



FNQ

# FOOD INCUBATOR

CREATE | INNOVATE | ACCELERATE

## MODULE 4

*Food Business Basics*

## **STARTING YOUR BUSINESS WITH A PLAN & SUPPORT**

Everyone needs a business plan. It does not matter whether you are starting your very first business or growing an existing one, you always need a plan.

It is also important to know whether entrepreneurship is right for you and where to find the services and support available to help you get started.

**On successful completion of this module you will be able to:**

- If entrepreneurship is right for you and support services available
- Why you need a business plan
- The key elements of a business plan
- How to research the information you need for your plan
- Where to find support for your business

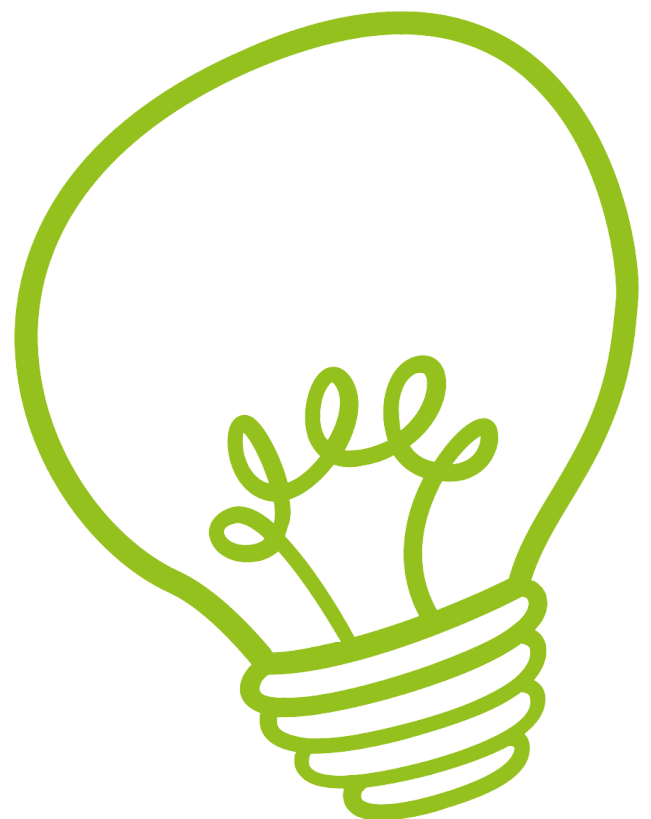
Fail to plan, plan to fail... we know you've heard it a zillion times before. But let's make it a zillion and one...

We've worked with some of the most humdrum and banal food businesses, as well as some of the most outlandishly zany start-ups. Each project has its own unique dimensions; but the ones that succeed all have a key characteristic in common: they've taken the time to prepare a flawless business plan.

In many cases, business plans range from thirty to fifty pages; but don't let the daunting length of the document put you off. At the end of the day, the quality of your business plan supersedes the page count. And, on those days when you're drafting page after page of your business plan, do remember that you're working on an actual blueprint for your business. This is the roadmap for your business – destination 'success' – so stay motivated!

### NOTE

*If document-preparation and committing your thoughts and ideas to paper are not your strong suit, then don't despair. Engage the services of a food business mentor or consultant who can help guide you through the task.*







# Market Research - The Big Picture

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Market research is the process of learning about your potential customers. Who are they? What are their buying and shopping habits? How many of them are there? It sounds like a complex process for academics. But, it's actually really simple.

If you're determined to pursue your dream in the specialty food business, you'll need to get a handle on where your business will fit in. First you need to research the global picture of your specialty type, then you'll want to drill down into your niche in the marketplace in your location.

Your initial market research should be about the specialty food business in general. This isn't intended to tell you whether or not you want to enter the business -- that ship has likely already sailed. But you do want to know about the industry you're getting into and you want to include some of that information in your business plan. If you use your business plan to get financing, which most small businesses do, you'll not only want to inform them about the state of the industry but to show your potential investors that you're informed.

## WHY YOU SHOULD DO AT LEAST A LITTLE MARKET RESEARCH:

When you're starting a business, getting to know your customers is one of the most important things you need to do. If you don't understand your customer, you don't know how you can help solve their problems. You don't know what kind of marketing messages and advertising will work. You don't know if your product or service is actually something your customers will spend money on.

## MARKET RESEARCH REDUCES RISK

Don't just do market research because someone told you to do it. Don't just do it to fill in a section of your business plan. Instead, do market research

to get to know your customers and prospects better. Do it because it will greatly reduce risk as you start your business. Do it because it will improve your marketing and sales process.

## IF IT TAKES TOO LONG, YOU MIGHT BE DOING IT WRONG

The amount of research you do really depends on the type of business you are starting, how risky your business model is, and who might be reading your business plan. Detailed market research isn't necessary for all businesses.

If you already know your customers really well, then maybe you don't need to do as much market research. For example, if you've worked in an industry for a long time and are starting a new business serving that same industry, then you probably already know the market fairly well and don't need to spend as much time researching it.

## DOES YOUR BUSINESS NEED MARKET RESEARCH? ANSWER THESE QUESTIONS TO FIND OUT:

- Are you serving a primarily local market?
- Does the category of business you are starting already exist?
- Do you have a plan for differentiating yourself from your competition?
- Do people spend enough on your type of business to support both you and your competition?
- Do you already know your industry extremely well from prior work experience?

# Start by identifying your target market

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If you do need to do market research—and it's recommend that everyone do at least a little—here's how you should do it:

Imagine that someone walks into your business, or picks up the phone and calls you. It's your perfect customer: someone who has the problem that you solve and is willing to spend money on your solution. Now imagine the details about this person. Who are they? Can you describe them?

## IDEAL CUSTOMERS AND COMMON TRAITS

This "ideal customer" is your target market. Now, your business might have several target markets, but it will usually serve you best to keep your list of target markets to two or three.

Each of your target markets should share common traits. These might be demographic traits such as age group, gender groups, income levels, or locations. They might be what are called psychographic traits, which are groups of people that like the same things or have similar interests. Or, your target market might be a certain type of

employee at another company, such as a CTO or head of marketing.

Most often, target markets are blends of demographic and psychographic groups. For example, you might be developing a new type of shoe targeted at female triathletes. Or you might be opening a hair salon targeting urban, hipster men.

## MARKET SEGMENTATION

Creating multiple target markets for your company is doing what's called "market segmentation." This sounds complex, but all you're doing is dividing your target markets up into different groups that you hope to sell to. Each market segment might have different characteristics and might buy your product or service for different reasons. You might end up coming up with different marketing campaigns for different market segments or even customising your product or service for each segment.

# Talk to your potential customers

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Once you have identified your target market, or at least made a good guess at who your target market is, you need to take the most important step in this entire market research process. You need to get up from your desk, get out from behind your computer, and go outside. That's right, you need to go and actually talk to people in your potential target markets. This is called **primary market research**.

Yes, you can do online surveys and other research, but that's no substitute for actually talking to potential customers. You'll gain more insight into your customers just by seeing their work or home

environments, and get a better understanding of how they make buying decisions by actually talking with them than any survey will ever tell you.

Do this one thing, and you'll be miles ahead of your competition. Why? Because most people skip this step. It's intimidating to talk to strangers. What if they don't want to buy what you plan on making?

One of the most popular methods for doing this kind of primary market research is to actually try and sell



your product or service as if it currently existed. Talk to people who you think might be your potential customers. The more you talk to, the more you should start to see common themes in who your ideal customer is.

This process is critical because it might help you re-define your target market. Your initial assumptions might be wrong and that's OK. Better to make

mistakes early in the process before you've risked very much.

You might also learn more about how you should price your products or services, what the most critical features or benefits are, and what features your customers want. Getting this step done early will help you refine your business model and make a clear impact on your future success.

## Find out if your market is big enough

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Once you have identified your target market and validated it by talking to them in person, you need to do research to figure out if your target market is big enough to sustain your business. If there aren't enough potential customers to sustain your business and your competitors, then you need to consider changing your product or service offering.

