**Planning Your Value-added Dairy Product Business:**

**Working with a Co-packer**

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| To help you think though how a value-added dairy business could help your farm to become more financially sustainable, profitable, and able to support family members now and into the future, six worksheets and a Co-packing Calculator have been developed. |
| The worksheets provide a guide to help you to consider:  1. How can a value-added business benefit my family’s dairy farm?  2. What resources does my farm, my family and do I bring to the business?  3. What value-added product might I make?  4. How do I choose a co-packer and estimate production costs?  5. How do I work with my co-op or milk handler?  6. How can I develop a business concept and market the products? |
| Review the worksheets before you begin. The steps in planning may not happen in a specific order, but you’ll get a good understanding of the issues of adding value-added dairy products to your business and processing the products using a co-packer. |
| If a value-added business makes sense, a co-packer (a business that makes your product for you for a fee) is an option and can:   * Reduce your start-up capital and operational investment. * Get you into business quickly. * On your behalf, manage product development, equipment and facility maintenance, product processing, hiring, and training of staff, and food safety regulations. * Allow you to focus on milk quality. * Enable you to spend time on package development, test marketing, market entry, sales, promotion, and profitability analysis. * Allow you to scale up production with your co-packer, or analyze the cost/benefit of an on-farm facility. * Allow you to re-visit the arrangement if the business concept isn’t viable. |
| *Additional resources:*  MDAR’s [Dairy Co-Packing Program Website](https://www.mass.gov/dairy-co-packing-program)  [The Massachusetts Food Processors Resource Guide](https://www.mass.gov/manual/the-massachusetts-food-processors-resource-guide)  [Northeast Dairy Business Innovation Center](https://agriculture.vermont.gov/dbic) has several grant opportunities related to processing, marketing, and branding dairy products. |

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| Worksheet # 1  **Is a value-added business a good fit for my family’s dairy farm?** |
| You need to be clear about what you want to do and why and have family agreement before taking action to bring a value-added concept to reality. |
| **Why do business planning in the first place?** |
| To assess risk  * Discover, address, and avoid potential problems *before* they become costly mistakes * Identify product and marketing options with the *most* opportunity * Clarify your ideas for *every aspect* of your value-added venture |
| To prepare for success  * Evaluate whether/how a value-added business is a fit for your farm * Develop a recipe (formula), and test market the product * Acquire product management and marketing skills * Identify regulatory requirements including food safety, labeling, permits and licenses * Conduct product research (what to sell, to whom, where and how, and at what price) * Develop a budget and secure financing for start-up through profitability |
| To navigate the unique challenges of a value-added product venture  * Making and marketing a perishable product * Monitoring quality control of raw milk through transportation, storage, processing and finished product distribution * Balancing seasonal milk supply and fluctuating demand * Accounting for farm cash flow * For cooperative members, dialogue to confirm continued milk sales |
| Ask yourself and family members these questions and note the responses. |
| 1. **Why do I want to have a value-added dairy product business?**    1. What do I want to accomplish? *Briefly describe* *what success would look like.*   \_\_ Financial return  \_\_ Income diversification  \_\_ Business expansion  \_\_ Succession option  \_\_Other     * 1. Do I have the desire, skills, and time to build a new business? *If you don’t, what resources would you need to change to yes?* |
| 1. **2. If your business is family-run:**    1. What are their comments and concerns?    2. What information do they need to address their concerns and support this business?    3. What information/resources are available to address these concerns? |
| 1. **3. Is this business a good fit for my farm?**     1. How can my farm take on the very different tasks of managing the herd of cows and managing a product marketing business?    2. What are the financial, time, labor and facility impacts to my farm with the addition of a new business?    3. What are potential negative impacts and how might they be addressed.    4. How will diverting milk from the cooperative, or direct contract, to making products affect the farm business?      * What short- and long-term impacts, if any, will diversion create? * How can these farm impacts be addressed?   1. What is the profitability, income, and debt projections for my value-added product business? *Once you’ve focused on a type of value-added product,* the [*Co-packer Calculator*](https://www.mass.gov/service-details/dairy-co-packing-educational-resources) *can help to address this question.*   2. Do I have the short- and long-term financial resources and cash flow needed to develop, launch, and sustain a value-added dairy product business? What resources are needed?   3. What liability issues need to be considered and how can product risk be managed?   4. What legal structure should be used to incorporate the value-added business and separate it from the farm business? |

