Scale Up Smart
Supply Chain Logistics

The Recipe for Success
The Food Entrepreneur

IS THIS YOU?

☐ Part or full time job

☐ First business as an entrepreneur

☐ The food industry is new to you

☐ Bootstrapped to this point with your own funds (or very small family loans)

☐ Everything goes back into the business

☐ You haven’t paid yourself
Scaling Up

WHY?

Make More Money
Make It Your Primary Income
Focus Only On The Business
Scaling Up...

IS HARD!

MOST WASTE VALUABLE TIME & MONEY

SOME SHUT DOWN BUSINESS
Scaling Up

REQUIRES

TIME

x2

MONEY

More than you think

INDUSTRY KNOWLEDGE

Don’t go it alone
RECIPE  Scaling Up Smart

- Know your Path to Market
- COGS Efficiencies
- Production Efficiencies
- Licenses & Labels
- Delegate Up
- Cost of Sales & Cash Flow
- Financing for Success
Choose a business model

Food Business Models That Achieve Scale and Cash Flow

- Go Where the Market is
  - Local
  - Regional
  - National
- Stay Small
- Diversify Income
  - Sell Business
  - Horizontally Integrated Businesses
  - Vertical Integrated Processors
Choose Your Sales Channels

Your Product

- Wholesale
  - Retail
  - Food Service
  - Restaurants
- DTC
  - Ecommerce
  - Market
- Own Site
  - Amazon
  - Other Sites
COGS Efficiencies

- Ingredients
- Packaging
- Labor
- Plan ahead for Wholesale & Distribution

Need price parity from the start
# COGS, Gross Margin & Pricing - DTC

## Per Unit Production Cost

<table>
<thead>
<tr>
<th>Cost Category</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Batch Ingredient Cost</td>
<td>$30.00</td>
</tr>
<tr>
<td>Minutes Required for Preparation</td>
<td>30</td>
</tr>
<tr>
<td>Prep Labor Hourly Rate</td>
<td>$10.00</td>
</tr>
<tr>
<td>Recipe Yield</td>
<td>1 batch</td>
</tr>
<tr>
<td>Total Unit in Each Package</td>
<td>12</td>
</tr>
<tr>
<td>Total Production Costs per Package</td>
<td>$35.00</td>
</tr>
<tr>
<td>Per UOM Production cost</td>
<td>$2.92</td>
</tr>
</tbody>
</table>

## Per Unit Packaging Costs

<table>
<thead>
<tr>
<th>Cost Category</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Packaging Cost</td>
<td>$10.70</td>
</tr>
<tr>
<td>Minutes Required for Packaging</td>
<td>12</td>
</tr>
<tr>
<td>Packaging Hourly Rate</td>
<td>$10.00</td>
</tr>
<tr>
<td>Total Packaging Costs</td>
<td>$12.70</td>
</tr>
<tr>
<td>Total Unit in Each Package</td>
<td>12</td>
</tr>
<tr>
<td>Per UOM Packaging Costs</td>
<td>$1.06</td>
</tr>
</tbody>
</table>

## Total Per Unit Production Costs

- **Cost**: $3.98 (8oz bags)

## Channel Margins

<table>
<thead>
<tr>
<th>Margin Type</th>
<th>Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct To Consumer Margin%</td>
<td>50%</td>
</tr>
<tr>
<td>Wholesale Margin % (direct)</td>
<td>21%</td>
</tr>
<tr>
<td>Wholesale Margin % (dist)</td>
<td>1%</td>
</tr>
<tr>
<td>Distributor Margin (25% markup)</td>
<td>20%</td>
</tr>
<tr>
<td>Retail Margin %</td>
<td>37%</td>
</tr>
</tbody>
</table>

## Per Unit Product Pricing

<table>
<thead>
<tr>
<th>Pricing Category</th>
<th>Cost</th>
<th>UOM</th>
</tr>
</thead>
<tbody>
<tr>
<td>DTC Price</td>
<td>$7.95</td>
<td>8oz bags</td>
</tr>
<tr>
<td>Profit from DTC</td>
<td>$3.98</td>
<td></td>
</tr>
<tr>
<td>Wholesale Price (Direct)</td>
<td>$5.03</td>
<td>8oz bags</td>
</tr>
<tr>
<td>Profit from Wholesale</td>
<td>$1.06</td>
<td></td>
</tr>
<tr>
<td>Retail Price (Direct)</td>
<td>$7.99</td>
<td>8oz bags</td>
</tr>
<tr>
<td>Wholesale Price (Distributor)</td>
<td>$4.02</td>
<td>8oz bags</td>
</tr>
<tr>
<td>Profit from Wholesale</td>
<td>$0.04</td>
<td></td>
</tr>
<tr>
<td>Distributor Price</td>
<td>$5.02</td>
<td></td>
</tr>
<tr>
<td>Retail Price (Distributor)</td>
<td>$7.97</td>
<td>8oz bags</td>
</tr>
</tbody>
</table>

