. You may have to purchase new equipment appropriate for commercial food production and learn about handling, preservation, and packaging methods that keep your products safe.
- You can prepare your product in **someone else's certified kitchen**. This way, you separate your home from your workplace and someone else is responsible for meeting kitchen standards. But you will have to pay for the space, you will need to register with PDA to make your product at that location, and you may have to work around someone else's schedule.
- You can **hire a co-packer**. A co-packer is an established food company that you hire to process and package your product according to your specifications. You are out of the kitchen and can take advantage of their expertise. You also have more time to promote and distribute your product. However, costs are higher and there are

a limited number of co-packers in Pennsylvania. Visit the Penn State Extension Food Entrepreneurs website for a list of co-packers in Pennsylvania and other states.

### How will you preserve your product?

If your product contains ingredients that spoil quickly at room temperature, how do you intend to maintain quality and prevent growth of disease-causing microorganisms and spoilage? The amount of time your product can be expected to stay wholesome under a given set of storage conditions is called the “shelf life.” Here are some of most common ways to extend the shelf life of commercial food products:

- **Canning, or thermal processing**, is perhaps the most common method for preserving fruits and vegetables, pickles, salsas, and sauces. But, you can't rely on an old family recipe once you enter the commercial market. Regulations require your process to be evaluated by an expert in food technology, and you must use specialized equipment to produce high-quality, safe products.
- **Refrigeration and freezing** extends shelf life by slowing or stopping microbial and chemical changes in food. How would you keep your product cold or frozen until it gets to the consumer?
- **Chemical preservatives** are typically used in combination with other techniques to extend shelf life. Are you aware that the type and amount of preservatives are strictly controlled by government regulations?

Many other technologies are available for extending product shelf life, including pasteurizing, controlling pH and moisture, smoking, and curing. You'll need to do some research on which methods are most appropriate for your product and your budget.

### Who will do the work?

- **Start out small** and keep your “day job.” You can feel your way while there is still money coming in, but you may be working long hours for six or seven days a week.

- Get your **family or friends** to help out for a while. This may be the right solution for those on a small budget, but the arrangement might put a strain on your family life and your relationship with friends.
- **Hire people** to do the work. You are free to manage the business, or to work at another job. But employees mean higher costs for wages, training, insurance, etc.

### How will you pay expenses before the money starts coming in?

- **Personal resources.** Use savings, credit cards, or a credit line on your house. You maintain complete financial and operational control over your business and there are no co-owners to pay off if the company hits it big. But if the business fails, you will still have the personal debt, and credit card debt carries high interest rates.
- **Friends and family.** You could raise money from people you know well, either in exchange for a share of your business or as a loan to be repaid. The money is available quickly, but it's usually a one-time source. A contract to protect your friends' or family members' investments is a good idea. Are you ready to deal with the consequences if your business does not succeed?
- **Bank financing.** Borrowing money from a bank keeps home and business finances separate. The relationship you create with your bank will be useful as you expand and need additional capital. However, start-up businesses with no track record often find getting a loan difficult. You may have to provide personal collateral, such as your home, to secure the loan.
- **Grants.** There may be special programs designed to support determining the feasibility of an enterprise or demonstrating an innovative process. Not all grants require payback and you don't pay interest to the funding source, so grants are essentially “free money.” Most grants have “deliverables”—things you promise to do in exchange for the funds—and report schedules you must

follow. Also, grants usually are available during a specific window each year, rather than responding to your schedule. Keep in mind that competition for grants is stiff, so you may need help writing the application.

Eliminating all the unknowns associated with starting a small food business is simply impossible, but good planning, preparation, and insight greatly improve your chances of success. Don't do it alone—reach out to experts in business and technology who are there to help. Keep in mind, though, that if your business does not succeed, you may be putting ownership of your personal property at risk.

**For more information**, contact your regional PDA office or the cooperative extension office in your county, or visit [extension.psu.edu/food/entrepreneurs](http://extension.psu.edu/food/entrepreneurs).

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*“The inspector from the Department of Agriculture has been so helpful. In addition to requirements, he had helpful suggestions.”*  
—Pa. food business owner

## Business Planning

Before starting your new food business, you need a clear vision of how you want your business to operate; how it will be managed, marketed, and financed; and how you expect it to perform in the future. To achieve this goal, you need to write a business plan.

A business plan helps you define your reasons for entering the food business, the type of enterprise you want to run, and the goals you want to reach. Your plan will lay out detailed, research-supported plans for how you will reach these goals and succeed in the marketplace.



### Getting Started

Writing your plan down on paper allows you to:

- Identify who you are, what your product is, and why you are qualified to succeed
- Lay out your goals and action plans for making your business profitable
- Identify and resolve potential problems before they occur
- Target areas where financing is needed and locate funding sources

A business does not exist in a vacuum. As you draft your initial plan, you create a visible version of your dream. You will need a network of advisers and supporters, and your plan will be essential for communicating your ideas to them. In fact, most lending and consulting agencies insist that you write your plan before they provide their services.

### Components of a Successful Business Plan

There is no single correct format for a business plan. However, successful plans contain the following basic elements:

- 1. Executive summary:** A concise one-page overview of the plan.
- 2. General description of the business:** Where are you now? Where are you going? What stage of development is your business in and what is your general plan for growth? How are you going to produce and package your product?
- 3. Personal and business mission statement:** What are your qualifications for success? Why are you in business?

- 4. Business goals and objectives:** What is your timeline for what you want to accomplish?
- 5. Background information:** What is the current state of the industry? What are current and future industry trends? How does your business fit in the industry?
- 6. Ownership, government regulations, and contracts:** How will your business be structured? What government regulations apply? What contracts and leases do you intend to enter? What kind of insurance coverage is needed?
- 7. Management issues:** Who will do what? How will you manage employees? How will you manage risk? How will you face the unexpected?
- 8. Succession and estate plans:** Who will take over the business if you are no longer there to handle it? Under what circumstances would you hand over the business to someone else?
- 9. Marketing plan:** What features and benefits does your product offer? How will you promote and sell your product? Who do you want your customers to be and what is your competition? What is the expected life cycle of products and what plans do you have for future products and business expansion?
- 10. Financial plan:** What are your expected expenses and how will you pay them? What is the expected profitability of your venture? How will you create a budget based on financial needs and expected income? What is your current personal financial situation?