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| Worksheet # 2  ***What farm and family resources can be used to support this new business?*** | | |
| 1. **Resources: the dairy herd**   Breed  Total average annual milk production (CWT):  Attributes  \_\_\_ % Butterfat  \_\_\_ % Protein  \_\_\_Somatic cell count  \_\_\_Conventional  \_\_\_Organic  \_\_\_GMO-free  \_\_\_Grass fed  \_\_\_A2A2  \_\_\_Other: | | |
| 1. **Personnel resources: What skills/knowledge will the business require?** | | |
| **Expertise** | **Which family members have these skills?** | **What outside support and**  **resources are needed?** |
| Recipe/Product Development |  |  |
| Business Planning |  |  |
| Business Management |  |  |
| Product merchandising, Sales, and Marketing |  |  |
| Distribution |  |  |
| Financial |  |  |
| Other: |  |  |
| 1. **Financial resources -** review your farm finances: 2. How will my farm debt, credit, and cash flow impact a value-added business? 3. How much additional cash flow will be required each month/year to pay the co-packer and associated production expenses? *Once you’ve focused on a type of value-added product, the* [*Co-packer Calculator*](https://www.mass.gov/service-details/dairy-co-packing-educational-resources) *can help answer this question.* 4. What information will I need to secure a line of credit for this business? 5. Can I generate the additional cash from farm operations? 6. Can the farm afford this business if milk prices drop? 7. Do I have personal savings or off-farm income to finance this business? | | |
| 1. **Resources for selling your product** 2. In a few paragraphs, tell your story. What brought you to create this business? 3. Describe your farm’s history, your family, the product, and your environmental and sustainability practices. 4. Do you have an existing stand or store? If not, does your location and farm buildings present opportunities for retail space based on the road frontage and traffic volume? 5. Can your farm structures be repurposed for retail sales, storage or aging for cheese if needed? 6. What opportunities exist for comarketing? List neighboring farmstands, farmers markets, CSA’s. 7. List nearby retailers specializing in local food, specialty stores, farm co-ops, online buyer clubs, food delivery programs, independent grocery chains or other sales outlets. | | |

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| Worksheet # 3  ***What product will I make and where will it be sold?*** |
| While being family farm made or fresh and local is an asset, making the ordinary extraordinary is even better. New, innovative value-added products feature organic, grass-fed, reduced sugar, high fiber, high protein, high butter fat, fewer and “clean” ingredients, savory flavors, probiotic, and functional ingredient benefits. Butter, for example can be salted or unsalted, cultured, flavored, clarified (ghee), and packaged in rolls of various sizes in paper or foil. Yogurt can be made from a variety of cultures, available drinkable or strained.  This worksheet will help you answer:  What products will I make?  Who will want to buy it?  Why will they want my products compared to other products in the marketplace?  Where will they find my products? |
| **Background on product development** |
| New product development is costly. In general, just two of every ten new products in the marketplace succeed. New products must meet the challenges of:   * **Cost:** investment in product development, testing, facilities, operations, marketing * **Competition:**  similar products in and entering the marketplace * **Market:** attracting enough buyers in an increasingly crowded, segmented and consolidating marketplace * **Public concerns and government regulation:** food safety, health, wellness and functionality, environment, sustainability, energy, waste, and other issues |
| Innovation is an indicator of product success or failure. Value-added dairy products need to provide a recognizable benefit and connection to the consumer. Few examples of innovation follow:   * new packaging— quart sized drinkable yogurt * new formulation—CBD infused ice cream * new users or usage—whey-based vodka and gin * new technology—high protein milk * new market for a product—yogurt for dogs * new merchandising strategy—products available only for a limited time * new distribution channel—CSA’s, home delivery, and on-line sales |
| **Motivators for consumer purchases**  **Convenience:** on-the-go foods, delivery services, on-line ordering, meal solutions, and functional packaging.  **Wellness:** health concerns that favor food and beverage products that offer functional benefits.  **Food quality and safety:** products that offer nutrition, quality assurance and reliable food safety.  **Gratification:** products that taste good and offer the feeling that “I’m worth it,” or local products that show “I’m supporting a neighbor.” |