## Profitability

<table>
<thead>
<tr>
<th>Category</th>
<th>Time</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Units Sold DTC</td>
<td>300 months</td>
<td>$1,192.60</td>
</tr>
<tr>
<td>Profit DTC</td>
<td></td>
<td>$1,192.60</td>
</tr>
<tr>
<td>Units Sold Wholesale (direct)</td>
<td>1000 months</td>
<td>$1,056.73</td>
</tr>
<tr>
<td>Profit Wholesale</td>
<td></td>
<td>$1,056.73</td>
</tr>
<tr>
<td>Units Sold Wholesale (dist)</td>
<td>2000 months</td>
<td>$80.31</td>
</tr>
<tr>
<td>Profit Wholesale</td>
<td></td>
<td>$80.31</td>
</tr>
</tbody>
</table>

---

**Copyright 2018 Cultivate Consulting, LLC**  
Do not distribute, make changes or duplicate  
sarikimbell.com
COGS Efficiencies

- Ingredients
  - Value Engineering
  - Case or Bulk Discounts
  - Wholesale Account

- Packaging
  - Price discounts in large quantities
  - Shop around
  - Pick up yourself
COGS Efficiencies

- Labor
  - Time efficiencies
    - Specialized Equipment
    - Convert ingredients to weights
  - Get help
- Co-packer
## RECIPE: COGS, Gross Margin & Pricing - Wholesale

### Per Unit Production Cost

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Batch Ingredient Cost</td>
<td>$400.00</td>
</tr>
<tr>
<td>Minutes Required for Preparation</td>
<td>120</td>
</tr>
<tr>
<td>Prep Labor Hourly Rate</td>
<td>$13.00</td>
</tr>
<tr>
<td>Recipe Yield</td>
<td>1 batch</td>
</tr>
<tr>
<td>Total Unit in Each Package</td>
<td>240 8oz bags</td>
</tr>
<tr>
<td>Total Production Costs per Package</td>
<td>$426.00</td>
</tr>
<tr>
<td>Per UOM Production Cost</td>
<td>$1.78</td>
</tr>
</tbody>
</table>

### Per Unit Packaging Costs

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Packaging Cost</td>
<td>$81.84</td>
</tr>
<tr>
<td>Minutes Required for Packaging</td>
<td>30</td>
</tr>
<tr>
<td>Packaging Hourly Rate</td>
<td>$13.00</td>
</tr>
<tr>
<td>Total Packaging Costs</td>
<td>$88.34</td>
</tr>
<tr>
<td>Total Unit in Each Package</td>
<td>240 8oz bags</td>
</tr>
<tr>
<td>Per UOM Packaging Costs</td>
<td>$0.37</td>
</tr>
</tbody>
</table>

### Per Unit Production Costs Total

- **Total Per Unit Production Costs**: $2.14 8oz bags

### Channel Margins

<table>
<thead>
<tr>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct To Consumer Margin %</td>
<td>73%</td>
</tr>
<tr>
<td>Wholesale Margin % (direct)</td>
<td>50%</td>
</tr>
<tr>
<td>Wholesale Margin % (dist)</td>
<td>47%</td>
</tr>
<tr>
<td>Distributor Margin (25% markup)</td>
<td>20%</td>
</tr>
<tr>
<td>Retail Margin %</td>
<td>37%</td>
</tr>
</tbody>
</table>

### Per Unit Product Pricing

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost (UOM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DTC Price</td>
<td>$7.94 8oz bags</td>
</tr>
<tr>
<td>Profit from DTC</td>
<td>$5.79</td>
</tr>
<tr>
<td>Wholesale Price (Direct)</td>
<td>$5.04 8oz bags</td>
</tr>
<tr>
<td>Profit from Wholesale</td>
<td>$2.90</td>
</tr>
<tr>
<td>Retail Price (Direct)</td>
<td>$8.00</td>
</tr>
<tr>
<td>Wholesale Price (Distributor)</td>
<td>$4.01 8oz bags</td>
</tr>
<tr>
<td>Profit from Wholesale</td>
<td>$1.86</td>
</tr>
<tr>
<td>Distributor Price</td>
<td>$5.01</td>
</tr>
<tr>
<td>Retail Price (Distributor)</td>
<td>$7.95 8oz bags</td>
</tr>
</tbody>
</table>

### Profitability

<table>
<thead>
<tr>
<th>Description</th>
<th>Units Sold</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>DTC</td>
<td>300 month</td>
<td>$1,738.28</td>
</tr>
<tr>
<td>Wholesale (direct)</td>
<td>1000 month</td>
<td>$2,695.47</td>
</tr>
<tr>
<td>Wholesale (dist)</td>
<td>6000 month</td>
<td>$11,176.08</td>
</tr>
</tbody>
</table>

