THE GOOD FOOD INSTITUTE

THE GOOD FOOD STARTUP MANUAL

An all-you-can-read buffet on planning, launching, and growing a good food business.

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Table of Contents

About The Good Food Institute

The Good Food Institute (GFI) is a nonprofit that serves as a think tank, incubator, and accelerator for the fields of plant-based and clean meat. Our team of scientists, entrepreneurs, lawyers, and policy experts is focused on using food innovation and markets to transform our current system from industrial animal agriculture to plant-based and clean meat.

The free support that The Good Food Institute (GFI) provides to startups creating plant-based and clean meat includes:

- **Advisory** – GFI's team of entrepreneurs, scientists, and policy experts is available to work with you one-one-one to help you navigate a wide variety of business, technical, and regulatory issues.
- **Networking** – GFI's network can help you connect with potential employees, contractors, volunteers, mentors, and more. Additionally, the GFIdeas entrepreneur community gives you the opportunity to meet other mission-focused entrepreneurs through monthly video calls and a Slack group.
- **Resources** – GFI's extensive startup resources, including this guide, give you information you need to succeed as a food entrepreneur.

If you're interested in engaging with GFI, please fill out this form and you'll receive a response within one week.

Introduction

So you want to start a plant-based or clean meat company. Congratulations! You're about to embark on an exciting journey. It won't always be easy, but GFI can offer support every step of the way. We're here to provide advisory, resources, networking opportunities, and more. We've helped companies like Memphis Meats, Good Catch, and Good Dot from their very early stages to where they are today—and we can help you, too.

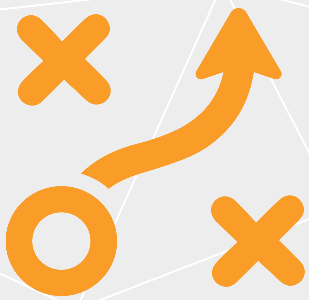
We created this guide to help you understand the steps involved in starting a plant-based or clean meat company. This is the first startup resource that has been designed specifically for this unique sector of the food industry. We hope that you find it helpful not only for providing information on topics you've heard of before, but for flagging steps that you might not have even considered. Each section contains links to further resources so you can dive deeply into the topics that are most relevant to you.

The Startup Manual is just one resource that GFI provides entrepreneurs. If you'd like to get plugged into the rest of our entrepreneur support, please fill out this form and you'll hear back from us within a week.

This manual is intended to provide information for your general education on the many aspects of plant-based and clean meat startups. Although it discusses general business strategies and legal, financial, and other issues, it does not constitute legal or tax advice, and you should not base any decisions solely on the information provided. Instead, you should seek the advice of legal counsel, accountants, and others who can discuss the facts and circumstances of your particular business needs. The Good Food Institute expressly disclaims all liability with respect to any actions taken, or not taken, based on any contents of this manual.

Section 1

PLAN YOUR COMPANY



I. Join the GFIdeas Community
II. Learn about the Plant-based and Clean Meat Industries
III. Find a Co-founder and Pick a Company Idea
IV. Conduct a Feasibility Study
V. Write a Business and Technical Plan

Before you jump into action mode, you need a good plan to guide you along the way.

The first step is to surround yourself with a community. Starting a company is hard, and it's nearly impossible to do on your own. Peer support, collaboration, and networking are essential components of entrepreneurial success. In this section, you'll learn how to join GFIdeas, our community for plant-based and clean meat entrepreneurs, where you can meet other founders, ask questions, share resources, and potentially collaborate.

The next step is to gather as much information as possible. Before you can innovate within a market, you need to understand the market really well, including the technology behind it. We've included lots of resources that can help you better understand the technology behind plant-based and clean meat, as well as the commercialization opportunities in these markets.

When you've gathered a more complete understanding of the market and technical space, you get to do what entrepreneurs do best: innovate. This is your moment to dream big about all of the possibilities and come up with a company idea. This is also your time to find a co-founder whose skill set complements yours and is a good fit for the company idea you'll be pursuing together.

Selecting a company idea can be really exciting, but before you go any further, it's time to make sure your idea is grounded in reality. Conducting a feasibility study is your opportunity to objectively evaluate your company idea before investing significant time and resources into it. If you find out through this process that your idea is not actually feasible, that's a bummer, but you just saved a lot of time and money by deciding not to move forward with an idea that would have failed. If you confirm that it is a promising idea—then great, you're armed with that information to create an even more compelling pitch to investors.

After you've validated the feasibility of your company idea, the next step is to write a business and technical plan. Many entrepreneurs think business plans are outdated, and in some ways they are. Such a lengthy document is not particularly useful for catching the attention of potential investors or business partners. However, while you shouldn't lead by attaching your business plan to an investor intro email, investors will likely ask to see a formal, written business plan during the vetting process. Technical plans are even more important for this purpose—you should expect investors to dive deeply into your technical plan during the vetting process.

Beyond their value in the investment process, though, we believe that the true benefit of writing business and technical plans is that they force you to strategize around every aspect of starting your company. While your strategy is bound to change and evolve throughout the course of your company's growth, it can be very helpful to have your guiding principles and plans on paper to help meaningfully direct your business decisions.

Now, let's jump into how to plan your company!

"The GFIdeas community helped me with data sources and worldwide connections, boosting my startup with a global scope. They advised me throughout product development and defining our business model. It is incredible how being connected with bright minds driven by a similar purpose can improve your company."

Linda Obregón,
CEO an Co-Founder of Foodture

I. Join the GFIdeas Community

GFIdeas is a community for entrepreneurs who are creating clean meat and plant-based alternatives to conventional animal products. We host monthly calls and have a Slack group for entrepreneurs to connect with each other, ask questions, share resources, etc. If you're interested in joining, please fill out this form and you'll receive an invite within one week.

II. Learn about the Plant-based and Clean Meat Industries

Learn about the technologies that make plant-based and clean meat possible. Read the GFI White Papers Plant-Based Meat Mind Maps: An Exploration of Options, Ideas, and Industry and Mapping Emerging Industries: Opportunities in Clean Meat to learn about the current state of technology in the plant-based and clean meat industries. Also read Opportunities for applying biomedical production and manufacturing methods to the development of the clean meat industry, a peer-reviewed article authored by GFI scientists published in Biochemical Engineering Journal. We also recommend reading GFI's blog and our list of academic papers.

In addition to learning about plant-based and clean meat, it's important to learn about the food industry. Many resources throughout this document help entrepreneurs navigate the complexities of product development, product testing, manufacturing, sales, distribution, and more, but signing up for food industry newsletters can be a great place to start. Co-founder of Spoiler Alert Emily Malina recommends this list, and our favorites are Food+Tech Connect, Specialty Food News, Food Navigator, and GFI's newsletter.

III. Find a Co-founder and Pick a Company Idea

You might pick your company idea and then look for a co-founder, or you might choose your co-founder and decide together on a company idea to pursue. We've seen entrepreneurs have success with both approaches, and with having more than one co-founder. Either way, it's important that your background and your co-founder's are complementary, and that both of your backgrounds are well-suited for the company idea that you choose. It's also essential that you and your co-founder have a solid working relationship. Of course, finding a co-founder is optional, and there have been many successful solo founders, but due to the labor intensity of starting a company and the preference of investors, we generally recommend co-founding rather than going it alone.

Some potential methods for finding a co-founder are through your personal networks, the GFIdeas Community, and LinkedIn searching. Many startups are modeled such that there is a CEO with a business background and a CTO with a technical background. What skills you should look for in a cofounder will vary greatly depending on your company idea. GFI can help you figure out what qualifications are most important for your specific company idea.

When considering business opportunities within the plant-based and clean meat sector, a great place to start is GFI's list of Commercialization Opportunities in the Plant-based and Clean Meat Markets. It's important to keep in mind that these commercialization opportunities are not fully-formed company ideas, but rather areas of opportunity that entrepreneurs might innovate within. In order to determine the best path forward for starting a company, additional research into the market and technical opportunities will be required. These opportunities should be interpreted as preliminary ideas, and businesses should perform their own feasibility analysis to determine commercialization potential.

IV. Conduct a Feasibility Study

Conducting a feasibility study will allow you to make an informed "go or no go" decision and will help you understand what risks and opportunities are involved prior to investing significant time and resources into the business. *The goal of a feasibility study is to determine the company's feasibility, not to pitch the idea.* Thus, it is important to be as objective as possible in your analysis and base your conclusions on evidence rather than speculation as much as possible. Feasibility studies can be used to evaluate any project, not just company ideas, so you might find it useful to conduct feasibility studies throughout the growth of your company, such as prior to a new product launch or when deciding whether to obtain your own manufacturing facility. The Balance has a great overview of how to conduct a feasibility study, as does Cleverism.

You may organize your feasibility study into the following four sections or use an alternate format. But in general, a feasibility study should address the following topics. Needs within each area should be taken into consideration simultaneously, since there may be impacts across topic areas:

- **Market feasibility**
  The goal of the market feasibility study is to examine the market opportunity for the proposed business. The market feasibility section should include a description of the industry, the current size and anticipated growth of the market, and an overview of your competitors and potential customers. In addition to using market research to size the market and examine consumer purchasing trends and motivations, it is critical to talk to potential consumers as part of your market feasibility study, as well as potential wholesale customers like retailers, foodservice establishments, and distributors. Talking with consumers and customers allows you to validate whether your business idea meets a genuine need in the market. It also helps you to understand if there are ways you can update your strategy to better meet customer needs and expectations.

- **Technical feasibility**
  The goal of the technical feasibility study is to determine whether the business is viable from a technical perspective. This involves examining what resources the company needs to provide the proposed product or service at an appropriate price point. Both physical (e.g., labor, materials, space) and non-physical (research and development, industry knowledge and connections, staff skills and experience, regulatory) needs should be considered, as well as the company's ability to meet these needs.

- **Commercial feasibility**
  The goal of the commercial feasibility study is to determine whether the business is viable from a commercial perspective. The commercial feasibility study synthesizes the market and technical feasibility studies to determine the proposed business' profitability. The commercial feasibility study should quantify costs and estimate a timeline for revenue generation and profitability.

- **Overall risk assessment**
  The goal of the overall risk assessment is to synthesize findings from the previous sections to make a determination about the riskiness of moving forward with the business. Porter's Five Force Analysis is one tool for structuring a risk assessment. In addition to conducting a risk assessment, we also recommend using SWOT analysis or a similar strategic planning tool to examine the business' strengths and opportunities in addition to weaknesses and threats.

V. Write a Business and Technical Plan

If you've conducted a feasibility study and decided to move forward with starting a company, your next step is to develop a business plan. First, let's define what a business plan is and is not.

What a business plan is: A strategic plan for running your business that helps you minimize risks and seize opportunities.

What a business plan is not: A tool for pitching to investors (that's what pitch decks are for).

Your business plan should be a living document that evolves along with your strategy. Writing a business plan will help you think through every aspect of building and running your company. While you shouldn't rely on your business plan to capture investors' attention, you should be able to provide one upon request at a later stage in the vetting process. In addition to your full business plan, you might also develop an executive summary that can be distributed as a one- or two-page resource. Purple Carrot provided this executive summary business plan from 2015.

While you can organize a business plan in many different ways, it should cover the following topics and describe competitive advantages as well as risks within each area:

- Company description and mission
- Market analysis, including potential customers, partners, and competitors
- Organization and management, including current team and hiring plan
- Description of product or service
- Technology
- Marketing, including forecasting
- Funding requirements, including how much funding is needed and how it will be used
- Current financial state and projections
- Planned key milestones and time-bound goals, both immediate and long-term

The US Small Business Association has lots of resources on business planning to help you throughout the process. The Balance provides a business plan template, as well as an example executive summary. Entrepreneur also has a number of sample business plans and a business plan template.

As a food business, some of the questions you'll want to think through in your business plan include:

- Where will product development be performed, and who will provide the technical expertise?
- Where will manufacturing and packaging be performed?
- What will be your channel strategy?
- What are the regulatory considerations for bringing your product to market?

In addition to a business plan, you'll also need a technical plan that outlines the technical components of what you're planning to do. If you're developing a highly technical product (like clean meat), your technical plan should be thoroughly cited with primary research. You might choose to make your technical plan a section within your business plan or create a separate document. Either way, some of the questions you should answer in your technical plan include:

- What are the components of your strategy that are novel compared to your understanding of what other companies are doing?
- What are concrete milestones (every 6 or 12 months) that would demonstrate meaningful de-risking events?
- What aspects of your plan do you consider to be high risk, moderate risk, and low risk? How will you de-risk the elements you perceive to be riskiest? What will be your plan A, B, C, etc. to ensure you will accomplish your milestones when unexpected situations arise?
- What is your intellectual property (IP) strategy?
- What aspects of your work will you conduct in-house versus contract out, and what is the justification for those decisions?
- What technical skill sets do you already have, and what do you need to bring on board to perform this work?
- What specific protocols do you intend to use? You need not actually write out every protocol step-by-step, but you should set forth an actionable plan that you could jump into tomorrow if you were given the money today.

Section 2

CREATE YOUR COMPANY

VI. Hire a Lawyer
VII. Determine your Company Structure and Form Your Business
VIII. Post-formation Setup Activities
IX. Founder’s Stock
X. Business Insurance
XI. Hiring Workers
XII. Human Resources (HR)
XIII. Accounting

After you've developed your plan, your next step is to deal with all the not-so-exciting logistics involved in setting up your company. While it might be tempting to gloss over this section so you can focus on the more fun aspects of starting a company, it's critically important that you get this stuff done right. Otherwise, your company could face serious legal and financial consequences down the line.

Lucky for you, you don't have to figure it all out from scratch. All companies have to get this done, so there's a good amount you can learn from existing resources and from other startups who have done it before. In this section, we've included information on hiring a lawyer, determining your company structure, forming your company, performing post-formation setup activities, issuing founder's stock, getting business insurance, hiring workers, and accounting. We also recommend reading Parts I, II, and III of The Shoobx Guide to Starting a Startup, which provide additional information on the topics covered in this section.

VI. Hire a Lawyer

Virtually every startup will need legal support at some point in its growth, but to what extent and when this support is needed can vary from company to company. Today, there are alternatives to hiring a lawyer for many of the simpler legal issues that startups face, e.g., Clerky for incorporation, third-party service providers for payroll tax and hiring (see Human Resources section). If you choose to use a lawyer for these items, smaller regional firms or solo practitioners would likely be more affordable than larger, more specialized firms. For more complex issues, there is no substitute for legal support from a qualified professional.

When hiring an attorney, it is best to start your search by asking for recommendations within your personal and professional networks. Asking other startup founders can be a great place to start. If you are applying for an accelerator, they will also likely have a list of recommendations. If you can't find a referral through your networks, we recommend using a directory. Many state bar associations compile directories of lawyers by area of expertise or provide lawyer referral services. When searching for a lawyer, one of the most important criteria is finding someone with relevant expertise in the particular subject area for which you're seeking assistance. For example, if it's a regulatory issue, finding someone with significant experience working with the administering agency will be extremely valuable.

Since having experience with specific issues is so important, it is not uncommon for a company to hire one lawyer for assistance with a particular issue (e.g., a corporate securities lawyer for VC fundraising), and a different lawyer for assistance with a different issue (e.g., a former FDA lawyer for regulatory approval of a new food ingredient). This Forbes article explains why startups might need a lawyer and considerations for hiring one. Rubicon Law provides a list of dos and don'ts of hiring a lawyer for your startup.

VII. Determine your Company Structure and Form Your Business

Before you can form your business, you need to select a business structure. The US Small Business Association also has information on the different types of business structures that can help you choose what structure is right for your company. We also recommend speaking to a tax expert and possibly an attorney about this decision, as your choice of business structure can have tax and liability implications for you personally as well as for potential investors.

Most companies that intend to raise venture capital incorporate as a corporation, which is a legal entity that is separate from its owners. Corporations can make a profit, be taxed, and be held legally liable. Corporations are the preferred business structure by VCs for a variety of reasons. In fact, some VCs will not invest in any entity that is not a Corporation. Therefore, if you are seeking VC funding, you will likely have more investor interest if you incorporate your company. If you're not planning to raise VC funding, an alternative business structure like a Limited Liability Company (LLC) might be a better fit.

You'll also need to decide in which state to form your business. Your business doesn't need to be located in the state where you do business. In fact, many companies that are not located in Delaware choose to incorporate there due to the expertise and experience of that state's courts and regulators, the flexibility of its corporate statutes, the preference of VCs, and a variety of other reasons. If you choose to form your business in a state outside where you do business, you will need to complete a filing to do business in your home state, as discussed in the next section of this manual, Post-formation Setup Activities.

For a variety of reasons, the typical structure for a high-growth startup is a Delaware C Corporation (C Corp). If you would like to incorporate your company as a Delaware C Corp, using a service such as Clerky can help facilitate the incorporation process. Clerky provides step-by-step instructions for how to incorporate your company as a Delaware C Corp. Startup Company Lawyer also has a great collection of incorporation advice, including when to incorporate your company, what type of company to form, what state to incorporate in, and more.

To state the obvious: in order to form your business, you'll need a name for it. Ideally, you would select a name that is a reflection of your overall marketing strategy and brand identity. If you haven't fully figured this out by the time you form your business, you can always choose a name that works for now and switch to using a "doing business as" name later on. For example, Beyond Meat originally incorporated as Savage River Inc. until they decided to take on their more consumer-friendly "doing business as" name. Memphis Meats was originally called Crevi Foods before they made a similar decision. While it's not ideal to do it this way, it is a viable workaround if you decide at some point that your name just isn't working for you (or consumers). Refer to the section on Naming in this manual for more information on how to select a name for your company that fits your overall marketing goals.

VIII. Post-formation Setup Activities

After you choose your company structure and register your business, the next step is to set up the structure of the organization. Certain things might be required under state law; for example, bylaws, a Board of Directors, company officers, etc. If you are using Clerky, each of these steps can be performed through the Clerky system. If you are not using Clerky, having an attorney to help you navigate each of these steps is highly recommended.

You will need a federal tax ID number, also known as an Employer Identification Number (EIN). An EIN is like a Social Security number for your business, ensuring that when you pay taxes, the payments are properly credited to you. Depending on your state's tax laws, you may also need a state tax ID number. The SBA provides information on how to get federal and state tax ID numbers. You can apply for an EIN online via the IRS. Additional information about obtaining an EIN is available from Clerky.

Depending on the nature and location of your business, you also may need to apply for federal or state licenses and permits. You should also open a business bank account when you're ready to start accepting or spending money as your business.

If you incorporate in a different state from where you conduct business, you will need to complete a filing with the state in which your business is based. This is usually a filing with the Secretary of State or State Corporate Board and is called something such as "foreign qualification" or registration as a "foreign corporation." Clerky has more information about how to complete this process. The SBA also has information on how to obtain federal and state licenses and permits and how to stay legally compliant depending on your business structure.

IX. Founder's Stock

Founder's stock is not a special class of stock—it simply refers to common stock that is issued to a company's founder(s). However, since the transfer of securities is regulated, founders cannot simply issue stock without taking steps to comply with state and federal securities laws. You can learn more about these laws in the Securities Laws section of this manual. For now, we'll just say that when issuing founder's stock, startups often use the exemption found in Rule 4(a)(2), for "transactions by an issuer not involving any public offering." If you issue securities based on Rule 4(a)(2), you will also need to find a state law securities exemption, file the appropriate forms, and pay any required fees. Startup Law Blog and Bend Law Group provide further information about securities laws and exemptions.

Aside from complying with state and federal securities laws, there are other considerations when issuing founder's stock. First, make sure the company owns all intellectual property (IP). It is important to incentivize the founder to stay with the company and add value. And if the founder leaves the company or someone else ends up with the founder's shares, it is critical to be able to get those shares back, in order to keep the voting power within the company. The founder's restricted stock purchase agreement aims to achieve all three of these objectives using terms such as IP assignment, transfer restrictions, repurchase rights (including vesting), and more. Refer to this Silicon Hills Lawyer article for a description of each of these terms.

As specified in the purchase agreement, founder's stock is usually vested, which means that the stock is transferred over a period of time (usually 3-4 years) rather than all at once. Vesting requirements protect the company in the event that an employee or founder decides to leave or is terminated from the company sooner than expected. Cooley GO has an explanation of founder's stock and common vesting provisions.

83(b) Election

Each founder of a new startup who receives stock that is subject to vesting should consider whether to submit an 83(b) election to the IRS within 30 days of the transfer date of the stock. The IRS will not accept 83(b) elections that are submitted late, so entrepreneurs must be aware of this time sensitivity as well as the potential tax consequences of 83(b) elections prior to transferring stock.

Since the IRS considers stock to be a form of income, you must pay income tax on any shares you receive. 83(b) elections allow you to choose when you pay that income tax, which is important since the amount of tax you pay is based on the shares' current valuation, and valuation changes over time.

Since founder's shares are issued shortly after company formation and will presumably increase in value over time, and since 83(b) elections are time sensitive, lawyers will usually advise founders of new companies to file an 83(b) election. If you are an employee receiving vested stock in a company that already has significant value, the choice is less clear. Cooley GO, Accelerated Vesting, and Bend Law Group all provide explanations of what an 83(b) election is and when it makes sense to file one. The IRS has a sample 83(b) election that includes all the information you will be expected to provide. Clerky also has step-by-step instructions and templates for how to file an 83(b) election.

X. Business Insurance

Business insurance provides protection against the unexpected costs of running a business. There are different types of business insurance, but some examples include general liability insurance, which covers risks that come from operating your business in general, and "Directors and Officers" liability, which will cover liability for actions you, other company leaders, or board members take as part of your business operations. The SBA provides general information on different types of business insurance.

As a food business, you'll also want to consider more specific types of insurance that relate to the handling and manufacturing of food, such as product liability insurance, recall insurance, and contamination insurance. PennState Extension has an article on Insurance for Food Entrepreneurs and The Balance has a Guide to Food Business Insurance. StartupResources.io also provides information about the types of business insurance needed in different stages of startup growth, but note that since this resource is primarily intended for software startups, it does not include details about insurance specific to the food industry.

XI. Hiring Workers

Before you hire people to work for you, you'll need to set up a payroll structure, including obtaining an EIN (See Post-formation Setup Activities). After you have this structure in place, the next step is to define the hiring need. In other words, what is the job that needs to be done?

You should determine whether this need could best be filled by an employee or an independent contractor. It's important to note that this decision can have tax and legal consequences, as explained in the Hire and Manage Employees section of the SBA Business Guide. You should also define how much staff time will be required to fill this hiring need—for example, will you need a part-time or full-time employee (or multiple full-time employees)? Will you need temporary or seasonal hires due to fluctuations in workload, or the one-off nature of a specific project?

You should also set a hiring timeline, including the application deadline, target dates for each step in the process, and when the role needs to be filled. You should decide where the person performing this role will be located, including whether you can allow the flexibility to work remotely. And you should set a budget for hiring, including travel costs and advertising and recruiting fees.

Then, write a job description for the open position, including expected roles and responsibilities, and the required and desired qualifications and experience. When writing job descriptions, be aware that the language you use might affect who applies. Glassdoor has an article on how to reduce gender bias in job descriptions, and we recommend testing job descriptions using this gender decoder tool. For sample job descriptions, check out job sites like Food + Tech Connect's job board.

Compensation

Startup founders and employees are usually compensated with a combination of cash, benefits, and equity. Homebrew's Compensation Guide provides compensation advice to startups.

Cash Compensation

Determine whether the employee will be paid on an hourly or salaried basis, as well as whether the employee will be exempt or non-exempt. You should also set salary/equity ranges and a policy around negotiation prior to engaging with candidates to reduce subjectivity and bias in determining employee compensation. The Society for Human Resources Management provides some tips on how to establish salary ranges. We also recommend using industry benchmarking data from sources like Salary.com, AngelList, and PayScale. Note that several states have banned employers from asking for past salary history to prevent pay inequality from following people from job to job, so use caution with this type of information.

Equity Compensation

For both founders and employees, there is a balance between cash and equity compensation. Often, founders will choose to pay themselves below market rate in cash compensation because they have a large equity stake in the company. Thus, it is not uncommon for founders to pay their employees a higher salary than their own. Founders might choose to take a higher salary in exchange for less equity, but most founders prefer to hang onto their equity in the hope that it will one day be worth much more than a salary bump.

Equity is usually vested over a period of 3-4 years when offered as part of a compensation package. Just as you wouldn't pay someone a full year's salary and have them quit the next day, you also wouldn't want to give someone their full equity stake and have them quit the next day. By transferring ownership rights to the recipient of the stock gradually over a defined period of time, vesting requirements protect the company in the event that an employee or founder decides to leave or is terminated sooner than expected. Clerky and The Startup Toolkit have articles that discuss standard vesting terms for founders, advisors, and employees.

In addition to equity, founders are often granted options, which usually are tied directly to performance and vest over 3-4 years. Employees might be offered options instead of equity, which also typically vest over 3-4 years. Note that options and warrants provided as a form of compensation are both subject to Section 409A of the Internal Revenue Code, meaning you will need to perform a 409A valuation prior to issuing employee stock options.

Employee Benefits

As outlined in the Hire and Manage Employees section of SBA's Business Guide, there are a number of required employee benefits, including:

- Social Security taxes
- Workers' Compensation
- Leave benefits as required by states (varies by state) and by the Family and Medical Leave Act (FMLA)
- Disability insurance (varies by state)
- Unemployment insurance (varies by state)

Other benefits are not required but can help you attract and retain top talent. These include life insurance, retirement plans, dental and vision insurance, paid vacation time, and more. Medical insurance is another benefit that is not required but will be expected by most job candidates. Furthermore, businesses with 50 or more full-time employees will face an employer shared responsibility payment if they do not offer health insurance that meets certain minimum standards. As a small business, you may be eligible to purchase employees' health insurance coverage through the Small Business Health Options Program (SHOP). Refer to the Human Resources section for more information about managing employee benefits.

