Week 5: **Scale Your Production or Perish: Scaling Operations Manufacturing**

PRE-WORK: READING

1. Overview

The importance of planning ahead for growth cannot be overstated. Production is the lifeblood of your business and can make or break your business. I have seen too many companies crumble because they could not scale their own operations and they have to turn down new business due to production limitations. A worse scenario is when a brand experiences a product recall due to poor manufacturing practices related to their inexperience.

We will review below and through our Master Class session, how to prepare for growth. Factors to consider between self-manufacturing versus working with a co-packer and how to both select and successfully work with a co-packer.

2. Preparing for Operations Growth

When and how to prepare for operations growth by forecasting volume projections and manufacturing limitations is key to a successful growth plan. The main factors that will have an impact on your ability to scale your operations are as follows:

- Existing Capacity
- Labor
- Supply Chain Ingredients
- Production Efficiency & Related Cost Savings

Production Capacity - Determine the maximum amount of product which can be produced by your current production system. This can first be measured by units or cases based on your existing manufacturing process. Then determine if you can add more labor, more shifts, more equipment, etc. At some point you will hit a bottleneck in production as you will either run out of production space, storage space, etc. When you reach this bottleneck you have hit the wall which will limit your ability to grow. Now there are a few specifics you need to understand as larger quantities will most likely related to larger size ingredient packaging, which you need to account for both in storage and in handling. Do you know how to move a 50 gallon 480 pound barrel of ingredient safely? Well make sure you do before you scale this large internally.

Once you determine the maximum you can produce, then see how this fits into your forecast model. Make sure you find an alternative production facility anywhere between 6 - 12 months before you think you will hit your maximum production quantities.

Labor - Skilled dependable labor is very challenging as you grow your own manufacturing so be sure to understand your responsibilities as an owner. You must first ensure your employees safety and understand OSHA, Federal and State employee rights. You have to train your staff on food safety protocol and perhaps have them licensed for food safety certifications. As an owner you are responsible for implementing Human Resources related systems for both complying with federal and local laws as well as creating a safe work environment as well as protecting yourself from potential litigation.

Supply Chain Ingredients - As mentioned above, scaling increases the size of ingredient packaging for manufacturing and you have to be prepared to handle this in numerous ways related to storage, physical weight and equipment to move pallets, barrels, etc. Supply chain requires finding suppliers along the process from small packaging sizes in the beginning usually a wholesaler to mid-tier larger size packaging and pallets via a food broker to finally direct from the source vendors/farmers. This last option tends to get you the best prices, but also requires the largest minimum quantity orders.

Production Efficiency & Related Cost Savings - You may be able to scale with your current production, but make sure to question the efficiency of your production. The best way to understand this is to first look at how much of your production is being done manually versus in an automated fashion by equipment. The more you have to manually produce, the less efficient and more costly your production will be. There is often a battle between capital expenditure (CapEx) or the cost to purchase more efficient equipment versus the savings related to your available cash flow. For example, purchasing a used automatic bottle filler for $5,000 may be a no-brainer, as you have the space, it's easy to use and it will save you valuable and costly labor in your production costs. Larger equipment requires expertise, cleaning, repairs, and may or may not be worth the cost or the best use of limited funds.

Speak to your advisors and other founders to learn what equipment exists that could help you become more efficient or help you decide to get out of the manufacturing business and into the selling your product business.

3. Third Party-Manufacturers vs. Building Out Your Own Space

Many food companies start out in shared kitchen spaces, food incubators or catering kitchens (Hopefully not your home kitchen). As listed above when the time comes, or at least 6 - 12 months before the time comes when you need to scale past existing manufacturing you will enter the process of comparing and contrasting the pros and cons of either building out your own facility or work with a third party manufacturer (3PMP) Co-Packer.

When looking at the areas of : Labor, Supply Chain Ingredients, and Production Efficiency & Related Cost Savings a key factor should be your available financial capital (money in the bank). The cost of building out a space can be very costly, increased labor with higher minimum wages and payroll taxes and most importantly the cost of very expensive equipment must be part of your analysis.

In my opinion, unless you have created something that no manufacturing facility can duplicate or due to plant-based, gluten, or allergen related concerns no other facility can make your product without compromising the quality then I usually recommend working with an co-packer. Why do make this recommendation? Because they are the experts. They have trained staff, they know the equipment, they can repair the equipment, they know the food safety requirements and have invested potentially millions of dollars over the years to ensure they can produce safe and consistent food products for brands. Be sure to challenge your assumptions here and better yet, let an experienced advisor challenge your assumptions about the ability of a co-packer to manufacture your product.

4. Searching for & Vetting a Co-Manufacturer

There is no easy way to say this, so here it is. You need them much more than they need you. Please remember this. What I mean by this is that the food manufacturing industry is an antiquated one and most facilities do things the way they have done it for the last 100, 50 or 25 years. I just spoke to someone who told me they reached out to 40 co-packers and four weeks later they only heard back from 2 of them. I congratulated them on their success as they doubled the average response. Remember, co-packers are receiving calls every day from start-ups promising the world and many not understanding the business and therefore are looked at by co-packers as a waste of time.

There are lists floating around of co-packers, I have attached one below in resources from the Specialty Foods Association. The problem is having a phone number doesn't usually help. We tell clients that making an introduction or giving a phone number of a co-packer contact is not going to help and the reason is that this is a very insular community and most often requires an "in". The reason we provide Co-Packer Search & Production Liaison support services is because this is usually what is required to get in the front door. The reason is that by reaching out on behalf of a client the co-packer already believes the interaction has been elevated to a more professional level. They also look to us as a way of pre-vetting potential clients as we will only bring a client to a co-packer that understands the business, has a solid business model and forecasting, a recipe that we have reviewed and scaled into a formulation for manufacturing that we know they understand and we are asking the right questions in looking to solve their problems. Our work in this area is somewhere between a Co-Packer Whisper and a marriage counselor.

At a minimum the key questions to ask a potential co-packer are as follows:

- What equipment do they have related to your needs?
- What certifications do they have related to your brand standards?
- What packaging do they have related to your product?
    - *Be flexible here, it may be worth changing your packaging if all else fits.*
- What are their minimum order quantities (MOQ's)?
- What is their current capacity as a percentage of maximum?
- Is there a seasonality in production that limits available line time?
- Will they provide complete transparency related to production, ingredients and costing?
- What is their food safety certification level?

5. Working with Co-Packers

Co-Packer Strategies For Success

Co-Packer Advantages

- Cash flow savings & less overall overhead
- Equipment, Storage, Infrastructure
- Trained labor without the HR headaches

Finding Your New Partner

- Plan on 10 – 16 months
- Certifications
- Interview & References

Capacity Now & In The Future

- Know production time availability
- What is their current capacity and what is in their pipeline?
- Discuss your current needs and your 3 – 5 year production volume
- Is there room for the Co-Packer to grow with you.

Negotiate Everything

- Take advantage of existing systems whenever possible

- Align your interests when utilizing things like purchasing ingredients & packaging
- Only pay for units produced that meet your agreed upon standards

- **Define the good**
  Utilize as many specs as possible, measurements, taste, use photographs

Quality Control

- Will they allow oversight during production
- Third party audits

Additional Reading:

4 Tips for Scaling Your Food Startup with a Co-Packer | Food Tech Connect

A Balancing Act: How to go from idea to successful food startup

Co-Packer List | Specialty Foods Association

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