## Writing a Business Plan

If you have a hard time getting started, you are not alone! Almost everyone has to overcome writers' block before their business plans can take shape. Take heart in knowing that almost all of what you need to learn can come through researching and talking to knowledgeable people. Here's how you'll know if you are on the right track:

- New issues and problems become evident as you write. If you find some surprises to address, it means that you are taking time to make basic decisions that will impact the future of your business, as opposed to just filling in the blanks.
- You constantly reevaluate and revise your objectives and goals. Business planning is a never-ending process; your plan will grow and change along with your business.
- You will realize that there are questions to be answered about marketing, technology and regulations, and capital needs and resources.

## Finding Help

Anyone can write a business plan. However, most people do not have the knowledge or discipline to sit down and write a good plan without some one-on-one assistance. Plenty of books are available on how to write a business plan, and templates are available on the Internet for you to use. But these alone are not adequate to create a plan since a one-size-fits-all approach is seldom useful.

The best way to write a plan is to find a course or consultant that can help you through the process. Penn State Extension has resources available to help you write or review your business plan. In addition, a number of agencies, such as university-affiliated Small Business Development Centers and SCORE (Counselors to America's Small Business), offer seminars and one-on-one sessions to assist you as you write your business plan.

*"Don't be in such a hurry.  
Mistakes can be so expensive."  
—Pa. food entrepreneur*

**For more information**, contact the Penn State Extension office in your county, or visit [extension.psu.edu/food/entrepreneurs](http://extension.psu.edu/food/entrepreneurs).

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# Marketing Your Food Product

When most people think about the term "marketing," they usually have one type of activity in mind: advertising. Marketing is actually much more than simply advertising; it is everything you do to promote your business and your food products, from the moment you conceive of a product to the point at which customers buy it. It involves researching, selling, distributing, and promoting your product.

To be successful, you first need to take some time to understand your product and learn about your market. Based on this knowledge, you can begin to create strategies for where you will sell your product, how much you are going to charge, and how you will promote it.



## What is your product?

Ask yourself the following questions: Is my product significantly different from those currently on the market? Do I want to offer a new twist to an established product? What makes mine different from—or better than—all the others out there? Is it a product people would eat every day or something they would serve on special occasions?

Visit a couple of places where products like yours are sold. How would your product compete? What could you do better? Take cues from how others are selling your type of product. Is this something people want to purchase fresh, frozen, canned, or dried? Check out the ingredients, packaging, and labels of these products.

## Who is your market?

Your target market is the group of people who are willing to buy your product. Learn about the people in the area where you want to sell your product. Look for age, gender, education, occupation, income level, and household type. This information can help you predict buying patterns of people in the area. For example, if you were looking at an area where few residents had small children, would you expect a lot of interest in baby food products? Would a traditional Pennsylvania product such as pickled ham hocks sell in an area populated by young, affluent professionals? Even with just the right marketing strategy, many matters are still outside your control. Timing, cost of market entry, and competition from others are only a few factors that make introducing a new food product a calculated risk. It is important to "calculate" as carefully as possible.

## Developing a Marketing Strategy

Your entire marketing strategy centers on deciding where you will sell your product, what you will charge for it, and how your customer will benefit from choosing your product.

## Where will you sell it?

Your product and your market are major factors when considering the right place to sell your product. You may be able to sell your product directly to the customer at a roadside stand, a farmers' market, a fair or festival, door to door, or even on the Internet, if you comply with all appropriate regulations. For instance, dried fruit may be sold safely and legally over the Internet; meat products, however, cannot be sold over the Internet unless they are made in an establishment inspected by the U.S. Department of Agriculture and are protected from spoilage. The alternative is to sell your product indirectly through large grocery chains, small local stores, specialty shops, brokers, or restaurants.

Direct selling may not require a lot of cash investment, but it requires plenty of time and energy to make a sale—both of which may be in short supply if you are also processing and packaging your own products. Selling indirect usually costs more in terms of brokerage and shelf-space fees. Paying others to represent your product to potential wholesale customers frees you up to work on improving your products and creating new ones. Many entrepreneurs who are just starting out find beginning with small-scale direct sales useful so they can tweak their products to match the wants and needs of their target market.

### **What you will charge for it?**

Determining how much to charge for a product is often a difficult task for people entering the food business. Charge too much, and no one will buy your product. Charge too little, and you will not be able to make a profit. You are more likely to find the right price if you have done a good job researching your product and your target market.

### **How will you convince potential customers to choose your product?**

You have your product and you know the best way to sell it and what price to charge. Now you will need to increase consumer awareness of your product and convince potential customers to buy it. Creating ads in local newspapers or commercials for radio and television are traditional ways that businesses promote their products. Unfortunately, these media are inappropriate for most start-up food business since they are expensive and advertise to everyone instead of focusing on your target market. Word-of-mouth advertising is an alternative when your focus is building customer loyalty for a target group rather than saturation of a larger market. This is because a satisfied customer often has like-minded friends who can be persuaded to try your product. This builds sales slowly, creating a stronger following for your new product, and will eventually create a demand from local independent grocers and farm markets.

Perhaps the most important way to communicate to the potential buyer is by effectively using your label. Remember that the way your product is packaged has an important function: it sends a first impression of your product to the consumer. The color, visual texture, choice of words, and overall design quality can directly influence sales. To select a design that will attract your market and fit in with your sales location, you must study how established food processors use their labels and packaging. Beyond what regulations dictate as the minimum information required on packaging, many strategies can be used to incorporate labels in your marketing strategy.

How you use packaging to assist in promoting your product depends on your target market and your advertising budget since specialized labels can be quite costly. A simple label with just enough information to satisfy regulations may be suitable for the traditional or conservative customer looking for some everyday food at a roadside stand or local grocery store. In contrast, a more elaborate and colorful design that includes detailed information about your company and your product may fit right in at an upscale specialty store that attracts affluent shoppers looking for a new food experience.