| ***A word of caution:*** *Farmers may under-estimate the amount of time that marketing their product requires. “If you are running a farm full time without additional staff and adding a value-added product, there will be “burnout” and mistakes, no “shortcuts or duct tape.” When making and marketing a value-added dairy product, “there isn’t as much leeway as on the farm side.” Further, some farmers only want to make what they like which may not be what consumers want.* |
| **Market Research**  *What new products do you see in the dairy case? What benefits do they feature? Who is the target audience? What products don’t you see in the dairy case?* |
| Market research is a purposeful way of matching a product with customers. Marketing includes everything a business does to promote and sell its products. |
| 1. **Start with a blank sheet….**   Write a brief description of your value-added product and business concept. |
| 1. **Answer these questions:**    1. What dairy products do I want to produce?    2. Why do I think this product will be successful?    3. What unique characteristics or product attributes will make my products appealing and stand out?    4. Who are my customers? Describe the consumers, retailers, restaurants, and others who will want my product.    5. How will you promote your product to your customers? |
| 1. **List potential sales venues: farmers markets, farm stores, on-line platforms, home delivery services, CSA, independent supermarkets chains or specialty food stores.**  * List the businesses including buyer name, email, and phone. * Create a script with sound bites that efficiently describe your product and why it would be a good fit for the retail store * Reach out via email and phone for a time to discuss or to meet to learn what interest level and information the buyer would need to consider carrying your product. * Ask about their criteria for new product entry. |
| 1. **Will you sell wholesale to stores, distributors, restaurants, schools, hospitals, or other food service businesses?** Make a list of businesses including contact information. |
| 1. **For the retailers on your list:** 2. Check out the dairy product selection:  * List and compare products, sizes, varieties of flavor, packaging, product attributes and price. Note any special displays or advertising, and the amount of shelf space the product has. * List what dairy products are not available. For example, are there ethnic cheeses, labneh, quark, flavored or cultured butters, various kinds of cream cheeses or other unique products?  1. How would you describe the consumers at the retail store you are visiting?  * Talk with store managers. What opportunities do they see for your product? What product characteristic do they suggest should be included or featured, and packaging or other advice?   + - * What ideas do they have for new products?       * What dairy products do they have a hard time obtaining? |
| 1. **Summarize:** What value-added dairy products and which customers can provide the cash flow, profit, and growth to be successful? Write a brief description of:    1. The product you want to make including features and benefits    2. Your ideal (target) customer.    3. Why your customers will choose your product.    4. Where you expect to market the product to your target customers.    5. how will you distribute/deliver your product? |

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| Worksheet # 4  ***Choosing a co-packer*** | |
| ***Once you have determined what products to make, you are ready to find a co-packer,*** a business that makes your product for you for a fee. Co-packing allows you to develop, process and test market your product without the expense of building and operating your own processing facility. Besides processing expertise, many copackers offer product development resources. Benefits of working with a co-packer are described on [MDAR’s co-packing webpage](https://www.mass.gov/service-details/dairy-co-packing-educational-resources). | |
| ***Review MDAR’s online map to*** [***browse facilities***](https://www.mass.gov/service-details/find-a-dairy-co-packer) ***who offer co-packing services.[[1]](#footnote-1)*** *The MDAR research team made efforts to contact all facilities, but please know that this is not an exhaustive list, and other facilities can be considered for addition. Contact Rebecca Davidson at* [*rebecca.davidson@mass.gov*](mailto:rebecca.davidson@mass.gov)*.* | |
| **Co-packer interview questions**:   1. **Is the co-packer a pool or non-pool plant?** *Is the copacker a producer-handler, or an exempt distributor? For more information on how these classifications impact co-packing, please visit* [*our webpage.*](https://www.mass.gov/service-details/the-fmmo-and-co-packing-for-dairy-farmers) | |
| 1. **Can the co-packer segregate my milk?**  If not, is that important? | |
| 1. **What kind and size of raw milk storage is available**? If none, how will my milk get to the processing room? | |
| 1. **What products can the co-packer make?**   Products:  Sizes:  Packaging:  Labeling:  Ability to add equipment to make other products. | |