For example, if your target market only has a few thousand potential customers, you either need to sell to them frequently or sell at a fairly high price to create a sustainable, profitable business.

To figure out if your market is big enough, you need to do some research. Use the attributes you defined in the target market step and then figure out how many people meet your demographic,

psychographic, or location criteria.

If you are targeting an existing market with established competitors, you do what's called industry research. For example, perhaps you are building a new company in the market for sports drinks or the market for cell phones. In cases like this, understanding how much people buy of the currently existing offerings will give you the best sense of potential market size. In this case, you want to look for industry reports and read trade publications for your industry. These publications often summarise the market size.

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## Retail Market Research

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Probably the best market research you can do for your retail specialty food business is boots-on-the-ground research in your own market area. Assuming you don't plan to locate your retail food store more than 10 or 20 miles from your home, this should be an easy enough task. There are two approaches you'll want to take:

1. Look at retail stores of all types in the areas you're considering locating your shop.
2. Analyse the specialty-food-specific shops in the region.

Be sure to not only take notes but to jot down a general list of categories and questions so that you are comparing and considering each location under the same microscope. In your research of the overall retail market in your targeted area, look at:

- What is the demographic of the population?
- Are shoppers in that area local, or are they coming in from a distance?

- What is the demographic of the population?
- Are shoppers in that area local, or are they coming in from a distance?
- What's the price-point range of the merchandise? Do the stores tend to have sidewalk sale racks or discounted sections up front in the store? Or are the display windows done in high-style displays changed on regular basis, with the marked-down clothing on a rack at the very back of the store?
- Do shoppers come away with merchandise in custom rope-handled shopping bags or in used plastic bags from the grocery store? Are shoppers actually coming out of the stores having purchased merchandise?
- What kind of staffing do the shops have? Are they mostly one-person shops where the owner is also the cashier and sits behind the counter eating her bagged lunch? Or do the shops tend to have someone at the cash register, another person helping customers on the floor, and the owner out in the back ready to help with questions but in the meantime ordering and doing bookkeeping and other back-office tasks?

## Document your findings

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The final (and easiest) step in the market research process is to document your findings. How formal your documentation is will really depend on how you plan on using it.

If you only need to share your findings with your business partners and others in your business, then you can probably communicate fairly informally. However, if you're looking for investors for your business you may need to write a more formal market analysis and do a market forecast.

The single piece of documentation that every business should create is a buyer persona. A persona is a description of a person that hits on all of the key aspects of your target market. And, just like you might have several target markets for your business, you might have several different buyer personas.

Creating a buyer persona converts your target marketing information from dry research into a living, breathing person.

# MARKET RESEARCH

**CONDUCT MARKET RESEARCH TO HELP YOU IDENTIFY CUSTOMERS**

**No matter how good your idea is, there will always be other businesses fighting for the same customers – either on price or features or quality. You need to make sure you understand your competitors' strengths and weaknesses.**

# MARKET RESEARCH

Market research is an effective tool to assist your business planning. It is about collecting information that provides an insight into your customers thinking, buying patterns, and location. In addition, market research can also assist you to monitor market trends and keep an eye on what your competition is doing.

## DEFINE YOUR MARKET RESEARCH OBJECTIVES

Market research tells you where these members of your audience and base of customers are conducting their own buyer research about products and services similar to those you sell. It also tells you what's trending in your industry, what your target audience and customers want and need out of products and services like yours, and what's influencing their decisions to convert and buy.

The scope of the market research you'll undertake is influenced by your overall objectives – what do you want to learn about your market and the external factors influencing it?

It's crucial to show that you understand your competitors. This section should give detailed information about your key competitors and how you plan to challenge them.

## OTHER CONSIDERATIONS

- Back up your claims with evidence where possible.
- Think about who the customers of your competition are and why.
- Try and gather as much information as possible about their marketing strategies.
- Online reviews may also help you understand how they are perceived.

## KEY THINGS TO INCLUDE

- Show that you have done your research.
- Detail both the strengths and weaknesses of your competition.
- Be explicit about your opportunities to beat your competitors.
- You may not always be able to get detailed financial information about your competitors but include pricing information if you can.
- Don't just include direct competitors; there are probably rivals selling alternative products or services that fulfil a similar need to yours. For example, key competitors to a bar might also include other venues for socialising and spending disposable income, rather than just other outlets supplying alcoholic beverages.

# COMPETITOR #1

**Name:**

**Type of competitor:**

**What products are you competing with:**

**Weaknesses of competitor:**

**What's your strategy to compete with them?**

# COMPETITOR #2

**Name:**

**Type of competitor:**

**What products are you competing with:**

**Weaknesses of competitor:**

**What's your strategy to compete with them?**

# COMPETITOR #3

**Name:**

**Type of competitor:**

**What products are you competing with:**

**Weaknesses of competitor:**

**What's your strategy to compete with them?**

# SWOT Analysis

SWOT Analysis is a useful technique for understanding your strengths and weaknesses, and for identifying both the opportunities open to you and the threats you face. Used in a business context, it helps you to carve a sustainable niche in your market. You need to be able to:

- Seize business opportunities by capitalising on business strengths

- Overcome weaknesses to take advantage of business opportunities
- Monitor potentially threatening outside forces while maintaining or developing internal capabilities so that you're prepared to respond from a position of strength if a threat arises
- Eliminate weaknesses to protect your business from threats

*favourable*

*unfavourable*

*internal*

## STRENGTHS

- What are your strengths?
- What does your business do better than others?
- What unique products & positioning do you possess?
- What do others perceive as your strengths?

## WEAKNESSES

- What are your weaknesses?
- What do your competitors do better than you?
- What can you improve given the current situation?
- What do others perceive as your weaknesses?

*external*

## OPPORTUNITIES

- What trends or conditions may positively impact your business?
- What opportunities are available to you?

## THREATS

- What trends or conditions may negatively impact you?
- What are your competitors doing that may affect you?
- Do you have solid financial support?

**NOTE:** Revisit your SWOT analysis on a regular basis — at least annually and more frequently if your business is facing major changes in marketplace or competitive conditions, experiencing growth problems, or failing to meet goals and objectives — to see how the balance of strengths, weaknesses, opportunities, and threats may have shifted.



# SWOT Analysis: Yakult Case Study

What is Yakult? A fermented (undergoes a chemical change) milk drink that contains a high amount of unique beneficial bacteria called Lactobacillus. Yakult helps to maintain a healthy balance of good bacteria in our intestines. It helps to outnumber the bad bacteria, which can be potentially harmful.

## STRENGTHS

- It is well established in Asian countries and known to be popular among Asian communities in Australia.
- It is targeted at everybody, using the slogan "Every body. Every day."
- Australians have embraced healthy lifestyles and see products like Yakult as having a place in their diet.

## WEAKNESSES

- It needs to be refrigerated, so some outlets would be unsuitable.
- The small size of Yakult means it is not visible amongst other refrigerated products in some refrigerators.
- People are confused about its packaging size.

## OPPORTUNITIES

- To be included as part of the breakfast menu in hotels or fast food outlets.
- The advertising campaign using the Yakult cartoon character, which is already well established. The cartoons can be used to appeal to children.
- Adding Yakult to other foods, for example, milkshakes.

## THREATS

- A number of other probiotics foods are on the market in a form more recognisable to the public e.g. yoghurt containing live bacteria.



# SWOT Analysis For Your Business

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When you take the time to do a SWOT analysis, you'll be armed with a solid strategy for prioritising the work that you need to do to grow your business. You may think that you already know everything that you need to do to succeed, but a SWOT analysis will force you to look at your business in new ways and from new directions. You'll look at your strengths and weaknesses, and how you can leverage those to take advantage of the opportunities and threats that exist in your market.

Once you have identified and prioritised your SWOT results, you can use them to develop short-term and long-term strategies for your business. After all, the true value of this exercise is in using the results to maximise the positive influences on your business and minimise the negative ones.