QuickBooks provides a Guide to Employee Benefits for Small Business that outlines the required and common employee benefits that employers offer.

Advertising and Recruitment

After you've identified the hiring need and compensation structure, you should decide how to identify candidates. To start, you should post the job description on your website, as well as to LinkedIn and possibly other social media outlets. You should include an equal employment opportunity statement on your jobs page that not only states a commitment to non-discrimination, but actively encourages diverse groups to apply (see GFI's jobs page for an example). You might also consider posting the position to university or industry job boards like Food + Tech Connect.

During the recruitment process, you should implement strategies to ensure you are attracting diverse talent. This might include posting positions on diversity-focused job boards or reaching out to diversity-focused professional organizations. Various opportunities are listed in Harvard's list of Diversity Recruitment Resources. Harvard's guide on Recruiting for Diversity and Ideal's guide on Workplace Diversity Through Recruitment are also helpful. Homebrew's Diversity Guide outlines strategies for startups specifically, and Project Include, Paradigm, and Encompass have additional resources on how to make organizations and startups more inclusive, both in the hiring phase and as part of your ongoing team culture.

While these broad advertising strategies can be helpful, they might not be enough to attract qualified candidates. If you are looking for a highly specific skill set (e.g., a food scientist with experience in plant-based meat manufacturing or a cell biologist with experience in tissue engineering), you may have to seek out passive candidates (i.e., people who aren't necessarily applying for jobs). This active outreach is referred to as recruitment.

For recruiting, you can either take an in-house approach or hire outside professional help. The in-house approach includes using the advertising strategies identified above, using LinkedIn to find and reach out to potential candidates, and using more sophisticated recruiting software platforms (some examples are LinkedIn Recruiter Lite, LinkedIn Recruiter Corporate, Entelo, Lever, and iCIMS). Capterra is a useful tool for comparing different types of recruiting software. There's quite a range in cost between these different software options—for example, LinkedIn Recruiter Corporate is about $600/year for 1 license, whereas Entelo is about $15K/year for 2 licenses (2-seat minimum). In addition to the cost of the software itself, you also need to consider the time and effort that will be spent on using the software, including a pretty substantial learning curve.

If you decide to take the outsourced approach, there are a few different types of recruiting firms you might consider:

- **Search/Placement firms** are the most specialized and most expensive type of recruitment firm. They are responsible for identifying and reaching out to qualified candidates. Typical fees are 20%-35% of first-year annual base salary.
- **Name Generation firms** are less expensive than Search/Placement firms, but their role is less extensive. While they are responsible for identifying potential candidates, you are responsible for reaching out to them. Fees vary but are typically 96%-97% lower than search/placement firms.
- **Contract Recruitment firms** perform recruitment activities at an hourly rate, which varies based on the geographic region and scope of work to be done. This method is more expensive than name generation, but much less expensive than using search/placement firms. Companies often use name-generation firms to obtain candidate lists, then engage contract recruiters to contact and pre-screen candidates.

In selecting a recruiting firm, it is beneficial to choose someone who understands your industry and has demonstrated past success within it. There are various firms that cater specifically to biotech or food companies. For example, Helix Recruiting is a biotech recruiting firm whose past clients include Perfect Day and Modern Meadow.

Reviewing Applications and Interviewing

After candidates submit their resumes, cover letters, and any other materials specified in the job posting, it is time to start reviewing applications. You should then screen candidates according to the requirements outlined in the job description and provide additional written prompts if desired. You might choose to conduct interviews over phone/video conference or in-person. The Balance provides a list of interview questions, though it's always a good idea to customize your questions to the specific role being filled. Avoid asking questions related to age, gender, race, religion, or any other protected class to avoid putting your company at risk for a discrimination lawsuit. The Balance provides of list of interview questions not to ask. After the interview process, you should check the final candidates' references and make decisions about whom to reject and to whom you'll extend an offer. It is best practice to respond to everyone who applied for the job to inform them of your decision, even if it is to reject them. Tracking applicants through an applicant tracking system (ATS) can make it easier to stay organized throughout this process.

Making an Offer

Once you decide whom you'd like to hire, you can make a verbal offer and present a written offer letter. Note that a written offer is not an employment contract, but rather a confirmation of your offer and their acceptance of the role, compensation, etc. You should then conduct any necessary final screenings such as background checks or drug tests as defined and agreed to in the offer letter. After you work with the employee to identify a start date, it's time to get to work on new hire paperwork, including W-4s, I-9s, direct-deposit forms, and other documents outlined in Betterteam's article on Essential New Hire Forms.

You should also consider having all new employees sign a Employee Proprietary Information Agreement form to protect the company's IP. If you are planning to raise VC funding, there will likely be a clause in your term sheet specifying that this form is required for all employees.

Welcoming and Onboarding

Once the new hire has accepted the offer, it's important to make them feel welcome! The Balance provides some advice on how to welcome new employees, as well as how to onboard new employees to give them the tools they'll need to succeed in their new jobs.

XII. Human Resources (HR)

When you hire an employee, you must register with the state taxing authority to submit payroll taxes and you must register for unemployment insurance with the state. A wide variety of rules apply to taxes, payroll, and employee benefits. These include wage and hour laws, state and local employee leave requirements, anti-discrimination rules, and others. Due to the number of varying requirements, you might consider using a Professional Employer Organization (PEO), a firm that provides comprehensive HR outsourcing to help manage a company's employee benefits, regulatory compliance, payroll, and more. Some examples of PEOs are Trinet, ADP, and JustWorks.

One alternative to hiring a PEO is to shop around for different HR providers and outsource to specific companies, then use a payroll service provider or an all-in-one Human Resource Information System (HRIS). Capterra is a useful tool for comparing different types of HR software. Gusto is one option that has been recommended by several of the companies we work with. Many of these software systems also offer “Managed HR” services, in which they act as your third-party HR department.

You can also hire someone in-house to manage HR issues for all your workers. Whether to rely on a third-party service provider or manage these issues by hiring a dedicated employee will depend on many factors, including the number of employees you have.

The Society for Human Resource Management provides a number of resources, including an overview of HR topics, legal and compliance resources, and sample forms and tools.

XIII. Accounting

Accounting is the act of recording and summarizing business and financial transactions and analyzing, verifying, and reporting the results. There are different branches of accounting, but the two that will be most relevant to startups are financial accounting and managerial accounting, also known as management accounting. This article from Investopedia explains the differences between financial and managerial accounting.

Financial Accounting

Financial accounting is the process of preparing financial statements to show the company’s financial performance over a set period of time. The three basic financial statements are the balance sheet, cash flow statement, and profit & loss (P&L)/income statement. These statements are used to show the company’s financial position to external stakeholders, including investors, creditors, and other partners.

Financial accounting can be performed in one of two methods: cash or accrual. In cash accounting, transactions are recorded at the time of money transfer. In accrual accounting, transactions are recorded when income is earned or expenses are incurred, regardless of when money was actually transferred. For example, if you issue an invoice for a shipment of products that was delivered in January but don’t receive payment until February, cash accounting would record this transaction in February, while accrual accounting would record it in January. These articles from QuickBooks explain the pros and cons of cash accounting and accrual accounting and how to choose which is right for your business.

Note that public companies’ financial statements must adhere to generally accepted accounting principles (GAAP), a set of standards issued by the Financial Accounting Standards Board (FASB). Since GAAP is based on accrual accounting, public companies must use accrual accounting to prepare their financial statements. Private companies do not have to adhere to GAAP, though investors and other stakeholders will have some level of expectation that your financial statements are prepared in a clear and consistent manner. Due to the high costs of full GAAP compliance, Vanessa Kruze, CPA, recommends that startups use a semi-GAAP system.

QuickBooks’ Accounting 101 for Small Business guide provides information on how to prepare a balance sheet, a cash flow statement, and an income statement, including templates. For more information on these three basic financial statements, refer to the SEC’s beginner’s guide to financial statements and the SBA’s overview of three essential financial statements.

Managerial Accounting

While financial accounting is used to inform external stakeholders about past financial performance, managerial accounting is used internally to help inform business decisions. A great tool for managerial accounting is financial modeling. A financial model is a spreadsheet that acts as a virtual representation of your company. Financial models allow you to model how different business decisions or external factors might impact your company's future financial performance, allowing you to make informed business decisions and plan for unexpected circumstances. For example, financial models can help you answer the following questions and more:

- How much money do we need to raise?
- How long is the runway for that funding?
- When do we expect to become profitable?
- How do we justify our valuation?

The simplest type of financial model is the three statement financial model, which links the balance sheet, cash flow statement, and P&L/income statement into one connected model. The Corporate Finance Institute has a free video tutorial on how to link the three basic financial statements. Once these financial statements are linked into one model, you can incorporate more complex features such as sensitivity analysis and scenario analysis to help inform business decisions. Wall Street Prep has guides on conducting sensitivity analysis and scenario analysis, as well as best practices for financial modeling. WallStreetMojo's guide to financial modeling is another useful resource.

You can find example financial models online, such as SlideBean's example financial model, but in order to be a truly informative and reliable business tool, your model will need to be customized to include assumptions specific to your business. While not every company builds a custom financial model in its early stages, the complexity of a company's model is usually indicative of its maturity, and investors view it as such. The further a company is from having a built-out financial model, the harder it is for an investor to justify funding the company. Generally, a seed round company is expected to have a basic model informed by assumptions unique to its business. However, at this stage, VCs often model the business themselves during due diligence under the assumption that the company's own model is not well-informed.

By the time a company is in its Series A round, investors will expect that the company has progressed to a full, detailed model with thoughtful projections that move beyond unfounded percentage-growth estimates and hockey-stick curves. Later-stage and public companies model every aspect of their business. In summary, you have a lot to gain and little to lose from making your model as comprehensive as possible in your early stages, but it won't be an absolute necessity until later on.

Most companies use Excel to build a financial model. Financial modeling software packages can help prevent errors that might go unnoticed in Excel if your methods are sloppy, but since these software packages are less customizable than Excel, they usually aren't as useful.

Tax Accounting and Auditing

Tax accounting and auditing are branches of accounting that support or challenge results obtained from financial and managerial accounting work. As an early-stage startup, you likely won't need to worry about auditing for a while. Early Growth Financial Services describes when your startup might need an audit.

You will, however, need to pay taxes. Business taxes may be collected on the federal, state, or local level. The IRS provides an overview of the different types of business taxes. You can hire a tax accountant to help you determine your tax obligations and ensure compliance with all legal requirements. The IRS provides tips on hiring a tax preparer. There are also software options for doing your own business taxes. Regardless of whether you choose to hire a tax accountant or use tax accounting software, you should look into tax credits that could help reduce your tax burden. For example, startups can claim up to $250,000 in R&D tax credits through the US Research & Experimentation Tax Credit (R&D Tax Credit) program.

The IRS provides information on tax implications for different business structures. The SBA also provides information on paying business taxes, and QuickBooks has a guide on how to prepare for taxes.

Accounting Software and ERP Software

Most companies start out by managing their bookkeeping in Excel, and then move to accounting software once it becomes too complex and cumbersome to accurately manage this information in spreadsheets. This article from QuickBooks describes how to make the transition from spreadsheets to accounting software. As an early-stage startup, small business accounting software will likely meet your needs, though as you grow, you may need to upgrade to enterprise accounting software.

Eventually, you will likely need to implement an Enterprise Resource Planning (ERP) system, which not only keeps track of accounting information, but also performs other functions across your business, such as customer relationship management (CRM), supply chain management, business intelligence, front-office functions (sales force automation, marketing automation, eCommerce), and more. ERP systems measure in real-time the current status of the business, automate core business functions, and improve financial compliance and customer service.

ERP systems are feature-rich, but they are expensive and usually require customization during implementation. To gain some of the benefits of a fully integrated ERP system without breaking the bank, early-stage companies may choose to use an inventory management system to complement rather than replace existing accounting software. An example of this type of inventory management software is Fishbowl, which integrates with QuickBooks and Xero accounting software. Capterra is a useful tool for comparing different types of business software, including accounting software, inventory management software, and ERP software.

Hiring an Accountant

At some point in your startup's growth, you will need an accountant for assistance with financial and tax issues. Most early-stage companies choose to hire an outsourced accountant as opposed to hiring one in-house. A certified public accountant (CPA) is an accountant that has been certified by the licensing authority in that state. You will likely need a CPA to help with more complex issues such as tax planning and strategic financial advice, but more straightforward tasks can be handled by a bookkeeper. This article from QuickBooks explains the difference between a bookkeeper and a CPA and The Balance provides further insight on working with CPAs and bookkeepers.

When hiring an accountant, it is best to start your search by asking for recommendations within your personal and professional networks. If you can't find a referral, we recommend using a directory like your local CPA society (e.g., GWSCPA). However, while these directories will turn up results, it can be difficult to evaluate different options without a recommendation. As with hiring a lawyer, one of the most important factors is finding someone with relevant experience in the subject area within which you're seeking assistance. For example, have they worked with startups before or only well-established companies? Are they familiar with the states in which you have hired or plan to hire employees? Are they familiar with your tax software? Xero provides other considerations in their guide on how to choose the right accountant for your small business.

Cash Flow

Cash flow is the net amount of cash moving into and out of a business. Since businesses cannot function without adequate cash, cash flow management is a critical aspect of running your business. Keep in mind that profit and cash flow are not the same thing. A business can be profitable and not have adequate cash flow—for example, if you're not collecting on your invoices in a timely manner (see the Invoicing section of this manual for more information). This article from SCORE describes four common causes of cash flow problems.

You can identify cash flow problems by staying on top of your financial accounting (particularly your cash flow statement) and conducting a cash flow analysis. Xero provides five rules for managing cash flow, and entrepreneur Tim Berry provides ten more.

Invoicing

An invoice is a bill that itemizes a transaction between a buyer and a seller and provides information on the available methods of payment. Your invoicing practices can affect your cash flow. Specifically, invoice payment terms will determine when payment on an invoice is due. You might have different invoice terms for different business partners (e.g., ingredient suppliers, retailers, distributors) depending on your agreements with those entities.

InvoiceBerry provides an overview of invoice terms, including Net 30 and 2/10 Net 30, which are common among food distributors. While the payment terms determine the amount of time between the issuance of the invoice and the due date, the clock only starts ticking once the invoice is issued. Therefore, it's important to be diligent about issuing invoices promptly after the product or service is provided rather than waiting until an arbitrary date (e.g., the end of the month). To encourage on-time payment, you should have a clearly communicated late payment penalty.

You should also have procedures in place to collect on overdue invoices, including sending friendly payment reminders when an invoice is almost due, making collections phone calls for overdue invoices, and stopping future shipments for accounts that are overdue. American Express provides tips for collecting on overdue invoices.

You can also take preventive measures to avoid overdue invoices—be careful with whom you do business, and pay attention to red flags, such as suspiciously large first-time order quantities. You can always ask a new customer for references from their existing suppliers or visit their store/ website to find out who their existing suppliers are. This article from Medium provides some other best practices for invoicing.

You should be able to manage invoicing through your accounting software or ERP software (see Accounting Software and ERP Software in this manual for more information).

Section 3

FUND YOUR COMPANY

With the planning and logistics out of the way, it's time to focus on how you will fund your company. As they say, it takes money to make money.

The first step in the fundraising process is to consider what type(s) of funding to pursue. There are a number of different funding mechanisms, including equity, debt, warrants, options, convertible debt, grants, and crowdfunding—all with unique benefits and drawbacks.

Many early-stage startups choose to go through an accelerator program to obtain pre-seed funding, workspace, business training, mentorship, and access to a network. Lots of startups in our space have used them (for example, Clara Foods, Finless Foods, Geltor, Memphis Meats, New Wave Foods, NotCo, and Terramino Foods are all alumni of IndieBio), but the choice isn't for everybody. Many other companies in our space (e.g., Beyond Meat, BlueNalu, Good Catch, Impossible Foods, No Evil Foods) have opted not to participate in an accelerator. It all depends on the needs of your team and your company.

The same is true with venture capital (VC) fundraising—it's not for everybody. As much as it may seem like the iconic Silicon-Valley fundraising method is taking over the food industry, VC is just one of many methods of obtaining funding. Some plant-based companies like Tofurky have been successful in growing over time without raising VC capital. If you can avoid it, there are lots of benefits to not raising VC capital, including maintaining ownership of your company, both financially and in terms of decision-making power.

For lower-tech companies, pursuing organic growth over time through bootstrapping and more traditional funding mechanisms like small business loans might be a viable option. For higher-tech companies that are years away from having a market-ready product, it might be difficult, if not impossible, to proceed without VC funding. That being said, VC funding can always be used in conjunction with other funding mechanisms like grants or loans. Entrepreneurs often choose to obtain funding from a combination of sources to balance the benefits and drawbacks associated with each.

If you do decide to move forward with VC fundraising, there's a lot you'll need to learn about the process. We've covered the basics here and have linked to lots of additional resources for further support. Before jumping into the VC fundraising process, you need to understand your legal needs and obligations, not only to keep your company out of legal hot water, but to ensure that you are armed with the best legal resources, including a good business transactional lawyer. You then must decide how much money to raise based on how much you need to accomplish concrete milestones and reach a de-risking point that will add value to your company. You should then create a pitch deck, a short PowerPoint presentation that you will use to pitch your business opportunity to investors.

"We participated in the IndieBio accelerator program in San Francisco. We were a part of their second class. Before that we had an embryonic concept for the company, but we formally incorporated and launched the business through the application process of IndieBio. So, for us, the program was really transformative—both from the perspective of launching the business and focusing on early business and technology development. They also provided us financing of $200K in cash in addition to a physical lab space in San Francisco plus a very valuable network of scientists and entrepreneurs who have walked the walk before."

Alex Lorestani,
Co-Founder and CEO of Geltor

Then, you will need to identify potential investors that are a good fit for your business opportunity and get introductions to them so that you can increase your chances of getting the opportunity to pitch. Once you deliver your pitch and one or more investors are interested in moving forward, the next step is to negotiate on and sign a term sheet, which dictates most of the terms of the investment, but does not yet constitute a finalized deal or even a legal commitment to move forward with the funding. First, the investor must conduct due diligence on the company, and the company should conduct due diligence on the investor as well. After the investors have done a deep dive into your due diligence documents and you feel comfortable with your vetting of them as well, it's time to move forward with closing the deal. The lawyers will sign the documents, and the funds will be transferred. Pretty straightforward, right?

In our view, the biggest key to the VC funding process is being well prepared. Do as much research on the topic as you can so you know what to expect. Learn how to read a term sheet so you don't have to pay your lawyer to explain every little thing to you. Make sure your due diligence documents are in order before you start the process so you don't cause delays. Thoroughly research potential investors so you can target the most promising prospects and tailor your pitch to what they're looking for. Invest in a great pitch deck that effectively tells your story and is visually appealing. Become familiar with tools like liquidation analysis and capitalization tables before you really need them. We could go on (and we will in this section), but for now, we'll just stress that being prepared will lead to much better outcomes for you and your investors.

XIV. Accelerators

Accelerators are programs designed to accelerate the progress of early-stage startups within a set amount of time (usually around four months). Accelerators often provide pre-seed funding, workspace (can be office, lab, kitchen, or some combination depending on the program), educational workshops, mentorship, and networking opportunities, including access to investors. Accelerators will usually take an equity stake in your company in exchange for their monetary investment as well as services provided, though some nonprofit accelerators do not take any equity or fees.

Different accelerators focus on companies at different stages. Some accelerators will take on teams with just a well-thought-out, innovative idea (like IndieBio), while other accelerators are focused on scaling up companies with established revenue streams (like FoodFutureCo). GFI's global map of accelerators and incubators contains information on accelerator programs across the globe in relevant fields such as food, biotech, and agtech. This map includes a description of each program, as well as information on how much funding is provided, what equity or fees are taken, how many companies are accepted per cohort, the program's length, and eligibility requirements.

"Alpine Roads was part of the Y Combinator 2017 batch. YC has now funded 1,773 companies and 3,500 founders. We got advice from top CEOs and built an incredible network of advisers, investors and founders. The best part is, the benefits of being part of YC don't stop after the program is over. You can reach out to any YC partner at any point in time to discuss whatever challenges you are facing, whether it's go to market strategy, product development, hiring or fundraising. They also have a Series A program that helps you gear up for raising your next big round and even connect you to investors that might be a good fit. I highly recommend it for early stage startups."

Magi Richani,
Founder and CEO of Alpine Roads

If you choose to be part of an accelerator program, it is important that you plan to make your transition out of the accelerator program as smooth as possible. Many companies raise their seed round while they're in an accelerator program so they have capital to spend on working space and other necessities after they no longer have access to the accelerator's resources.

Teams that already have a solid understanding of the startup process as well as a well-thought-out business and technical plan might find they can achieve progress faster by skipping the accelerator step and raising their seed round directly. If you decide to go this route, you'll still need access to workspace.

A good option for startups who are choosing not to pursue an accelerator, or transitioning out of an accelerator, is an incubator. Like accelerators, incubators offer physical space—like kitchen space, lab space, or some combination—but participation is less structured. Incubators often offer business development services, but usually don't have a curriculum, workshops, and mentorship opportunities. Incubators typically charge a per-month fee for access to their space and services and allow teams to stay as long as they need to. In contrast, accelerator programs are usually fixed in duration and usually take an equity stake in the company. GFI's global map of accelerators and incubators contains information on food incubators (which offer kitchen space) and biotech incubators (which offer lab space). An example of a food incubator is KitchenTown and an example of a biotech incubator is QB3. Another useful tool for locating biotech incubators in California is the California Life Sciences Association's (CSLA) lab space directory.

XV. Types of Funding

Equity

Equity is defined as ownership interest in a company. There are two main classes of stock: common and preferred, with sub-classes within those two types. Generally, founders and employees own common stock, while investors own preferred stock. Preferred stock comes with certain rights, privileges, and protections over common stock as defined by the term sheet (and later the closing documents) for that funding round. Both common and preferred shares can be subject to certain restrictions. Silicon Valley Startup Attorney has a great explanation of different types of equity.

Debt

Debt is money borrowed under the condition that it will be paid back later, usually with interest. One benefit of debt over equity is that it is non-dilutive, meaning that the lender does not own a stake in the company or have significant decision-making power over your business. However, recurring monthly payments leave little flexibility for borrowers, and lenders may have the right to claim company and/or personal assets if payments are late, depending on your business structure and the loan agreement.

If you're interested in obtaining a small business loan, one option is to apply directly through a lender like a bank. If you have trouble qualifying for a loan in this way, you could apply for an SBA-guaranteed loan. The SBA doesn't lend money directly to small businesses—rather, it guarantees loans that are administered by third-party lenders. This guarantee provides an extra level of protection to lenders, which helps entrepreneurs qualify for loans they might not otherwise be eligible for. However, since the SBA only partially guarantees loans, the borrower will still be responsible for the full loan sum in the event of a default. If a guaranteed loan defaults, the lender may request SBA to purchase the guaranteed portion. SBA's Lender Match tool can help you find SBA-approved lenders, and the SBA Resource Guide for Small Business contains additional information on the loans offered through the SBA, including the 7(a) loan program, the 504 loan program, the micro-loan program and more.

Separate from the SBA loan programs, you can also obtain loans through banks, private lenders, retailer programs like Whole Foods' Local Producer Loan Program, and local programs like Slow Money (which offers 0% interest loans to sustainable food businesses).

Warrants and Options

Warrants and options are similar yet distinct types of securities. Warrants and options are both contractual rights to purchase stock in a company at a specific price within a specified date range. Options are commonly awarded under equity incentive plans, while warrants are more often issued to investors. Options provided as a form of compensation are typically subject to vesting as well as repurchase in the event of the employee's termination of service. Options and warrants provided as a form of compensation are both subject to Section 409A of the Internal Revenue Code, meaning that you will need to perform a 409A valuation prior to issuing employee stock options. Shoobx provides more information on 409A valuation, and Davis Wright Tremaine and UpCounsel describe the differences between warrants and options.

Convertible Debt

Convertible debt, commonly referred to as a convertible note, is a type of funding often used in seed round investments. A convertible note is a loan that automatically converts into equity shares (typically preferred stock) at the close of a future funding round (usually Series A) or other event. Since the loan is not converted to equity until a later date, the price per share and valuation are not set until that later round. To reward investors in the convertible debt round for investing in an earlier stage and therefore taking on more risk compared to Series A investors, they are usually offered incentives such as a discount, a valuation cap, and a modest interest rate. SeedInvest explains these incentives as well as other key features of a convertible note. TechCrunch featured a three-part series on convertible notes that goes into further depth about considerations founders should be aware of regarding convertible notes (Parts I, II, and III). There is also more information about the pros and cons of convertible debt in the book Venture Deals by Brad Feld and Jason Mendelson.

For examples of successful product crowdfunding campaigns, see Beyond the Shoreline (now Akua)'s PieShell campaign and Kickstarter campaign, Memphis Meats' Indiegogo campaign, SuperMeat's Indiegogo campaign, and Freshiez's Kickstarter campaign for its Meatless Butcher Box.

In addition to convertible debt, there are other types of hybrid securities that convert from one type of security to another based on some future event, like the close of a funding round. Y Combinator's SAFE or Simple Agreement for Future Equity is a warrant that converts into equity. Another type of hybrid security is 500 Startups' KISS, or Keep it Simple Security. Rubicon highlights the key similarities and differences between the SAFE and the KISS.

Hybrid securities like convertible debt, SAFE, and KISS have become increasingly popular in recent years due to their simplicity and standardization. Raising a convertible debt, SAFE, or KISS round is often faster and less expensive than raising an equity round. However, there are also potential downsides which are discussed in further detail in the book Venture Deals. As always, we recommend talking to a lawyer before issuing any securities.

Grants

A grant is a financial award given by an organization, usually a governmental agency or nonprofit foundation. Grants are non-dilutive and debt-free, making them an attractive option for entrepreneurs. However, the application process is time-consuming and competitive with no guarantee of success. Furthermore, grants often have a long lead time (~9 months to a year) between application submission and grant award. Upon award of the grant, periodic reporting to the administering agency is often required.

