

## Distribution Factsheet 5: Tips When Considering a Co-Packer

Before meeting with a potential co-packer it is necessary for each entrepreneur to do some initial preparation. As a starting point, the entrepreneur should have business and marketing plans in place that outline product needs in terms of size and type of container, and number of units per given period. Once product information has been established, the entrepreneur needs to write preparation and process instructions including specifications for ingredients, packaging materials, regulatory compliance and finished product. It is also important that the entrepreneur determine if the co-packer has the capacity to make the product. This can often be established by telephone.

Once satisfied that there is a two-way interest in proceeding to the next stages of collaboration, the entrepreneur should arrange to visit potential co-packer facilities. At this stage it will be necessary to share process instructions and ensure that the co-packer has the right equipment to make your product. It is also during this step in the process that you identify what you are willing to change to accommodate the co-packer such as a shift from a 12 oz jar to one that holds 16 oz. There are also many details that need to be worked out with a co-packer and they will vary depending on each individual situation. A few of those details may include:

- Determine whether the co-packer has a standardized “Confidentiality Agreement” for your attorney to look over or you have to develop the necessary documentation for them to sign
- Discuss preparation and process instructions and specification with the co-packer and work out every detail; understand the cost associated with the manufacture of your product
- Establish how much product can be produced weekly, monthly, etc. and how much inventory will need to be on hand
- Arrange for a small test batch to be run, if applicable. This will ensure that your kitchen-made batch preparation and processing give the same quality that the co-packer will make on large-scale equipment. This initial batch is also a source of initial selling inventory that will be required as you move forward
- Discuss which party will carry the liability insurance
- Ensure that you inform the co-packer if potential buyers require that food be manufactured under particular quality, safety or certification systems such as HACCP, ISO 9000, Kosher or Halal and whether third-party audits may be required. This may be an area that a potential co-packer is better able to assess than Peace Region processors.

Although it would be nice to believe that effective value chains can be established based on trust it is suggested that the entrepreneur use a contract with a co-packer and make sure that it is reviewed by a lawyer. Listed below are some items that may be worth including in a contract:

- Exactly what services are being contracted?
- What ingredients and supplies are the responsibilities of each party?
- Which party will provide product liability insurance?
- What are the critical factors that must be met during production as stated in the specifications?
- Will the co-packer sign a non-compete clause in the contract? (Usually not because it would limit the co-packer's production to only one entrepreneur's product category)
- What are the production run limitations (size, amount, lead-time required, etc.)?
- What are the payment terms? (Usual terms are 10% down and the remainder upon delivery or upon actual finished goods production)
- What finished product testing will be provided?

While there may be other points to be covered in a contract, the above points should be addressed.

While it is recommended that an attorney provide advice on contracts, the small entrepreneur may find the cost prohibitive. A good working relationship with a co-packer and an agreement that covers what the co-packer is expected to provide will make the venture more pleasant and hopefully more profitable. A good approach is to get the co-packer on your team and make them an integral part of all your future plans. Give the co-packer a chance to be properly reimbursed for their service so that you can focus on other activities.

It is not easy to find co-packers, but since the advantages of using one are so great an entrepreneur may have to alter some details of their specifications to accommodate the co-packer's needs. The best source of information about co-packers, their abilities and how they work with entrepreneurs is often from other entrepreneurs. Start by talking to other entrepreneurs and small food processors at association meetings, food and trade shows; groups such as Alberta Agriculture and Rural Development, and the Alberta Food Processors Association; and federal and provincial food inspection agencies.