**For more information**, contact the Penn State Extension office in your county, or visit [extension.psu.edu/food/safety/entrepreneurs](http://extension.psu.edu/food/safety/entrepreneurs).

Collaboration of Penn State Extension, PENNTap, and Penn State Department of Food Science.

## **extension.psu.edu**

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*"You have to know your product and you have to know your customer."  
—Pa. food entrepreneur*

Setting up a food-processing business in your home has advantages and disadvantages. You can make your own schedule and cut commuting expenses. On the other hand, there may be added costs involved in getting your kitchen up to Pennsylvania Department of Agriculture (PDA) sanitary standards, and working at home will definitely impact your family—just ask any successful entrepreneur.



## Home Food Processing

If you haven't yet talked about your business idea with your regional PDA office, do so now. PDA sanitarians have information they can share on regulations that specifically apply to commercial sale of foods processed in the home. Since all information discussed with the sanitarian remains confidential, don't worry about revealing your recipe to a stranger. The assistance you gain will greatly outweigh the potential for compromising trade secrets.

### **Regulations for Home Kitchens ("Limited Food Processors" or "Residential-Style Kitchens" by PDA)**

Before taking too many steps toward setting up a home food business, contact your local municipal planning office to verify that you will be able to operate a food business at your home; ask for this verification in writing so that you can share it with the PDA sanitarian. In addition, if your home's source of water is a private well, you will need to have it tested before you can register to commercially manufacture foods.

In addition to local zoning, water testing, and sanitation requirements, PDA has specific regulations that apply to people who plan to work out of their homes. Here are some requirements that home food processors need to know:

- **During commercial processing, no part of the home kitchen may be used for personal food preparation.** This means that home food preparation and commercial food processing operations cannot be conducted at the same time. This kind of "dual-use" kitchen requires you to carefully schedule your time so that private and business activities do not conflict.
- **Ingredients used for your food business must be kept separate from ingredients for personal use and must be properly stored and protected.** Proper storage includes using food-grade containers that keep pests out and maintaining temperatures that do not promote spoilage. One entrepreneur turned a closet in an adjacent room into her work pantry by putting a door through the kitchen wall.
- **No animals are permitted in the home at any time.** If you have family pets, you'll need to keep them outside at all times or find an alternate place to do your food processing.
- **Children are not permitted in the kitchen area during commercial processing.** This might be tough for families with young children but ideal for those with kids who attend school outside the home. People with young children and home-schoolers might be able to work this out with careful scheduling, child care help, and a lot of patience and commitment.
- **Home manufacturing of "temperature control for safety" (TCS) foods, also known as potentially hazardous foods (PHFs), is permitted if prepared in a separate kitchen used only for this purpose.** Because of their high moisture and low acid content, TCS foods can become unsafe to eat if they are not kept refrigerated. TCS food examples include milk or other dairy products, eggs, meat, and cooked pasta or vegetables. Pennsylvania regulations forbid

the manufacture of TCS foods in a dual-use home kitchen. Instead, you will need to construct a completely separate kitchen that is used only for your food business. Keep in mind that no TCS products may pass through or be stored in the home at any time; therefore, you may need to construct separate entrances and exits to food processing and storage areas. Ask a PDA sanitarian for more information if you decide to make TCS products in your home.

Along with the guidelines listed above, specific categories of home-processed foods must meet additional requirements.

### **Baked Goods**

Shelf-stable bakery items such as breads, cookies, and muffins can be produced in a dual-use home kitchen. However, high-moisture/low-acid items such as cheesecakes, pumpkin pies, tortes, creams and custards, and meringue pastries may be potentially hazardous and, as described above, may only be made in a completely separate kitchen. The PDA sanitarian may require you to have these products tested for pH and water activity.

### **Beverages and Juice**

#### **Beverages**

Some beverages can be produced at a limited food establishment. This may include root beer, lemonade, lemon iced tea, and other acidic drinks. The pH of all beverages must be tested to ensure it is 4.6 or below.

#### **Juice**

From a regulatory perspective, the term “juice” means the liquid expressed from one or more fruits or vegetables and includes purees of the edible portions of one or more fruits or vegetables, or any concentrates of such liquid or puree. Regulations differ depending on whether the producer sells it directly to consumers or for wholesale distribution.

*Juice Producers Who Sell Only Retail*  
A retail establishment is an opera-

tion that provides juice directly to consumers and does not sell or distribute juice to other businesses. The term “provides” includes storing, preparing, packaging, serving, and selling juice. If you qualify as a retail establishment, you are not required to process juice under a HACCP system. However, packaged juice produced at a retail establishment is subject to FDA’s food labeling regulation, which requires a warning statement on fruit and vegetable juice products that have not been processed to prevent, reduce, or eliminate pathogenic microorganisms.

Juice producers who produce from a limited food establishment must have their products tested for pH to determine if the product has a pH of 4.6 or lower and therefore can be made from a limited food establishment. Note that the product may only be sold direct to the consumer from the production site or a satellite of the production site, such as a farmer’s market or roadside stand owned by the producer. In most cases, if product is sold from the production site in packaged form, only a food registration is needed. However, any retail location would need to be evaluated to determine if a retail food license would also be needed.

#### *Juice Producers Who Sell Any or All Of Their Product Wholesale*

Wholesale juice sales, as defined by the federal government in 21 CFR 120.1(a), are subject to the requirements of the juice HACCP regulation. Any juice of this type must be pasteurized or have an approved and verified 5-log reduction of pertinent microorganism and be operating under a HACCP plan. Juice of this nature typically cannot be produced in a limited food establishment. Residential-style kitchens would not typically have the required equipment to obtain a pathogen reduction.