The SBIR/STTR program provides a number of agency-specific grants to entrepreneurs. The two programs that are most relevant for entrepreneurs pursuing plant-based or clean food tech are the USDA SBIR Program and the NSF SBIR/STTR Program. GFI drafted a synopsis of SBIR/STTR information most pertinent to entrepreneurs in this space.

Crowdfunding

Startups might also consider raising money through crowdfunding. There are two types of crowdfunding: equity crowdfunding and product (rewards) crowdfunding. In equity crowdfunding, investors are given equity in exchange for their contribution. Equity crowdfunding platforms include AgFunder, Seedrs, Crowdfunder, AngelList, SeedInvest, and CircleUp. The Jumpstart Our Business Startups (JOBS) Act created an exemption under the federal securities laws so that companies can use equity crowdfunding to offer and sell securities to the general public (as opposed to accredited investors only). However, certain equity crowdfunding platforms (e.g., AngelList) still require that investors be accredited. The U.S. Securities and Exchange Commission (SEC) provides more information about equity crowdfunding. To our knowledge, no companies in the plant-based or clean meat space have raised money through equity crowdfunding, likely due to the complications involved in having such broad ownership of equity.

"We loved our PieShell experience to alpha launch Kelp Jerky to the world. It allowed us a low-risk and supportive environment to successfully raise over $10,000 in much needed, equity-free funding at the very earliest stages of our CPG business!"

Courtney Boyd Myers,
Co-Founder, Co-CEO,
and CMO of Akua

In product crowdfunding, backers are given products or other perks in exchange for their contribution. Typically, these incentives include samples of the product, branded company swag (like t-shirts and stickers), or samples or subscriptions from partner companies. Note that in product crowdfunding, contributors are not "investors" since they do not receive an equity share, and "investment"-based language should be avoided as to not mislead backers. Kickstarter, Indiegogo, and PieShell are all product crowdfunding platforms.

While product crowdfunding provides the opportunity to raise equity-free money, it's important to remember that this money isn't free. In order to incentivize people to contribute, you will need to provide perks that potential contributors value at a roughly equal amount to their monetary contribution. You will also likely need to spend some marketing dollars to ensure the success of the campaign. That being said, raising money is not the only goal of product crowdfunding. Other goals of product crowdfunding might include developing your product/market fit, identifying and gaining the support of your early adopters, and demonstrating traction to future investors.

Since the earnings of product crowdfunding are treated as taxable income, you should talk with a CPA about your tax liability before conducting a product crowdfunding campaign. There are also legal considerations to be discussed, such as potential liability if you don't deliver on what was promised to your backers. This article from Strictly Business discusses some of the legal considerations for crowdfunding that you should be aware of prior to conducting a campaign.

Shopify's Ultimate Guide to Crowdfunding is a helpful resource for navigating the crowdfunding process. Courtney Boyd Myers, co-founder of Akua, provides this advice for entrepreneurs considering product crowdfunding.

XVI. Venture Capital (VC) Fundraising

If you decide to raise VC funding, we've already highly recommended reading Brad Feld and Jason Mendelson's book, Venture Deals (Wiley, 2016), which provides a concise yet comprehensive introduction to raising VC capital and evaluating terms of investment. Law firm Riggs Davie's Guide to Negotiating a Venture Capital Round, Y Combinator's guide on How to Raise a Seed Round, and Pitchbook's glossary of venture capital, private equity and M&A terms, and Parts IV and V of The Shoobx Guide to Starting a Startup provide additional information on the topics covered here.

Understand Your Legal Needs and Obligations

You will need a lawyer with experience in startup fundraising to help you through the VC fundraising process—not only to ensure you are complying with all state and federal securities laws, but to vet the terms of the deal. Our number one piece of advice: don't hire your uncle who is a divorce attorney just because he's willing to give you a good hourly rate. Unless a lawyer has experience in brokering these types of transactions on behalf of startups, they won't have a good understanding of what to look out for. If they fail to identify the terms that do matter, you will be left with a suboptimal term sheet. If they harp on the terms that don't matter, you could end up with investor ill will or deal fatigue. If they are unfamiliar with securities laws, you could put your company at risk for legal action. Rubicon's article on the do's and don'ts of hiring a startup lawyer provides a list of the types of experience and attributes to look for in a business transactional lawyer. Refer to the Hire a Lawyer section of this manual for additional information.

Securities Laws

Startups most commonly use equity or convertible debt vehicles to raise their first round of funding from VCs and angel investors. Equity and convertible debt are both securities whose transfer is regulated by federal and state securities laws. If you don't comply with securities laws, you could harm the value of your company and expose you and your company to potential civil and criminal liability.

As a broad overview, the Securities Act of 1933 requires that the offer and sale of securities must be registered unless an exemption from registration is available. This means anytime a company issues equity stock, options, convertible debt, or any other type of security as defined by 15 U.S. Code § 77b, the company must either comply with registration requirements of federal and applicable state securities laws or identify an applicable exemption from the registration requirements. Registering an offering with the SEC would make your company a public company, and would impose significant new obligations that are both burdensome and expensive. Thus, an early-stage company that is not yet ready to "go public" needs to identify an exemption each time it issues securities. You should work with your lawyer to identify the appropriate exemptions.

Once an exemption is identified, companies must comply with SEC filing requirements that are specific to the type of exemption being claimed. For example, for Rule 506(b)—an exemption commonly claimed in VC fundraising—companies must use SEC Form D to file a notice of an exempt offering of securities with the SEC, as well as provide additional information for any non-accredited investors involved in the round. In contrast, for rule 4(a)(2)—the exemption often claimed for issuing founder's stock—there are no SEC filing requirements. You must also follow all procedures required by state securities laws, which vary by state.

The SEC provides more information on exemptions. This table of different types of exemptions includes issuer requirements, investor requirements, SEC filing requirements, and more. Law firm Davis Wright Tremaine's Securities Law 101 also lists different types of exemptions that startups commonly use, though the list is somewhat outdated. Attorney Alex Davie of Riggs Davie discusses newer types of exemptions that have become available to startups more recently, including exemptions related to equity crowdfunding.

Some additional background on SEC Form D is that it must be filed within 15 days after the first sale of securities in the offering. SEC provides a compliance guide on Form D. It is important to note that Form Ds are public and can be viewed through the SEC's EDGAR database. For example, here are Form D filings from Miyoko's Kitchen and Memphis Meats.

Decide How Much Money to Raise

A funding round is a discrete round of investment in which a company offers securities to investors. Funding rounds are usually about 12-24 months apart. Anything shorter would mean that your team would have to start preparing for the time-consuming process of fundraising shortly after closing the previous round, and anything longer might require raising so much money in a single round that it would be difficult to attract investors or obtain favorable terms. Companies sometimes raise a bridge round, or a small funding round between two larger funding rounds, but this is usually only done if the company is running out of money. The chart below describes the different types of funding rounds and the typical timing, amounts, and sources.

Regardless of which round of funding you are raising, you should never raise an arbitrary amount of money. While the averages below can help give you a rough idea of how much money is typically raised at each stage, you should only raise as much as you are reasonably able to use in a way that adds value to your company. You should raise enough money to get your company to a defined "de-risking event," or a point where you have increased the value of your company more than the investment that was put in. Examples of de-risking events might include building a manufacturing facility, producing a prototype, achieving a measurable R&D accomplishment, launching a product, or generating revenue. Questions to ask yourself include:

- What do we hope to achieve before our next round of funding?
- How much money do we need to achieve those accomplishments?
- What are the measurable milestones that investors can hold us accountable to?
- What, specifically, will we spend the money on?
- What is our contingency budget if things don't go as planned?
- What will we have to show when the funding is deployed? In other words, how will this money add value to the company?

Identifying a de-risking point and making a detailed budget for how to get there will help with your strategic planning and will also help to increase investors' confidence that their investment in your company will lead to returns.

Funding Round	Pre-seed	Seed	Series A	Series B	Series C, D, E, etc.
Stage	Formation, business plan development	Founding to launch	Post launch	Growth	Growth and expansion to harvest event
Median Deal Size (2017)	<$1 million	$1 million	$6 million	$14.5 million	Series C: $25 million Series D: $40 million
Common Investors	• Founders • Family & friends • Angels • Accelerators	• VCs • Angels	• VCs • Strategic investors	• VCs • Strategic investors	• VCs • Strategic investors • Private equity firms

Create a Pitch Deck

A pitch deck is a brief visual presentation (often created in PowerPoint) that provides more details about your company and includes sections that aren't in your elevator pitch. As its name suggests, you will use your pitch deck to pitch your company to potential investors and business partners, including VCs, angel investors, and accelerators. You will likely be pitching in a variety of different environments, ranging from large pitch competitions to one-on-one meetings with VCs, so it's important to tailor your pitch deck to the appropriate length and structure for the audience. As such, you might have several different versions of your pitch deck, each tailored for different audiences.

In general, pitch decks for early-stage companies are about 12 slides. The following structure is suggested by Pitching Hacks:

1. Cover
2. Summary
3. Team
4. Problem
5. Solution
6. Technology
7. Marketing
8. Sales
9. Competition
10. Milestones
11. Conclusion
12. Financing

While this particular slide order might work for you, the most important piece of advice is to tell a story. Why? Because people love stories, people remember stories, and stories are better at motivating people to action. Ultimately, you should cover each of these topics, but you should structure your deck in such a way that overall you tell a compelling story about your company and that puts your best foot forward (as in, early in the presentation). If your team is a perfect fit to solve your problem, if you already have impressive sales, or if your technology is highly dependable, feature that information in a prominent place in your deck. Don't forget to include the fundraising slide (usually last); every pitch deck should have a clear ask for how much money you're raising, what you intend to use it for, and what milestones the funding will enable you to achieve.

Purple Carrot provided examples of past iterations of its pitch decks from 2015 and 2016. Alexander Jarvis provides this database of more than 100 pitch decks from VC-funded companies. Sidebean also has a number of pitch deck examples, as well as useful templates for creating your pitch deck. Presentation Hacks also provides tips for preparing and executing a pitch.

You can create the first draft of your pitch deck using software like PowerPoint, Keynote, Google Slides, Prezi, or Slidebean, but unless you have significant design experience, it can be extremely helpful to engage a graphic designer to help you refine this content into an aesthetically appealing deck. Hiring a designer can make your deck look more professional and lends credibility to your company. The cost of hiring a graphic designer is marginal when you consider the impact it could have on investor interest and your negotiation power during fundraising. Depending on your needs, you might hire an independent graphic designer or a design firm. You might also consider using a freelancing service like Upwork, 99designs, or Fiverr.

You should use a PowerPoint version of your pitch deck when presenting live, but if you're sending it to a VC for reading purposes, you should send a PDF version. While most investors are professional enough to treat pitch decks as confidential by default, there is always a risk that it could be redistributed. There are some steps you can take to prevent this from happening. For example, you might include phrases like "CONFIDENTIAL/ PROPRIETARY" and "Prepared for [Name of VC]" on the title slide of your deck. If there's any information that you absolutely must keep confidential, don't include it in your pitch deck.

Identify Potential Investors

In identifying target investors, you need to understand each firm's investment mandate. In other words, what types of investments fall within its scope, and what types of things the firm values in making investment decisions. Understanding an investor's mandate prior to approaching them will help you to avoid wasting anyone's time (including your own) and target the most promising investors. You can glean information about a firm's investment mandate by looking at its website and researching its past investments. For example, on Tyson Ventures' website, you can find the four pillars that all of its investments must fit into (alternative proteins, food waste, food insecurity, and food safety) as well as a list of its portfolio companies. If your company doesn't fit in to one of these four pillar areas or you're in a totally different stage of growth than the portfolio companies, it probably would not be fruitful to approach Tyson. If there is alignment, then you will be better informed to tailor your pitch to what you know that investor is looking for.

Most broadly, VCs that invest in plant-based and clean meat companies can be categorized into four types of investors: impact investors, food and agriculture investors, generalist investors, and strategic investors. Each type is described here:

- **Impact investors** are mission-driven and financially-driven investors who might focus exclusively on investing in alternatives to animal products, or on broader issues such as environmental sustainability and health. Some impact investors that invest exclusively in companies creating alternatives to animal products include New Crop Capital, Stray Dog Capital, Blue Horizon, VegInvest and other members of the Glasswall Syndicate. Because of their highly-aligned mission focus, these investors are often the most willing to fund companies in their earliest (and therefore highest-risk) stages, though they will still expect companies to have some traction. Impact investors that have a broader focus beyond alternatives to animal products include firms like Obvious Ventures, GV (Google Ventures), and Radicle Impact.
- **Food and agriculture investors** are financially-driven funds that primarily or exclusively invest in food and/or agriculture companies. Some examples of food and agriculture investors include S2G Ventures and Closed Loop Capital. Various other food and agriculture investors can be found in AgFunder's AgriFood Tech Investing Report.

Language is important: a Harvard Business Review analysis suggests that startups who use "disrupt"-focused language raise close to twice as much money ($38 million more on average) as those that use "build"-focused language. Thus, there is an argument for plant-based and clean meat entrepreneurs to use "disrupt"-focused language in their pitch decks and presentations.

However, if you're pitching to strategic investors or food and agriculture investors who are involved in the animal agriculture industry, "disrupt"-focused language might sound more like a threat than an opportunity. If you're pitching to these investors, don't slam the animal agriculture sector in your pitch. Instead, focus on the potential for profit, risk mitigation, and portfolio diversification. If a corporation has a venture arm (e.g., Tyson Ventures), approach them first. They are more likely to see the idea as an opportunity, whereas another business unit might see it as a threat to their existing business.

- **Generalist investors** are financially-driven funds that invest in a wide variety of areas, though usually in tech. Some generalist investors that have invested in companies in our space include Khosla Ventures and DFJ. Generalist investors are usually not involved in seed rounds, but rather invest in later rounds once the company has demonstrated substantial traction.
- **Strategic investors** (sometimes called strategics) are corporations or their affiliated funds that invest in or acquire startups to achieve strategic goals. These goals might include expanding their product line, boosting innovation, or mitigating the risk of being disrupted. Tyson Ventures and General Mills' 301 Inc. are examples of strategics that have invested in Beyond Meat. Big food companies, suppliers, distributors, and import/exporters can all make beneficial strategic investment partners, not only for the money that they invest, but for the services and resources they can provide, such as production space or distribution infrastructure. Strategic investors are usually not involved in seed rounds but rather invest in later rounds once the company has demonstrated substantial traction. However, there are several corporate incubators that will invest in companies at the earliest stages, such as Kraft's Springboard Incubator, the Chobani Incubator, and Pepsi's Nutrition Greenhouse. See the Accelerators section of this manual for more information on accelerators.

Crunchbase is a great resource for identifying VCs, angel investors, and all types of investors who have made investments in plant-based and clean food tech companies, and therefore might be open to similar deals. AngelList can also be used to identify angel investors.

Get Introductions and Pitch to Investors

VCs can get dozens or even hundreds of inquiries per week, so getting yours to stand out is critical for opening a dialogue. Rather than sending an email cold, getting an introduction from a "middleman" whom the VC trusts (perhaps an entrepreneur they've invested in or a fellow investor) can be an effective way to get the VC's attention. This introductory email should be a written (<100-words) version of your elevator pitch, a 20- to 30-second speech intended to pique the audience's interest about your company. As outlined by Chris O'Leary in Elevator Pitch 101, the purpose of the elevator pitch is not to close the deal—it's to interest the audience in continuing the conversation. As outlined by Pitching Hacks, "Your middleman sells investors on reading your elevator pitch. The elevator pitch sells investors on reading your deck. And the deck sells investors on taking a meeting."

Traction

You

Social Proof

Product

Market

High Concept Pitch

Elevator Pitch

When asking a middleman for an introduction to a VC, you should use a brief elevator pitch email that allows the middleman to reply and loop in the VC as an introduction. We recommend using a structure similar to what Alexis Iskold outlines in his post on how to draft a forwardable introduction email. Pitching Hacks provides additional advice for crafting your elevator pitch, including several examples. We do not recommend asking the investor to sign a non-disclosure agreement (NDA) in this introduction email—this can rub investors the wrong way and lead to your email being ignored. Depending on how novel your technology is, you may or may not want to ask the investor to sign an NDA later in the process. Refer to the section in this manual on Non-Disclosure Agreements for more information.

If you do land a meeting with a VC, you should (obviously) prepare by practicing your pitch. GFI is available provide feedback on your pitch deck itself, and we can even schedule a virtual practice pitch session if you'd like feedback on your delivery. What may be less obvious is that you should also prepare by researching the VC, including its investment mandate, its investment history, and the individuals involved in the deal. This can help you to tailor your pitch to be most effective to the audience. When you meet with the VC, make sure you bring product samples if you have them (or offer to send product samples if it's a virtual meeting).

This graphic from Presentation Hacks attempts to answer the question: what do investors care about most? Some of these terms are self-explanatory, but we'll spend some time on two that might not be: social proof and traction.

Social proof is the psychological phenomenon that people will conform to the actions of others under the assumption that those actions are reflective of the correct behavior. Social proof is a powerful tool for marketing to consumers, but it can also be powerful for getting investors on board. Some common ways of demonstrating social proof are customer testimonials, ratings and reviews, celebrity/influencer endorsements, media mentions, and follower counts. This article from Kissmetrics by Neil Patel provides an overview of different types of social proof, as well as a list of considerations for social proof marketing.

Traction is a measure of your product's engagement with the market—in other words, your product-market fit. The most powerful type of traction is paying customers, which can be measured by profitability or revenue. If you don't yet have paying customers, the next best thing is demonstrated interest by potential customers. In the food industry, this might mean retailers, foodservice operators, and distributors who want to carry your product, or consumers who are interested in purchasing it. The types of traction you'll be expected to have will vary greatly depending on the nature of your company. A clean meat company, for example, would likely not be expected to be generating revenue or even have a prototype by the time they raise their seed round. On the other hand, a plant-based company creating a relatively low-tech product (e.g., baked goods) would likely be expected to have established sales and distribution prior to raising a seed round. This article from Fundable provides an overview of types of traction and how to demonstrate it.

"When I look at companies for investment potential, I always take a hard look at the entrepreneurs. Do they have grit and perseverance? Can they lead others and be humble? Do they have heart? Leading a company is tough work. Almost all the companies in the Stray Dog Capital portfolio have gone through really tough spots at one time or another (despite what it may look like from the outside). They almost run out of money, got delisted from important retailers, had product issues—founders need to have grit to survive and thrive in these conditions."

Lisa Feria,
CEO of Stray Dog Capital and Leader of Glasswall Syndicate

Term Sheets

If the entrepreneur and investor decide to move forward, the first major step toward closing a deal is signing a term sheet. A term sheet is a document that lays out the terms of the proposed investment. In each funding round, the lead investor will typically draft the term sheet and negotiate its terms on behalf of all investors in that round. It is critical that you understand each term in your term sheet and pay attention to how each term will affect your company's future, not just this immediate round of investment. You should work with your lawyer to review the term sheet, and later, closing documents.

It's important to note that signing a term sheet does not constitute a legal commitment to move forward with the funding. The transfer of funds does not occur until after due diligence is conducted and closing documents are signed. However, some provisions of the term sheet may be legally binding. Some terms that are usually binding are confidentiality provisions (which require that the company not disclose certain information about the deal) and "no shop" provisions (which require the company to work in good faith toward closure of the deal and not solicit offers from other investors for a period of time).

Understanding which provisions of the term sheet are binding and non-binding will help avoid unwelcome surprises in the process of closing the deal. Another strategy for avoiding surprises is to be as detailed on the term sheet as possible without getting to the point of deal fatigue. Detailed term sheets are preferable from the entrepreneur's perspective, since vague term sheets give investors a large amount of wiggle room when drafting the definitive agreements that will close the deal.

The National Venture Capital Association provides a number of model legal documents, including a sample term sheet. Each section of this term sheet contains alternate variations, each of which might present different advantages or disadvantages for investors or founders, and are potential points of negotiation. Law firm Riggs Davie's Guide to Negotiating a Venture Capital Round walks through this term sheet and explains each of these variations in detail. The book Venture Deals also goes into detail about what each term means and its relative importance, ranging from deal-critical items to things you shouldn't waste lawyer fees to negotiate. Here, we discuss a few of the financial terms of the control sheet (regarding how money is distributed in a liquidity event) and control terms of the term sheet (regarding investors' decision-making power). However, the content provided here should not be treated as an exhaustive list—refer to the resources in this paragraph for more complete information.

Financial Terms

The most basic financial term is the share price, or the price that investors pay per equity share. Multiplying the share price by the number of shares purchased equals the total amount of the investment. In order to set a share price (which determines the number of shares an investor gets for a fixed investment amount), the investor(s) and entrepreneur(s) decide on a valuation for the company.

"They [entrepreneurs] have to be able to sustain themselves and their team through the tough spots and keep going against all odds. The great ones can inspire others to follow them—as co-founders, as customers, and as team members. They are contagious in their belief in their company and in their heart. They thirst for learning and are humble to admit mistakes, learn from them and then lean on others to level up. The really excellent founders look 20 years into the future and prepare for it. They know what they need to do to grow into a $50MM company. They persistently seek a diverse leadership team because they know it's what they need to win in the long term. They operate in the now but always, always with an eye on the future."

Lisa Feria,
CEO of Stray Dog Capital and Leader of Glasswall Syndicate

There are two types of valuation: pre-money and post-money valuation. Pre-money valuation is the value of the company prior to the investment, and post-money valuation is the value of the company after an investment has been made. This post on Venture Capital Deal Algebra from Brad Feld explains in further detail the relationship between share price, number of shares, and pre- and post-money valuation. Although these equations describe the relationships between these variables, keep in mind that there is no formula for deciding what a specific company's share price or valuation should be.

The process for determining valuation is subjective and somewhat arbitrary, especially for pre-revenue companies. Typically, the entrepreneur(s) and investor(s) negotiate a post-money valuation, and then subtract the investment amount to arrive at the pre-money valuation. Alternatively, the entrepreneur(s) and investor(s) could negotiate the pre-money valuation and add the investment amount to arrive at the post-money valuation. When negotiating valuation, it's important to be on the same page as your investors about whether you are negotiating pre-money or post-money valuation. Why? Because this can lead to differences in expectation about percent ownership of the company. For example, if an investor were to invest $5 million at a post-money valuation of $20 million, the investor would own 25% of the company.

In contrast, if an investor were to invest $5 million at a pre-money valuation of $20 million, the investor would own 20% of the company (since the post-money valuation would be $25 million). If there's any ambiguity about whether an investor is referring to pre-money valuation or post-money valuation, just ask for clarification. During the process of negotiating valuation, it is important for entrepreneurs to understand that valuation does not equate to market value. Fred Wilson's 2004 blog post on valuation explains why.

Another important financial term is liquidation preference. Liquidation preference is one of the factors that determines who gets paid how much in a liquidity event, such as the sale of the company. Liquidation preference is a protective term for investors. To explain what it means, recall from the Equity section that investors hold preferred stock, while founders hold common stock. In a liquidity event, holders of preferred stock get paid in full before holders of common stock get paid anything. In other words, in cases where the company is sold for less than the investors are owed, the entrepreneurs, employees, and all common stockholders get nothing.

A 1x liquidation preference (which is common) means that preferred shareholders get repaid for their full investment amount before common shareholders get paid anything. Be very wary of multiples greater than 1x preference—a 2x preference means you must pay investors back twice (2x) the amount they invested before anything is distributed to common stockholders, a 3x preference means you must pay back three times (3x) the original investment, etc. Unless your company is extremely successful, it's easy to end up with very little money left over for common shareholders after an aggressive liquidation preference is paid out.

Aside from preference (the multiple), other aspects of liquidation preference include participation and seniority structures. The Ultimate Guide to Liquidation Preferences from Medium explains each of these features in detail and their impact on who gets what in a liquidity event. Brad Feld's post on liquidation preferences, as well as the Founder's Guide to Liquidation Preferences and Captable.io's interactive case study, are also helpful resources.

The potential consequences of an aggressive liquidation preference demonstrate why it's important to understand every term in your term sheet and how it could impact you and your company in the future. Heidi Roizen's piece, How to Build a Unicorn from Scratch – and Walk Away with Nothing is a cautionary tale on this subject. Aside from share price and liquidation preference, other financial terms include pay-to-play, vesting, exercise period, employee pool, and anti-dilution. These terms are discussed more fully in Riggs Davie's Guide to Negotiating a Venture Capital Round and Venture Deals.

Control Terms

One of the important control terms of a term sheet is the board of directors clause. This clause typically sets the size of the board and the process by which each member will be elected. In most cases, the investors for any particular funding round will expect the right to select a member of the board of directors, and they may also request the right to select a non-voting board observer. Brad Feld's FeldThoughts blog on the board of directors explains some of the key considerations. More information on building and managing a startup board can be found in this Kauffman Foundation Primer.

Aside from the board of directors clause, other control terms include protective provisions, drag-along rights, and conversion. These terms, as well as other terms that don't deal directly with either finances or control, are discussed more fully in Riggs Davie's Guide to Negotiating a Venture Capital Round and Venture Deals. Here, we'll dive into a further discussion of managing your board of directors.

Managing Your Board of Directors

One of the critical roles of a startup founder—and one of the most overlooked—is the management of the board of directors. Done right, it will help the board to add value to the organization far beyond the financial investments they may have made. Done poorly, and it can lead to distractions and headaches that take time, attention and energy away from actually making the business work.

A startup's board of directors can provide numerous benefits:

- Mentoring and guidance through the business challenges faced (both expected and unexpected)
- Financial oversight to keep the business as healthy as possible
- Strategic planning advice and ratification
- Connections with their business and even personal networks
- Objective "outsider" perspectives on your business

"You can divorce your spouse, but you can't divorce your investor."

