From Commercial Kitchen to Co-Man: What to do to Scale Successfully

June 22, 2021 / 12:00 – 1:00

Jim Costello
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• It’s the right time
  • Strong Sales
    • $1M in Revenue
  • Cash Flow
    • 3-4 Months of Operating Expenses
  • Projected Growth Beyond Current Capabilities
  • Focus on Brand

• Why you shouldn’t take this step
  • Not My Strong Suit
  • Don’t Have Time
  • This Is Easier
Getting Prepared

- Get it out there
  - NDA - First Things First
  - My Product - What is Your Offering?
  - How Do I Currently Make It
  - Timeline
  - Expected Volume

- What to Expect
  - Feasibility / Plant Trial
  - Scale Up / Commercialization
  - Production
Getting Prepared

• How Does It Scale
  • Capabilities - Process / Equipment Match
    • How Automated / How Manual Is It?
    • CAPEX?
  • Packaging Requirements
  • Extra ‘Marketing’
  • It Doesn’t Keep Its Authenticity
  • Shelf Life
  • Testing
  • Where does it go?

• Evaluating the Plant
  • Food Safety / Food Defense
    • HACCP Plan
  • Jim’s Rule of Partnership
  • Plan To Be There (Often)
  • Have Support There
Getting Prepared

• The Duck (What You Don’t See Underwater)
  • Responsibilities
    • Dock / Warehouse
    • Quality
    • Procurement / Logistics
    • Production
    • Accounting
    • R&D / Food Science
    • Leadership Team
  • Coordination
    • Get ready, Get Spec, Go!
    • Who orders what (Ingredients/Packaging)?
    • Supplier Approval Program + COAs
    • Plant Testing / Product Testing
  • Talk Through / Walk Through Rehearsal
    • Inbound
    • Processing / Packaging
    • Outbound - Can you leverage transportation?
Feasibility / Scale Up

• Plan, What If, Plan Again
  • Have Alternate Plans
  • Be Flexible
  • Leverage Their Expertise
  • Don’t be Afraid To Communicate
  • Pre-Production Meeting

• Reaffirm the Plan With The Plant
  • Sourcing
  • Throughput
  • Production Cycle
  • Tolling
  • Warehouse, Distribution and Fulfillment

• Clear Next Steps - Post Production Meeting
  • Clarify Next Steps and Timeline Expectations
  • Another Trial Needed or Can We Begin Production?
  • Plan Initial and Follow Up Fill
  • Submit POs to Solidify Scheduling
Tolling = Labor + Overhead + Profit Margin

- Labor - The cost of all direct labor who are processing/packaging your product

- Overhead - The cost to operate the manufacturing facility (equipment, safety/quality systems, utilities, etc)

- Profit Margin - The percentage of profit the co-man charges above covering their labor and overhead costs to make your product

* Always request basic tolling and remove raw material and packaging cost. This will give you an apples to apples comparison when evaluating more than one co-man
The Manufacturing Service Agreement

- Products must be produced to the specifications
- Must produce to at least FMSA
- Define lead times
- Define MOQ’s
- To address Volumes your will provide a 90 day forecast in lieu of a volume commitment
- You own all formulas
  - Expect to pay for their R&D services, otherwise they may have claim to your formulas
- You have the right to refuse the product within 14 days if the product doesn’t meet specifications
- Must document all of their certifications that you are counting on.
- Tolling fees well defined
- Payment terms defined
- Terminations defined
- NDA
- Assignability if you sell you company
- Lawyer stuff like Indemnification and Insurance.
Closing Comments

• Thank you for attending
• Slides can be made available for you
• Contact Jim/John if you have questions