| 1. **How much milk is used per processing run?** \_\_\_\_\_\_\_ pounds.   *NOTE: Based on this information you will be able to determine how much milk you need per year to make your products. Multiply the pounds required for each processing run with the number of runs you anticipate doing per year to obtain the annual estimated cwt. of milk needed. \_\_\_\_\_\_annual cwt.* | |
| 1. **How many units of your finished product can be made per processing run?** \_total quarts or pounds | |
| 1. **How many monthly processing runs can the co-packer make? Will this be enough product to meet my sales and marketing projections?**   *Based on the information from the two previous questions, you will be able to determine the Annual Anticipated Pounds or Quarts of product to be made and input into the Cost of Co-packer Calculator. Multiply the number of units by the number of anticipated runs per year to obtain the Annual Anticipated Product: \_\_\_\_\_\_annual quarts or pounds.* | |
| 1. **What finished product storage is available at the co-packer?** | |
| 1. **How long after processing will I need to pick up my products?** | |
| 1. **What services besides processing are available from the co-packer? Recipe formulation, label development, packaging, other?** | |
| 1. **What does the processing fee include? Added ingredients, packaging, labeling, storage, aging, labor, facility, equipment, other?** | |
| 1. **What liability is covered?** | |
| 1. **Does the co-packer have a standard legal contract/ agreement? If so, review with your lawyer; if not, develop your own.** | |
| 1. **Transportation:**   Based on the amount of milk required for a processing run, how will you get your milk to the co-packer? (Resource: ***Transporting fluid milk to a copacker:***  [small-scale transportation options](https://www.mass.gov/service-details/learn-about-small-scale-raw-milk-transportation)) How will get products back to the farm? | |
| 1. **What is the estimated cost of co-packing?** Use the [Co-packer Calculator](https://www.mass.gov/service-details/dairy-co-packing-educational-resources) to estimate processing costs and product pricing and discuss with your co-packer. | |
| Worksheet # 5  ***Working with your co-op or milk handler*** |
| Your cooperative is charged with marketing all of your milk and coordinating route distribution. They will want to ensure that markets and other farms on the route are not adversely impacted by the diversion of your milk to a value-added business. Begin a discussion with your field representative as soon as you have an idea about what product you plan to make, how much milk you anticipate will be diverted and when, and which co-packer you will use. ***Be sure that your co-op (or milk handler) will continue to have the bulk of your milk picked up and sold.*** |
| **Questions to review with your field representative** |
| 1. **What volume of milk do you anticipate diverting to a co-packer?**  * \_\_\_\_\_\_\_\_ cwt per processing run * \_\_\_\_\_\_\_\_\_ cwt annually * In what months \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ * Number of weeks per month \_\_\_\_\_\_ * Number of days per week \_\_\_\_\_\_\_\_\_ |
| 1. **Is the co-packer a pool or non-pool plant?**   *Note: If the co-packer is a pool plant or a producer-handler, milk going to that plant must be sourced from the pool. Your co-op will likely continue to take ownership of your milk so that it stays within the pool and will work with you on how to ship milk to your co-packer. The co-op will review the quality standards of the plant to ensure compatibility. The co-op will pay you the blend price, less any hauling charges for the diverted milk.  The pool plant or producer-handler will purchase your milk from the pool, process your milk, and sell you the finished products. Since the pool plant or producer-handler will pay more for the milk than your coop pays you (due to additional hauling and administrative fees), that additional cost will be passed on. Refer to the webpage on* [*the FMMO*](https://www.mass.gov/service-details/the-fmmo-and-co-packing-for-dairy-farmers) *for more information.* |
| 1. **Who is the co-packer and where is their processing facility located?** |
| 1. **Are the co-packer's milk quality standards the same as my co-op’s?** |
| 1. **Will the co-op haul my milk directly to the co-packer?**     * If yes, at what cost?    * If maybe, what are the considerations?    * If no, can I haul my milk to the co-packer? |
| 1. **If the co-packer is a non-pool plant or Exempt Distributor, will I de-pool the milk and remove that volume from my contract?**  * If not de-pooled, will the co-op haul my milk directly to the co-packer? * If yes, At what cost? If not, how will I get my milk to the co-packer? * If de-pooled, how will I haul my milk to the co-packer? * Who is the co-packer and where is their processing facility located? |
| 1. **How will your contract be affected? Begin this discussion a few months in advance of your contract renewal date.** 2. If you will be de-pooling milk to make your product discuss the impact on your contract. Summarize pros and cons. 3. Discuss when and how you could return to a full milk marketing contract should your business not be successful. 4. Discuss when and how you would have to leave the co-op should your business require enough of your farm’s production to impact your route neighbors. |