### **Canned Foods**

Pennsylvania regulations allow commercial canning of naturally acidic foods (e.g., apples, peaches, lemons) or acidified foods (e.g., pickled

vegetables, salsa, chow-chow) in dual-use home kitchens under the conditions listed above. However, under no circumstance is commercial production of low-acid canned foods (e.g., corn, beans, soups, and vegetable mixtures) allowed in home kitchens.

If you decide to make acid or acidified canned-food products in your home for sale to the public, you must have written recipes/formulas and procedures. You will need to provide a process flow for your products and have it approved by your sanitarian prior to registration and sale of your product. You will also be required to prove that the product equilibrium pH is 4.6 or lower by having it tested at an independent commercial laboratory. The pH should be tested to ensure that it has reached an equilibrium level at or below 4.6 within 24 hours. You must use new canning lids each time. Reused jars must be thoroughly washed and sanitized before filling. You may also be required to register and file your process with the Food and Drug Administration (FDA). Check with a PDA sanitarian to make sure you are following all state and federal regulations before you start canning.

### **Jams, Jellies, and Similar Products**

Home processing of jams and jellies is permitted in dual-use kitchens as long as you document and adhere to all written procedures and formulas. Although pH testing is not required, these products must be tested at a commercial laboratory to make sure they meet quality standards for soluble solids content. Requirements for new lids and sanitization of used jars are the same as described above. Fruit butters, preserves, and artificially sweetened fruit jelly each have specific standards of identity and soluble solid requirements. Conserves, marmalades, and “spreads” do not have standards of identity and do not require soluble solids testing.

### **Candy Making**

Because of their very low water content, hard candies such as lollipops,

candy canes, and rock candy are not considered TCS foods and can be commercially prepared in dual-use home kitchens. Chocolate-covered fruits may not be made from a limited food establishment unless the fruit utilized has a pH of 4.6 or below, such as most apples and strawberries. Any fruit in question may be required to have a pH test performed to determine acidity levels. However, for some products, such as cream-filled chocolates, fudge, or candied fruits, the amount of moisture available for microbial growth can vary widely depending on the recipe. For these types of products, PDA may require you to have your product tested for water activity at a commercial laboratory to determine if refrigerated storage is necessary.

### **Other Foods**

Other types of foods may potentially be approved for processing, handling, repacking, or storage in a limited food establishment; however, only those foods that do not require refrigeration are permitted to be produced and held in this type of setting. PDA may require product testing on a case-by-case basis. If you have an unusual food product, discuss this product with your sanitarian.

**For more information,** contact your regional PDA office or the Penn State Extension office in your county, or visit **[extension.psu.edu/food/entrepreneurs](https://extension.psu.edu/food/entrepreneurs)**.

*“Sometimes ingredient substitutions in your recipe can mean lower costs. Keep an open mind.”  
—Pa. food business owner*

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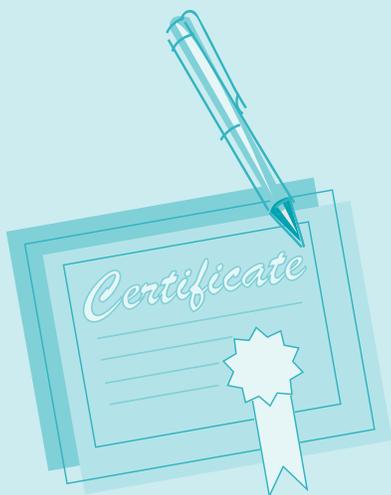
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## Registering Your Business

All businesses need to comply with local, state, and federal registration procedures in order to legally operate. Food-processing businesses are no exception. In Pennsylvania, wide variations exist in the amount of authority given to township, borough, and city governments, which can make the task of determining just what regulations apply to your business difficult. However, since the regulations and jurisdictions seldom change, identifying the applicable requirements is usually a “once and done” situation.



### Local Requirements

Your first step is to contact your township, borough, or city office to determine which local regulations are applicable to new businesses in your area. Some local governments assume responsibility for inspecting and licensing food businesses and others may require additional costs such as business privilege licenses. Some collect special taxes to cover costs related to refuse collection and sewer or water usage.

Most local governments have regulations in place with respect to zoning and property-related issues. Contact the local government office in your municipality to determine if commercial food establishments are allowed in the location where you might want to operate your business. Obtain written verification of permission to operate your business since you will need to show this to the Pennsylvania Department of Agriculture inspector during his/her initial inspection. If local ordinances do not permit you to operate your business at the address you provide, you may file for a variance from the regulations, which will take some time and money, or you may need to pick an alternate location.

### Pennsylvania Requirements

*General business requirements.* Most small businesses in Pennsylvania start up as a sole proprietorship or partnership since very little paperwork is needed to set up this form of enterprise. If you wish to register in another business category, it is best to consult an attorney who specializes in business law.

### Department of State

To set up a sole proprietorship in Pennsylvania, you need to register

your business name with the Department of State's Corporation Bureau (PCB). An exception to this is when you—as the owner—do business using your name (e.g., Susan Jefferson or Jefferson's Bakery). Any other name for your business is considered an assumed or “fictitious name” (e.g., ABC Bakery) and must be registered. The PCB will determine if anyone else in the state is using the name you have chosen. If your name is unique, you may then complete the registration process with PCB. The whole process usually costs no more than \$150 to \$200. Once your business is officially registered, you must then notify your county courthouse and post a notice in your local newspaper of your intent to start a new business. You are required to reregister every 10 years.

### Department of Revenue

The Pennsylvania Department of Revenue is responsible for collecting state taxes earnings for the Commonwealth. All food businesses that sell products intended for consumption at the place of purchase must collect state sales tax. Contact your regional Department of Revenue office to find out which taxes are required for your type of business. Contact the Department of Revenue for information on how to apply for a tax license. Businesses who do not need to collect sales tax often apply for this license since this exempts them from paying tax on supplies and materials directly used in their business.