VC proverb

When assembling your board, consider what skills you would like to have available to you. Ideally, these skills would be complementary to those of the founding team. They should also have experience that is relevant to the business—not necessarily in the same industry, but sufficiently similar that their experience can be applied to the business at hand. Also consider their network connections, as an expansive network can be very helpful as unexpected issues arise.

Managing a board involves more than just meeting management (although effective board meetings are very important). Ongoing, regular communication with board members between board meetings is at least as important. Actively seek advice, inform them of developments, or just have check-in conversations. You want to have developed a strong, trusting relationship with your board members long before challenges test those relationships. First Round Review provides further tips for running efficient and productive board meetings.

Capitalization Tables

You should have a capitalization table (cap table) that lists your company's securities and who owns them. While your lawyer can help you create your cap table, it is ultimately your responsibility to ensure that your cap table is accurate and up-to-date. Most startups use Excel to manage their cap table. There are software options for cap table management, but they are often less customizable than Excel. Cooley GO and Venture Hacks both provide free Excel cap tables that can be customized to meet your company's needs.

Alexander Jarvis provides an example cap table that includes built-in waterfall analysis for many scenarios. Waterfall analysis is described in the next paragraph.

Liquidation Analysis

It is important to keep in mind that while cap tables show who owns what percentage of the company, they do not show how each of these shareholders will get paid in a liquidity event. If all shareholders owned common stock, the cap table would accurately reflect how funds are distributed in a liquidity event (the funds would be distributed according to percent ownership of common stock). However, in reality, investors (who own preferred stock) get paid in full before founders (who own common stock) get paid anything. Using your cap table and term sheet (or hypothetical terms) as inputs, waterfall analysis is a tool that can be used to model who gets what in a liquidation event. Michael Dempsey's blog post on waterfall analysis and example liquidation model are great resources for understanding waterfall analysis. The Ultimate Guide to Liquidation Preferences from Medium also shows a number of waterfall analysis examples, visually depicted by a graph.

"If you walk away after the closing and just wait for the company's quarterly newsletter, both parties lose. VCs can offer life-changing non-monetary resources—introductions, mentoring, strategic support—to ensure success. Startups that get their checks and never look back miss out on a great resource by not speaking to people who have a different perspective, additional connections, and in many cases, a deeper and broader understanding of the marketplace."

Mark Langley,
Portfolio Manager,
New Crop Capital

Due Diligence

After (or sometimes before) the term sheet is signed, investors begin to conduct due diligence on the company. During this process, investors will do a deep dive into your business and technical plans, financial statements and models, and various other legal, operational, and financial documents. Cooley GO and Rubicon both have sample due diligence checklists of documents that investors commonly request. You should have these documents ready prior to beginning the fundraising process so that you can provide them upon request without causing delays. If you take too long to provide these documents, it could indicate to the investor that you're unprepared, which could negatively impact your negotiation power or even kill the deal. You should also ensure that your documents are well-organized and founded in facts. Be prepared to answer very specific questions about assumptions you made during financial modeling or the source for facts and figures you use.

During the due diligence process, the company should conduct due diligence on the investor, too. Investment is a long-term business partnership, and you should be confident that you're entering into this commitment with a competent, capable, partner who can add value to your company beyond just funding. This might include doing online research, talking to their portfolio companies or co-investors, and examining their funding source and investment history. This article from the Angel Investment Network provides some tips on how to do due diligence on your investor. If this process raises any red flags, you should strongly consider walking away from the deal. It might be inconvenient to start over with a new investor, but you'll be better off in the long run with the right partner.

Closing the Deal

After the investors complete the due diligence process, lawyers will draft the closing documents to complete the deal. As in the due diligence process, you should continue to be responsive and make an effort to close the deal quickly. After the deal is closed, the funds are transferred. At this point, you've successfully completed a VC fundraising round. However, it's important to keep in mind that this is only the start of your journey with your investors. After the deal is closed, VCs often provide introductions and strategic guidance around distribution, branding, positioning, hiring, pricing, financial modeling, and more. Strategic investors might provide even more tangible services such as access to production equipment and infrastructure. As an entrepreneur, you should foster your relationships with your investors and leverage them to help your company succeed.

Section 4

CREATE YOUR PRODUCT

With your company funded, you're ready to create something awesome. After all, that's probably why you became an entrepreneur in the first place—to build something out of nothing, to fill a white space in the market, or to meet a consumer need in an innovative way.

The product development process will look different for different types of companies. For example, a clean meat company will likely begin product development in a lab, while a plant-based ice cream company might begin recipe testing in a home kitchen. However, regardless of your end product, there are product development frameworks you can use to help structure the innovation process. For example, the OODA Loop and the Stage-Gate frameworks can guide your product development process to help you achieve a desired end product as efficiently as possible. We've also included a framework on how product development usually works in the food industry.

As early as possible in the product development process, you should consider how to scale up your production process. You'll also need to find somewhere to manufacture and package your product (ideally in the same place), and conduct a variety of in-house and outsourced tests to ensure product safety and quality assurance. You should also perform consumer testing to gather feedback from consumers in your target market, which will inform iteration on product development and marketing.

There are some topics that you'll need to consider throughout the entire process of developing and producing your products, and two of those topics are intellectual property (IP) protection and regulatory considerations. IP protection includes ensuring that the company's IP is legally owned by the company, making a plan for how to use patents, copyrights, trademarks, and trade secrets, and working with your lawyer to implement non-disclosure agreements (NDAs) as appropriate.

In terms of regulatory compliance, your company will need to be familiar with regulations at the federal, state, and local level. On the federal level, plant-based foods are regulated by the Food and Drug Administration (FDA), and the Food Safety Modernization Act (FSMA) is an important federal law that applies to all establishments that manufacture/process, pack, or hold food for human consumption in the US. On the state and local level, there may be additional regulations you need to comply with, such as obtaining health permits and complying with an annual inspection. You will also need to consider the regulatory component of food labeling, including topics like ingredient lists, allergen statements, statements of identity, nutrient declaration, net contents declaration, and label claims.

And you'll need to make a recall plan in preparation for potential food safety issues, including establishing robust traceability procedures that require accurate recordkeeping of lot codes and barcodes. Finally, if you are using any novel food ingredients or processing methods that have not yet been introduced to the food supply, you'll need to determine its regulatory status and make a plan for how to introduce it to market.

"Talk to your customers very early. Through those conversations, we were able to validate our value proposition, the ways in which we wanted to use the material we were making—things that only people who ran a company for years would know. It helped focus our value proposition in places of need while keeping our vision intact. It can also help convert early testers into customers."

Alex Lorestani,
Co-Founder and CEO, Geltor

XVII. Product Development Frameworks

Product development frameworks like the OODA Loop and the Stage-Gate Process can help guide your innovation process. You might be thinking that using a framework for innovation sounds a bit academic or contrived. In some ways, you'd be right, but to be clear, there's no one right framework, and we're certainly not recommending that you stick to any one religiously. These frameworks are simply tools for your entrepreneur toolkit, and we think they can be quite helpful.

Regardless of whether you use these frameworks, our number one piece of product development advice is to talk to your customers early and often. It's important to understand your consumers—what attributes are important to them? What ingredients do they avoid? What types of product are they looking for? Where do they do their shopping? Use their feedback to influence your product development and marketing plan. If you ever find that there's a major disconnect between what your customers are telling you they want and what you're offering them, it's a signal that you'll need to course-correct, whether that means fine-tuning your approach or implementing a major pivot.

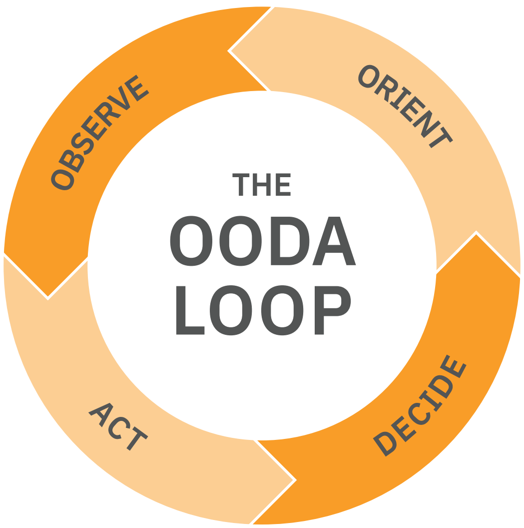
Observe-Orient-Decide-Act (OODA) Loop

A common type of approach for technology startups can be classified by the terms "Lean," "Agile," or "Lean/Agile." A variety of specific approaches fall under such a classification, but they have some common themes:

- Focus on learning as quickly as possible;
- Achieve learning through experimentation;
- Plan your experiments to learn as much as possible while spending as little as possible;
- Be willing to adjust or even completely change your direction based on what you learn.

Eric Ries, author of The Lean Startup, recommends a three-step "Build-Measure-Learn" process, while other "Agile" advocates frame the process as the Plan-Do-Check-Act (PDCA) cycle.

A comprehensive model of these types of cycles can be found in the Observe-Orient-Decide-Act (OODA) Loop. While this methodology was originally developed for military purposes, it has proven to be a powerful tool in the business world as well. It is comprehensive, but can be scaled easily to meet the needs of all sorts of decisions, big and small, short- or long-term.



The steps of the OODA Loop are:

- **Observe:** Observations are the inputs that feed into your decision-making process. Such inputs include internal factors (mission; values; strategy; available resources, skills, capabilities, etc.) and external factors (environmental circumstances, trends, events, urgencies, opportunities, etc.)
- **Orient:** This step involves making sense of the available data. Data must be filtered, sorted, and processed into a cohesive story. There is great value in a diverse team analysis at this point, blending multiple perspectives, experiences, and analytical methods to come to a common conclusion. Having people who think differently come together to make sense of ambiguous information is vital.
- **Decide:** In the context of the OODA loop, the "decide" step is to make a choice among several alternative actions to take. In essence, you generate a hypothesis that doing action X will lead to desirable outcome Y. This hypothesis follows from the sense you've made of the available data. A key question to ask yourself before moving on to the "Act" phase is, "What would prove to me that my hypothesis is wrong?" Asking this question helps to design the experiment (meaning the action you will take) and measurements you will take.
- **Act:** Test the hypothesis by taking action (conducting an experiment that tests the validity of the hypothesis) and measuring outcomes. Be as objective as possible in measurement and interpretation of the results.

Every step of the OODA Loop provides feedback to the observations phase of the next trip through the OODA loop. Such feedback should not be limited to "hard" data, but should include the feelings of team members as they go through each stage. Those feelings can lead to new insights. Always consider what your intuition is telling you throughout the process, neither undervaluing nor overvaluing it. Just take it as part of the overall data you have available to you.

Stage-Gate Process

Another common process for product development is the Stage-Gate process. As organizations grow in complexity, and as investments they make become bigger or riskier, this process provides a set of strategic decision points that help to mitigate that risk.

The basic concept of a stage-gate process is to have a series of decision points ("gates") that determine if further investment in a project is merited. Early in the life of a product development project, there are many unknowns. Each "stage" of development is intended to answer questions around some of those unknowns.

Most product development projects will prove to be unviable, either financially or technically. The key idea behind the stage gate process is to only slowly commit funds to any particular project. Each stage involves investing as little as possible to learn as much as possible that will contribute to decisions on whether to continue investing in a project or not. Each stage tends to commit an increasing level of investment in time, money, and energy that must be justified before deciding to commit to the next stage of investment.

Stage-Gate® Five Stage Innovation Process

Courtesy Stage-Gate International™, used with permission.

A "standard" stage-gate process (as presented by the originators, Stage-Gate International) consists of five stages and five gates. However, this need not be a one-size-fits-all approach. Each organization should tailor the process to their specific needs. Considerations that would impact the number of stages and gates include size of the organization, pace of change in the industry, risk tolerance, and size of the investment in a particular set of projects. It is common for organizations to have more than one process defined, with fewer stages and gates for simple, low-risk investments, and more for complex, high-risk investments.

The stages of this standard process are:

- **Stage 0: Discover:** Before generating product ideas, you need to gather data about the world in which you operate. In innovation circles, this is often known as the "fuzzy front end." It involves observing a market space, collecting data, and making sense of that data, much like in the observe and orient phases of the OODA Loop. The key point is to generate insights on the target market that will allow you to create unique and valuable goods and services. The end of this stage involves generating a range of ideas to consider for development.

  Gate 1: Decide which ideas will receive further investment of staff time to refine and support. Eliminate ideas that are not worthy of investment.

- **Stage 1: Scope:** For each idea selected to pass through Gate 1, assess the market potential, strategic fit, and technical merits. This step involves minimal financial investment, as assessments are usually based on available data.

  Gate 2: Decide which ideas have sufficient strategic, financial, and technical merit to invest more staff time and external research in continued development. Eliminate ideas that do not meet minimum criteria for additional investment.

- **Stage 2: Design:** Invest greater time and energy in designing the product and creating a business case. Assess technical, marketing and business feasibility. Define the product and establish plans for further development. Spend time and money conducting research to address project justification and establish reasonable forecasts.

  Gate 3: Decide which projects have business cases that justify continued investment in development. Eliminate ideas that do not meet the criteria for investing limited development resources in them.

- **Stage 3: Develop:** Design and develop the new product. This will involve significant investment in prototyping and evaluating the performance of those prototypes. Development will be an iterative process, following the OODA Loop or similar sorts of thinking. As this stage proceeds and the product becomes more clearly defined, you will create plans for manufacturing the good (or delivering the service), marketing the launch, sales strategies, and overall operations plans. *Note: although the next stage is called testing and validation, don't wait until then to test the product concept and performance. That should be done iteratively throughout the development stage.*

  Gate 4: Decide which projects deliver product performance, financial viability, and strategic fit worthy of further pursuit. Eliminate projects that do not meet the criteria for moving forward.

- **Stage 4: Scale Up:** This stage involves full-scale manufacturing trials and large-scale product testing. Validate that the entire project is ready for launch: product performance, customer experience, the production/manufacturing process, marketing plans, sales plans, and the financials of the project. Investment at this stage is significant and should be reserved for those projects that have a high probability of success. Note: to reiterate the message of the previous stage, testing and validation should be conducted iteratively in the development stage as well. The testing and validation work of stage 4 is the final test of the project to ensure launch viability in all aspects.

  Gate 5: Decide which projects are worth the final stage of scale-up to a full launch. Eliminate any projects that don't meet stringent launch requirements.

- **Stage 5: Launch:** This stage is the highest level of investment, and should be reserved for those projects that have met the most stringent of launch criteria. This stage involves full commercialization of the product—the full production, distribution, sales and marketing.

- **Post Launch Review**
  This is perhaps the most important long-term step; yet few organizations do it well, if at all. It is important to review the actual results of the launch, compare them to the expected results, and learn all you can about why there are any differences between the two. What you learn here will help to improve product development success in future generations.

The major criticism of the stage-gate format is that it can be too rigid to be useful for innovation. Innovation is, after all, a messy process, hardly a linear, beginning-to-end process like assembling a piece of IKEA furniture. While that is true, it doesn't mean that a stage-gate process won't work. It will work well if used properly:

- Keep it cyclical, with iterative processes (like the OODA Loop) built inside the stages;
- It's okay for gate decisions to be a choice to go backward to a previous stage for further, low-cost refinement before proceeding forward;
- Make the tough decisions on where to focus resources, and kill unworthy projects at the time of gate decisions. One of the most common mistakes is to pass everything through every gate. That is the surest route to wasting time, money, and energy on products that have no real chance of success.

Shelf life

When setting your specifications for shelf life, it is important to remember that distribution channels are slow. It is quite common for products to be warehoused at a redistributor for a number of days/ weeks before being transported to a distributor where they are warehoused again before being delivered to the retailer or foodservice operator. It is not uncommon for retailers and foodservice operators to refuse to accept deliveries of products unless they have at least 75-85% of their shelf life remaining.

Ingredients

When setting your specifications for ingredients, it is important to keep in mind any ingredient restrictions enforced by retailers or foodservice operators where you would like to sell your products. For example, Whole Foods has a list of quality standards, including unacceptable food ingredients. Also think about any allergens or other ingredients you'd like to avoid for consumer acceptance reasons.

XVIII. Food Industry Product Development

The OODA Loop and Stage-Gate frameworks can theoretically be applied to any industry. However, it's also useful to understand how product development is typically conducted in the food industry. A food-specific variation on the Stage-Gate framework is provided by The Design Technology Blog, which is visualized in the next graphic. As with any model, it's important to note that these are not hard-and-fast stages, but conceptual in nature. Inside each stage will be an iterative process of experimentation, testing, and refining.

- **The first stage, the brief,** involves stating the problem that needs to be solved by the new food product. For example, developing a low-cost, plant-based chicken nugget.
- **The second stage, market research,** involves evaluating the market for the new food product and assessing desired attributes. In addition to market feasibility, we also recommend evaluating technical and commercial feasibility of the new food product (see the Conduct a Feasibility Study section of this manual for more information).
- **The third stage, design specification,** involves listing the needs and attributes of the product, which are referred to as its specifications. Examples of product specifications include:
  - » Size
  - » Shape
  - » Shelf life
  - » Weight
  - » Sensory characteristics (taste, texture, appearance, etc.)
  - » Costs
  - » Ingredients
  - » Equipment
  - » Attributes (e.g., organic, non-GMO)
- **The fourth stage, shortlisting and testing,** involves developing a number of different formulations (prototyping) and testing them to evaluate how well each idea meets the design specifications (see Product Testing and Quality Assurance section for more information). You should also obtain consumer feedback during this step through product sampling and other forms of consumer testing, and use those findings to inform product development in an iterative fashion.
- **The fifth stage, manufacturing specification,** involves developing a protocol for how the product will be manufactured at scale (see Manufacturing section for more information).
- **The sixth stage, quality control,** involves ensuring that the product is safe and is being manufactured to consistently meet the design specifications (Again, see the Product Testing and Quality Assurance section for more details).

Another resource that speaks to food product development specifically is Creating New Foods: The Product Developer's Guide by Mary Early and Richard Earle.

As we explain next in Scaling Up and Hiring a Food Scientist, food scientists specializing in product development (as opposed to QA) can help you develop and scale up your formulation. One alternative to hiring a food scientist for product development is to formulate your products through an ingredient supplier. Many suppliers provide formulation services in exchange for an agreement to source ingredients through them. However, if you do go this route, it's important to work with your lawyer to clearly define who owns the formulation IP and other terms of the agreement. UL Prospector's food ingredient database can help entrepreneurs find suppliers and source ingredients.

If you need specialized equipment like an extruder for plant-based meat production, you might consider doing product development through a pilot plant. A pilot plant is a small-scale food processing facility, usually within a university, that is used for research and training purposes and is sometimes available to the public for contract work. Pilot plants often have food scientists on staff to help with product development. GFI's global map of accelerators and incubators also has a listing of pilot plants.

XIX. Scaling Up and Hiring a Food Scientist

Whether you're working on clean meat or cashew cheese, your production process will be very different at scale compared to the early stages of product development. Companies with a long timeline to commercialization might find that initially using processes that are not scalable might actually help speed up progress in certain areas. For example, a clean meat company might use non-food-grade materials in its media to expedite the R&D process, then later phase out these components prior to commercialization. However, all companies should keep scale-up front-of-mind throughout the product development process. Otherwise, you might end up wasting a lot of time perfecting a process that ultimately isn't scalable and needs to be replaced with something else. While the specific technology involved in scaling up clean meat is beyond the scope of this document, we will discuss what's involved in scaling up a recipe developed at home or in a small-scale commercial kitchen.

When scaling up a food process, you will need to make various adjustments. For example, you may need to substitute or eliminate some ingredients or switch from a batch process to a continuous process. Oklahoma State University's Food and Agricultural Products Center provides this guide to scaling up your food process. Food Crumbles' Scaling Up Food Production Series also explains the steps you can take to scale up your food process, and notes areas where you'll likely require assistance from an expert like a food scientist.

Due to the complexities of scaling up a food production process, GFI Research Fellow and product development food scientist Miranda Grizio recommends hiring a food scientist as soon as you decide to sell your food product through retail or foodservice channels. Food scientists specializing in product development can provide assistance with product formulation and manufacturing processes at scale. They can also help develop protocols for product testing and quality assurance.

If you decide to hire a product development food scientist, you can either hire an independent food science consultant or a food consulting company. Food consulting companies tend to be more expensive but have broader expertise since they have numerous food scientists with various areas of expertise working as a team. That being said, an independent consultant with deep expertise in one specific subject area might be a great choice if you are developing a product in that area. GFI has a list of food consulting companies and independent consultants, and professional organizations like IFT can also be helpful in identifying options. You might also try reaching out to universities with food science programs (both undergraduate and graduate) to expand your search through their alumni networks or using other recruiting methods like LinkedIn outreach.

XX. Manufacturing

You'll need to find a safe place to produce your products. Due to the high costs and regulatory requirements associated with setting up your own manufacturing facility, manufacturers usually choose to produce their products at an existing facility when they're getting started. There are many different types of production facilities that entrepreneurs can use; we think three of the most relevant are commercial kitchens, food incubators, and co-packers.

A commercial kitchen (also known as community kitchen or shared-use kitchen) is a facility that provides food-processing space and small-scale equipment, usually for rent on a time-duration basis. There are a number of online databases to help you find a commercial kitchen in your area:

- Specialty Food Co-packers Directory of Commercial Kitchens
- Culinary Incubator
- CookItHere
- Kitchen For Rent
- The Food Corridor

A food incubator is much like a commercial kitchen, in that it provides food processing space and small-scale equipment, usually for rent on a time-duration basis. However, food incubators also provide various types of business development services. GFI's global map of accelerators and incubators can help you find a food incubator in your area.

A co-packer (also known as co-manufacturer) is a production facility that uses your IP to manufacture and/or package products on your behalf in exchange for a fee, usually either based on the quantity of items produced or the amount of time it takes to produce them. In contrast to commercial kitchens and food incubators, co-packers provide the labor to produce your product in addition to the production facility. Since co-packers usually have a minimum production quantity, most manufacturers start out in smaller-scale facilities like a commercial kitchen or food incubator before moving on to a co-packer and eventually building their own manufacturing facility.

Since using a co-packer requires that you share your formula with them, you should work with your lawyer to implement a contract to protect your IP.

A number of directories exist to help you find a co-packer, including the Specialty Food Co-Packers Directory and the Specialty Food Association co-packers directory. Services like PartnerSlate may also be useful for identifying co-packers and other food industry partners. This guide can help you identify important factors to consider when selecting a co-packer. These articles from Food and Tech Connect and Consolidated Label Co. are also helpful.

Miranda Grizio, GFI Research Fellow and product development food scientist, provides a summary of what's important to look for in a co-packer:

- The right equipment for your product
- Location
- Third-party safety certification (e.g., Safe Quality Food Institute's SQF Program)
- Minimum order quantity that's not too high for you
- Transparency (they let you see the facility, answer all your questions, and seem to communicate in an honest and straightforward way)
- Food certifications that you may need (e.g., Kosher, organic)

Before you communicate with a co-packer, you should be prepared to discuss your process and your estimated annual volume. When you meet in person, it can be good to bring a food scientist with you so you have someone who knows the industry and can watch for red flags.

XXI. Packaging

Like food production equipment, packaging equipment can also be highly specialized and expensive. Thus, most early-stage food businesses choose to package their products at an existing facility, preferably in the same place that manufacturing is performed.

Packaging Materials

A number of recent innovations in packaging have provided increased shelf-life, sustainability, convenience, and food safety. For example, retort (pouch) packaging is increasingly being used as an alternative to canning for shelf-stable products. The pouches use less than 5% of the packaging material of cans and help improve food quality, texture, flavor, and aroma due to shorter processing times at high temperatures. Loma Linda and Good Catch are examples of plant-based brands using retort packaging technology. Your food scientist, co-packer, or manufacturing facility can help you understand what packaging options are available to you. Especially when starting, try to use stock packages as much as possible, which you can customize quickly and inexpensively with printed labels. IFT provides a summary of packaging options and what to consider when selecting packaging materials and methods. When selecting packaging materials, you should perform QA tests to determine how well different packaging options maintain your product quality in various conditions.

Your packaging needs will vary depending on whether you intend to enter the retail or foodservice market. Retail packaging is consumer-facing, and therefore requires marketing efforts to make the product appealing to consumers (see the Food Labeling – Marketing Component section of this manual for more information). Foodservice packaging, however, is not consumer-facing. Foodservice buyers prefer no-frills packaging that prioritizes function over form. Sturdiness, ease of storage, and easy opening and discarding are desirable attributes in foodservice packaging.

Another difference between retail and foodservice packaging is that foodservice products will typically be sold in bulk sizes. One exception is that grab-and-go items sold through foodservice channels (e.g., a bag of chips at Subway) will still need to be packaged and labeled for individual sale. Whether you're selling in retail or foodservice, you should talk with your downstream supply chain customers (e.g., distributors, redistributors, retailers, foodservice operators) to make sure your product packaging sizes and case sizes meet their needs. It's important that your products fit appropriately on retail shelves, in warehouses, and in trucks and other forms of transportation.

Another note on foodservice pricing is that bulk sizing can easily obscure the value proposition of your product, so foodservice pricing is often quoted in portion sizes—a $0.50 per serving price is an easier sell than quoting just the gross case cost. Per-serving pricing can help emphasize the profit potential of your products to foodservice prospects, and you should also note any labor savings that your products can provide. If your product can be stored more cheaply than its competitors, such as at ambient temperature instead of in a refrigerator or freezer, make sure to note that in your packaging and in sales materials.

Food Labeling – Marketing Component

As described in this Food Crumbles article on The Basics of Food Labels, food labels serve two primary purposes: 1) make the product look appealing and make people want to buy it and 2) tell the legal details of your food. Thus, food labels are both a marketing tool and a component of legal compliance. In this section, we'll discuss the marketing component of food labeling.
In this manual, refer to the Food Labeling – Regulatory Component section for more information on that topic.