## EXERCISE 1

## SWOT For Your Food Business

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On the next page use the examples shown and follow the template from page 1 to fill in your SWOT analysis for your own food business idea.



## **STRENGTHS**

## **WEAKNESSES**

## **OPPORTUNITIES**

## **THREATS**

# Defining Your Customer Avatar

We're often told not to generalise. Most of our parents impressed upon us the notion that it's bad to judge a book by its cover, stereotypes are a negative and that we're completely and outrageously erroneous to make sweeping assumptions about an individual until we've walked a mile in his or her shoes.

Well, now that we're no longer kids, we probably think more along the lines of: never judge a wine bottle by its label, nor a coffee by its ornate latte-art... Don't judge a restaurant's food by its bad lighting and its sad supermarket-style elevator music... We've grown up, but we haven't quite grown out of the idea that prioritising the superficial, the outward and the exterior is downright wrong.

We still maintain our belief that each new person we meet should be treated as a unique individual, we have, in recent years, come to a realisation that in certain areas of marketing an element of generalisation can be viewed as a major positive. So, why go against our inner well-brought-up selves and delve into the murky world of conjecture and assumption...? In two words: 'Customer Avatars'.

## THE EMBODIMENT OF YOUR TARGET MARKET...

For those of you who haven't heard the term before, a customer avatar is a succinct representation of your ideal customer. In fact, he or she is the fictional embodiment of your target market – an individual who personifies the traits and characteristics of the archetype customer your business aims to serve.

In many cases, a business using a customer avatar approach to their marketing strategy will create an extremely detailed profile and 'back-story' for their 'ideal' customer. Better yet, some businesses will even sketch out two or more customer avatar profiles that exemplify separate diverse sections of their target audience, e.g. male or female, customers from different age brackets, customers in various salary brackets, customers who are single or individuals with families etc...





# BRANDON AMBITIOUS

## BACKGROUND

Brandon was a highly ambitious university graduate. By the age of 24, he had successfully completed a Bachelor of Commerce (BCom) degree, followed by a Master of Commerce (MCom) degree in International Business.

Brandon's enthusiasm for university clubs and societies meant he quickly became a popular and familiar figure on campus. His sociable character, however, did not hinder his educational success – Brandon's results at both undergraduate and postgraduate level were flawless.

With Brandon's impressive educational results being matched only by his popularity and superb people skills, 24-year old Brandon was enviably described by his peers as 'one to watch'.

A sought-after internship at a multinational consumer products company followed graduation; shrugging off strong competition, Brandon then scooped a permanent position at the company. Remarkably, within seven short years, Brandon has moved from intern to mid-level manager to senior manager.

Now aged 31, Brandon relishes the success that he's achieved. He enjoys the occasional trip home to see his parents and siblings who shower him with praise – his close family are dazzled by his quick ascent up the corporate ladder.

However, the opportunity to meet former university pals presents a different prospect. Here, Brandon is presented with alternative realities that ignite a spark of regret... During these rare, but eye-opening, meet-ups with his uni friends, Brandon hears how Gina joined her dad at the family DIY store and has now expanded the business to include five new (and highly profitable!) outlets across the suburbs of Sydney. Meanwhile, Jon, who coasted through his third level education and never quite excelled when it came to exam results, has teamed up with his girlfriend to launch a rural eco-tourism resort that's quickly garnering an elite celebrity following.

Long flights, late evenings, stressful deadlines and regular international business trips have become the norm for Brandon. It's all beginning to feel a little exhausting. What's more, the strict corporate structure of the multinational where he works is starting to suffocate his ambition. He longs to embrace the creative entrepreneurial side

of his persona; he wants to return, in some small way, to his university days when he was seen as a 'people person', constantly involved in the latest campus events and activities.

Plus, who knows, if Brandon can manage to step off the corporate ladder and take back control of his work-life balance, there may be a chance to pursue aspirations of romance or even think about starting a family.

## GOALS & VALUES

While his hectic career has been stressful, Brandon has benefitted from the enrichment that comes with international travel. Corporate trips to Asia, Europe and North America have been splendidly eye opening. He's a passionate 'foodie' and, having absorbed a wide variety of food cultures during his travels, Brandon is brimming with innovative business ideas for several food products. He's spotted gaps in the market and now he wants to act on his ideas – it's time to take a career break and discover whether one (or several!) of his food product ideas can make it big!

His business background gives him a confident air; he knows that he doesn't have all the answers, but Brandon's pretty sure that his academic background, coupled with his career background, mean that he has every chance of making a genuine success of his business ideas.

## Other Motivations:

- **To share his food knowledge:** It's not all about financial reward. Brandon is lucky enough to have travelled extensively. He's accumulated a strong culinary knowledge.

- **To rediscover the person he used to be:** Brandon misses the popular, charismatic person he used to be in university; he wants to reconnect with people and rediscover the joy of making one-to-one connections with people. The complexities of communication within the formal corporate world have robbed Brandon of the opportunity to deal directly with people and to get to grips with the thoughts and opinions of everyday individuals.

## CHALLENGES & FEARS

For now, Brandon is not 100% committing to a career change. He's almost entirely convinced that he can make a fulltime transition to food entrepreneurship. However, his academic background in business means he's acutely aware of the statistics – despite outstanding product ideas and excellent planning, numerous new businesses fail within the first year. As a result, rather than the finality of quitting his job, Brandon has opted to take a career break. In his heart of hearts, Brandon wants nothing more than to make his new business a fulltime, permanent move. Returning to his corporate job would essentially be an admission of defeat and would leave him feeling wounded and slightly despondent. Yet, 'nothing ventured, nothing gained' is Brandon's motto. His fear of failure is a motivator! He's anxious to learn; he wants to fix any gaps in his knowledge of all things food entrepreneurial.

Among his key challenges in terms of knowledge and resources are:

- **Social media marketing** (it's a little overwhelming; the concept seems easy, but where to start...?)

- **Strategy:** Brandon has lots of exciting product ideas, but he needs to firm down his strategy. What should his approach be? Which product idea should he prioritise?
- **Time Management:** One benefit of a formal corporate structure is that your role, your responsibilities and your deadlines are very much defined. As a newbie entrepreneur Brandon is struggling to set timelines and assign priorities when faced with his long 'to-do' list. It's clear he needs a fresh pair of eyes to analyse his key tasks and advise him on the best approach to time management. In short, Brandon needs an outside advisor to help him make sense of his slightly unwieldy workload.
- **Sales:** Brandon is starting to realise that he's been enveloped in the world of corporate sales for so long, that he really doesn't have much in the way of knowledge of everyday 'real-world' sales. How does he get his products on to the shelves of his local food hall? How does he go about pitching his product range to supermarket multiples? Should Brandon start at farmers' market level? What should his price point be?

Brandon's an experienced business person, but he desperately wants a knowledgeable mentor who can act as a sounding board to help him figure out these crucial decisions.

## MEDIA SOURCES & LEISURE

- **Keeping fit:** He's not exercise obsessed, but running, hiking and swimming allow Brandon the luxury of indulging his love of food, while still keeping the extra kilos off!
- **Current affairs, reading, TedTalks:** Brandon realises that the world is a fast-moving place! Weekends and evenings are often spent catching up on current affairs. When at home, rolling news is normally on the TV as background noise; the latest business 'must-read' book is by his bedside and occasional bleeps from his high-end smartphone remind him to check his Twitter feed. Occasionally, a former business contact or friend from university will send him a link to a trending TedTalk.
- **Eating out:** Brandon can't shake the habit of eating out – it was very much part and parcel of his corporate lifestyle. Now, there's an added dimension to his restaurant experiences. He goes out of his way to try new cafés and restaurants; he often engages with the staff by asking where they source their ingredients and what inspires their chef!



# MELANIE

## SHE'S A DOER

### BACKGROUND

Melanie has always been 'a doer'. The creative child amongst her more academic siblings, Eva often became the instigator of family theatrical dramas that she and her brothers, sisters and cousins would perform for the benefit of amused parents, aunts, uncles and grandparents.