### Department of Agriculture

In addition to the general state requirements mentioned, all commercial food establishments must register with the Pennsylvania Department of Agriculture (PDA) and pay a small fee. To register, contact your regional

PDA office and ask to speak with a food inspector known as a “sanitarian.” They are trained in food safety and sanitation and can provide valuable information on regulations and what you need to do to prepare for a future inspection. Be prepared to describe your product, how you plan to make it, and how it will be packaged. After you have completed and submitted the registration form, a sanitarian will make an appointment to visit your establishment. Once you pass this initial inspection, you are officially registered and may begin to manufacture your food products for commercial sale. Each year, the state will send you a notice requiring you to reregister.

### **Department of Labor and Industry (DLI)**

The DLI regulates issues related to wages and employee safety. If you plan to hire people to work at your establishment, you must notify the DLI either by mail or online.

### **Federal Requirements Food and Drug Administration**

Under the Public Health Security and Bioterrorism Preparedness and Response Act of 2002, commercial businesses that manufacture/process, pack, or hold food are subject to registering their business with the Food and Drug Administration (FDA). This regulation applies to virtually all types of food processing businesses, including those making animal and pet foods, and is required regardless

of size or whether that business sells across state lines. Registration is free and may be completed by mail, fax, or online. Home-based food businesses are exempt from this general registration requirement; they may be subject, however, to registration as a Food Canning Establishment if they make certain types of canned foods, as noted below.

Manufacturers of low-acid or acidified foods that do not require refrigeration (e.g., canned fruits or vegetables, barbecue sauce, salsa) must also register with the FDA as a *Food Canning Establishment*. According to the law, if you use ingredients that you obtain from other states or if you sell your product to people who live in other states, you are required to register your business with the FDA. If you are unsure of federal regulations that apply to your situation, contact the Central Region FDA Small Business Representative.

### **Internal Revenue Service**

Every employer subject to employment taxes is required to have a federal Employer Identification Number (EIN) to identify his or her business with the Internal Revenue Service (IRS) and the Social Security Administration. Some businesses, such as corporations, partnerships, and enterprises that have a qualified retirement plan (such as Keogh) or pay federal excise tax, are required to have an EIN even if they do not have any employees. You can apply to the

IRS for an EIN by telephone, fax, or mail depending on how soon you need to use the EIN. Under the Tele-TIN program, an authorized officer or business owner can obtain an EIN by telephone.

As was initially stated, many of the requirements to operate a food product business are once and done, as long as you don't change your business or product line substantially. The time spent learning what you must do to get started legally is well worth the effort.

**For more information**, contact your regional PDA office or the cooperative extension office in your county, or visit **[extension.psu.edu/food-safety/entrepreneurs](http://extension.psu.edu/food-safety/entrepreneurs)**.

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“Get your ducks in a row.”  
—Pa. food entrepreneur

# Insurance for Food Entrepreneurs

No matter how careful you are to ensure that your work environment and products are safe, accidents do happen. As a business owner, you will be held responsible for any harm that comes to your employees, visitors who come to your establishment, and consumers who eat your products. Safe food-handling practices must be a top priority for all food entrepreneurs so that no one becomes ill or injured from eating your product. Unsafe practices at any step in the process from farm to table—even after the product leaves your kitchen—can lead to disaster.

Remember, don't wait until you have your first product on the grocery store shelf to purchase an insurance policy. You will need insurance coverage before you start developing products and handing out samples to prospective clients.



## Why should you have insurance?

You can be held liable for accidents even if you have done everything reasonable to avoid them. An insurance policy is needed to:

- Protect assets you can't afford to lose in a lawsuit, such as your business property, home, and other personal assets
- Get a bank loan for your food business
- Ensure that wholesale distributors will be willing to carry your product
- Qualify you to use shared-use kitchens, pilot plants, or other rented facilities

## What kind of coverage do you need?

Since not all businesses are alike, this is not a simple question to answer. Many business owners naively believe that they don't need any insurance. Don't assume that your homeowner's coverage will take care of insuring your home-based food business. Talk to your current insurance agent to see if a rider can be added to your policy to cover your food venture. In many cases, this will not be possible, so be prepared to buy a separate policy as a necessary cost of doing business.

Take the following steps to learn what kind of insurance you need:

- **Contact** your insurance agent or broker.
- **Review** the coverage you already have.
- **Determine** what additional insurance is needed, then seek an economical way to purchase what you need.

Your agent will assist you in reviewing your present coverage to identify any gaps (areas of risk) and will recommend the amount of additional insurance you require. Most businesses need fire, automobile, liability, and workers' compensation insurance.

## Types of Insurance

Insurance is generally available in two categories: (1) property and liability and (2) life and health. Life and health insurance includes employment benefits that you arrange for yourself and any employees you might have. Initially, you will need to concentrate on the property and liability coverage for your business. A property policy provides insurance on your building and tangible assets; liability protects you against claims of injury from your customers. Depending on your coverage option, when you file a property insurance claim, you will receive cash for the actual value of the loss or the funds needed to repair or replace the insured item(s). When liability insurance applies, payment will be made to cover court costs, legal fees, and interest on judgments, in addition to the actual amounts awarded to the plaintiff by the court, up to the dollar limits of the policy.

## Insurance You Need to Consider

- **Liability** insurance protects your business if someone suffers bodily injury while at your place of business and sues you for damages. The cost of liability insurance is generally related to the risk of your industry; therefore, a restaurant where customers visit often will have higher risk than a bakery that sells their products to retailers and has few onsite customers.

- **Product liability** insurance protects you against claims of injury due to defects in your product. This insurance provides coverage if your product is part of a foodborne illness outbreak, has faulty packaging, or contains foreign objects that result in a broken tooth or other injury—making it a necessity for all food production enterprises. This insurance should be purchased before you introduce the product to the market, even if you are only giving away free samples.
- **Business property** insurance protects company equipment or assets against theft or damage due to fire, flood, vandalism, or other unfortunate incidents. Additional coverage may be needed related to windstorms, hail, smoke, and explosion. The coverage is written related to the actual cost of replacing buildings and equipment; the premiums you will pay are based on the insurable value.
- **Commercial auto** insurance is needed if you are responsible for picking up supplies or transporting finished products. Commercial auto insurance is quite similar to what you may already have on personal cars and trucks. Most commercial auto policies include property coverage for the vehicle, liability coverage for damage to other people and their vehicles, and the cost of injuries to the driver and passenger(s) of your vehicle. If you

use more than five vehicles for your business, you will want to explore fleet insurance to cover them all with one policy.