The average consumer looks at a brand for just a couple of seconds before making a purchase decision. In the very short time a person scans a supermarket shelf, how well will your packaging perform? Successful package design must clearly answer the following key questions for consumers: Who am I? What am I? Why am I right for you? We recommend hiring a professional designer to make your packaging as visually appealing as possible while ensuring the correct hierarchy of communication. You might also consider using focus groups, eye tracking studies, or other consumer testing techniques to evaluate the effectiveness of your packaging design prior to rolling it out. Ask your packaging design firm to create mockups of your product on-shelf to examine how it looks in a retail context among competitors in the category and whether it creates an effective brand block. Adam Spriggs of Nucleus Maximus, a packaging design firm, gave a presentation on effective packaging design at Expo West 2017.

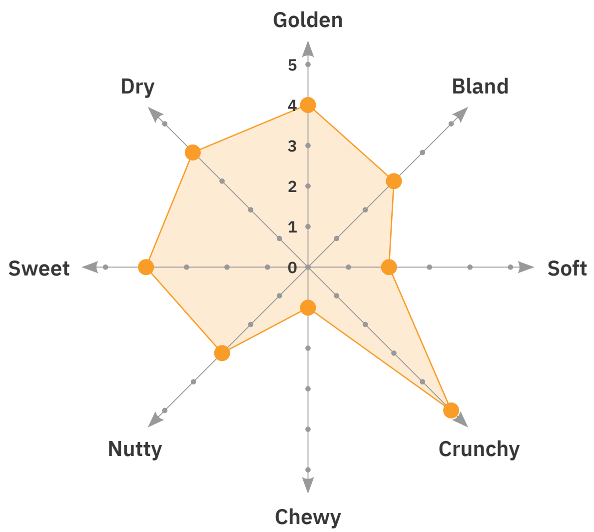
As with other forms of marketing, effective packaging is designed with your target consumer in mind. For many startup brands with limited budgets, your packaging is going to be one of your primary forms of marketing. The first consideration is the context in which the consumer will see your product. Will it be shown on a shelf at room temperature, displayed behind a freezer door, or lined up in a refrigerated case? What section of the store will it be in? What other products will be nearby, competing and non-competing? If you will be offering multiple items next to each other, such as different flavors, you will want to ensure that the package designs you use complement each other for visual impact when lined up on a shelf. Make sure your product fits—literally and figuratively—in the context where stores will display it.

The principal display panel is the front-facing side of your product where the only most important information goes, such as brand name, product name, statement of identity, product photos, and net quantity (see Food Labeling – Regulatory Component section for more information on required components). You might also include attributes (e.g., organic, "free-from" claims) and certifications (e.g., vegan certification, Non-GMO Project verification) that are important to your target audience, but be careful of including too much information and making the label feel cluttered. Good package design follows a clear hierarchy of communication, with the eye being drawn to the most salient information first, then guided to other supporting items. Packaging design should be extendable to other items as you grow your product line. Your packaging is effective if your target customers notice it on a shelf and quickly understand what it is.

It's easy to imagine your products being stocked and displayed in ideal conditions, but in reality, not every store will display them effectively. Many new products are stocked at floor level or on the top shelf, where less people are likely to see them. Getting placement at eye level often requires paying the retailer a fee, and can be hard to get since most established companies take the premium space. Sometimes your product will not be faced correctly; it could be pushed aside for other products, hidden behind pricing stickers or special displays, or not properly rotated towards the buyer. Try to make your packaging compelling from multiple angles, both a wide horizontal angle and the vertical angle (since your products may be on the highest or lowest shelf). Make sure it pops from 4-5 feet away, since most consumers scan shelves from that distance.

Research from Mattson shows that consumers respond much more positively to the term "100% plant-based" compared to the term "vegan." The reason might be that consumers who do not follow a vegan or vegetarian lifestyle might assume that products carrying those terms are not for them. Therefore, GFI recommends not using the terms "vegan" or "vegetarian" prominently on your label. Instead, we recommend using terms that are more appealing to flexitarian and mainstream audiences. There are many ways you can do this.

For example, Beyond Meat uses the term "Plant-based Burger Patties" to identify the Beyond Burger. Good Catch uses the terms "Fish-free" and "Crab-free" to describe its plant-based seafood products. Gardein uses the term Seven Grain Crispy Tenders to prominently identify its breaded chicken tender product, then uses the term "chick'n" in the product description. Field Roast uses both familiar terms such as "Corn Dogs" and



unfamiliar but fun terms such as “Fruffalo Wings” to identify its products, then includes the word “vegan” in the product descriptions. Having a small “V” symbol, vegan certification, or subtle vegan/vegetarian claim will serve as a code that reaches vegan and vegetarian consumers without being off-putting to flexitarian and mainstream consumers. You can also use consumer research methods like focus groups or surveys to evaluate on-pack messaging and label design.

XXII. Product Testing and Quality Assurance (QA)

Product testing has many different purposes, including informing product formulation, determining shelf-life, and ensuring product safety and quality assurance. Therefore, various forms of product testing are conducted during the product development process, as well as throughout the manufacturing of products to be sold to consumers. Your food scientist and/or production facility can help you understand when each type of testing is needed and which specific tests are appropriate for your product.

The four main categories of testing are analytical (including chemical and physical), sensory (also called “organoleptic,”) microbial, and usage (also known as “product usage,” “consumer use testing,” “consumer in-use testing” or “in-use product testing”).

- **Analytical testing:** Analysis of chemical and physical properties of food (e.g., pH, %acid, %salt, %moisture, water activity, %fat, color, viscosity, hardness, density, allergen testing, nutritional analysis)
- **Sensory testing:** Analysis of sensory properties of food (e.g., sweetness, saltiness, chewiness, savoriness)
- **Microbial testing:** Analysis of microbial activity in food (e.g., total plate count (TPC), yeast and mold)
- **Usage testing:** Analysis of consumer perceptions and experience of food (e.g., in-home usage test (IHUT), consumer focus groups)

This article from Food Manufacturing provides an overview of these types of testing and explains why each is used.

During product formulation, sensory testing is often used to compare different iterations of the product and select the most appealing one. Companies might perform sensory testing internally or use focus groups to solicit consumer feedback. Testers might rank products according to a specific characteristic, e.g., from most salty to least salty, or they might rate products on a scale of 1-5 for each characteristic. Ratings from multiple different characteristics can be visualized in the form of a star diagram, like the example on the left.

During shelf-life testing, various types of sensory, analytical, and microbial tests are conducted at set intervals over a period of time. Weekly testing is common for refrigerated products, and monthly testing is common for shelf-stable products. In some cases, accelerated shelf-life testing can be

Examples of different types of quality assurance tests include:

- *Weight checks to make sure the product is within the required weight range*
- *Visual checks to make sure it appears the way it should*
- *Organoleptic checks for flavor, texture, and aroma*
- *Temperature checks to make sure it is being kept at a safe temperature*
- *pH checks to make sure it is not too acidic or basic*
- *Microbiological checks to protect against harmful bacteria*
- *Chemical checks to protect against chemical contamination*
- *Metal checks to protect against contamination by metals*

performed, in which the product is held at a higher temperature than normal so that results can be determined sooner. In shelf-life testing, microbial and analytical tests like pH can provide an indication that spoilage is coming before it can be detected through sensory testing. Prior to beginning shelf-life testing, it is important to run separate tests to confirm the product is as expected before spending weeks or months on shelf-life testing a product that was not produced to specification. While the specific tests and specifications will vary based on the product, this example shelf life test provides a template for a vegan soft cheese product and a cracker product.

In addition to performing shelf-life testing under normal conditions, you should also conduct testing to understand how your products respond to less than ideal conditions. It is always possible that your products will be exposed to heat, humidity, and physical stress during transport and distribution. Entrepreneurs should understand how robust their products and packaging are to such conditions, and use this knowledge to inform improvements in product formulation and packaging design.

Another type of testing that incorporates various sensory, analytical, and microbial tests is QA testing. QA testing is an essential component of food safety plans, which all food facilities are required to have under the Food Safety Modernization Act (FSMA). QA tests are designed to safeguard food safety by detecting biological, chemical, and physical hazards that might be present within food, as well as establish that the product was manufactured as intended and meets the required specifications. QA testing can also help establish that your products are being produced consistently each time, and that there isn't any unexpected variation due to ingredient supply, manufacturing errors, or other causes. Some QA tests are intended for in-line testing (i.e., prior to packaging), while others are used for finished product testing (i.e., after product packaging).

Normally, product from each production run is QA tested. For continuous processing, one sample per hour may be evaluated. Alternatively, samples may be evaluated from the beginning, middle, and end of each production run. For batch processing, a sample from each batch is often tested. Weight checks, metal checks, and temperature checks are often automated, with every package being monitored and automatically kicked off the line if non-conforming. QA testing is also performed on manufacturing equipment before, during, and after production.

Within any type of testing, the specific tests that will be most appropriate will depend on your product. For example, the tests that are industry standard for milk products are very different from those that are typically used for crackers. If you are working with a food scientist, they will help identify which tests are needed during which aspects of the product development and manufacturing process as well as help you determine which tests to perform in-house versus outsource to a laboratory. Food consulting companies often have bulk discount pricing agreements with labs.

Co-packers, commercial kitchens, and food incubators will also provide assistance with understanding which tests are needed and will often have the equipment and established protocols for performing tests in-house as part of their existing food safety plan. In many cases, co-packers and other manufacturing facilities will already have standard protocols in place for product testing. If there are specific quality control measures that you would like to implement beyond these standard measures, either on your own accord or upon your food scientist's recommendation, you should feel free to bring that up. For example, if you want to implement a specific quality control test or increase the frequency of a certain test, the facility should accommodate your request.

Entrepreneurs typically perform sensory testing in-house since you don't need fancy equipment to evaluate things like appearance, odor, taste, and texture. Even if you decide to outsource some aspects of sensory testing, you should still conduct your own sensory testing in-house since no laboratory will be as familiar with your products as you are. You should also conduct sensory and usage testing with consumers, whether that's through formal measures like focus groups or in-home usage tests (the gold standard) or through gathering informal feedback during product sampling at in-store demos, trade shows, or other events. Sometimes in-house testing can be biased away from what consumers really want, or overly sensitive in a way that consumers aren't. Getting your product in front of consumers to solicit feedback is one of the best ways to inform product development and continuous improvement.

Analytical and microbial testing require more advanced equipment, so entrepreneurs often choose to outsource these tests to laboratories. However, some analytical tests can be performed with relatively simple equipment (e.g., pH testing). Which tests entrepreneurs choose to outsource will usually depend on their access to resources. For the tests that you decide to outsource to laboratories, in addition to getting referrals through your food scientist or production facility, you can also look up laboratories through the IFT Services Directory.

XXIII. Consumer Testing

Product development should be iterative, meaning that you should constantly be incorporating feedback from consumers to make your product better. While you might think that your product tastes great, your packaging looks great, and your product is 100% market-ready, consumers might have a different opinion. Unfortunately, our own intuitions and feedback from those in our circle doesn't always match up with how consumers perceive your brand or product. Consumer testing is a useful tool for figuring out whether your product is meeting consumers' desires and expectations, and using that information to inform the development of your product is invaluable.

There are a number of consumer testing methods, but perhaps the most powerful is getting your product in front of people through product sampling and gathering their feedback. You can also use methods like focus groups, online surveys, social media, eye tracking studies, or other experimental designs. For useful results, you should ensure that you conduct testing only with consumers in your target market.

For online surveys, Amazon Mechanical Turk (MTurk) is a common way to gain quick and inexpensive feedback from a fairly representative US population, but there are limitations with using MTurk that should be considered. Targeted customer groups can also be reached through other crowdsourcing channels such as Prolific Academic or more traditional providers such as Qualtrics, SSI, GfK, YouGov, and Toluna.

In addition to providing insights about your product itself, consumer testing can also be used to provide insights into your branding and messaging. This is especially important for companies who intend to sell their products internationally. If you will be entering an international market, you should take steps to understand how your brand name and messaging translates into the local language and how it might be perceived given the local culture. Failure to do so could result in marketing that is ineffective at best or offensive at worst. Even established companies with substantial marketing budgets have been known to make these types of mistakes. To prevent a marketing blunder from happening to you, be sure to conduct consumer testing among locals prior to launch.

XXIV. Intellectual Property (IP)

Intellectual property (IP) is defined by the World Intellectual Property Organization (WIPO) as "creations of the mind, such as inventions; literary and artistic works; designs; and symbols, names and images used in commerce." Although this definition might sound abstract, IP has real monetary value, and therefore it's important for startups to have a strong emphasis on protecting it. This Forbes article discusses various measures and considerations for protecting IP.

Ownership

It may sound obvious, but it's important to ensure that your company owns its IP. Any IP that was created prior to incorporation will need to be transferred to the company by a written agreement, such as this example Intellectual Property Assignment Agreement from UpCounsel. As mentioned in the hiring section, you should also have all new employees sign an Employee Proprietary Information Agreement form to ensure that any IP created by an employee belongs to the company, not the employee. The same concept applies to independent contractors, who should also sign a written agreement.

Patents, Copyrights, Trademarks, and Trade Secrets

Measures of protecting IP include patents, copyrights, trademarks, and trade secrets. The SBA explains the difference between these measures:

- **Patents** protect inventions or discoveries.
- **Copyrights** protect original works of authorship.
- **Trademarks** protect words, phrases, symbols or designs identifying the source of the goods or services of one party that distinguishes them from others.
- **Trade secrets** protect information that is secret, has commercial value because it is a secret, and has been subject to reasonable steps by the rightful holder of the information to keep it secret (e.g., through confidentiality agreements).

Of these four options, patents and trade secrets are the two that are used to protect technical innovations. There are a few key differences between patents and trade secrets. One important difference is that patents expire after a certain number of years, and since patents are in the public domain, the information in your patent application could be used by someone else if you application is denied or when your patent expires. In contrast, trade secrets can be kept indefinitely (e.g., the formula for Coca Cola has been a trade secret for more than 125 years).

Another important difference is the eligibility criteria. While a trade secret can be any type of commercially valuable information the company has made an effort to keep secret, the eligibility criteria for obtaining a patent is stricter. According to 35 U.S. Code § 101, any person who “invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent,” subject to the conditions and requirements of the law. Some of these conditions include usefulness, novelty, and non-obviousness of the patentable subject. Due to these conditions, food companies using established techniques and ingredients to produce their products will likely not be eligible for a patent and will likely be better off treating their IP as a trade secret.

However, innovative companies using novel, non-obvious, and useful manufacturing techniques might consider applying for a patent. Examples of patentable IP within the clean meat industry might include a method for modifying the cell lines to increase their accumulation of muscle proteins, a platform for large-scale scaffold fabrication, or a biomaterial composition of the scaffold that enhances differentiation efficiency. On the plant-based side, examples of patentable IP include the use or production of novel ingredients, such as Impossible Foods’ technology to use leghemoglobin in plant-based meat. Unique texturization methods may be patentable if the process is sufficiently novel, though very few patents on extrusion techniques have been approved to our knowledge. Harvard Business Review provides further insight into the advantages and disadvantages of patents and trade secrets.

After you’ve considered all the pros and cons of different IP protection methods, develop an IP plan that details the specific methods you will use to protect specific proprietary information. This IP plan should be detailed in your company’s technical plan. WIPO provides information about how to incorporate your IP strategy into your business and technical plan. In the United States, the US Patent and Trademark Office provides further information about patents and trademarks. Internationally, the World Intellectual Property Organization (WIPO) has further resources, particularly about the Patent Cooperation Treaty, which allows companies to file for international patents that provide protection in 150+ countries.

Non-Disclosure Agreements (NDAs)

A non-disclosure agreement (NDA) is a contract that protects the sharing of specific confidential information. Startups often use NDAs to protect IP that must be disclosed for business reasons. For example, it is common for manufacturers to implement an NDA with their co-packer prior to disclosing their formulation. Keep in mind that NDAs protect specific information (for example, a product formulation) but are usually not enforceable if they are too broad or used incorrectly. You should work with your lawyer to implement NDAs as appropriate.

It's important to note that VCs usually prefer not to sign an NDA unless they believe there is a compelling reason to have one in place, such as exceptionally unique but not yet protected IP. In other words, if you're a new clean meat company with a novel technical approach, it's ok to ask investors to sign an NDA (though we still wouldn't recommend doing so upon first contact). If you're commercializing your grandmother's pasta sauce recipe, it will likely make you look inexperienced to ask for an NDA. McCarthy Garber Law provides insight into when to use an NDA for your startup.

XXV. Regulatory Considerations

As you develop and produce your product, you must comply with regulations related to the processing and handling of food. If you are using a novel ingredient or creating a novel product (e.g., clean meat), you also need to consider the appropriate regulatory pathway to introduce your product to the market. If you don't comply with all of the appropriate regulations, your company will be at risk for legal action and reputational damage. North Dakota State University provides an overview of food-processing regulations that can help you understand the various requirements.

FDA Authority

The Food and Drug Administration (FDA) regulates all foods and food ingredients introduced into or offered for sale in interstate commerce, with the exception of meat, poultry, catfish, and certain processed egg products, which are regulated by the U.S. Department of Agriculture's (USDA) Food Safety and Inspection Service (FSIS). It has not yet been determined whether clean meat will be regulated by USDA or FDA, but plant-based products are regulated by the FDA. The FDA has information on how to start a food business, including information on FDA requirements and how to ensure your company is compliant. Another good place to start is the FDA's Food Guidance and Regulation, which contains FDA guidance and regulatory information with links to Federal Register documents. It also contains information about food safety programs, manufacturing processes, industry systems, and import/export activities.

Food Safety Modernization Act

The Food Safety Modernization Act (FSMA) was implemented in 2011 to ensure the safety of the US food supply. The FDA's FSMA website provides additional information, including rules and guidance for industry.

FSMA applies to food facilities, defined by the FDA as establishments that "manufacture/process, pack, or hold food for human consumption in the US." The implication is that if you have your own production facility, you are responsible for FSMA compliance, including registering as a food facility with the FDA, allowing FDA inspections, creating a food safety plan, complying with current Good Manufacturing Practices (cGMP), and maintaining certain records. In contrast, if you manufacture and package your product through a co-packer, commercial kitchen, food incubator, or any external production facility, that facility is responsible for FSMA compliance. However, it is still advisable to put this understanding in the co-packer agreement itself, making it clear that the producing facility has an obligation to comply with all laws and regulations governing production, including FSMA, and indemnifying the other party for losses associated with failure to comply with FSMA or other requirements.

Even if you are not legally responsible for FSMA compliance, you could face negative consequences if unsafe practices compromise the integrity of your products. Thus, manufacturers should conduct due diligence to ensure that a potential manufacturing facility is compliant with FSMA. The Specialty Food Association provides a list of questions manufacturers should ask potential co-packers before beginning production.

State and Local Requirements

Regulations vary by state and county, but in general, companies that manufacture, sell, or distribute food are required to have state and local health permits and comply with periodic inspections. In most states, either the department of health or the department of agriculture is responsible for overseeing the food industry in the state. For example, in California, the Department of Public Health is responsible for overseeing food production, while in Minnesota, the Department of Agriculture does the same. Foodsafety.gov provides this tool to help you identify the health and agriculture departments in your state. Once you identify the appropriate state agency, visit their website to learn more about permit, inspection, and other requirements. You should also identify any local agencies, such as county or city health departments, that have authority over food production, and take steps to comply with all local requirements. The National Association of County and City Health Officials (NACCHO) provides this tool to help you find your local health department. The Balance provides additional information on how to determine if you need a health permit for your food business.

Food Labeling – Regulatory Component

FDA regulates labeling of food products that fall under its jurisdiction. FDA has a food labeling guide that provides guidance to industry on how to label food products, including topics like ingredient lists, allergen statements, statements of identity, nutrient declaration, net contents declaration, and label claims. North Dakota State University provides further information about regulations regarding advertising and label claims.

If you are working with a co-packer, they can usually do the nutrition labeling for you (often with Genesis R&D food labeling software), but you may need to provide them with the nutritional data for any unique ingredients you are using. Covance and Advanced Food Labs are examples of food labs that can do that type of testing. You can also look up food labs through the IFT Services Directory. For more information on the other purpose of food labeling, refer to the Food Labeling – Marketing Component section of this manual.

Standards of Identity

In all aspects of food labeling, FDA prohibits manufacturers from using false or misleading information. The FDA requires that manufacturers list a statement of identity (the name of the food) and a net quantity statement (the amount of product) on the principal display panel (the primary surface of the package). The FDA establishes standards of identity for many foods, which can be found in 21 CFR Parts 130 to 169. FDA requires that if a food does not meet the requirements of a standard of identity, it may not bear the name specified in the standard. Conversely, if a food does meet the requirements of a standard of identity, it must bear the name specified in the standard. For example, the standard of identity for "salad dressing" can be found in 21 CFR Part 169—any product that does not meet this standard may not be labeled as "salad dressing," and any product that meets this standard must be labeled as "salad dressing."

If a standard of identity does not exist for a particular food, the FDA requires that manufacturers use the common or usual name of the food, which can be established by regulation or cultural use. For example, tempeh does not have a standard of identity, but tempeh manufacturers use "tempeh" as their statement of identity because it is the common name for the food. For products that have neither a standard of identity nor a common or usual name, the FDA requires an appropriately descriptive term be used as the statement of identity. For example, according to the FDA's food labeling guide, an appropriately descriptive term for a hydrolyzed protein made from a blend of corn and soy protein would be "hydrolyzed corn and soy protein." North Dakota State University provides additional information about regulations regarding standards of identity.

When deciding how to label products, plant-based manufacturers should understand the risks related to using a term that has a standard of identity that refers to a dead animal, such as chunk tuna (which talks about retaining the "original muscle structure"). GFI's position is that compound names (such as "plant-based tuna," "soy-based chicken," or "almond milk") are protected speech under the First Amendment, even where part of the name corresponds to a term with a standard of identity, so long as the meaning is clear to consumers. Thus, regulatory agencies should not restrict the rights of manufacturers to use compound names on product labels. Indeed, these terms are commonly used in the marketplace—usually without any negative consequences.

If FDA found that a product were mislabeled, it would likely send the company a warning letter. The agency routinely posts these letters to its website. FDA might then decide to bring an enforcement action, which could result in a recall of the product (see the Recalls section of this manual for more information). Even if the agency decided not to pursue further action, the existence of a warning letter would make the product an attractive target for a class action lawsuit alleging that consumers were misled.

The cost of defense varies considerably. Washington, DC, attorney Nigel Barrella estimates that responding to a warning letter that only alleged misbranding would take 5 hours (approximately $1,250); that amount could double if much follow-up correspondence with FDA were required. Litigation would likely run from $10,000 to $30,000, depending on complexity. Risk may be minimized by using a modifier before the potentially problematic term, consistent with the approach GFI outlines in our petition to the FDA.

In 2018, the FDA suggested that it might revisit its approach to standards of identity for dairy terms like "milk." GFI's position is that this is an ideal opportunity to address our petition for rulemaking that requests that the agency issue a regulation that would make clear that manufacturers can use non-misleading compound names to describe their products, which would greatly reduce their risk. However, there is a risk that the agency will attempt to prohibit the use of terms like "almond milk," which GFI would vigorously oppose. In the meantime, GFI's policy department is available to answer questions about standards of identity and implications for plant-based manufacturers.

Recalls

A recall is the removal of a product from the market. While the FDA has the authority to issue mandatory recalls, recalls are almost always voluntarily issued and executed by companies. While food safety issues are one reason why a recall may occur, recalls can also be issued due to noncompliance with FDA labeling or manufacturing laws such as packaging defects or improper labeling. FDA provides information on recalls, including guidance for industry.

While costs vary, a study by the Food Marketing Institute and the Grocery Manufacturers Association (GMA) found that a recall costs an average of $10 million in direct costs alone. In addition to direct costs, companies can also face indirect costs related to brand damage and lost sales. To minimize these damages, manufacturers must be able to respond quickly and efficiently in the event of a recall. To do this, manufacturers should have a written recall plan in place as required by FSMA.

Your recall plan should identify steps that will be taken in the event of a recall, including procedures to notify consignees (i.e., recipients of the product), notify the public when necessary (i.e., if there is a food safety risk), conduct effectiveness checks to confirm that the product was removed successfully, and to appropriately repurpose, divert, or safely dispose of the recalled product. The recall plan should also identify who is responsible for carrying out each step.

The Food Safety Preventive Controls Alliance provides a recall plan template that can be customized to meet your company's needs. The Specialty Food Association's post on how to develop your written recall plan walks through this template and provides other tips. Food Decision Software also provides information on how to build a recall plan, including free templates.

In addition to having a well-prepared recall plan, manufacturers should investigate recall insurance, which is discussed in the Business Insurance section of this manual.

Traceability

An important component of any recall plan is traceability. Traceability is the ability to track food through all stages of production, processing, and distribution. Traceability is important for being able to determine which products need to be recalled. If the affected products cannot be identified, you might have to broaden the scope of your recall, which could result in greater financial losses.

Lot Codes

As outlined in this article from Safe Food Alliance on the fundamental requirements of traceability, the first step in traceability is identification. You should have a unique identifier called a lot code for each product in your facility, including raw materials, finished products, and cases of raw materials and finished products.

On finished products, lot codes indicate the date/time of manufacture, the production facility location, and the equipment line that was used. Rather than listing the date of manufacture in the lot code (which might turn off consumers if the product has a long shelf life), manufacturers usually list the expiration date and use the product's shelf-life to calculate back to the production date. For example, a lot code of EXP030518A2 could be used to indicate that the product expires on 3/5/18 and was made at Facility A on Production Line 2. In this example, if the product has a shelf life of two months, the manufacturer would know that it was produced on 1/5/18.

While expiration date labeling is not required by law (except for infant formula), it is expected by retailers, distributors, and consumers, so we recommend using it. For more information on expiration date labeling, see the USDA's FAQ on Food Product Dating.