Sketches of tree houses she wanted to build and itineraries for camping trips she wanted to plan were always a feature of her summer holiday activities. Her creative streak was also apparent at school where school plays gave Eva the opportunity to showcase her acting talents. Art was a big love of Eva's, although her skill didn't quite live up to her enthusiasm and ambition - it was clear by the time she reached school-leaving age that she would never be a candidate for art college.

Reaching eighteen years old meant Eva needed to make some serious decisions regarding her future career. Good at a handful of school subjects, but with a superior mastery of none, Melanie decided the best option would be to defer university for at least one year.

A once-in-a-lifetime trip to Europe followed. Along with a group of close friends, Melanie embarked on a trip that took in all the key continental European capitals. The girls she travelled with were keen to experience the immense culture on offer - the grand buildings, exquisite museums and, of course, the nightlife!

While enamoured with the cultural discoveries on offer, Melanie was, above all, drawn to the magnificent boulangeries and patisseries that seemed to be around every corner in every quaint French and Belgian village or town.

The beautifully decorated cakes, the perfect melt-in-your-mouth pastries... these were the magical memories that Melanie returned to Australia with. The experience of savouring those delectable sweet treats at whimsical French and Belgian pastry shops and bakeries equated to an unparalleled lustful holiday romance.

On returning to her hometown, Melanie's lasting memory of heavenly, sugary sweet treats prompted her to start perusing French pastry blogs and to stock up on the requisite bakery 'bibles' recommended by those blogs. Meanwhile, keen to become financially independent and to repay her recently accumulated travel debts, Melanie



turned her attention to job-hunting. Luckily, within a few weeks, she had landed a temping job at an architectural company. Her role as an administrator and bookkeeper soon became permanent. In her personal life too, things were starting to fall into place. Melanie rekindled a relationship from a few years earlier. In a wink of an eye, months have turned into years and years turned into just over a decade.

Today, Melanie is a full-time mum to Sofia (6) and Sarah (3). Her partner, Andrew, has a permanent and secure job, but family expenses are always accumulating. In between school runs and play dates, Melanie is lucky enough to have time to indulge her passion for baking – a joy that has stayed with her since her trip to Europe. Always keen to impress, always seeking out new ways to channel her creative streak, Melanie is constantly experimenting: elaborate decorative flourishes, health-conscious ingredients, gluten-free and dairy-free options for family friends with specific dietary requirements.

Her extended family and the local mums in her neighbourhood are big fans. “Beautiful - better than anything you’d buy in the shop!” is the typical exclamation when Melanie arrives at a party or family function with one of her popular creations. In recent months, Eva has been selling cakes and sweet treats to a local café. The feedback has been splendid. Not only is she chuffed with the appreciative comments she’s been receiving, but the extra cash flow is also a very welcome addition to Andrew and Melanie's family finances.

## GOALS & VALUES

A combination of financial motivation coupled with a creative urge to bake superior quality cakes has put Melanie on track to start her own food business.

Melanie’s office administration background might not immediately strike you as having relevance to a food business start-up. However, Melanie is confident that she has many of the requisite skills for an up and coming entrepreneur!

While working with the architectural company, Melanie was responsible for everything from bookkeeping to the company’s social media activity. Customer service and even the occasional spot of friendly phone-based debt-collection also came under her remit.

As her new business shows signs of growth, Melanie hopes that at least some of this past experience will once more become useful. She was an excellent administrator (even if she does say so herself!). Why consign those talents to the past?

## Other Motivations:

- **To provide tasty treats for those with special dietary requirements:** Within Melanie’s circle of family and friends, there are several adults and children who need to follow dairy-free and gluten-free diets. Others choose to only consume free-range eggs; a handful of friends are contemplating becoming vegetarian or vegan. Why should these individuals miss out on tasty treats? It just wouldn’t be fair...!

- **Work-life balance:** Having worked full-time in the home for several years, Melanie is reluctant to return to a 9-5 office job. She enjoys homemaking and being around her young children - being her own boss is an attractive option. "Let's give it a try", she tells Andrew. "It will be hard work, but I'll be building a business that works with our lifestyle!"

## CHALLENGES & FEARS

Right now, Melanie is preparing cakes and pastries in her own kitchen. She knows that she has good hygiene standards (every item she bakes for the local café is top quality and is as good as the food she would serve her own family), but what are the actual rules?

Melanie is not 100% sure whether she should really be creating food for commercial consumption in her own home. Does she need to apply for a hygiene cert? Should she be seeking approval from a health inspector? And, if she's not doing everything entirely correctly, is there a possibility that she could be fined?! Melanie is not a risk-taker and values her good reputation - she recoils at the idea of being reprimanded by food safety officials.

For Melanie, a number of other concerns frequently keep her awake at night. These include:

- **Expiry & Food Spoilage:** How should Melanie approach spoilage? If she bakes too much stock, she might be left with wasted items (and the good quality ingredients she uses are not cheap!). Sometimes, when she bakes precisely 'to order', a last minute request will arrive
- and Melanie misses out on extra income. In her experience so far, Melanie has also noted that seasonal demand fluctuates.
- Plus, Melanie lacks knowledge in terms of expiry dates. Generally, Melanie errs on the side of caution and states a three-day expiry date. However, what is the exact science behind expiry dates? How can Melanie predict demand? These are tricky topics!
- **Labelling, Nutrition, Packaging & Branding:** If Melanie is to progress her business idea, she really needs to start fine-tuning her brand. What are the regulatory requirements for labelling and nutritional information? How can her packaging and branding project a super-polished image? She's already active on Facebook, but Melanie knows that a properly branded website will be required if she wants to be taken seriously.
  - **Expansion & Strategy:** Currently making 8-12 cakes per week and baking three batches of pastries, Melanie is wondering what scope there is for expansion. What should her approach be? Could a mentor help advise her on the first steps towards launching a true business? How does she move beyond the initial start-up phase?
  - **Premises & Finance:** Fingers crossed, Melanie is on the road to expansion. Would it be outrageously expensive to open a small production facility? How should she finance a move such as this?
  - **Competition:** Melanie knows there are many talented baking enthusiasts in her locality. What's to stop a neighbour or (so-called!) friend from launching

business similar to hers? Could somebody replicate her branding and start copying her product line? How can Melanie stay one step ahead of the competition?

and Melanie misses out on extra income. In her experience so far, Melanie has also noted that seasonal demand fluctuates.

## MEDIA SOURCES & LEISURE

**Family-based activities:** With a young family, it's no surprise that many of Melanie's social activities are family based. Walks and hikes help to keep Melanie, Andrew and the girls fit and healthy while still providing the opportunity to enjoy family time together. Birthday parties and other neighbourhood get-togethers offer a chance for both the adults and the younger generation to socialise. These days, rather than a romantic table for two at the local Italian bistro, it's more likely to be coffee and cake dates at the bustling café around the corner – often with kids and the two family dogs in tow!

**Current affairs, reading:** Her busy lifestyle means that the latest viral videos and

headlines that crop up in her Facebook newsfeed are sometimes as close as she gets to 'keeping up of current affairs'. When the opportunity arises, Melanie chooses to relax with a good novel or a biography of a particularly interesting celebrity or self-made millionaire.

**Health:** When children arrived in her life, Melanie became increasingly interested in health and nutrition. Healthline.com and several health and wellness blogs are bookmarked on her laptop. Members of the mums' WhatsApp group that she participates in are constantly exchanging useful parenting and healthy-eating tips.

As a result, customer avatar profiles typically include quite comprehensive biographical information that outlines the key details of the avatar's personal life, work life, hobbies, interests and recreational or fitness routines, as well as his or her everyday choices in terms of social media activity and the consumption of print or digital news sources.

## **BENEFITTING FROM A MORE INTUITIVE UNDERSTANDING OF YOUR CUSTOMER...**

For anyone new to the concept of customer avatars this level of detail may seem slightly over the top! However, armed with the extremely precise insight gained from cultivating these biographies, food business entrepreneurs and their marketing teams are much better placed to develop their product range and to weigh up the consequences of any key strategy decisions that might impact on the overall direction or positioning of their brand.