- **Workers' compensation** insurance covers employees who are injured on the job. It is required by law and must cover medical and rehabilitation costs and lost wages for employees hurt on the job. There are two components of this type of insurance; the first covers medical bills and lost wages for the injured employee, and the second covers you, as the business owner, against lawsuits by the spouse or children of a worker who was permanently disabled or killed. Annual cost is based on wages paid for each applicable employee job classification based on the tasks your employees perform, as determined by the Pennsylvania Department of Labor and Industry.

### Choosing an Insurance Agent

Choosing an insurance agent is as important as choosing an insurance policy. As a member of your “business support team,” your agent should be someone with whom you are comfortable discussing your concerns and needs. Many people start with the agent who handles their personal insurance, such as personal property, vehicle, or life insurance. This may or may not be the right choice for you. Make sure your business insurance agent has a thorough knowledge of the insurance industry, as well as real-

istic experience with food businesses, so that the plan you select provides adequate and appropriate coverage at a reasonable price. Have your agent explain all aspects of the policy to you in detail so you know exactly what is or is not covered. This will help eliminate any future surprises. If your current agent does not handle business insurance, he or she should be able to refer you to another reputable agent or agency that will meet your needs. Your banker or accountant, trade organizations, and other businesses may also be helpful resources for finding the right insurance agent.

**For more information,** contact the Penn State Extension office in your county, or visit [extension.psu.edu/food/safety/entrepreneurs](http://extension.psu.edu/food/safety/entrepreneurs).

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“Talk to others in business,  
from small producers to very  
large producers.”  
—Pa. food business owner

## Working with PDA

The Pennsylvania Department of Agriculture (PDA) Bureau of Food Safety and Laboratory Services is responsible for enforcing food regulations and inspecting food establishments. It may be tempting to think of a government agency as a hindrance to your dreams of becoming a food entrepreneur, but PDA food inspectors, also known as sanitarians, are trained in food safety and sanitation and are knowledgeable about the food regulations with which you will have to comply. Working closely with a PDA sanitarian as early as possible in your business development can save you time and money.



Your relationship begins with a telephone call to your nearest regional PDA office. Ask to speak to a sanitarian who can answer questions on food business startups. Be prepared to describe what is in your product, where you plan to make it, and how you intend to preserve and package it. The sanitarian will tell you which regulations apply to your product, offer advice on how to bring your facility up to standards, and perhaps stop by for a preliminary assessment of your operation.

Here are some topics that are likely to come up the first time you discuss your food business with a PDA sanitarian.

**Where will my product be made and what forms do I need?** If you are thinking about using your home kitchen or an alternate location, such as a church, fire hall, remodeled garage, or outbuilding, to process your product(s), PDA sanitarians can discuss applicable requirements for your situation. In general, you will need to register as a “limited food establishment.” For more information, refer to the “Food for Profit: Home Food Processing” fact sheet and request the “Application Packet—Limited Food Establishment” form from PDA.

If you intend to operate a commercial food manufacturing, warehousing, processing, storage, or any other type of wholesale food operation in order to wholesale your product (i.e., selling to a grocery store, distributor, or restaurant owned by someone else), you must complete an “Application Packet—Food Establishment Registration” form from PDA prior to operation.

**Who will inspect and license?** If you plan to sell your product directly to consumers (e.g., at your store or farm stand, by direct door or phone sales, or over the Internet), you will need to determine who you must contact for inspection and licensing. Not all retail food facilities in Pennsylvania are under the jurisdiction of PDA. Six counties (Allegheny, Bucks, Chester, Erie, Montgomery, and Philadelphia) have county health departments and conduct retail inspections and licensing in their jurisdictions. Some local municipalities, boroughs, townships, cities, etc., also do their own inspection and licensing of eating and drinking facilities. If PDA has jurisdiction, obtain an “Application Packet for Retail Food Facilities and Restaurants” form. Do this as early as possible to ensure no delay in opening your business.

**Do I need to obtain local zoning approval?** You will need to obtain written verification that your local government (town, borough, city, or township) has approved the operation of food businesses at your location. Call your city or town hall and ask to speak to someone in the zoning office. If you get approval, ask for written verification. If your location is not zoned for food businesses, you’ll have to find another place to make your product or apply for a variance—a process that will delay your start and involve additional costs.

**Are there specific requirements for the safety of my water supply?** Pennsylvania regulations require food processors to verify that their water comes from a safe source. If you plan to use municipal water, an

annual water bill is adequate proof of safety. If you are going to obtain water from a private well or cistern, you will need to have your water tested for coliform bacteria, nitrates, and nitrites at a state-approved water-testing laboratory. In some instances, additional testing may be required. You are required to retest your water every year that your business is in operation or at a frequency determined by PDA. Remember to keep a copy of your water bill or test results. You will need to show it to the sanitarian during inspections.

**Do I need to have my product tested?** Once you explain what your product is, how you will preserve it, and where you intend to make it, the sanitarian can tell you if any laboratory testing is necessary. For example, if your product is a temperature controlled for safety (TCS) food, also referred to as a potentially hazardous food (PHF), it must be tested for pH and water activity. Jams and jellies will need to be tested for soluble solids in order to meet truth-in-labeling requirements.

**What are the general sanitation regulations I need to comply with?** PDA enforces all federal food safety and sanitation regulations that pertain to the manufacturing of food products. This means you will have to make sure the place where you will be processing is in compliance with sanitary standards for the layout and condition of buildings and grounds, design and use of food equipment, availability and maintenance of restroom and handwashing facilities, and food-handler hygienic practices. Read the regulations (Code of Federal Regulations Title 21, Part 110: Current Good Manufacturing Practice in Manufacturing, Packing, or Holding Human Food) carefully and conduct your own self-inspection before your first PDA inspection.