In addition to using lot codes on final consumer packaging, you should also use lot codes on cases of the product. This is important for ease of traceability (so downstream buyers don't need to open every case to check the lot code) but also for inventory management (e.g., first-in first-out (FIFO), expirations).

Lot codes should also be used to label raw materials (e.g., ingredients, packaging). This is important because if you find out that a raw material is contaminated or defective, you need to be able to determine which products it was incorporated into and where they were distributed. Raw materials will arrive to your facility already labeled with the supplier's lot code on the case and the bin. In other words, the supplier's finished product lot code will be your raw material lot code.

Barcodes

Barcodes are another tracking tool that are not required by any federal regulations, but are usually expected by retailers and distributors. Barcodes identify the type of product, but unlike lot codes, they do not provide any information about where/when/how the product was made. In other words, two different packages of the same type of product will share the same barcode, but they may not share the same lot code.

GS1 is a nonprofit organization that develops and maintains barcodes, and GS1 US is the GS1 Member Organization for the US. GS1 US has a Get Started Guide to help you understand the steps for obtaining barcodes (for products sold in stores) and product identifiers (for products sold online). Keep in mind that you might need to obtain more than one type of identifier. For example, you might need a UPC-A barcode for identifying your individually packaged retail product, and a ITF-14 or GS1-128 barcode for identifying cases or pallets of your product during warehousing and distribution. These distinctions are explained in the Determine Barcode Type step of the Get Started Guide. GS1 also provides more traceability information and resources on its website.

Recordkeeping

In addition to assigning and labeling products with lot codes and barcodes, you also need to implement recordkeeping procedures to keep track of all this information. ERP software or inventory management software may be used to keep track of lot codes. Before you're ready to implement one of these systems, you might use a simple spreadsheet. Information that's tracked includes ingredient lot codes that go into each finished product lot, finished product lot codes, how much product of each lot code was produced, and where it was shipped (distributors, supermarkets, restaurants) so they can all be notified in case of a recall and advised to return or destroy the product. North Dakota State University provides additional information about regulatory requirements related to recordkeeping.

Determining the Regulatory Status of Novel Food Ingredients

If you are using a novel food ingredient within your product (e.g., Impossible Foods' leghemoglobin or JUST's mung bean protein isolate), you should take steps to determine the regulatory status of that food ingredient. In addition to food ingredients, any novel substance intended for use in producing, manufacturing, packing, processing, preparing, treating, packaging, transporting, or holding food should be considered if it becomes a component of or otherwise affects the characteristics of the food. The FDA provides guidance on how to determine the regulatory status of a food ingredient, including the Generally Recognized as Safe (GRAS) process.

Section 5

SELL YOUR PRODUCT

Even if you developed the best product in the world, it isn't going to sell itself. Marketing encompasses all aspects of creating and selling your product, and you will need a solid marketing plan to take your product from the production line to consumers' plates.

Let's start by defining the differences between goals, strategy, and tactics. Your marketing goals define what you'd like to accomplish; your strategy is a high-level idea of how those goals might be achieved; and your tactics are the specific actions you could take to implement that strategy. This blog post from BNBranding contains a helpful analogy: if your goal is to "win the war," then your strategy is to "divide and conquer," and your tactics are: "CIA spies gather intelligence," "Navy Seals knock out enemy communications," "Paratroopers secure the airports," etc. When building your marketing plan, you first develop your goals, then your strategy, then your tactics.

Thus, the first step in building your marketing plan is to set your marketing goals. Once you've defined what you'd like your marketing to accomplish, you can move on to defining your marketing strategy, which includes conducting a situation analysis and defining your competitive positioning and brand strategy. Then, you're ready to choose the specific tactics (e.g., social media, writing news releases, product sampling) that will make up the promotion component of your marketing mix. You can then compile all of this information into a written marketing plan that will help guide all your marketing decisions.

XXVI. Developing Your Marketing Plan

This section includes steps for developing your marketing plan and implementing that plan to sell your product in the real world. Note that different companies will decide to outsource different aspects of this process. For example, some companies might decide to outsource their social media management, while others will do this in-house. Most companies will outsource things like logo and packaging design. Depending on your level of comfort with brand building, you might also want to outsource the process of defining your brand strategy, though it's always a good idea to think through all these steps in-house before hiring someone.

Since you'll likely need to hire outside creative talent for at least some aspects of the marketing process, the question is not *whether* but *when* to hire a creative agency. In making this decision, there are three tiers of support you might consider:

- **Tier 3:** A freelancing service like 99designs, Upwork, or Fiverr that produces a specific deliverable (e.g., logo, package design) on a one-time basis. Brand strategy support is not provided. This is a low-cost option, but is only recommended if you have a clearly defined brand strategy and vision for the end result. Quality of results may vary.
- **Tier 2:** A marketing agency that helps define brand strategy and provides specific services but not the full breadth of services that a full-service creative agency would provide. For example, Nucleus Maximus and Interact are marketing firms that focus on packaging design. There are also marketing firms that focus on different aspects of digital marketing. For example, ChuckJoe focuses on website, social media, and email marketing, while Heart Creative Culinary Agency focuses on promotional photos and videos.

The segmentation process involves dividing the market into groups of consumers that have important features in common. The four main types of market segmentation are:

- *Demographic*
- *Geographic*
- *Psychographic*
- *Behavioral*

- **Tier 1:** A full-service creative agency that helps build the entire brand, from defining brand strategy to designing packaging, website, social media, print collateral, videos, etc. This is the most expensive route, but the benefit is that it does not require coordination between different agencies and can often lead to a more unified brand. Some examples are VMG Creative, D+i Creative, and The Inlay.

Luke Raymond of VMG Creative (Ripple's creative agency) presented on a past GFIdeas call about how to build a brand and when to engage a creative agency—here is the slide deck.

Step 1: Set Your Marketing Goals and Objectives

The first step in developing your marketing strategy is to define your marketing goals. This blog post from Smarta Marketing provides overview of different types of marketing goals, including creating brand awareness and preference, inducing product trials, encouraging repeat business, and growing sales. Marketing goals are very high-level, but defining them at the onset can help inform all of your marketing decisions. After you've defined your goals, you should define measurable and time-bound objectives that can be used to gauge whether you've achieved your goals.

Step 2: Conduct a Situation Analysis

With your goals and objectives in place, you're on your way to developing your marketing strategy. The next step is to conduct a situation analysis. The purpose of a situation analysis is to evaluate the current state of the market, including its size, projected growth, and consumer trends. You should also identify internal and external factors that might affect your company's ability to succeed in that market. The Balance provides this overview of situational analysis. Another helpful resource is Cleverism's guide to market situation analysis. One useful tool for conducting a situation analysis is the 3 C's (company, customer, and competition). In some models, the 3 C's have been expanded to 5 C's to include collaborators and climate. Volusion provides this overview of 5 C's analysis.

Another useful tool for situation analysis is SWOT analysis, which evaluates your company's Strengths, Weaknesses, Opportunities, and Threats. The Balance and Volusion each provide an overview of SWOT analysis.

Step 3: Define Your Competitive Positioning and Brand Strategy

After you conduct your situation analysis, your next step should be to develop your competitive positioning and brand strategy.

Competitive Positioning and Segmentation

Competitive positioning defines how you will differentiate your product in the eyes of consumers in your target market. Your situation analysis should inform your competitive positioning. However, there is additional pre-work involved before you can develop your competitive positioning, which includes segmenting your market and determining which market segments to target. To accomplish this, the Segmentation, Targeting, Positioning (STP) model uses three steps (you guessed it): segmentation, targeting, and positioning. If performed correctly, these steps will allow you to more effectively reach the consumers who are most likely to purchase your product.

*There are a variety of new and old tools you can use to segment your market, from interviewing consumers to using advanced data analytics tools. You can also use techniques like **consumer profiling** and **persona development** to better understand each of the segments you identify. Medium provides a **list of market segmentation tools**, and The Bridge provides more information on **how to segment your market**. Formilla also provides this **guide to psychographic segmentation**, and Fieldboom provides this **guide to behavioral segmentation**.*

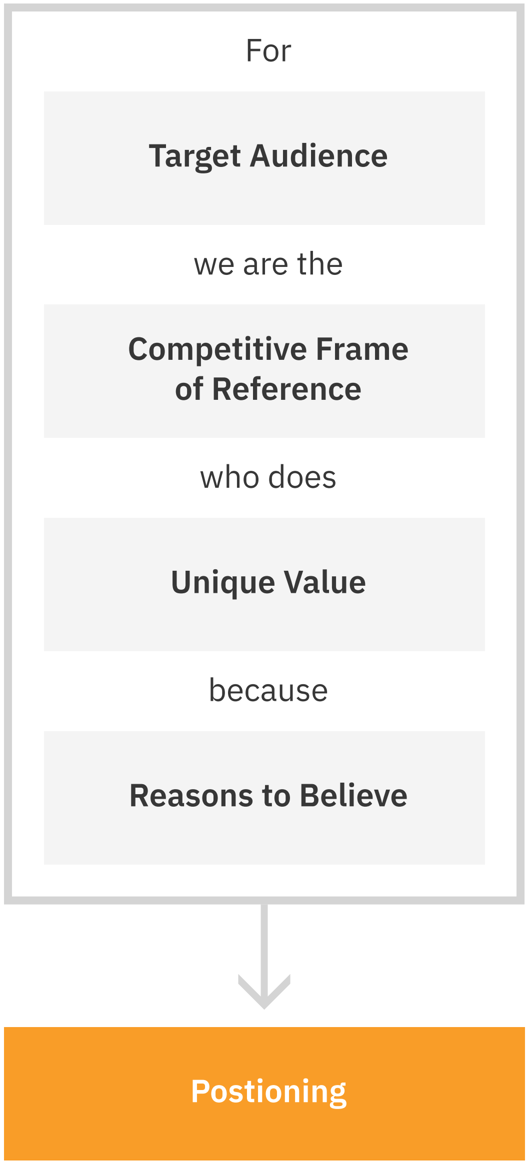
The idea behind market segmentation is that consumers respond better to direct, targeted communication compared to vague and generic messages, and consumers who share traits such as interests, needs, or qualities are likely to respond similarly to marketing messages. By identifying groups of consumers that are most likely to buy your product and developing messaging that appeals to each of these groups individually, you'll get more out of your marketing dollars to increase your marketing return on investment (ROI). In other words, market segmentation allows you to personalize your marketing campaigns toward your target market in a cost-effective manner.

When segmenting your market, your goal is to find a good balance between being too broad and too specific. If you focus your marketing efforts on too few or too specific consumer segments, you might be missing out on entire markets. For example, if you market your plant-based cheese exclusively to vegans but fail to target lactose-intolerant, health-conscious, or flexitarian consumers, you could be severely limiting your potential market. In contrast, if you try to include too many segments or make your segments too broad, you could be wasting marketing dollars on people who are not likely to be interested in your product. To state it simply, if you're trying to target everybody, you're going to have a difficult time reaching anybody.

Targeting

The targeting process involves evaluating market segments to determine which ones you would like to target. In other words, targeting involves identifying the specific segments that are most likely to become your next customers, and equally important, determining which segments you should not focus your efforts on. Market segments should be evaluated according to their potential for profitability, including segment size and growth, as well as their accessibility. For example, will consumers in this segment be receptive toward your marketing messages? Will a large financial investment be required to educate consumers in this segment or otherwise make them receptive to your messages? Are your competitors already targeting this segment?

There are various tools you can use to target ads to your desired consumer segments. Most social media platforms have built-in functions that utilize user and third-party data for ad targeting. For example, Facebook ads allows you to target ads based on demographic, geographic, psychographic, and behavioral data. Instagram, LinkedIn, Twitter and other social media platforms offer similar functionality. Search engines also provide ad targeting abilities. For example, Google Ads provides various targeting features, including remarketing, i.e., targeting users who have interacted with your ads before.



Positioning

Market position is the consumer's perception of a brand or product relative to its competitors. While you can't entirely control your brand's position since it ultimately lies in the eyes of the consumer, you can influence how consumers perceive your brand or product. This act of establishing the image or identity of a brand or product so that consumers perceive it in a certain way is called positioning. Cult Branding and CFI each provide more information on how to develop your market positioning.

You should define your brand's positioning in a concise positioning statement. There is a helpful formula for developing your brand's positioning statement: For X, we are the A who does B, because C. X=target audience, A=competitive frame of reference, B=unique value you offer, and C = reasons to believe. Or you could simplify it to: For [target audience], we offer [unique value], because [reasons to believe]. EquiBrand describes how to use this formula and offers a free positioning template.

To craft a compelling and differentiated positioning, you want to find the sweet spot where what matters most to your target consumers intersects with your unique brand attributes. When considering your brand's attributes, keep in mind that there are points of parity and points of difference. In general, your positioning, messaging, and marketing should focus on your points of difference, since these will differentiate your product and brand from its competitors.

In the food industry, since price, taste, convenience are key factors that consumers consider when choosing what to eat, it's essential that your brand be at least at parity with the category on these attributes. However, if you develop a product that, for example, tastes significantly better than the competition, then exceptional taste could actually be a point a difference. Points of difference should be closely associated with your brand in consumers' minds and set it apart from competitors. One way to test the "ownability" of the positioning is to use the brand substitution test. If your brand could be replaced by a competitive brand in any marketing tactic, such as an ad campaign, and work just as well, then the positioning is not distinctive enough.

A concept that is closely related to positioning is your unique selling proposition (also known as unique value proposition), which Entrepreneur defines as "The factor or consideration presented by a seller as the reason that one product or service is different from and better than that of the competition." In defining your unique selling proposition, it can be helpful to think in terms of jobs to be done. For example, what job is that product doing for the consumer? Or what problem is it solving?

While a unique selling proposition is broad, a positioning statement is more specific in that it communicates to a particular customer segment the aspects of the value proposition that are most important to that audience. Depending on which attributes are most important to consumers in each target market, you might position your products by specific attributes, benefits, usage occasion, or more. Since different consumer segments might value different things, you should develop messaging for each targeted consumer segment.

Perceptual mapping (also known as competitive mapping) is a useful tool for visually depicting your brand's positioning relative to its competitors. It can also be used to map the competitive landscape in a category to determine white spaces for your brand to fill. A similar tool is a competitive matrix. While a perceptual map uses an X-Y axis to compare brands across two features, and a competitive matrix uses a table with check marks to compare brands across more than two features. The competitive matrix is a particularly useful visual for the Competition slide of your pitch deck.

Brand Strategy

Once you've developed your competitive positioning, you're ready to start developing your brand strategy. But first, let's define what a brand is. Most people associate the term "brand" with things like logos, fonts, color schemes, brand names, and slogans. A brand includes all of these things, but it also consists of much more. A brand encompasses the entire experience your consumers and customers have with your company and product. It's not just a one-way communication with your audience—it also includes how your audience perceives and engages with you.

A strong brand strategy will help you to create brand equity, or the value created by consumer perception of your brand. Your brand strategy can also be used internally to guide strategic business decisions. For example, Volvo's brand is all about safety, so every decision the company makes, from engineering to messaging to imagery, needs to consider safety. Marketing MO provides this guide on how to create your brand strategy. Here, we've covered some of the key topics to consider when developing your brand strategy.

Naming

One aspect of defining your brand strategy is selecting a name. Your company name is an important aspect of your brand identity. As such, your company name (and names for specific products and product lines) should be selected to fit in with your overall marketing strategy.

Igor, a naming agency based in California, uses the following process for choosing a name:

- Competitive analysis
- Brand positioning
- Name/brand development
- Trademark screening and domain search

In addition to the steps above, GFI also recommends using consumer testing to determine how consumers respond to the name. Marketing MO provides a guide on how to select a brand name.

Logo Design

After you've developed your brand strategy and selected your name, you're ready to develop your logo and brand identity (e.g., business cards, letterheads). Because good logo design is fundamental to a successful brand launch, we recommend consulting with an individual graphic designer or design firm. If you have a clear concept but limited budget, you might consider using a freelancing service like Upwork, 99designs, or Fiverr.

A few questions to consider when you're having a logo designed include:

- You want a logo for the long-haul. Will it be as relevant in 10 years as it is today?
- Have you considered color symbolism carefully?
- Have you chosen a font that expresses your company's personality?
- Does the logo reproduce well at small scale (on a business card) or large (a billboard)?
- Does the logo work in black and white? Can it be "knocked out" in white?
- Does it work well in digital as well as print?

A vector-based program such as Adobe Illustrator should be used to create your logo. Be sure to ask for your logo in three formats: .EPS (this is the source file with vector-based artwork), .JPG (for use digitally), and .PNG (for use digitally where a transparent background is required).

Brand Architecture

After you develop your brand name and logo, you should focus on building out your brand architecture, which includes your brand story, brand personality, and brand messaging.

When considering these elements, remember that it is essential to create an emotional connection with the consumer. As an entrepreneur, you're in a position to deliver something that the big food companies can't fabricate: authenticity. Make sure you're taking advantage of your story by letting it shine through in your brand. Lean Labs provides a list of questions to consider when creating your brand identity.

One aspect of your brand messaging is your elevator pitch. This presentation and exercise from Adam Spriggs of Nucleus Maximus, a CPG marketing and packaging design company, is useful for developing an elevator pitch that can be used at trade shows, in your pitches to wholesale customers like retailers, foodservice outlets, and distributors, as well as in other B2B contexts.

Step 4: Develop Your Marketing Mix

After you develop your competitive positioning and brand strategy, you should determine the marketing mix that will be most effective for reaching your targeted consumers in each segment. Marketing mix refers to all of the marketing tools and tactics that a company uses to elicit a desired response in its target audience. Your marketing mix should be informed by your situation analysis, competitive positioning, and brand strategy.

The original model for conceptualizing the marketing mix is known as the 4 P's (product, price, place, and promotion). More recently, some models have added more P's, like people and process, to account for changes in the marketing landscape. Cleverism and Fieldboom each provide an overview of marketing mix. Refer to the Marketing Mix section of this manual for additional information about each of the "main" 4 P's.

Step 5: Build Your Marketing Plan

After thinking through your marketing strategy, you're ready to write a marketing plan that details how you will implement it, including the specific tactics you will employ. It should also outline how resources will be allocated between different aspects of your marketing mix, and more specifically, how you will divide resources between different types of promotions to create your promotional mix. This includes creating a marketing budget and calculating return on investment (ROI) for all activities identified.

Cleverism provides this guide to creating a marketing plan. The Balance provides additional advice on how to write a marketing plan.

XXVII. Marketing Mix

Your marketing mix is a key component of your marketing plan, and it's important to understand how the marketing mix fits into the rest of the marketing process. In this section, we'll take a more detailed look at the four main components of a company's marketing mix: product, price, place, and promotion.

These 4 P's are often conceptualized as how you get the right offer in front of the right person at the right place and time. By carefully crafting your marketing mix, you can help make this "right" scenario happen to achieve your marketing goals.

Product

Product is one of the main four aspects of the marketing mix. Product refers to the product or service that your company delivers to customers. Needless to say, the nature of your product will have an impact on your overall marketing strategy. Fieldboom provides a list of questions to consider about your product to help shape your marketing mix.

Price

Price is one of the main four aspects of the marketing mix. Price includes the cost that consumers pay for your product, as well as the cost your wholesale customers like retailers, foodservice operators, and distributors pay for your product. Your price should be aligned with other aspects of your marketing mix. For example, if your product is a B2B commodity, it needs to be priced competitively with similar commodity products. In contrast, if your product is a specialty good with strong brand equity, consumers will likely be willing to pay more compared to other items in your product category. Your distribution and promotional strategies should be informed by these differences in product and pricing strategy.

So how should you go about setting a price for your product? Most broadly, there are three types of pricing strategies, succinctly described in ProfitWell's Price Intelligently blog:

- Cost plus pricing
- Competitor-based pricing
- Value-based pricing

In order to ensure that your product is appropriately priced, you should utilize aspects of all three of these pricing strategies. Shelf Life's four part series on pricing walks through a framework that incorporates each of these strategies. This process can help you arrive at your manufacturer's suggested retail price (MSRP), which is the price at which you would like your product to be sold to consumers. Your MSRP should cover your cost of goods sold (COGS) (including ingredients, *"Most food product entrepreneurs assume that selling their item as a packaged product in brick and mortar stores is the only way to go. While it is a popular business model, it's not the only one. You should consider the pros and cons of each business model and which is the best fit for your product and goals before you launch."*

David Benzaquen,
Founder & CEO of PlantBased Solutions; CEO of Ocean Hugger Foods

packaging, labor), overhead costs (both fixed and variable), a margin for you, and margins for brokers, distributors, redistributors, retailers, and any other downstream business partners as required.

The Balance provides more information on how to calculate COGS. Note that margin is different from markup, and the food industry generally speaks in terms of margins. Be sure to be meticulous about accounting for all of your costs in your pricing—including trade promotions, taxes, travel, and more. Any operating expenses that you don't account for in your pricing will end up coming out of your profit. Gredio provides insight into how to price food products and Marketing MO provides this guide on developing a pricing strategy.

Keep in mind that since the MSRP is a suggested price, retailers may choose to sell your product for more or less than the MSRP. However, you should take steps to ensure that your product is sold for relatively the same price across sales channels. If you undercut your retailers by selling your product for $3.99 on your eCommerce website when it's sold for its MSRP of $5.99 through retailers, you could not only damage your sales relationship with those retailers, but you could also confuse consumers about the value of your product and disincentive them from purchasing at its appropriate retail price. To prevent this from happening, you should make an informed decision about your MSRP and commit to selling your product at that MSRP in any direct to consumer channels.

When pricing your products, discussing the market, determining incentive discounts, and talking to suppliers, you should avoid conversations and actions that could lead to antitrust concerns, even as an early-stage startup. Antitrust violations can lead to civil and criminal liability. You must always comply with all relevant federal and state antitrust law requirements, and steer clear of actions that could be the basis for practices such as price fixing, deceptive pricing, price discrimination, and predatory pricing. The National Institute of Standards and Technology (NIST) provides this Guide to U.S. Retail Pricing Laws and Regulations, including applicable laws in each state.

Place

Place is one of the main four aspects of the marketing mix. Place refers not only to the place (either physical or digital) where your consumers purchase your product, but the entire logistical supply chain that gets your product to the end consumer.

Channel Strategy

The highest-level decision that you'll have to make about the place aspect of your marketing mix is determining your channel strategy. Your channel strategy determines which sales channels (sometimes called distribution channels) you will use to sell your products and how much of your overall sales volume you expect to move through those channels.

There are four main sales channels in the food industry—retail, foodservice, direct to consumer, and business to business. In determining your channel strategy, you should consider the pros and cons in the next table, as well as the behavior of consumers in your target market. Where do they tend to do their shopping, and where are they most likely to purchase your product? Note that due to the demands of introducing a product into a new channel, manufacturers often find it best to focus on one sector (e.g., foodservice) or even one subsector (e.g., university foodservice) while starting out, then expand into other sectors if desired.

Model	Description	Segments	Pros	Cons
Retail	CPG products are sold through brick and mortar retailers to be eaten by the consumer at home.	Grocery stores, big box stores, natural markets, convenience stores, drug stores, dollar stores, club stores. Note that products may either be branded or unbranded, the latter of which is known as white label or private label.	• Established sales and distribution infrastructure • Access to retailer's audience for customer base • Opportunity to build brand loyalty since branding is consumer-facing	• High trade costs (e.g., slotting fees, trade shows) • High marketing costs (e.g., packaging design, advertising, brand building, distributors' marketing programs) • Low margins due to markup by retailers, distributors, and redistributors
Foodservice	Products are served at foodservice establishments; includes all "food away from home."	Non-commercial (institutions such as schools, universities, business & industry, hospitals, prisons) and commercial (restaurants, hospitality, grocers serving prepared foods).	• Established sales and distribution infrastructure • Access to foodservice establishment's audience for customer base • Lower marketing and trade costs compared to retail	• Low margins due to low price points (especially in non-commercial foodservice), markup by retailers, distributors, and redistributors • Little opportunity to build brand loyalty since branding is usually not consumer-facing (the exception would be brands like Impossible Foods, featured prominently in restaurants, though this requires investing in marketing)
eCommerce/ Direct to consumer (D2C)	Products are sold online and delivered to consumers.	Third-party eCommerce websites like Thrive and Amazon; self-controlled eCommerce websites such as Miyoko's Kitchen or Califia Farms.	• Opportunity to test new products before launching in other market segments • High margins due to lack of middlemen • Opportunity to build brand loyalty through direct interaction with consumers • No trade costs	• No established sales or distribution infrastructure (unless selling through a third-party website) • No established customer acquisition methods (unless selling through a third-party website) • High investment in marketing is required to build customer base
Business to business (B2B)	Products are sold to other businesses to be used as ingredients within other products.	Sell through B2B suppliers or directly to other manufacturers.	• Very low marketing and trade costs • Fewer customers are needed since purchase volumes are usually high	• No established customer acquisition methods (unless selling products through an existing supplier) • No established sales or distribution infrastructure (unless selling products through an existing supplier) • If product is a commodity, margins will be low and competition will be high

Source: Food Business Models and Channel Strategies presentation by David Benzaquen of PlantBased Solutions, delivered to the GFIdeas community in December 2017.

Distribution

This section primarily refers to distribution in the retail and foodservice sales channels. If you are selling direct to consumer, you will likely not interact with the distribution partners described here. Refer to the Selling via eCommerce section of this manual for more information about eCommerce distribution.