Creating your ideal customer avatar, or persona, will guarantee your marketing efforts are targeted and much more cost effective. Profiling that customer who needs your products and/services most will allow you to craft your marketing messages to stand out and appeal to him or her directly. Your ideal customer will return repeatedly, spend more money, and recommend you to friends and family. This customer will be amazing to do business with and will generate a large percentage of your profit.

The demographics are another useful part of the Customer Avatar when choosing targeting options in ad platforms like Facebook. Demographic Information.

And, when writing content, email or sales copy it can be beneficial to simply write as though your avatar were sitting across the table from you. Demographic information like age, gender and location will give your persona a look and feel.



# CUSTOMER AVATAR WORKSHEET

## **A DETAILED PROFILE OF YOUR IDEAL CUSTOMER**

**A customer avatar is a detailed profile of your ideal customer. It doesn't make assumptions or categorise people into groups. The avatar focusses on one person and outlines everything about them. It goes into much greater depth than a regular marketing persona, providing marketers with many more targeting tools**

# BUILD A BROAD DESCRIPTION OF YOUR IDEAL CUSTOMER

Starting at the start is always good advice, right? So – no surprise, here – we’d urge you to begin by looking at the most basic demographic information that makes your customer who he/she is. Get out your notebook and pen and start crafting a basic customer profile; prepare a portrait of your customer avatar.

- How old is your ideal customer?
- Are they male or female?
- What is his marital status? (For the purpose of this, the customer is male.)
- Does he have children?
- How does he describe himself?
- Where does he live? Does he own or rent?
- What is his current occupation?
- How long has he been with his current company?
- How much money does he earn in a year? What is his annual household income?
- What is his highest level of education?
- What was his major?

## Consider more personal details to help form a better understanding of your customer

Much of the information below will help you learn where to find your ideal customer and how to engage him or her. It will be extremely useful when planning marketing strategies and creating content. Try to imagine what a typical day in his life is like.

- How does he spend his free time? What are his hobbies and interests?
- What are his likes and dislikes?
- What books and magazines does he read?
- What kind of music does he listen to?
- What does he watch on TV? What are his favourite movies?
- What are his favourite websites? What type of content does he consume most?
- Is he active on social media? Which networks appeal to him?
- What is his source for getting the news?
- What are his fears?
- Does he have a guilty pleasure?
- What kind of car does he drive?
- Is he health conscious?
- Does he spend more time at home or work?

Get out your notebook and pen and start crafting a basic customer profile; prepare a portrait of your customer avatar under the following headings:

- Job title & description:
- Demographics (age, gender, relationship status, income range etc.):
- Psychographics (values, opinions, attitudes, interests, generational traits etc.):
- Goals, challenges and pain points:
- Media use/habits (include social media and traditional media usage – where does your customer source his/her news and information):
- Hobbies & past-times (how does your customer archetype spend his/her evenings and weekends...?):

**TIP:** *If you feel that you completely lack the insight to tackle the task outlined above, how about considering the following?*

*Chat to your customers on a one-to-one basis to find out more about their habits and lifestyles, prepare a short customer survey or take a quick look at the demographical data available via your social media platforms or Google Analytics account. From here, you can start making wider assumptions that are based on your intuition, rather hard data.*

## TIME TO GET CREATIVE

- Now, give your customer avatar a name and try browsing a stock photography website for a photo of someone who looks like a good match for the fictional individual in your head.
- Use the basic details that you've outlined in the previous section (demographics etc.) to begin writing a story about your customer avatar. Embrace either your inner journalist or your inner novelist (depending on the writing style that suits best!) to set about creating a character sketch of the individual who embodies your 'ideal customer'.

**TIP:** *Make the piece of writing as long or short as it needs to be!*

# GIVE MATHS A MISS

Up until now, you may have been under the impression that statistics are your very best friend. When it comes to the customer avatar approach, however, we're moving in a totally different direction.

Stats are incredibly valuable when getting to know your audience as a whole, but statistics have a down side – they can instigate a creeping staleness in the decision-making process.

On the other hand, an imagined avatar can help to keep the decision-making process fresh, authentic and relevant. Using the customer avatar technique, you can also keep things super-focused – try asking your fictional avatar a few rhetorical questions every now and then! We promise you'll find the avatar approach will enable you to make quick, insightful decisions in a way that wading through realms of statistical info could never achieve.

## How to use customer avatars to your advantage

### A NARRATIVE THAT TRULY SPEAKS TO YOUR TARGET AUDIENCE:

Crafting a brand narrative that attracts the right buyers is not just solely about telling your story; you need to zone in on a narrative that revolves around your customers.

In this regard, the development of a truly compelling brand story means that you genuinely need to be familiar with the characteristics and preferences of the customers you're 'speaking' to.

Think about the customer profile you've sketched out – what are his/her pain points, what are his/her key motivators, will they expect a casual or a formal style of communication etc. ...?

If you've created a detailed customer avatar (or series of avatars), you should be able to answer these questions quickly and without hesitation.

Consequently, when it's time to create text for your new packaging label, copy for a new promo or if you need to customise your next social media post, the tone and language you use should be influenced by your insight into how your customer avatar acts and feels.

At this stage, you've created a portrait of your customer archetype and you've got to know a little about what makes this character tick.

Let's draw on this insight to think about the following: Why would your ideal customer not buy from you?



Similarly, it can be useful to identify people you don't want to sell to. Here, the customer avatar technique is also invaluable – use your knowledge of customer archetype to help you recognise the customers you don't want to attract.

In short, customer avatars don't just help you pinpoint who you should or need to sell to, they can also help you put a spotlight on who you would rather not sell to! Use your customer avatars to your financial advantage! Why waste your precious time, money and valuable resources marketing to individuals who will never buy from you?

If you've been won over by the argument in favour of customer avatars, you're probably starting to agree that the bad press that 'generalisation' and 'stereotyping' receives is, in many ways, entirely unwarranted.

While we're not about to start judging the wider population based on their hairstyle or footwear, we certainly understand the up side of shorthand, intuitive thinking: well-developed customer avatars clearly offer a quick and convenient means of astutely assessing your most pressing everyday marketing decisions.

## KEEPING IT SIMPLE

If you've only just begun to consider 'the avatar approach' and it's all a bit new and complex for you, we'd suggest kicking things off by implementing a customer avatar approach in relation to 1) your social media content creation plan and 2) the formulation of your core branding material.

Before long, you'll get into the habit of mentally referencing your customer avatar every time you make any sort of business decision, big or small!

# COMPLETING YOUR CUSTOMER AVATAR



## DEMOGRAPHICS

Name:

Gender:

Age:

Job Title:

Industry:

Income:

Marital Status:

Number Kids:

Education Level:

Where Do They Live?