Finally, when all the tasks above are completed and you feel your facility is in compliance with sanitation regulations, make an appointment with the regional PDA office for your first official inspection.

### **The Inspection Process**

The inspection process begins when the sanitarian arrives at your facility. After reviewing verification of permission to operate at your location and proof that your water is safe, the sanitarian will walk through your facility for a visual examination. Here is a list of suggestions that will help you get the most out of the experience.

**Cooperate fully with the inspector.** You both have the same goal: to protect the public from harm. A visit from a sanitarian provides an excellent opportunity to learn new sanitation techniques that can result in higher-quality, safer foods.

**Take an active role in the inspection process.** Walk along with the inspector. This gives you the chance to immediately correct simple problems as well as learn how to improve your own self-inspections. Take plenty of notes on any comments or violations so you can remember what problems were pointed out and more easily make corrections.

**Keep the relationship strictly professional.** Do not offer food or other items to the inspector since this could be misconstrued as an attempt to influence the inspector's findings. Do not lie, deceive, or attempt to hide anything. This can get you in serious legal trouble and cost your company a lot of money.

**Follow up on the inspector's report.** Immediately after the inspection is over, ask the sanitarian to explain his/her findings to you and offer suggestions on areas that need improvement. If you don't understand a violation, ask for an explanation. The sanitarian will want to make sure you fully understand why you are being asked to make corrections to prevent repeat violations in the future. Make sure you address problem areas in your next self-inspection so they won't come up again during the next PDA inspection.

At the conclusion of your inspection, if satisfactory, the sanitarian will give you a signed copy of the inspection report and collect a small registration fee. If serious violations were found and you did not pass, don't

panic. Make the necessary corrections immediately and arrange for another inspection so you can get your business up and running as soon as possible.

**For more information,** contact your regional PDA office or the Penn State Extension office in your county, or visit [extension.psu.edu/food-safety/entrepreneurs](http://extension.psu.edu/food-safety/entrepreneurs).

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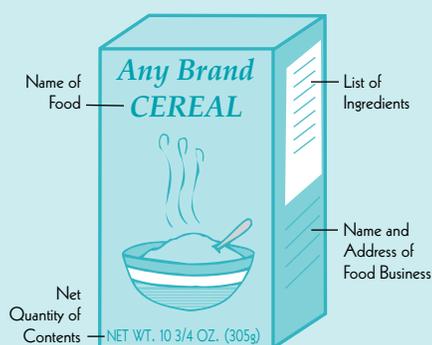
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*"Our PDA inspector has offered valuable support ever since we started the business."  
—Pa. food business owner*

## Food Labels

Food labels allow consumers to compare one product to another. They give instructions for safe handling and storage, as well as identify the firm responsible for the product. Labels list ingredients to help consumers choose foods with ingredients they want or need to avoid. Food label regulations are enforced by the 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. Exact requirements for your package size and type can be confusing. Before you have labels printed, share a draft version with a Pennsylvania Department of Agriculture (PDA) sanitarian or the FDA small business representative in your region to make sure you have met all labeling requirements.



### Four Basic Label Requirements

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.

### Principle Display Panel (PDP)

The PDP is the portion of the package label that is most likely to be seen by the consumer at the time of purchase. It is usually on the front of the package and shows the name of the product and the net contents of the container. Approved type style and minimum character size depend on the area of the PDP.

### Name of the Food

A statement of identity for the product must be clearly displayed by its common or usual name (e.g., salsa, apple sauce, vanilla wafers). It must be in bold type and in a size that is larger and more prominent than other label information.

### Net Quantity of Contents

The net quantity statement gives the actual weight, volume, or number of pieces of food in the package and should be located on the bottom 30 percent of the PDP. Weights and volumes must be displayed in both U.S. and metric units—for instance, 1 lb 8 oz (680 g) or 1 gal (3.79 L).

### Information Panel (IP)

The IP is the label panel immediately to the right of the PDP as you face the product. This area is reserved for the list of ingredients, the name and address of the food business, and nutritional information.

### Name and Location of the Food Business

The name, address, city, state, and zip code of the business must be printed so that consumers are able to contact the manufacturer for any reason. If the business is not the actual manufacturer, a qualifying phrase must be present that states the firm's relation to the product, such as "manufactured for" or "distributed by." A street address is not required if it is in a current city or telephone directory.

### List of Ingredients

Packaged foods that consist of two or more ingredients must be labeled so that ingredients are displayed in descending order (i.e., the ingredient that weighs the most is listed first, and the ingredient that weighs the least is listed last); for example, "Ingredients: pinto beans, water, and salt." In most cases, only common or usual names that are familiar to consumers can be used. For instance, use the term "sugar" instead of its scientific name "sucrose." If you are selling unpackaged items in bulk to stores for resale, you must supply the retailer with a list of ingredients.

### Other Label Information

#### Nutritional Labeling

Large food manufacturers are required by federal regulations to display nutritional information on the label. However, 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. Nutrient information must be presented on a per-serving basis (the typical weight or number of pieces eaten) and must include calories, total fat, cholesterol, sodium, carbohydrates, protein, vitamins A and C, calcium, and iron. To determine the amount of nutrients in your product, have your product tested in a commercial laboratory, purchase nutrition-labeling software to calculate nutrient values based on USDA reference values, or hire a consultant to do the whole job.

### **Nutrient and Health Claims**

Federal regulations limit the kind of claims you can make about the nutritional content of your product or any health benefits for consumers. If you make a nutrient claim, such as “high in vitamin C” or “low-fat,” you must declare the actual amount of that nutrient on the Nutrition Facts panel and your product must meet minimum and/or maximum nutrient content levels in order to qualify for the claims. Claims that your product may have a beneficial effect on a disease or health-related condition are limited to those approved by government scientific experts. For example, you may claim that because your product is low fat, high fiber, or high in fruit and vegetable content, it can

reduce risks from cancer or heart disease. You should weigh the benefits of making a health or nutrient claim against the cost of creating a Nutrition Facts panel before you proceed with this option.