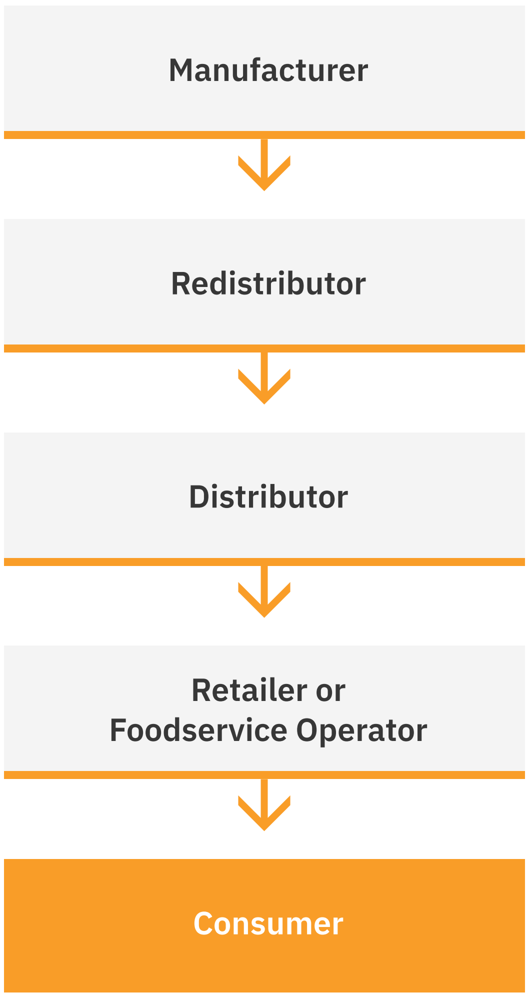
Manufacturers who are just getting started might choose to deliver their products to retailers or foodservice operators directly. In retail, this system is called direct store delivery (DSD). DSD can be an economical way to get your products into distribution in a local area, but you will outgrow it pretty quickly if you want your products to be widely available. Eventually, you will likely need to work with distributors. To help manufacturers identify potential distribution partners, GFI has compiled a directory of distributors, redistributors, wholesalers, and import/export companies.

Distributors

The role of distributors in the food industry is to warehouse products, take orders, and deliver products from multiple manufacturers to retailers and foodservice outlets where these products will be sold to consumers. Distributors often also perform merchandising functions on behalf of retailers, such as restocking and resetting shelves, managing POP materials, and monitoring inventory quantity and quality. Distributors also simplify the invoicing process on behalf of retailers by compiling invoices from multiple manufacturers. Without this service, manufacturers would be responsible for processing orders and billing each retailer separately, rather than simply sending invoices to the relatively small number of distributors they work with. Similarly, retailers would be responsible for paying separate invoices from each manufacturer whose products they carry.

Overall, distributors provide valuable services to manufacturers and retailers. However, it's important to account for the costs associated with these services. According to the Specialty Foods Association, retail distributors usually take a 20-30% margin, and foodservice distributors usually take a 10-12% margin. Distributors also usually expect trade promotions like free fill (i.e., free product), as well as separate allowances for slotting fees, spoilage, and promotional activities. These costs need to be accounted for in your P&L/income statement and should be reflected in your product's price.

There are many different types of distributors. Broadline distributors offer products across multiple categories and all three temperature zones (ambient, refrigerated, and frozen), while other distributors focus on specific food categories such as produce or "center of plate." Another distinction is that nationwide distributors operate on a national or even international scale, while regional distributors focus on a particular region or even a single metropolitan area.



Regional distributors typically serve small and independent grocery stores due to their lower order minimums. However, regional distributors often don't serve large accounts like natural or grocery store chains. Yet another difference is whether the distributor serves the retail or food-service channel. The top nationwide distributors of natural products in the retail channel are UNFI and KeHe. These distributors serve national natural chains (like Whole Foods and Sprouts) as well as grocery stores that carry natural items (like Wegmans, Kroger, and Stop & Shop).

On the foodservice side, the top broadline distributors are Sysco, US Foods, and Performance Food Group (PFG). UniPro is the largest foodservice distribution cooperative in the US and is comprised of independently-owned distributors that pay membership fees for access to UniPro's collective purchasing power. In addition to the third-party distributors that have been discussed so far, it's important to note that many retailers (e.g., Walmart) use a self-distribution model, meaning they have their own distribution infrastructure rather than working with external distributors.

Between product line, regionality, segments served, and sales capacity, there's a lot to consider when selecting a distribution partner. Perhaps the easiest way to narrow the field and decide which distributors might be the best fit for you is to think about which retailers and foodservice operators you'd like to sell your products through, and determine which distributors they use. For example, if you want to get into Whole Foods, UNFI and KeHe would likely be good distribution partners. If you're aiming for independent stores, a regional distributor might be a better fit.

Redistributors

To ensure that they are maintaining a certain turnover rate, most distributors have case minimums for how many cases their customers must order per week in order to continue stocking any particular product. Case minimums of five to ten cases per week are common for regional distributors and are usually higher for national distributors, except if they have an introductory program for new brands.

If a manufacturer wants to get into a distributor but doesn't have the sales volume to meet the case minimums, redistribution might be a good option. Redistributors specialize in compiling less-than-truckload (LTL) quantities from multiple manufacturers into truckload shipments to distributors. That way, distributors don't have to use up valuable inventory space on slow-moving items. Instead, these items are warehoused by redistributors and transported to distributors as necessary along with products from other manufacturers. Redistributors allow distributors to carry a wider variety of products and make these products available to their customer network.

Dot Foods is the largest redistributor in the US, with nine distribution centers serving all 50 states and over 25 countries. Dot Foods is used by Beyond Meat, Gardein, Daiya, and other plant-based companies. You can read more about Dot Foods in this brochure, as well as this guide for manufacturers. Alpine Foods is an example of a regional redistributor that serves the western US.

International Distribution
If you feel that international markets are a good fit for your product—and you're not already overwhelmed by selling in the US—there are various ways to sell your product internationally: through exporting, setting up a production facility abroad, or licensing your technology for someone else to produce it abroad. There are various considerations for exporting, including taxes, tariffs, currency risk, logistics, and more.

North Dakota State University provides an overview of the regulatory considerations for importing/exporting food products in the US. Organizations such as WUSATA (for the Western US), SUSTA (for the Southern US), and Food Export (for the Northeast and Midwest) can help you navigate the exporting process and may even provide financial support. For example, WUSATA reimburses US companies 50% for international marketing expenses and trade shows. Refer to the Consumer Testing section of this manual for additional considerations about naming and branding products for sale in international markets.

Promotion

Promotion is one of the main four aspects of the marketing mix. Promotion encompasses all the ways that a company communicates with its target audience to achieve its marketing goals. Cornell University provides an overview of promotion for food companies.

The promotional mix (also known as marketing communications mix) is the combination of various communication elements that a company uses to reach its target audience. Within each of these promotional elements, there are a variety of specific marketing tactics you may use. The five main promotional elements are:

- Advertising
- Public relations
- Sales promotion
- Direct marketing
- Personal selling

Since you won't have unlimited marketing dollars, you must decide how to divide limited resources between these different promotional elements to create your promotional mix. This decision should be informed by your promotional goals and overall marketing strategy. The Balance and Udemy both provide overviews of the promotional mix.

It's important to note that promotions can be directed toward *consumers* or *customers* as the target audience. The consumer is the person who consumes your product. Depending on your channel strategy, the consumer might purchase your product in a retail store, a foodservice establishment, or through an eCommerce website. The customer (also known as account or wholesale partner) is a business that purchases your product at a wholesale price and resells it to make a profit. In other words, customers are businesses in your downstream supply chain (e.g., distributors, redistributors, retailers, foodservice outlets).

Some types of promotions will be more effective at reaching customers, while others will be more effective at reaching consumers. Unless you're using a purely direct-to-consumer channel strategy, reaching your marketing goals will require that you use various methods to reach your target consumers and customers. One relevant example is shopper marketing, which involves leveraging insights into how consumers shop at retail to inform your marketing plan and in-store tactics, thus growing sales both for yourself and your retail customers.

This section includes information on the five main promotional elements and specific channels within each of those promotional elements. This should not be interpreted as an exhaustive list of marketing channels—rather, we've highlighted some that might be of particular interest to entrepreneurs. Storm81 provides this extended list of marketing channels, but keep in mind that no list can be completely comprehensive, since marketing strategies are limited only by creativity. For example, this article from WordStream Blog provides some examples of unconventional and unexpected marketing campaigns, sometimes referred to as guerilla marketing. Depending on its level of complexity, a marketing campaign might include one channel or multiple channels; however, it's important to consider the holistic plan.

Advertising

Advertising is a form of promotion that involves paying for space to promote your product or brand. At one point, advertising was thought of as a highly impersonal, mass marketed approach. Today, most advertising methods are highly targeted based on consumer data.

Most broadly, advertising can be broken down into traditional and digital approaches. The Balance describes the differences between traditional and digital marketing, as well as pros and cons of each.

Traditional Advertising

Traditional advertising channels include broadcast (e.g., TV, radio, cinema), print (e.g., newspaper, magazine, and industry publications), and public channels (e.g., billboards, posters). In this day and age, few food startups choose to devote significant resources to traditional advertising channels since digital advertising simply gets you more bang for your buck in terms of reaching your target audience.

Digital Advertising

Digital advertising includes all forms of advertising on the internet. As mentioned previously, digital advertising is highly targeted, meaning that you can choose with a high degree of specificity which types of users you would like to see your ads based on who you think will be most likely to purchase your product. Sprout Social provides this list of digital marketing tools that can help you more effectively reach your target audience.

There are three main pricing models for digital advertising:

- **Cost Per Mille (CPM)** – The publisher is paid based on how many times the ad is viewed.
- **Cost Per Click (CPC), also known as Pay Per Click (PPC)** – The publisher is paid based on how many times the ad is clicked on.
- **Cost Per Action (CPA)** – The publisher is paid based on how many times the ad is clicked on AND some additional action is taken (e.g., completing a transaction, signing up for a newsletter).

This article from BluAgile explains how these three main pricing models work, as well as a few less commonly used models. Wordstream also takes a deep dive into the cost of digital advertising on various platforms, including Google, Facebook, and Instagram.

Here, we've outlined a few different digital advertising channels, including search engine optimization, search engine marketing, display advertising, email marketing, content marketing, social media, and website.

Search Engine Optimization (SEO)

When you use a search engine like Google, Yahoo, and Bing, you'll see two types of results: organic (unpaid) results and sponsored ads that appear at the top of the search results. Search engine optimization (SEO) is the methodology of obtaining a high-ranking placement in the organic search results. If your website link is high on the list of organic search results for keywords associated with your product, you'll receive a greater amount of unpaid visitors through search. This type of organic (unpaid) traffic is considered highly valuable, as the person searching for your search terms is more likely to be interested in your product and further along the purchasing funnel. StartupResources.io provides a list of SEO tools, and Moz provides a Beginner's Guide to SEO.

Search Engine Marketing (SEM)

In contrast to SEO, which involves optimizing to get to the top of organic (unpaid) search results, search engine marketing (SEM) is the process of purchasing the sponsored ads that appear at the top of the search results. The most commonly used paid search platform is Google Ads (formerly Google Adwords), which is used to serve ads on the Google search results. Neil Patel provides this guide to using Google Ads. Like unpaid traffic, paid traffic is also considered valuable as the person searching for the desired search terms is likely to be further along the purchasing funnel.

Display Advertising

Display advertising is another paid form of advertising that appears throughout the web and mobile platforms. Ads exist in many different formats—text, images, flash, video, audio, and more. The main purpose of display advertising is to deliver general ads and brand messages to site visitors and to drive web traffic and brand growth. Display advertising can also be used to drive consumers in-store, and even highlight specific retailers where your product is available, or be geo-targeted based on regional availability. Adding a digital coupon to a display ad is another way to help drive consumers to retailers to purchase. Facebook, Twitter, and Google Ads represent a significant portion of all display ads online. Google Ads provides more information on display advertising.

Email Marketing

Email marketing is the act of sending emails, typically to groups of people, for commercial purposes. In its broadest sense, every email sent to a potential or current customer can be considered email marketing, whether the message aims to build trust, promote a purchase, share third-party services, etc. Messages usually deliver advertisements, requests for business, solicitation of sales or donations, and are meant to build loyalty, trust, or brand awareness. Email addresses are often acquired through your website, at events, and through content marketing. Kissmetrics provides a guide to email marketing.

Content Marketing

Content marketing is a strategic marketing approach focused on creating and distributing valuable, relevant, and consistent content to attract and retain a clearly defined audience and ultimately to drive profitable customer action. Content does not explicitly promote a brand but is intended to stimulate interest in its products or services, build brand equity and trust, and grow a community of brand followers, among other things. Relevant content includes blog posts, videos, podcasts, ebooks, and social media (see section below.) Neil Patel offers a guide to content marketing. Shopify's collection of eCommerce guides, which we've linked elsewhere in this document, is an example of content marketing.

Social Media

Social platforms have resulted in new and creative approaches that allow brands to interact directly with their consumer base and enact their corporate "personality," in real time in the public sphere. This technology provides a critical tool for receiving immediate and actionable feedback on messaging and products, activating early adopters and influencers, and learning more about the motivations and purchasing habits of your core consumers. Ideally, your company's social media is seamlessly interwoven into your marketing approach, encompassing media relations, PR, customer service, and more.

To determine your tone and social media platform(s) of choice, consider the demographics and interests of your target consumer. You can use demographic data sets on social media use to explore where your customers are likely to be spending their time online. Once you've identified your medium, it's your job to deliver content that not only communicates your brand ethos, but speaks to your customers and mirrors their story and desires. When creating and/or curating content for social media, consider making your primary goal to clarify the purpose of your content for your consumer, not for you.

By considering this first principle, your marketing efforts on social media can create brand ambassadors that will market for you and amplify your own efforts. In addition to the less tangible benefit of feeling like they are a part of your brand's mission, you can support your online fan base with loyalty rewards like discounts, giveaways, and advance access to products and company news.

But you don't need to confine your online presence to your own channels: You can also leverage partnerships with online influencers that your customers already follow and trust in order to increase your reach and credibility. On a past GFIdeas call, CJ Bruce of Chuck Joe, a natural foods digital marketing agency, presented on how to engage with social influencers and provided a variety of influencer marketing tools. Additionally, many journalists turn to social media to keep track of the latest news and find unique stories. Engaging with journalists' work directly on their preferred platform is a low-cost and high-value way to cultivate media relationships that could lead to story placement in mainstream outlets.

While optimal social media use requires real-time attention, tools like HootSuite and Crowdfire allow you to easily create and schedule content while monitoring your online channels. Moz, SproutSocial, and HootSuite's blog are good sources of information on best practices to optimize your business's social media presence.

Website

Before creating one, it is important to consider the intended purpose of your website. When you first create your website as an early-stage startup, the purpose might simply be to professionally represent your brand to target audiences like consumers, wholesale customers, and investors. In this case, a simple landing page and contact field might suffice. You can always build out additional features later.

Depending on your budget and overall strategy, you might also decide that you want your website to serve different purposes, like generating sales leads or selling products. Once you decide what you want your website to achieve, you can build a site that optimizes for the conversions relevant to that purpose (e.g., an eCommerce website would want to optimize for conversions such as purchasing a product or adding a product to the cart). Moz and Neil Patel both offer guides to conversion optimization.

There are a number of services that can help you build a business or eCommerce website, such as Shopify, Weebly, Wix, and Squarespace. If you'd like to add a further layer of customization, you might benefit from hiring a UI/UX designer to design a custom website. Web designers and marketing agencies can be found through your personal network, through online research, and through freelancing services like Upwork.

Once you have your website up and running, you should use tools like Google Analytics to understand who is visiting your website, how users are finding your website, what content resonates most with users, and more. Since Google Analytics can provide you with demographic and psychographic information about your website users, it's an important tool for segmenting your market. Moz provides this beginner's guide to Google Analytics.

Public Relations (PR)

In order to understand how PR fits into the rest of your promotional mix, it's helpful to understand the difference between owned, earned, and paid media:

- **Owned media** includes original content that is created on channels your company controls such as your website or social media platforms. Companies often use content marketing to create owned media content like articles, e-books, videos, and webinars.
- **Paid media** includes paid advertisements like search engine marketing or promoted social media posts.
- **Earned media** includes content and conversation that has been voluntarily created by others. Examples of earned media include reviews, testimonials, social media engagement (e.g., likes, shares, mentions, retweets), media coverage, and word-of-mouth.

Owned, paid, and earned media can often be combined to create better results. For example, you might write a blog post (owned), share it on Facebook to generate engagement (earned), and make it a sponsored post to increase its reach (paid).

To determine your company's publics, consider these five required characteristics:

- *They must be distinguishable in some way (a recognizable grouping of individuals),*
- *They must be homogeneous (share common traits and features),*
- *They must be important (can significantly impact your company, brand, or product),*
- *They must be large enough to warrant strategic attention, and*
- *They must be accessible, meaning they are a group with which you are able to interact and communicate.*

One disgruntled customer is not a public. One disgruntled customer who gets a lot of other people upset with your company starts to become a public.

One way to conceptualize PR is as the practice of monitoring and managing earned media. In other words, PR is a form of promotion that manages the spread of information between an organization and the public. Your public relations strategy should aim to identify and influence how key stakeholders feel about your brand/product.

Why is PR important? For one, consumers view earned media as the most authentic form of marketing. Thus, earned media is a powerful tool for building trust and credibility among consumers and other key audiences. Reviews, testimonials, media coverage, and word-of-mouth recommendations are influential forms of social proof that can help advance consumers down the purchasing funnel. Due to the ubiquity of social media in our society, earned media is an important way to expand your reach and brand awareness. It can also lead to better conversion rates and ROI compared to paid forms of marketing.

Besides the benefits that good PR can bring to your company, it's also worth noting the negative effects that bad PR can have on your company. For all these reasons, it's worth devoting time and resources to developing a PR strategy, which should be outlined in your marketing plan. You should also develop a strategic plan for each PR campaign you plan to implement, including identifying how the success of the campaign will be evaluated.

When it comes to PR, you have two choices: hire a PR firm or do it in-house. As a startup, there are a number of compelling reasons for doing PR in-house. The obvious benefit is that it saves money, but it also can lead to better outcomes in the long run. No matter how informed they are, a third-party PR firm can't authentically represent your story as well as you can, and authenticity goes a long way when trying to engage reporters and consumers. Fortunately, there are a lot of tools that can help you learn how to do your own PR. For example, Neil Patel provides this guide to startup PR and list of PR tools.

When managing your PR, it can be daunting and abstract to think about your company's relationship with the public in general. Just like the act of segmenting your market, you should segment the public into groups of publics, or stakeholder groups. Consumers are only one of many "publics" (i.e., groups of people) to be considered. Other publics might include investors, retailers, foodservice operators, and the media. Identifying your publics will help you tailor your messaging to resonate with each of these groups.

Bright Network explains the different types of PR, and we've provided some additional context below. Note that social media is both a form of digital advertising and a form of PR due to its paid and earned media components. Refer to the Social Media section of this manual for more information on social media.

You can use PR metrics to conduct ongoing monitoring activities like social listening, or you can use them to evaluate the success of specific marketing campaigns. Molly Borchers provides insight into how you can use PR metrics to measure ROI on PR activities, and Heidi Cohen provides this list of earned media metrics. For more information, refer to Onboardly's overview of PR metrics, the list of PR metrics from Marx Communications, and Brandwatch's tips for measuring owned, earned, and paid media.

PR Monitoring

Across all types of PR, you should have a focus on monitoring and evaluation. Monitoring what's being said about you on social media, in the news, and in other outlets serves a number of purposes, including providing insight into what types of messaging and content resonates best with your target audience, gathering consumer feedback about your product and brand to inform future product development, and staying on top of issues that if left unchecked could turn into full-blown PR crises.

There are various metrics you can use for PR monitoring, but the Public Relations Society of America (PRSA) defines these five key metrics:

- Engagement
- Impressions
- Item
- Mention
- Reach

These are just a few of the quantitative metrics that allow you to measure earned media. However, remember that more is not always better. For example, if a particular social media post generates lots of engagements but the content within the reactions or comments is largely negative, you need to be able to understand what's making people upset so you can take steps to fix it. Thus, in conjunction with quantitative metrics, you'll also need to use qualitative metrics like sentiment—the attitudes, emotions, and opinions your audience expresses about your product or brand.

Social listening involves monitoring online conversations to understand what consumers and other audiences are saying about your brand. Hootsuite provides this guide to social listening. Additionally, iProspect provides this overview of sentiment analysis tools that can help you capture and analyze these metrics, and Hootsuite offers a list of tools specific to social media sentiment analysis. Since Google Alerts is free, you should at the very least set up alerts for your company (including common misspellings and abbreviations), your key competitors, and key words that describe your market. Then, you can determine what additional paid tools you might need for PR monitoring.

Media Relations

One type of PR is media relations, which involves activities like writing news releases, building relationships, pitching stories, guest blogging, conducting interviews with journalists, and participating in events like pitch competitions that are likely to generate news coverage. As a form of earned media, press coverage is important for getting on consumers' radar and earning their trust, as well as demonstrating traction to key stakeholders like investors.

Dmitry Dragilev provides this 10-step process for startups to get news coverage, Beckah Grant provides tips for pitching reporters about your startup, and Neil Patel offers this guide to startup PR. GFI also has expertise in PR strategy and can help you think through your approach.

Corporate Social Responsibility (CSR)

CSR is the act of assessing the company's social, economic, and environmental impacts, and taking steps to reduce negative impacts and increase positive impacts. CSR is considered a type of PR because it doesn't occur in a vacuum—consumers take notice of brands' ethical practices, and are increasingly factoring this information into their purchasing decisions.

A Deloitte report commissioned by FMI and GMA found that evolving value drivers, including health & wellness, safety, social impact, experience, and transparency, are becoming more important drivers of consumer behavior. Additional research from Nielsen shows that two-thirds of consumers globally are willing to pay more for sustainable goods, and this number jumps to nearly three-quarters among millennials. Conversely, research from Mintel shows that 56 percent of US consumers stop buying from companies they believe are unethical.

Successfully implemented CSR efforts can help raise brand awareness, build trust with consumers, increase your competitive advantage, and ultimately improve your bottom line. A report from Unilever found the global market for sustainable goods is $2.7 trillion, and more than one in five (21%) consumers said they would actively choose brands if they made their sustainability credentials clearer on their packaging and in their marketing.

For most plant-based and clean meat companies, having a strong focus on CSR is a natural fit. However, your CSR efforts must be implemented in a way that's smart. For example, if you go overboard with environmental messaging or imagery, you could end up being perceived as a niche, "hippie" product and alienate more mainstream, flexitarian consumers.

Ripple is an example of a plant-based brand that has a strong focus on CSR. This focus is a core component of their brand identity—their website, social media, and overall messaging strongly reflect their intent to improve sustainability. They even commissioned a life cycle assessment to determine the environmental effects of Ripple compared to other plant milks. However, notice that the environmental information is presented in a way that is well-balanced with other attributes. For example, the product description for Ripple Original uses environmental language in combination with indulgent words like "rich," "creamy," and "satisfying." In other words, good CSR is a core part of their strategy, but it's not the only thing they bring to the table.

There are various strategies that food companies might use in their CSR programs, such as building a sustainable and transparent supply chain, donating surplus goods and services, and building a diverse workforce with a responsible business culture. For additional guidance on how you can implement a CSR program for your company, refer to Silicon Valley Community Foundation's guide on how startups can use CSR to deliver purpose and profit.

Public Affairs

Public affairs is a type of PR that involves managing the company's relationship with politicians, governments and other public decision-makers. Public affairs strategies might include building relationships with government officials, and conducting lobbying activities around particular issues.

Key stakeholders such as trade organizations, think tanks, and nonprofits often engage in public affairs activities in conjunction with or on behalf of companies or industry sectors. For example, GFI is currently working on a number of issues relevant to startups, such as labeling of plant-based and clean meats and the inclusion of plant-based foods in child nutrition programs. It can be helpful for companies to build relationships with these partner organizations to help strengthen engagement with policymakers.

Crisis Management

Crisis management is public relations that involves strategically managing issues that have the potential to seriously impact your business. Examples of situations that might require crisis management include regulatory hurdles or scrutiny, food safety issues, product flaws, product availability issues, lawsuits, valuation cuts, leadership departures or scandals, attacks from issue groups (e.g. anti-GMO activists criticizing the way a company's product is produced, human rights activists calling out issues in a company's supply chain, or vegans calling for a boycott after a company's acquisition by a non-vegan company or after featuring photos of the company's product served alongside animal-derived foods), or anything that could be viewed negatively by the public.

Jonathan Bernstein outlines the 10 steps of crisis management. Since prevention is always better than damage control, the first step in crisis management is to take steps to anticipate crises before they happen. This includes using PR monitoring tools like social listening to constantly monitor online conversations and sentiment and assess risk to your product or brand, ideally catching a potential PR crisis before it escalates. Other steps in the process include establishing a crisis management team, training spokespeople, determining how information will be disseminated, and identifying key stakeholders.

For additional information, refer to Forbes' guidelines for crisis management. If crisis management is executed well, you may even be able to turn a potential crisis into an opportunity to connect with your consumers and encourage brand loyalty.

Employee Relations

Employee relations is a type of PR that involves managing the relationship between a company and its employees. Maintaining open and honest communication with employees is critical for ensuring staff happiness, retention, and peak performance. However, employee relations isn't just about making sure things run smoothly internally. It's also a powerful tool for reaching your other audiences through your employees. By training employees to be true ambassadors of your brand, you can help strengthen consumer perception of your brand and avoid customer service issues that could drive customers away. Harvard Business Review discusses how to create a living brand to help ensure that your employees reflect the brand's core values in everything they do.

Sales Promotion

A sales promotion is used to promote a product for a limited amount of time. While consumer sales promotions are directed toward consumers, trade promotions serve to motivate your retail, foodservice, and distribution partners to purchase and sell your products.

Consumer sales promotions include price promotions (also known as price discounting), coupons, gift with purchase, samples, contests, sweepstakes, money refunds (or rebates), frequent shoppers or loyalty incentives, and point of purchase (POP) materials.

Trade promotions include allowances and discounts, cooperative advertising, sales force training, and free goods (also known as free fill). Trade promotions may be introductory (to generate interest in a new product), recurring (to stimulate the market on a regular basis), or tied to a specific activity (to encourage that activity). Marketing91 provides an overview of trade promotions, and Retail Path provides a great overview of trade promotions in retail. Nielsen also provides insight into how your product's category and other features might affect the effectiveness of different types of trade promotions. The Specialty Food Association's SFA Basics textbook provides additional information about trade promotions.