Copyright 2018 Cultivate Consulting, LLC
Do not distribute, make changes or duplicate
sarikimbell.com
Production Efficiencies

- Commissary Kitchen
  - Right equipment
  - Proximity
  - Flexible hours
  - Storage
  - Wholesale buy-in
Production Efficiencies

- Equipment
  - Bottler
  - Industrial Mixer
  - Steam Kettle
  - Multiple Ovens
  - Labeler
Production Efficiencies

- Co-packer
  - Shop around for quotes
  - First run fee
  - Quality Assurance
  - Negotiate contract terms
    - Inventory on demand
    - Price breaks

Have a lawyer review your co-packing agreement for terms
Licenses

• Wholesale
  • State of Colorado
  • Depending on product may need:
    • Process Authority (Juice or Acidified)
      • Must update any time there is a change in the recipe
    • USDA oversight
  • DTC Sales
    • Non PHF
    • PHF Retail Food Establishment License (county health dept)

• Register with FDA
  • If ANY ingredients or packaging come from outside the state
  • Food Facility is commissary kitchen
Labels

• UPC Barcodes
  • One for product, one for case
• Nutrition Panel
• Ingredients
• Claims
• Certifications

ONLY use GS-1
Hire a graphic artist who knows labels
**Misc.**

- Trademarks
  - Tess Search
  - Becomes a responsibility
- Bookkeeping
  - Accrue your one-time expenses
  - Inventory

Don’t use the inventory feature in Quickbooks. Not set up for WIP and other food nuances.
Do a MANUAL hard count – account for it with a journal entry
Delegate Up
Delegate Up!

Bookkeeper  Digital Marketer  Sales  Website
Production  PR Agency  Customer Service  Delivery  Shipping
Graphic Artist  Business Coach
Where We Meet
The Magic Numbers

$250,000

45% GM

$112,500
Overhead

- **Fixed expenses**
  - Lease or building payment
  - Salaries and associated payroll costs
  - Licenses, insurance and other fees
  - Legal and accounting costs

- **Variable expenses**
  - Utilities
  - Commissary Kitchen
  - Sales & Marketing
Cost of Sales

- Distributor – 20% margin
- Marketing & Sales (~20% of sales)
  - Broker - % of sales
  - Slotting Fees, Chargebacks, Free Fills
  - Promotions
    - Minimum of 10% quarterly
    - Other optional apps and scanbacks
  - Demos
  - Online Advertising
  - Trade Shows
  - Contract Services

Can’t set it and forget it once you are in distribution
Cash Flow

90-120 days

Cash
- Collect
- Cash
- Purchase Materials
- Sell Product
- Produce Inventory
Startup Food Business Financing Cycle

- Friends & Family Crowdsourcing
- Bank Loans Equity Fundraising
- Local or Regional Distribution and/or Large E-Commerce

SALES

TIME

- Valley of Death
- National Distribution
- Valley of Death
- Valley of Death
- Farmers Market
- Small Wholesale and/or Small E-Commerce
RECIPE

Financial Success

- Plan, Plan, Plan
  - Up to date balance sheet
  - Projections – 3 years ($250k in sales)
  - Sources & Uses Table
- Find Financing
  - Friends & Family
  - Crowdsourcing
    - PieShell
  - Equity

<table>
<thead>
<tr>
<th>Sources</th>
<th>Amount</th>
<th>Uses</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>SBA 7a Loan</td>
<td>$30,000</td>
<td>Warehouse</td>
<td>$15,000</td>
</tr>
<tr>
<td>Friends &amp; Family</td>
<td>$ 5,000</td>
<td>Equipment</td>
<td>$ 5,000</td>
</tr>
<tr>
<td>Startup Equity</td>
<td>$ 5,000</td>
<td>Working Capital</td>
<td>$30,000</td>
</tr>
<tr>
<td>Crowdsourcing</td>
<td>$10,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$50,000</td>
<td>Total</td>
<td>$50,000</td>
</tr>
</tbody>
</table>
Don’t Go It Alone

- Find Your Tribe
  - Naturally Boulder
  - Colorado Food Works
  - Join “Grow Your Food Business” on Facebook
- Find a mentor, or two
- Podcasts
  - Edible Alpha
  - Brand Secrets & Strategies
- Delegate Up!
A little about me

- 20+ years in food industries
  - Restaurants
  - Coffee Shops
  - Farm – Wholesale
  - Farm – CSA Direct to Consumer
  - Purchasing
  - Commissary Kitchen
  - Started a food business
  - Year three of food business consulting

- 10+ years Marketing
  - Branding
  - Social Media
  - Graphic Design
What We Do

Startup Resources
Business Growth Strategy
Branding & Marketing