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Steps to Commercializing a Value-added Business Idea

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Value-added food and agricultural products represent an obvious opportunity for agricultural producers to forward integrate from on-farm activities to serving the retail consumer. Likewise, entrepreneurs with a good product idea (e.g. a specialty salsa, grandmother's cake recipe, etc.) see commercialization of their idea as a means of becoming their own boss and owning a business. These are lofty and noble aspirations, and with proper planning their dreams can come true.

A combination of general business rules and food industry-specific rules must be followed to better ensure the successful development and long-term viability of a start-up business. While each segment of the food and agricultural products industry has specific rules, there are some general start-up guidelines that most small business professionals would recommend. The following represent a general set of steps to be taken in the commercialization of a value-added idea.

1. **Trademark protection.** While this is probably not the very first step to be taken in starting a business, it is probably the most overlooked. Often those wishing to commercialize a food business concept have a specific name or logo in mind. However, too few check to see if some other business has claimed legal rights to a product name or logo. This oversight often results in lawsuits and/or the changing of product names/logos – a terrible thing for a business to do just as it is getting its product name recognized by consumers. Trademark protection is available at both state and federal levels. Check with state commerce authorities for pursuing protection of a name or logo within a state. However, if one wishes

to market the product in more than one state, check with U.S. Patent and Trademark Office (see www.uspto.gov) or one of the USPTO's 80-plus patent and trademark depository libraries around the country. These libraries can provide free or at least inexpensive trademark searches, although one should probably use a patent/trademark attorney when filing for trademark protection.

2. **Business structure.** A number of business structure possibilities exist: sole proprietorships, general and limited partnerships, limited liability companies, cooperatives, and corporations are all common choices. The chosen structure will determine one's tax and legal liability status, as well as one's ability to raise capital. For example, a sole proprietorship is the easiest form of business to establish – in essence the business is an extension of the owner. In a sole proprietorship, the owner pays taxes on business net proceeds in accordance with his/her tax bracket (and also self-employment taxes), but in the event of a lawsuit the owner's personal assets are also at risk. On the other end of the spectrum, establishing a corporation requires the use of an attorney (and thus expense) but the resulting corporation is a separate legal entity and the owner's personal liability is limited to his/her investment in the business (assuming the business and personal bank accounts are maintained separately). The pros and cons of different business structures should be discussed with a specialist, such as those available through state extension programs (see www.AgMRC.org for state contacts) and Small Business Development Centers (SBDC's).
3. **Facilities and processing equipment.** This is an area where many start-up businesses run into problems. For almost any scenario, a health inspector will not approve of manufacturing products for retail sale in a person's home kitchen. Zoning rules, equipment requirements, utility requirements, licensing and permits are all issues related to mass production of a food product. Check with a local health inspector before buying, building, or renting facilities for commercial food production. They can inform you of rules related to manufacturing facilities, necessary licenses and permits, equipment specifications, and process requirements (i.e. rules to be followed for cooking, canning, preserving, etc.). Working with the health department inspectors from the very beginning will prevent a business owner from unwisely spending money at the starting stages and lessen the likelihood of fines or restrictions later. Additionally, if the costs of owning and operating a facility are too high for a start-up business, health inspectors and university food industry specialists may be able to help an entrepreneur find a co-packer, i.e. a company that will, for a contracted price, manufacture and package the products for him/her.
4. **Labeling requirements.** Nutritional labeling requirements, primary display panels, font requirements, declaration of contents, etc. are all issues related to labeling a food product. Small businesses are currently exempt from having to list the "Nutrition Facts" tables commonly seen on products in the supermarket if (a) retail sales of the product are less than \$50,000/year, or if (b) retail sales of the business (i.e. for all products sold by the business) are less than \$500,000/year. However, it is commonly recommended that all businesses consider adding these tables since they would be required the moment the business exceeds the sales exemption level and many consumers now look for that information on virtually all products they purchase. State and federal labeling requirements are generally similar, but one may want to contact his/her local health inspector for state labeling guidelines and see

the FDA food labeling website (<http://vm.cfsan.fda.gov/~dms/flg-toc.html>) for a simplified explanation of federal labeling rules. Also, universal product classification codes (commonly referred to as UPC codes, or bar codes) are required for products sold in virtually every retail store and supermarket these days. For information on obtaining a UPC, see the Uniform Code Council website at www.uc-council.org .

5. **Marketing and Promotions.** It is a common fallacy that a product is so good no promotion or marketing activities are necessary. In the competitive arena of food and agricultural products, these activities are essential. Many state agriculture or commerce departments/agencies operate programs to promote products manufactured within that state. For information on state programs that may be available to help promote a new food or agricultural product, see the state contacts listed at www.AgMRC.org.

These steps, along with common business activities such as developing financial projections, are all part of planning and commercializing a value-added concept. For more information, contact the agribusiness management and food industry specialists at the nearest land grant university.