### **Allergen Labeling**

In addition to nutrients in the food product, food producers must identify any allergens added to the food. According to the Food Allergen Labeling and Consumer Protection Act (FALCPA) of 2004, all food labels must declare the presence, if any, of the eight food allergens that can result in severe or life-threatening allergic reactions: peanuts, tree nuts, milk, egg, soy, fish, shellfish, and wheat. This includes allergens present in any of the ingredients (or processing aids) used in the food as well as allergens present in the processing environment where cross-contamination between the allergen and the food could occur.

### **Product Dates**

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. In Pennsylvania, only fluid dairy products, raw eggs, infant formula, and reduced-oxygen packaged meats require dating. Typically, wholesale customers may require you to date your product so they can better manage their inventory. Check with your potential customers to determine if they require product dating.

“When I changed the recipe for a new product, I not only had to change the label, I had to change jars so the new label would fit.”  
—Pa. food business owner

### **UPC Bar Coding (UPC).**

Although not a regulatory requirement, most large grocery store chains require UPC labels. If you plan to sell your product at these outlets, visit [www.gs1us.org](http://www.gs1us.org) to purchase your codes and arrange to have UPC labels made. 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.

**For more information,** contact your regional PDA office or the Penn State Extension office in your county, or visit [extension.psu.edu/food/entrepreneurs](http://extension.psu.edu/food/entrepreneurs).

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# Price and Pricing

Deciding on the “right” price for a product is one of the most challenging tasks for a new business person. If you set the price too low, you may not cover all your costs. If the price is too high, customers may choose your competitors’ products. So how do you decide? The information in this fact sheet will give you some tips on how to determine what you should charge for your product.



## Major Pricing Methods

There is a difference between price and pricing. The **price** is the amount of money you want for each product unit. **Pricing** is the process you need to go through to figure out what price to attach to each unit.

Pricing, therefore, is a strategic process that you must learn, and use, for business success. Pricing strategies can be divided into two methods: competition-based pricing and cost-based pricing. Each method has own advantages and disadvantages. Use the following information to help frame your pricing decision.

- **Competition-based pricing** looks at prices charged by the makers of products similar to yours. Ask yourself, “What will the market bear?” Check the retail locations where you think you would like to see your product offered and look at prices for similar products. Then compare your product and the image you want to project with those of competitors’ products. Different perceptions of “premium,” “specialty,” and “store brand” bring to mind unique positions in the market and corresponding price ranges. After this thought process, set your price accordingly.

*Advantages of this method:* It takes just a little research to come up with a price. Pricing new products lower than competitors’ prices may increase sales.

*Disadvantages of this method:* All the costs of producing the product may not be covered. A start-up business has costs that established manufacturers have covered long ago. Offering a low, introductory price and then raising it later confuses customers.

- **Cost-based pricing** takes all the costs of doing business into account to determine the price of each product unit. Most of your costs should fit into one of two categories: variable costs and fixed costs. **Variable costs** increase in direct proportion to the number of units sold. They include how much you pay for ingredients, labor, packaging, and sales commissions. **Fixed costs** remain fairly constant regardless of how many items you sell. They include building rent, loan payments, insurance, and utilities. Gather all the information about your costs associated with a unit of your product, determine how much profit you will want to make, and then set your price accordingly.

*Advantages of this method:* Your selling price is backed up by the actual costs of doing business, not just a best guess. This makes it easy to calculate a price that accounts for how much money it costs to do business and what kind of profit you might expect.

*Disadvantages of this method:* When start-up costs are included in pricing, new products may not compete well with established brands.

## Theory into Practice: Price Your Product

In practice, most entrepreneurs use a combination of both pricing methods to set a price for their products. Here’s an example where a blend of the two pricing methods was used to determine a price.

Sam makes Old Virginia Barbecue Sauce using a treasured family recipe. His competition sells similar products for between \$5.00 and \$9.00 a bottle. He decides to price his sauce

at \$8.00. So far, he has used competition-based pricing.

However, as a new food entrepreneur, he wants to cover all his costs but not price himself out of the marketplace. He wants to know how many jars it will take to pay for his fixed and variable expenses and “break even” (cost-based pricing). In the table above, Sam’s expenses are broken down into variable and fixed costs.

The difference between the total variable costs and the unit selling price is called the **contribution margin**. In this example, the contribution margin is \$3.70/unit ( $\$8.00/\text{unit} - \$4.30/\text{unit} = \$3.70/\text{unit}$ ). This amount represents how much is “contributed” from each unit of sales toward paying fixed expenses (after taking care of the per-unit, or variable, costs). Sam calculates that, to cover all his fixed costs, he must sell 250 bottles each month ( $\$925.00/\text{month} \div \$3.70/\text{unit} = 250 \text{ units/month}$ ). This is the **break-even point**.

Suppose that Sam wanted to make a monthly profit of \$150 in his first year of sales. He would need to sell a number of bottles beyond breakeven, each contributing \$3.70 toward this goal ( $\$150.00/\text{month} \div \$3.70/\text{unit} = 41 \text{ units/month}$ ). When this 41 additional bottles is added to the breakeven of 250 units/month, he reaches a total of 291 bottles each month to meet his ultimate goal. If Sam does not believe he can sell 291 bottles a month, he has to adjust one of the variables. For example, he can increase his unit selling price, reduce his fixed and variable costs, or change his monthly profit goal to come up with a more reasonable set of expectations.

Remember, in some ways, pricing is an art combining facts and figures with your best guess. And, as with any art, it takes practice to do it well. Successful retailers carry products that sell, and an inappropriate asking price could earn a “discontinued item” sticker for your product. Invest time into researching and calculating the best price you can determine to start, and retain, a profitable business venture.

### **Speaking from experience**

“If you charge bargain hunter prices, you may have plenty of sales, but you will also have trouble paying your bills. I prefer to have customers who know that my product is worth every penny they pay for it.”

**For more information**, contact your local extension office, or visit [extension.psu.edu/food-safety/entrepreneurs](http://extension.psu.edu/food-safety/entrepreneurs).

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