Hobbies & Interests:

# PERSONALITY TRAITS

**Likes & Dislikes:**

**Are They Analytical & Methodical or Creative & Artistic?**

**Are They Introverted or Extroverted?**

**Do They Prefer Face to Face Or Remote Communication?**

**What Types Of Books Do They Read?**

**Who Do They Admire The Most?**

# WHAT DO THEY KNOW ABOUT YOU?

**Have They Heard Of Your Brand Before?**

**Are They Aware Of Their "Problem" You Are Trying To Solve?**

**Where Do They Get Their Information From? What Websites Do They Visit?**

**What Radio Station, TV Stations and Papers Do They Consume?**

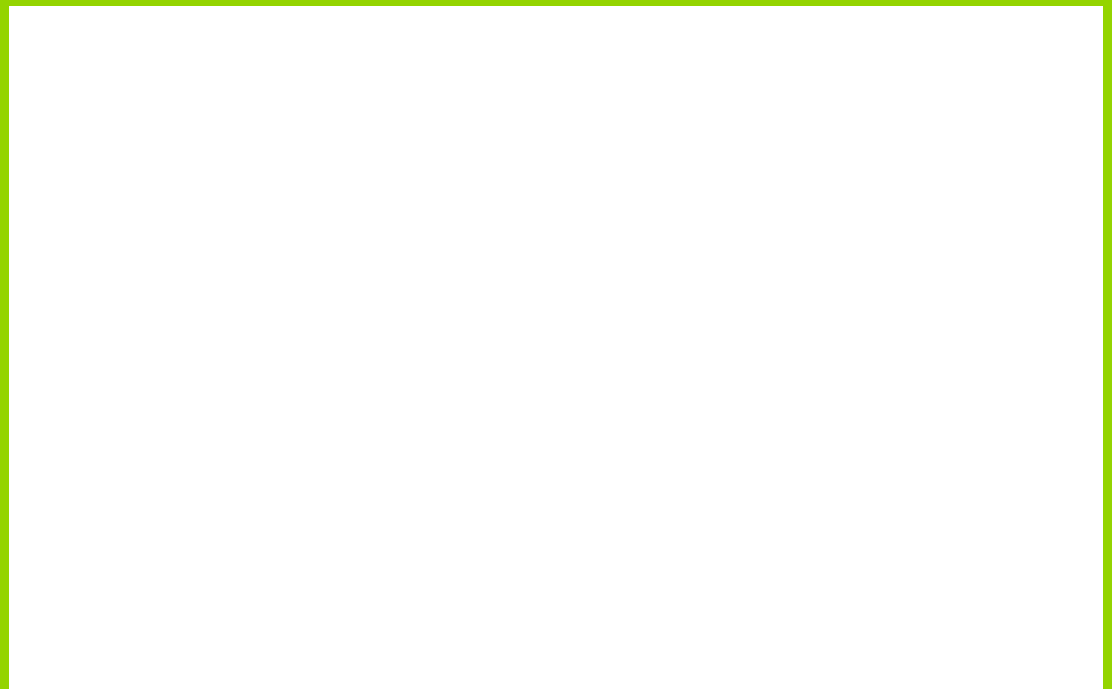
**Are They Tech Savvy?**

# WHAT ARE THEIR BELIEFS?

**What Are Their Goals?**



**What Are Their Challenges?**



**What Type of Solutions Do They Expect?**



# BUYING BEHAVIOUR

**How Do They Usually Buy?**

**When Do They Buy?**

**Where Do They Do Their Research?**

**What Influences Their Decision?**

**Are They The Final Decision Maker?**

# Defining Your Products

The product section of your business plan format discusses your product, why they're needed by your market, and how they compete with other businesses selling the same or similar products and services.

While your product may be technical, don't get caught up in complicated industry jargon. Explain and describe what you're offering in layman's terms, so someone who isn't familiar with your business will understand and be excited about it. It may be necessary to give some basic background if this is an area or industry people are unfamiliar with.

Your product section should include:

- **Details of Product:** List each product your business currently offers. What makes this product or service unique or better than what's already available in the market? Why would someone choose to buy your product or do business with you over someone else?
- **Market Position:** include a description and a unit price (including GST).
- **Unique Selling Position:** Detail where your products fit in the market and whether they are high-end, competitive or a low cost alternative to the products/services offered by your competitors. What gives your products the edge.
- **Anticipated Demand:** Detail the anticipated quantity of products your customers are likely to purchase in 6 months and 12 months.
- **Pricing Strategy:** Refer to your customer research, market position, anticipated demand and costs/expenses to get an idea. How much will you charge for the products or services you're offering? Where does this fit in with what's currently available?
- **Sales and Distribution Strategy:** How will you sell it? Will you market it online or in retail stores? Have you lined up any vendors? How will you distribute it or deliver the service you're providing? How will you fill orders or deliver the service? Will you manufacture items yourself or outsource to someone else? Who will handle distribution, and how?



- **Expansion:** Do you envision future products or services as an extension of the business once it's successfully launched?
- **Indicate why your product or service is needed.** Especially if you're venturing into a new concept or invention, or a place where there is no current market, you need to explain the need for your product or service.
- **Write as if you're talking to your customer.** While you don't want to write an advertorial, you do want to be customer-oriented when you write your products and services section.

To sum up, the product and services section of your business plan gives the reader a clear understanding of why you're in business, what you sell, how you compete with what's already available, or how you fill a niche that no one else is meeting.

## Strategic Planning (Vision, Mission, Values)

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Providing strategic direction to your new business includes writing your business plan, but that's not the complete picture. You will also need a strategic plan that provides the "big picture" of where you want to go.

If you want people to support you, especially financial backers, you will need to have strategic and business plans that are thorough.

There are many resources to help you write your statements. Brainstorm with your partners, experts or any mentors you may have.

The main elements of your strategic plan are your vision, mission, and value statements.

### VISION STATEMENT

A vision statement defines the purpose of your business in terms of your values, not just what you do. It tells the world what you want your business to be. Your vision should mean something to clients, partners, and other stakeholders.

Some examples are:





To deliver an exceptional shopping experience by offering the best service, value, quality, and freshest products while being good stewards of our environment and giving back to the communities we serve.



Enriching peoples lives through healthy balanced choices

Vision statements don't have to be as grand as those above. Small local companies might simply aspire to have the friendliest customer service in town or offer the freshest, locally grown produce. Often your vision can be summed up in one or two sentences.

Looking at these different vision statement examples should give you a good jumping off point for knowing what a vision statement is and how to write one. Vision statements can be a challenge for many people because they aren't sure what form the statement is supposed to take, so let's recap:

- To help people stay fit and healthy.
  - To have our product in every home in Australia.
  - To help people enjoy life, by offering an affordable solution to health care.
  - To provide delicious, seasonal food and a fun atmosphere that will bring customers back again and again.
  - The XYZ Company will inspire its employees to be the best they can be. We will engage in sustainable practices and anticipate the needs of our customers. We will maximise return to the stockholders while still maintaining quality in our products
- A typical vision statement is brief and succinct; it will say a lot in just a few words, so those words must be very carefully chosen.
  - The key to a good vision statement is to think of things in a long-term, broad sense, but without sounding generic.
  - Don't be too specific, you will limit your vision and it won't be applicable five years down the road: for example, if your current goal is to expand and move into a larger building, that's a vision for the future but it's not the vision for the future of your entire business. It's too narrow in focus.
  - On the other hand, if you simply say that you want to achieve success that's too general - any business in the world could say that. The best statement will be clear about who you are as a company as well as who you wish to become.

## MISSION STATEMENT

A mission statement defines what your business is, and why it exists. It should identify the products you make, who you serve, and describe the geographical area in which you operate.

Some examples:

At Emma & Tom's we believe that people are happier when they are healthy. We believe that if you eat well, you stay well.



To create and promote great-tasting, truly healthy, organic beverages

**Honest**  
tea



## VALUES

Corporate values (or core values) are the principles that guide your business' internal conduct as well as its relationship with your customers, partners, and shareholders. They are the deeply held beliefs and highest priorities that drive your actions.

Some examples:

There are many steps involved in taking your product from an idea to reality. As a food processor, you will

have specific obligations and responsibilities to operate your business in a safe and legal manner.

In this section you will learn:

- Different types of businesses (sole proprietorship, partnership, corporation)
- How to register your business and getting a business number
- About liability and Insurance
- How to prepare your strategic plan (vision, mission, values)

## Different Types of Businesses

A business can be set up in many forms, including:

- Sole proprietorship (one owner)
- Partnership (two or more owners)
- Corporation (separate legal entity from the owner/s)
- Co-operative form of corporation
- Non-profit

Most food businesses are usually incorporated businesses due to potential liability issues. It is not recommended to open a sole proprietorship for a food business. A tax lawyer or accountant can advise you on the best form for your business. You can find out more information about each type of business on .

# Business Registrations

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It is a good idea to register a name for your business and find out if you business need to register for an ABN and for taxes during the early stages of your business.