| **The FMMO and co-packing, key considerations** |
| **POOL PLANT, including Producer Handler (PH)**    **Milk:** A pool plant must source all outside milk from the pool and cannot process milk that does not go through the pool.  **Products:** Depending on equipment, pool plants can make all classes of products, though focus on Class l fluid milk. PH pool plants have a limit on how much outside milk they can purchase and process each month.  **How it works:** The co-packer will purchase your milk from the pool, discuss delivery, process the milk, and sell you the finished products.  If you are a co-op member, delivery to the co-packer may be done through your co-op. You will be paid the pool price by the co-op and contract with the co-packer for processing services. Since the PH will pay more for the milk than your co-op pays you due to additional hauling and administrative fees, expect those costs to be passed along to you. You’ll need to discuss with your hauler if it’s possible to have your own milk delivered directly to the co-packer and discuss with the co-packer whether your milk can be segregated for processing. A PH may allow farmers to bring in equipment and labor to process products that they do not make. |
| **NON-POOL PLANT, including Exempt Distributors (ED)**  **Milk:** Non-pool plants do not have to purchase milk from the FMMO pool. These plants can purchase milk direct from a farmer.  **Products:** Non-pool plants make Class II-IV products. Yogurt, ice cream and cottage cheese are soft Class ll products. Hard cheeses are Class lll products; butter is a Class IV product. An ED can process Class I fluid milk. If the ED has not reached its FMMO determined fluid milk sales limit, the ED can process fluid milk for another farmer. ED and other non-pool plants can produce unlimited quantities of Class II-IV dairy products.  **How it works:** If you are a co-op member, you may want to de-pool the milk used in making value-added products at the non-pool plant. If so, you will retain ownership of the milk (*vs*. the cooperative), make your own arrangements to transport the milk to the co-packer, pay processing fees, and pick up finished products. Some non-pool plants and ED’s will allow farmers to bring in equipment and labor to process products that they do not make. |

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| Worksheet # 6  ***Putting your research into a business concept*** |
| After completing these Worksheets, review your notes, and decide whether you have enough information to develop a solid concept for your business. If not, continue your research to find the missing pieces. If you do, summarize your ideas into a value-added business concept by writing brief answers to the following: |
| 1. **My business will succeed because (describe the unique value your business brings to your farm, your customers, and the marketplace):** |
| 1. **My business will make (describe your product and the features and benefits it provides to your customers)**      * for sale to (describe your customers) * at (describe and list your market outlets) |
| 1. **I will make \_\_\_\_\_\_ units (pounds or quarts) of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (product) per year at \_\_\_\_\_\_\_\_ (name of co-packer) at $\_\_\_\_\_\_ per finished product (pounds or quarts)**  * I will sell my product at $ \_\_\_\_ per unit * I will market \_\_\_\_\_\_\_ units of my product for \_\_\_ (number of weeks) from\_\_\_\_\_(month) to \_\_\_\_ (month) |
| 1. **I will need \_\_\_\_\_\_ pounds of milk per year to launch my business and will work with my co-op or milk handler by (describe)** |
| 1. **I will transport my milk to the co-packer by (describe)** |
| 1. **I will pick up my finished products by (describe) and store (describe)** |

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1. *The information provided by the Massachusetts Department of Agricultural Resources (“MDAR”) on* [*https://www.google.com/maps/d/viewer?mid=1sG1ZALeIFkDJkQMTDa2PBICvhHCi5UsF&ll=42.37685118326385%2C-72.0326366&z=9*](https://www.google.com/maps/d/viewer?mid=1sG1ZALeIFkDJkQMTDa2PBICvhHCi5UsF&ll=42.37685118326385%2C-72.0326366&z=9) *(“Site”) is for informational purposes only. MDAR makes no representations or warranties of any kind, express or implied, regarding the accuracy, adequacy, validity, reliability, availability, or completeness of any information on the Site. MDAR shall not be liable for any loss or damage of any kind incurred (e.g., completed transactions, lost goods, sales, revenues, or services) as a result of the use of the Site or reliance on any information provided on the Site. Use of the Site and reliance on any information provided is solely at the user’s own risk. MDAR does not endorse any individual, company, product or service on the Site and makes no representation as to the legal status, compliance with applicable laws, or requirements of any product or service listed. Users of the Site are required to do their due diligence to ensure products and services meet all state and federal laws, standards, and permits or other permissions required by law (e.g., food safety standards).* [↑](#footnote-ref-1)