In retail, trade promotions—like cooperative advertising allowances, in-store demos and sampling, consumer promotions, coupons, and POS materials—are often expected by buyers. Most retailers also charge some sort of product introduction fee or recurring placement fee when food manufacturers want to place products on their shelves. These fees are often called slotting fees, and can take the form of free fills (specific amount of free product), buy-outs (paying to clear out other products to make way for your own), favorable payment terms, purchasing allowances, and more.

Many food retail chains use shelf placement diagrams (often called planograms) to allocate shelf space within categories. Large brands often pay for the most prominent shelf space at eye level, while private label brands from the store are often highlighted as well, leaving cheaper and newer brands the highest, lowest, or most hidden shelf space. There are generally no slotting fees when selling to foodservice customers.

You will need to develop a variety of printed and digital sales materials to present your brand to your wholesale customers (e.g., retailers, distributors), and in some cases, consumers. It's important that your sales materials appear professional and reflect positively on your brand. Therefore, we recommend hiring a professional photographer to take high-quality photos of your product, as well as hiring a graphic designer to design the materials. Shelf Life provides this overview of sales materials, including some that we'll cover in the next few paragraphs: sell sheets, catalogs or brand books, point-of-purchase materials, and samples packs.

Sell Sheet

A sell sheet (sometimes called a line sheet) is a one-page (front and back) document that provides information about your product line and ordering procedures to potential buyers, including UPCs and product specs. You should create a PDF version of your sell sheet for sending via email, and also bring printed copies to sales meetings, trade shows, and anywhere else you might encounter buyers. Gredio provides instructions for how to make a sell sheet, including this example sell sheet from Green Mountain Mustard.

Catalog/Brand Book

Like your sell sheet, the intended audience for your catalog/brand book will be buyers (not consumers). While a sell sheet provides only the necessary information for ordering your products, your catalog provides a more in-depth look at your brand. Not every company has a full-size catalog—sometimes companies use alternative formats like multi-fold cards that can be easily handed out at trade shows or other events. Shelf Life provides this overview of catalogs.

Point of Purchase (POP)

POP is collateral that is distributed or displayed at the consumer's point of purchase (usually in-store). Shelf Life provides this overview of POP materials. POP materials might include signage, tags, or POP displays, which are standalone display units that serve two functions: to stock your product and serve as a prominent in-store advertisement to consumers. This blog post from ProCorr (a POP display company) provides an overview of different types of POP displays. POP materials are most commonly used in retail, but they can also be used in foodservice. For example, Impossible Foods and Beyond Meat have both been known to serve their burgers with branded toothpick flags.

Product Sampling

Product sampling is an important type of sales promotion, not only for building consumer sales, but for gaining customers like retailers, foodservice operators, and distributors, as well as securing investment. It's also a useful tool for obtaining consumer feedback that you can use to inform product development. For all these reasons, you should have substantial sampling budget in your marketing plan, even though it may seem expensive.

You should always use good food safety practices when sampling products. Food safety mistakes like touching a product with your bare hands or improper temperature control could easily turn consumers off from your product or ruin an otherwise productive sales meeting with a buyer. University of Minnesota Extension has a number of resources on safe food sampling.

Sampling to Consumers

There are a few different types of consumer product sampling strategies. In-person sampling is the traditional method used by the food industry. Opportunities for in-person sampling include in-store sampling, events such as food festivals, and donating products to groups or organizations that represent your target consumers. One advantage of in-person sampling is that it can be performed in locations where consumers can purchase your product on site. Supermarket News and New Hope Network provide some best practices for in-store sampling. Note that if you are conducting in-store sampling, the retailer might require that you go through their third-party sampling agency rather than hiring your own sampling staff or using your preferred sampling agency. In these cases, it is especially important to provide clear written guidance on how to cook and serve the product to avoid inconsistency in product preparation and help ensure a better consumer experience.

Beyond in-person sampling, technology has enabled innovative ways of reaching consumers with product samples. Redpepper's Guide to Product Sampling in the Digital World includes an overview of different types of sampling, case studies of brands that have successfully implemented digital sampling campaigns, and an appendix of specific sampling tactics with examples.

Regardless of what sampling strategy you're using, be sure to ask consumers for feedback whenever you're handing out products. Asking simple questions, like "What do you think?" or "How do you like it?" will likely lead to some helpful responses. You can also ask more specific questions, like "What do you think of the texture?" or "Is it too salty?" if you want to drill down into specific features. You should then use this feedback to inform your product development.

You can even test different versions of the product to answer questions, like "Does substituting X ingredient with a less expensive alternative really make a difference in the flavor?" or "Does X processing step lead to better texture?" Using this consumer feedback is a great way to get your product market-ready in a short amount of time. Gredio provides these tips for how to market-test your product, and Accion also provides advice on consumer testing.

Some examples of successful consumer product sampling efforts include Beyond Meat's sampling event on Capitol Hill and partnership with the Economist to provide free Beyond Burgers via the Economist Food Truck. Increasingly, manufacturers are shifting toward offering full-size samples, such as an 8-oz. bottle of Honest Tea or a full Beyond Burger, rather than sip-size or bite-size samples. While this type of sampling is more expensive per consumer, it also creates a better consumer experience of the product, and is likely to inspire more social buzz if the samples are presented in a visually appealing way. Nutpods founder Madeline Haydon provides advice on how to use targeting to make your sampling efforts more effective.

Sampling to Wholesale Customers and Investors

You should always bring samples to sales meetings with retailers, foodservice operators, distributors, brokers, investors, or other business partners. If these meetings occur digitally, you should offer to send samples via mail prior to the meeting. Whenever you send samples via mail, you should include a set of materials along with the product samples. This box of product samples and sales materials is called a samples pack. It should include your sell sheet, and you might also include a catalog, handling information, a product knowledge sheet, and display information as applicable. Shelf Life provides an overview of samples packs. Aside from mailing samples and bringing them to in-person meetings, another opportunity for B2B sampling is to get a booth at a trade show.

"At Good Catch, when we first wanted to spotlight our tuna products, we did not get a booth. Instead we rented an Airbnb near the shows (in our case, Natural Products Expo West and Fancy Foods Winter Show) and invited select guests for private tastings. This gave us time for private, one-on-one conversations and allowed the guests to focus solely on our products. We had enormous success is doing this and plan to do it every few years when new products are pre-launch (buyers love an insider look). This whole plan cost us about 1/5 compared to getting a booth, and the results were excellent. But make sure your rental is within close walking distance to the event or no one will show up."

Chris Kerr,
Co-CEO of Good Catch Foods; Investment Manager of New Crop Capital

Trade Shows

Trade shows (also known as expos) bring together virtually all the players in the food industry, from food manufacturers like you, to buyers, investors, brokers, distributors, co-packers, product developers, ingredient suppliers, investors—you name it. Exhibiting at trade shows provides you with an invaluable opportunity to meet these key players, get your product in front of them, form partnerships, and drive sales. It can also help create buzz around your products, especially if you win an award or pitch competition during the event. Another benefit is that most trade shows provide educational sessions featuring key industry players as speakers.

Trade shows are expensive, and costs can add up quickly between the show fee, booth design, product samples, printed materials, travel, and more. When determining whether to attend a trade show, it's important to carefully weigh the costs versus the potential benefits. You might not immediately recoup your costs, but keep in mind that just one key connection could make the entire event worthwhile in the long-term. This blog post from Gredio walks through the costs incurred by a specialty mustard brand when they decided to exhibit at the Summer Fancy Food Show.

When determining which event to attend, you should consider your goals for the show and how the audience for that event aligns with those goals. In other words, you should select an event that focuses on the market you seek. If you are targeting the foodservice market, then the National Restaurant Association Show is a key event.

For the natural CPG market, Natural Products Expo is excellent, and it has two shows: Expo West and Expo East. Expo West is about triple the size of East and is the biggest natural products trade show in the world (the show fee is reflected in this). Other big trade shows for specialty food CPG brands are the Summer Fancy Food Show and Winter Fancy Food Show, both hosted by the Specialty Foods Association. Refer to GFI's events calendar for a more complete list of conferences, expos, pitch competitions, workshops, and meetups for entrepreneurs creating innovative food products.

This article from Entrepreneur provides advice for getting the most out of trade shows, as does this blog from Both Sides of the Retail Table about how to maximize your success at trade shows. Expo West also provides some tips for first-time exhibitors.

Direct Marketing

Direct marketing is a type of promotion that involves communicating with consumers directly through mail, email, or phone marketing. Direct marketing is often used to send coupons and other sales promotion materials directly to consumers. Shopify provides a guide to direct marketing, and The Balance provides more information on direct marketing.

Personal Selling

Personal selling is a type of promotion in which a salesperson proactively approaches customers to make sales that would otherwise not have been made. For early-stage startups, it's often the founder who takes on this salesperson role, though as your company grows, you will likely want to hire additional in-house sales staff or brokers. In comparison to some of the other promotion types, personal selling is time- and resource-intensive since it involves researching prospects (i.e., potential buyers), fostering one-on-one relationships with buyers, delivering sales presentations, either virtually or in-person, and performing follow-up as needed to close the sale and continue the relationship.

Since it is expensive, personal selling is not commonly used to sell products to consumers. However, personal selling is an essential tool for reaching high-volume customers like retailers, foodservice outlets, and distributors, since the return on investment can be worth it.

Boundless Marketing provides this overview of personal selling, and Marketing Teacher provides a five-step approach to personal selling.

Here, we discuss some considerations for personal selling in the retail, foodservice, and eCommerce channels.

Selling to Retail

Before we proceed, let's define another term from this glossary from Shelf Life. A buyer (also known as purchaser) is a representative of a wholesale customer (e.g., retailer, foodservice operator, distributor) who is responsible for purchasing within a specific product category. Buyers can be classified by their sales channel—for example, a buyer within retail might be referred to as a retail buyer.

Retailers typically have individual buyers or teams focused on particular food categories such as dairy, eggs, pet food, etc. Retailers manage each category as its own business unit, seeking to maximize the profit from that category by finding the ideal mix and placement of products. Most stores will have a particular target for turnover (how much of each product is sold per store on a daily or weekly basis) per category.

Larger retail chains often have specific category review periods once or twice per year, when the category is evaluated and the product mix and positioning strategies are adjusted. Be sure to note when the retailers you want to sell to are doing their relevant category reviews; if you miss the review, you might have to wait months before you have another chance to get your product onto their shelves. Smaller retailers are usually more flexible and may not even have scheduled category reviews.

This article from HAX provides insight into how to pitch to a retail sales buyer, including what information should be in your retail sales pitch deck. Authors of the Both Sides of the Retail Table blog provides some helpful suggestions on how to prepare for a retail sales pitch, what to include in your retail sales pitch, how to capture buyers' attention, and what not to do when pitching to a retail buyer. The SFA Basics textbook includes additional information about preparing for a retail sales pitch. Make sure you bring samples to your meeting with the buyer, including prepared products for tasting as well as packaged products for viewing, holding, etc.

Before you contact a potential retail buyer, it's important to do your research on them. You should research the company as well as the individuals who are the retail buyers for your product category. Some questions to ask include: Who are their distributors? What are their sales volume requirements? Who are their competitors, and what makes them different? You should also visit their stores to understand what products they carry in your category and how your product fills a gap in that lineup. You should also make sure you know the answers to common questions that buyers ask about products. For example, what is its wholesale price, MSRP, and gross profit margin? What is its shelf life? What is its sales history in other stores? How many units do anticipate it will sell per week? Gredio provides a list of other questions retail buyers will likely ask.

The retail buyer's job is to find products that will lead to increased sales for their category as a whole. If your product will only source sales from competitive products, it doesn't help the buyer meet their goal to grow category sales. Thus, when you meet with the prospective buyer, it's your job to convince them that your product will increase total category sales. There are three main ways to do this: bring new buyers into the category, get existing category buyers to buy more, or increase the average dollar ring of products in the category. You should prepare a retail sales pitch deck for this meeting (note that this is not the same as the investor pitch deck).

If the retail buyer is impressed with your pitch and product, you will move forward into negotiations. Retailers typically ask for trade promotions like markdowns, exclusivity, and slotting fees, which are usually negotiable. After you strike a deal with the buyer and successfully obtain shelf space, you need to make sure your product stays on shelf. If your product isn't selling enough to meet the expectations of the retailer, they will likely drop your product to make room for something else. You need to have a strong marketing plan in place to ensure that your product turns at least as fast as other products in the category. This data can be obtained by Nielsen, IRI, or SPINs. If you see it's not selling as fast as it needs to, you can increase the consumption focused tactics in your marketing plan.

Another risk is that your product sells too well and you can't keep up with out-of-stocks. This situation will also likely result in your product being dropped, since empty shelf space means lost sales for the retailer. Before you even approach a retail buyer, ensure that you have forecast accurately and have sufficient production capacity to meet anticipated demand. This article from the authors of Both Sides of the Retail Table offers more advice on how to keep your product on the shelf.

Let's provide some further insight into Whole Foods since so many established and growing plant-based brands have gotten their starts there.

Whole Foods' buying decisions are mostly centralized in the company's Austin, Texas, headquarters, but like most retailers, they allow companies to enter solely into one local area (e.g., Metro NYC) or region (e.g., Northeast) without the expectations and demands of a national rollout.

Miyoko's Kitchen, Sweet & Sara, Sticky Fingers, Kite Hill, and many other plant-based brands launched locally in Whole Foods prior to expanding nationally. If you prove successful in one area, Whole Foods will work with you to expand into new regions, and even has a loan program to help you scale production. Meg Carlson, CEO of Melt Organics, provides advice on how to get into Whole Foods.

Most major retailers provide information on their website for potential suppliers. For example, Whole Foods, Publix and Safeway share their policies and guidelines for how to become a supplier, including contact information, meeting request procedures, and required forms. Be sure to thoroughly review this information before approaching the retailer and follow all required procedures. You might also consider signing up for a service like RangeMe, which connects retail buyers with suppliers.

Selling to Foodservice

Before we jump into foodservice sales, let's go over the structure of the foodservice industry. Most broadly, the foodservice industry is divided into two sectors: commercial and non-commercial.

- **Commercial foodservice** includes for-profit ventures such as restaurants (full service and limited service), business and industry (e.g., corporate cafes), travel and leisure (e.g., resorts, cruise ships), and retail foodservice, which includes restaurants or prepared food counters within grocery stores, convenience stores, and other retailers.
- **Non-commercial foodservice** includes venues where food is served as a secondary function of an organization. Non-commercial foodservice includes K-12, colleges and universities, health-care (e.g., hospitals, long-term care, senior living), prisons, and military.

This presentation describes the key differences between commercial and non-commercial food-service. IFMA's Foodservice Landscape report provides an overview of different foodservice channels, including their sales volume and other metrics. Bill Stewart's foodservice landscape presentation also provides an overview of the foodservice industry.

Now, on to sales. The process for personal selling in foodservice is similar to retail. Start by doing your research on the potential buyer. Study their menu and come prepared with ideas on how your product could fit into it. If the account is an independent restaurant, you should schedule a meeting with the chef or manager. Be prepared to discuss the product, pricing, ordering, delivery, and other logistics. As always, don't forget to bring product samples. If the buyer is a larger account like a chain restaurant, stadium, resort, cruise line, etc., you should find out who the food and beverage buyer is and schedule a meeting with them.

If the account is a non-commercial venue, find out who manages operations at that institution. Non-commercial foodservice establishments can either be independently operated (referred to as self-operated or self-op) or operated by a third-party foodservice management company. If a foodservice management company is responsible for operations, you should follow their procedures for scheduling a meeting to pitch your product. The largest foodservice management companies are Compass, Aramark, Sodexo, Delaware North, and Elior North America. Bon Appetit is a subsidiary of Compass that is particularly friendly toward plant-based foods and serves universities and corporations. Food Management's Top 50 Report highlights the top 50 foodservice management companies each year.

Some third-party eCommerce websites include Amazon, Instacart, Shipt, FreshDirect, Peapod, Google Express, Direct Eats, Thrive Market, and Walmart. Here, we provide some additional insight into selling food on Amazon, since it is the current leader in the online grocery market with 18% market share.

If you have the production capacity and demand, partnering with a foodservice management company can be a great way to expand your reach within foodservice. For example, when Just (formerly Hampton Creek) partnered with Compass in 2015, it enabled the company to get into cafeterias, restaurants, and other foodservice establishments nationwide. At the time, CEO Josh Tetrick called Compass "the most important partner for us because of its scale and shared philosophy."

Foodservice operators are increasingly using online ordering platforms like BlueCart, SimpleOrder, and Dine Market. Order management platforms connect foodservice customers like restaurants with multiple suppliers, allowing multiple vendor relationships to be managed on the same platform. From the buyer's perspective, these platforms make it easier to try new products without having to fill out a new order form and manage billing with a new supplier. From the seller's perspective, these platforms can help with foodservice customer acquisition and simplify the invoicing process. Thus, if your target customers are using one of these platforms, you might benefit from joining.

Selling via eCommerce

In eCommerce, most of your promotional mix will likely consist of consumer-facing marketing strategies such like digital advertising. However, if you're planning to sell your products on a third-party eCommerce website, you'll need to perform some personal selling to get that website to sell your product.

First, let's cover some eCommerce background. eCommerce is the buying and selling of goods and services online. eCommerce is becoming an increasingly important channel as more consumers are purchasing more food and beverage products online. A study by Food Marketing Institute and Nielsen predicts that by 2022-2024, online sales of groceries could reach $100 billion, which is equivalent to every US household spending $850 online annually for food and beverage. This same study predicted that in five to seven years, 70% of consumers will be grocery shopping online.

While some companies (e.g., Purple Carrot) might choose to sell products exclusively through eCommerce, others (e.g., Miyoko's Kitchen) might choose to sell online in addition to traditional channels like retail and foodservice to help boost sales. You can use different platforms for selling your products online, including your own eCommerce website or third-party platforms. Some third-party outlets purchase products wholesale from manufacturers, while others never take ownership of the inventory, but rather rely on manufacturers to dropship orders to consumers.

Amazon

In the broadest sense, there two ways to sell your products via Amazon. One option is to sell your products *on* Amazon via Seller Central; the other is to sell your products *to* Amazon via Vendor Central. The main difference is who takes ownership of the product. In the Seller Central model, you own the inventory until the customer receives it, while in the Vendor Central model, Amazon takes ownership of the product once they receive it. Within the Seller Central model, you have the option to choose between fulfillment by merchant (FBM) or fulfillment by Amazon (FBA).

In the FBM model, you manage shipping, returns, and customer service. In the FBA model, you send the inventory to an Amazon Fulfillment Center and they manage shipping and returns, but you still own the inventory until the customer receives it. In the FBA model, your product listing will say, “Sold by [you] and Fulfilled by Amazon.” Your products may be eligible for Amazon Prime under the FBA model.

In the Vendor Central model, you sell your products wholesale to Amazon. In this model, your product listing will say, “Ships from and sold by Amazon.com.” Vendor Central also gives you access to Amazon Prime, as well as food-specific programs such as Prime Pantry and AmazonFresh. This article from CPC Strategy describes the difference between Amazon Fresh and Prime Pantry. Unlike Seller Central, Vendor Central is an invite-only program. Note that Amazon previously offered an option called Vendor Express that did not require an invite, but it has been discontinued.

To get an invite to Vendor Central, sellers usually have to have demonstrated success via Seller Central. However, since it isn’t possible to sell fresh and frozen products through Seller Central, Amazon created an online application for AmazonFresh. Amazon also has a program for startups called Amazon Launchpad, to which you can apply online. To get a better understanding of the pros and cons of Seller Central and Vendor Central, refer to this infographic from Bobsled Marketing and this article from Ignite Visibility.

Shopify’s guide How to Sell Your Products on Amazon is a useful resource for navigating the process of selling via Amazon. Shopify also offers a whole collection of guides that provide insight into different aspects of eCommerce.

Selling to Distributors

As described in the Distributors section of this manual, there are many different types of distributors, and you’ll need to decide which would make the best strategic partners for your company. Once you home in on a specific distributor you’d like to approach for sales purposes, you should follow their new supplier procedures, which are usually posted to their website (e.g., UNFI’s New Supplier portal, information for new suppliers, and list of required forms and information). Once you’ve filled out the appropriate forms, the buyer for your product category will set up a meeting if they are interested in learning more.

At this meeting, you will be expected to give a presentation to the buying committee and/or sales staff. Note that your distributor pitch deck will be different from your investor pitch deck and your retail sales pitch deck since it should contain the most important information for distributors—e.g., information on your product line (including ingredients, certifications and distinguishing factors from other products in the category), retail and consumer demand, marketing and promotional strategy, packaging, shelf life, minimum order quantity, pricing, discounts, payment schedule, and production capacity. Don’t forget to bring product samples to the meeting. The SFA Basics textbook contains additional information about how to prepare for a meeting with a distributor.

"Having a great product available is not enough—suppliers need a well thought out go-to-market strategy and a knowledgeable sales support team to be successful. Our Marketing Associates can't be experts on every one of the thousands of products we stock. We factor many aspects in when we look at a company; we also look at their production capacity and make sure it's scalable. If our customers can't order a product due to manufacturing constraints, it looks bad for both the supplier and us."

Massimo Balacchi,
Director, Italian Segment,
Sysco Corporation

While this might seem like a lot to cover, it's important to remember that distributors are ultimately looking to carry products that will sell. Their goal is to achieve a high level of inventory turnover, also known as "turns," which results in a higher return on investment (ROI) on the cash that is tied up in their inventory. During this meeting, it is your job to convince the buying committee that your product will sell. Since retailers are distributors' customers, the strongest testament that a product will sell is retailer interest in your product and intent to buy. Thus, we usually recommend that companies pitch to retailers first then pitch to the interested retailer's distributor once they can prove that there is demand either in the form of expressed interest or written commitments to purchase a certain amount (the same is true in foodservice distribution).

Another way to convince the distributor that your product will sell is to show that you have a strong sales, marketing, and promotions strategy. While distributors do have sales staff, their ability to drive sales is limited, since they have so many different manufacturers and products to represent. As outlined in this article from Gredio, distributors won't sell your product for you.

If the distributor is interested in carrying your product, you can negotiate terms, such as an exclusivity period, trade promotions, and more. The SFA Basics textbook also explains key terms of the relationship that might be up for negotiation. After you have an agreement in place, your job is to ensure that the product sells and continues to meet the sales expectations of your distribution partner. Your other job is to ensure that you don't run out of stock. Before you start expanding your distribution too much, it's important to ensure you have sufficient production capacity to meet demand within your current points of distribution. If distributors have empty room in their warehouses or retailers have empty space on their shelves because you can't keep up with demand, they might end up dropping you.

Brokers

A food broker is an independent sales agent that represents food manufacturers to sell products to retail or foodservice customers. Brokers typically operate within a defined geographic area and specialize within specific segments of the retail or foodservice markets. Brokers do not warehouse or transport products—their role is simply to sell products on your behalf.

If you are considering hiring a broker, there are a few things to consider. For one, you should have the production capacity to support increased sales volumes prior to engaging a broker. The benefits to working with a broker include their knowledge of local markets, relationships with potential buyers, and sales experience. The downside of working with a broker (vs. hiring an in-house sales representative) is that you're not the only brand they represent. Brokers represent a variety of brands, though they typically do not take on products that are direct competitors with each other.

UNFI's broker directory can help you find contact information for brokers in the retail sector. The Specialty Food Association has a database of specialty food brokers in their Learning Center, and the Specialty Food Resource also has a list of specialty food brokers. GFI is not aware of a similar database of foodservice brokers, but some examples of national foodservice brokers include Acosta, Affinity Group, The CORE Group, KeyImpact, Lakeland Marketing, and Waypoint.

Since brokers work on commission and small manufacturers only represent a fraction of their overall sales, you should not expect your broker to devote as much time and attention to your brand as an in-house sales representative would. As such, manufacturers should not expect brokers to replace in-house sales efforts, but rather to supplement them. Even though brokers are not part of your internal sales team, you should provide training to enable them to be knowledgeable representatives of your product and brand. Often, brokers provide the first impression of your brand to your potential retail and foodservice customers, so it is important that they represent your product accurately and positively. The Oklahoma State Food & Agricultural Products Center has a guide on how to determine whether a food broker is right for you. Oregon State University also provides a guide for using food brokers.

Brokers are usually paid based on their performance as a commission of their sales (for example, 4-6%). It should raise red flags if a broker requests set fees or retainers, except perhaps in new product launches. Brokers might ask for set fees due to the high time commitment and risk involved in taking on an unproven product. In these specific cases, manufacturers might agree to such fees for a limited period of time or just opt for doing sales in-house until the product is successful enough to entice a broker.

When hiring a broker, ask for referrals within your personal and professional networks. You might consider asking your current retail and foodservice customers for referrals, since they likely purchase products from brokers and are familiar with those who operate in the local area. It is important to note that brokers that specialize in foodservice likely are not productive in retail and vice versa. Some things you should consider are what market segments (e.g., retail, foodservice) and sub-segments (e.g., supermarkets, natural stores, quick service restaurants, K-12, etc.) they operate in, whether they are familiar with your product category, what geographic region they cover, who their other accounts are (and whether any of their products compete with or complement yours), who their main buyers are, and what their key accomplishments are.

When you are ready to move forward with a broker, it is a good idea to create a written agreement to set expectations and legally define the relationship between the manufacturer and the broker. The SFA Basics textbook provides additional information about what should be part of this broker agreement, including a broker contract template. It also highlights additional points you should discuss with your broker that don't necessarily need to be in the formal agreement, such as the process for how orders will be submitted and what kinds/quantity of samples will be provided. After you implement this agreement, it is important to hold up your half of the deal, actively manage your relationship with your broker, and recognize (and reward) good performance.

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