## BUSINESS NAME

Have you chosen a business name and ready to register it? A business name is the name your business operates under.

Your business name identifies you to your customers and allows you to differentiate yourself from your competitors. A business name helps your customers to make an emotional connection to your business and brand.

## ABN REGISTRATION

An ABN is a number that identifies your business. It

doesn't replace your tax file number. You'll need it for tax and other business activities.

Not everyone needs an ABN. To get one you need to be running a business or other enterprise.

## TAX REGISTRATION

The taxes you must register for depends on the type of business you're starting.

Find out more about business registrations [here](#)

# Liability and Insurance

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You must have the right types and the right amount of insurance. You cannot afford to be under-insured. Even a small disaster could destroy a new business.

Without proper insurance, you could be held responsible for paying for damages, or replacing lost equipment and property. You could lose your own house, car, or other assets in order to make those payments.

You will need general insurance and as a food processor you will need coverage for product liability and complete operations liability. These types of insurance will protect you against claims by customers who experience damage or become ill from eating your food product. Store owners may also demand that your product be properly insured, because they could be held liable for selling it.

Many types of insurance are available. An insurance agent or broker that understands the

food industry can provide advice on what coverage you need.

## WHERE TO FIND AN AGENT

Talk to other people in the food industry to get advice on which agent or broker to use. You can also find names by searching online. As a best practice, try to get more than one quote so you can compare prices. But do not choose on price alone.

Some insurance companies have special products just for certain business sectors. Make sure and do your research to ensure the insurance you choose is right for your business.

## HOW TO MANAGE RISK

Managing risk is very important as it helps you identify possible risks to your business and the necessary measures required to mitigate those risks.



# DRUNKEN SAILOR



PINEAPPLE, RUM  
& COCONUT JAM  
295g

Average Quantity per 100g	Average Quantity per 100g
906 kJ	906 kJ
0.4 g	0.4 g
1.8 g	1.8 g
14 g	14 g
45.7 g	45.7 g
45.7 g	45.7 g
4 mg	4 mg

Ingredients  
60% pineapple  
< 1% preservatives  
Refrigerate after opening  
**BEST BEFORE**  
Best enjoyed on  
bread or toast

Starting a food and beverage company and becoming successful can take up to 15 years and a huge investment that includes money, time and commitment. It also requires a great deal of patients and foresight as your business will go through many different stages as it grows.

At each stage, you may want to ask yourself if this is the size of business that satisfies you in the long term. It is not too early to have an exit or succession plan as you will not be around forever to run your business. You may be happy with a part-time food-selling enterprise that can be sold for a substantial profit, or you may want your business to be sustainable and return a significant profit which you can pass down to your children. You should try to identify the desired size of business as well as your exit plan when you write your strategic plan (see Section 2.1: Setting up your Business).

Each stage of building a food business has issues and “growing pains.” Businesses that thrive will evolve through each stage. Review these stages. It helps to know what to expect. In this section you will learn:

- The microbusiness stage
- The cottage industry stage
- The emerging business stage
- The small to mid-sized manufacturing stage
- The large or multinational enterprise stage
- Idea generation

# The Microbusiness Stage (Sales under \$25,000 p/year)

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This is the start-up stage where you first learn about making a commercial product.

## PREPARING YOUR PRODUCT

You made a prototype at home, now at the microbusiness stage you will need to use an approved and inspected site for food preparation. Many entrepreneurs start up in an inspected church, community centre, or municipal food incubator kitchen.

## PRODUCT SALES

Products tend to be sold at seasonal craft sales and farmers' markets or at a local specialty food store. Some microbusinesses have a market booth a few days a week, or sell through roadside on-farm stands. You may want to sell your product at farmers' markets and craft shows, or invest in a booth to open a seasonal spot in a local mall.

## PRODUCT LABELLING

Check the website for Canadian Food Inspection Agency to access the Industry Labelling Tool. This is a food labelling reference tool for all food inspectors and stakeholders in Canada. It replaces the Guide to Food Labelling and Advertising, and the Decisions page to provide consolidated reorganised and expanded labelling information.

In this stage, products are often labelled by hand. If you make your own product you may deliver and/or sell it at road-side stands, craft shows, flea markets, local farmers' markets, specialty stores or a sugar bush. You do not need nutrition information on your labels for packaged products when your annual sales are less than \$50,000.

## PRODUCT COSTING & PRICING

There is a difference between product cost and product price. Product cost is the sum of all of the costs you incur to manufacture your product. As a new start-up business you need to be prepared for any additional costs later on. You cannot change your price to the consumer once you have set a retail price point. See Section 4.1: Manufacturing Your Product to learn more about product costing models. Product price is your final selling price of your product. The pricing of your product will be based on your product cost and what customers are willing to pay (see Section 5.2: Pricing Your Product).

## PACKAGING, INGREDIENTS & GROSS MARGIN

The cost of packaging (including labeling) and ingredients for successful microbusinesses generally ranges between 20 to 40 per cent of the product's selling price. The remainder of the sale price after the cost is paid is called the gross margin. For example, a bottle of jam priced at \$9 may cost between \$1.80 and \$3.60 to make, leaving a gross margin that will range between 80 and 60 per cent respectively (see Table 1: A Sample Product Costing Model in Section 4.1: Manufacturing Your Product).

## OPERATIONAL COSTS

These include the rent you pay on the space you use for production as well as financing, utilities and transportation costs. Section 4.1: Manufacturing Your Product provides a good example of a product costing model that you can easily follow. Remember to pay yourself and keep good records using either a software program or the services of an accountant.





## PRODUCT DEVELOPMENT

Farmers' markets and specialty stores are excellent test market venues. A product or product line that gets repeat customers and grows in demand over an 18-to-24 month period may mean you are ready to move to the next growth stage.

## GETTING TO THE NEXT PHASE

There are several challenges you may face in growing your business to the next level. These include:

- Needing more help with labour as sales grow to \$50,000 and \$100,000
- Needing capital to lease or buy space
- Hiring staff for management and other role specialisations
- Focusing on your product costing model to ensure a healthy gross margin
- Changing how you think about your product sales from "by the jar" to "by the case"

# The Cottage Industry Stage (Sales under \$250,000 per year)

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With a good product, effective marketing, and strategic leadership, your microbusiness can thrive. Typically, this is the stage where you improve your packaging and labels; get an indoor booth at a market; start selling to a few more specialty stores; build an enclosed store of your own and/or invest in two or three seasonal mall outlets. For some entrepreneurs this is the perfect size of business. It provides independence with a modest income.

## LABOUR

This formative stage of the business requires more labour. You cannot do it alone anymore and you may need to enlist family members or friends.

You make more money because you are selling five times as much product.

## PRODUCT COSTING & PRICING

This business scale provides efficiency and more return; as you sell more, your overhead costs per unit should come down. By now, it is possible to produce products for about 40 to 50 per cent of your selling price. You should have a specific costing model for each kind of product you make. This will help you differentiate the price of various items in your product line in order to make a consistent gross margin on every product. For example, you know what it costs to make that jar of jam you priced at \$9; now you can sell it for \$7.50, at a lower gross margin.

## GETTING TO THE NEXT PHASE

By this point it may seem, that your product line is becoming well known, which can help you make the transition to the next business level. You may still face some challenges, however. These may include:

- Learning to export to a new market
- Achieving \$500,000 to \$1 million in sales
- Developing a professional label
- Minimizing capital investment in production facilities
- Committing to and executing a marketing plan
- Finding market channels that fit your capacity

- Developing specialised management help
- Complying with food safety and labelling requirements
- Choosing and using brokers and distributors
- (see Selling, Wholesalers and Brokers in Section 5.1: Placing Your Product for definitions of brokers and distributors)
- Transitioning from self-distribution to trucking services
- Changing the way you think about sales from “by the case” to “by the skid”
- Navigating growth, possibly to a new location with a capital cost for moving

## The Emerging Business Stage (Sales under \$2 million per year)

At this stage, a food business needs a full-time management team. You are likely investing in food processing equipment. You may now be familiar with municipal, provincial, and maybe even federal food safety inspectors (if you are selling outside the province). Your company may have employees that are not family members or friends.

### CO-PACK BUSINESS

You may be debating between getting your own factory and entering into a contract with a co-packer. Using a co-packer could help keep your cost of goods low enough that you can market your product in more sophisticated channels (see Section 4.1: Manufacturing Your Product).

### CAPITAL INVESTMENT

If you want to control the entire process and marketing cycle, there will be challenges. Equipment needs to run steadily in order to pay for itself. Your break-even point on processing would likely be possible at one shift per week so you need enough business to run your line at least eight hours a week.

Successful companies have been known to move or do a major expansion when they reach these benchmarks: \$250,000, \$1 million, \$2.5 million, and \$10 million.

Stewart Metcalfe of Colliers International Food ) notes that food processors commonly invest in the range of \$30–\$100 per square foot retrofitting standard industrial buildings into food-grade facilities. Constructing brand new food processing facilities is expensive and can cost more than \$200 per square foot depending on the type of processing (e.g., meat, bakery, dairy) and the level of certification being achieved. When a company moves, previous investments in improvements to the site are either lost (in the case of a leased facility) or discounted (in the sale of a facility that was owned), and the investment must be remade in the new, larger facility.

### MARKET-ENTRY CHANNELS

Many small food businesses grow in this phase by seeking out low-cost market entry channels. These include:

- Internet sales
- Foodservice (businesses, restaurants, hospital cafeterias)
- Specialty and gourmet food stores
- Small independent grocers
- Convenience stores
- Local food processor retail networks

## PRODUCT COSTING & PRICING

When you begin to use wholesalers and brokers, your costing models will have to reflect their share. What you sold for \$9 at a farmers' market may only move off the gourmet store shelf if it is priced at \$7. The grocer will want 50 per cent of that; the distributor gets 20 to 25 per cent, and the broker will probably want 5 per cent. Originally, as a microbusiness, that \$9.00 jar of jam cost you \$3.60 to make. Now you're selling it for \$7.00, and are paying \$5.25 to the wholesaler/broker/distributor. That means you have about \$1.75 left. Your jam must now cost you \$1 to leave you with enough gross margin to make a profit. Yet, if enough customers are buying it, you still may be able to make the same income.

## GETTING TO THE NEXT PHASE

To grow your business bigger, you may face more challenges, which could include:

- Distributing from one or two locations into a network of stores, instead of doing all your distribution yourself
- Moving into low-cost market entry channels that may require brokers and distributors
- Rethinking how to price your product
- Sustaining export sales with more than one foreign customer
- Designing the capacity of your facilities to be viable at low production rates
- Filling specific roles in sales and marketing, production, procurement, food safety and quality assurance, and finance and logistics
- Changing the way you think about your product; everything from the sign on your store to the label
- Navigating the capital cost of growth and possible relocation to a larger facility

## The Small to Mid-sized Manufacturing Stage (Sales under \$10 million per year)

Small to mid-sized manufacturers are in a challenging position. They have moved away from their microbusiness roots and are no longer directly connected with their customers. Yet they may not have the scale to compete with large companies for grocery store space.

### GROWING PAINS

Small businesses can grow quickly and the focus of the business owner may shift from business growth and sales to factory size.

### CO-PACKING

Learning how to maximize capital investment in processing facilities is a challenge for small

manufacturers. At this stage, you may even be willing to do co-pack business for other microbusinesses starting out in order to keep your equipment paying for itself. Co-packing can be a profitable sideline if you can accurately cost the product and use equipment that might otherwise sit idle.

## MARKETING COSTS

Your marketing costs grow significantly at this stage. You may need to hire new brokers for specific chains. You will have to pay listing fees and allowances to get on shelves. Product demonstrations can cost \$100 to \$150 per day for a three-day demo that you will need to do in 100 stores. Marketing costs for a new product introduction can add up significantly and a listing only guarantees you shelf space for a short time. It can take a great deal of money to launch one new product across retail chains in North America and there's no guarantee of success

## EXPORTING

Expanding into international markets can give your company a chance to increase sales and profits through new contacts. Despite the added costs of exporting, you can save costs by producing on a scale that makes better use of your resources, leading to higher profit margins. Exporting can also reduce your dependence on existing domestic markets, which can fluctuate with the domestic economy. It can also help make you more competitive by exposing you to international best practices, ideas, and alternative ways of doing business.

## PRODUCT TESTING

Your local specialty or health food store may provide an excellent test market for new

products. The close interaction with customers allows companies to develop products and pinpoint the winners. If your products test well and gain sales over 18 months in a test market, they are more likely to be successful and generate great sales data to show a potential large retail customer.

## GETTING TO THE NEXT PHASE

You'll need to clear more hurdles to get to the next phase, including:

- Managing an export market while domestic markets expand rapidly
- Identifying low-cost market entry channels that may require brokers and wholesalers
- Rethinking how you price your product
- Designing the capacity of your facility to be viable at low production rates
- Learning to work with more brokers and wholesalers
- Tackling energy and water efficiency issues
- Empowering a larger team of key employees (see Section 7: Human Resources)
- Considering selling the business and start your next non-competing firm (this size of business attracts the attention of international food companies)
- Navigating the capital cost of growth and a possible relocation to a larger facility

# The Large or Multinational Enterprise Stage

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At this stage, sophisticated management teams report to a central governing body. Issues at this stage include:

- Controlling costs
- Competing for capital at both the plant and country level
- Working on harmonising regulations across governments both on behalf of the company and on behalf of the industry through trade associations

The challenges of growth intensify, along with the need for a keen focus on government and client relations. Sophisticated systems and cross-border harmonisation issues become hallmarks of your operations.

A key executive decision maker in your firm should be working closely with a local business development consultant on specific topics such as energy efficiency. That person will be receiving monthly updates on important topics, including highlights of programs and services that could help grow your business.

## Idea Generation: Don't Stop at One Idea

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One great product is rarely enough to keep a food processing business going over time. Changes in consumer behaviour, new competition, consumer fatigue, and trends in the marketplace all mean you need to keep coming up with new ideas to add to your product mix.

It is also a fact that most new concepts fail, so if you have only one, you reduce your chance of success.

So how do you come up with more new ideas? One way is to do some research into consumer trends, food industry trends, and advances in food processing technology, then make a list of all the new food product ideas that you could make.

Another approach is to focus on consumers' needs; use the customer as a source of ideas. This may require doing in-depth research into customer behaviour, likes, and dislikes. When you identify a new need, ask yourself how you can fill it.

Once you have a list of ideas to explore, make sure they align with your business vision and mission then go back to the business planning process you followed for your original idea.

Take each of the ideas and do some research to decide if it is worth making. Check to see if there really is a market for each idea, how much consumers would be willing to pay for this product, if this product already exists, and if it is even possible to make it. This step should hone down the number of ideas you think really stand a chance of succeeding.

# CHECKLIST

- I have considered the various forms of business ownership (sole proprietorship, corporations, etc.), consulted with a tax lawyer and an accountant, and have chosen the form that works best for my business.
- If necessary, I have drawn up any partnership, shareholder, or other corporate agreements with legal advice.
- I have chosen a name for my business and have researched it to ensure it can be registered and incorporated (if necessary).
- I have applied for my ABN and registered my business name I have met and obtained quotes from several insurance agents/brokers.
- I have researched the products and services offered and selected the insurance that is right for my business.
- I have product liability insurance and can demonstrate that I am adequately insured.
- I am ready to be an entrepreneur.
- I can describe my business concept (what my idea is) in one minute.
- I have set up a research binder to file my information
- I can describe the customer that would buy my product.
- I am learning about the demand for my product.
- I can list my competition and have begun gathering information on them.
- I know what makes my product better or different.
- I have researched other food and beverage manufacturers to see how they succeeded or failed.
- I have contacted industry associations to find experts who can advise me.
- I have a business plan template and have made progress in filling it in.