



# Connecting the Dots of Contract Manufacturing

---

JOSEPH RILEY, CEO

SNACKCRAFT, LLC

GRAND RAPIDS, MI

SEPTEMBER 18, 2022

# Joseph Riley

---

25+ Years in the food industry

- Agriculture / Grain farming
- Ice manufacturing, distribution, co-packing
- Flour and corn tortilla mfg and co-packing
- Snack food manufacturing and co-packing
- Consultant to several food manufacturers

[j.riley@snackcraft.com](mailto:j.riley@snackcraft.com)



# Understanding Co-Packing / Contract Manufacturing

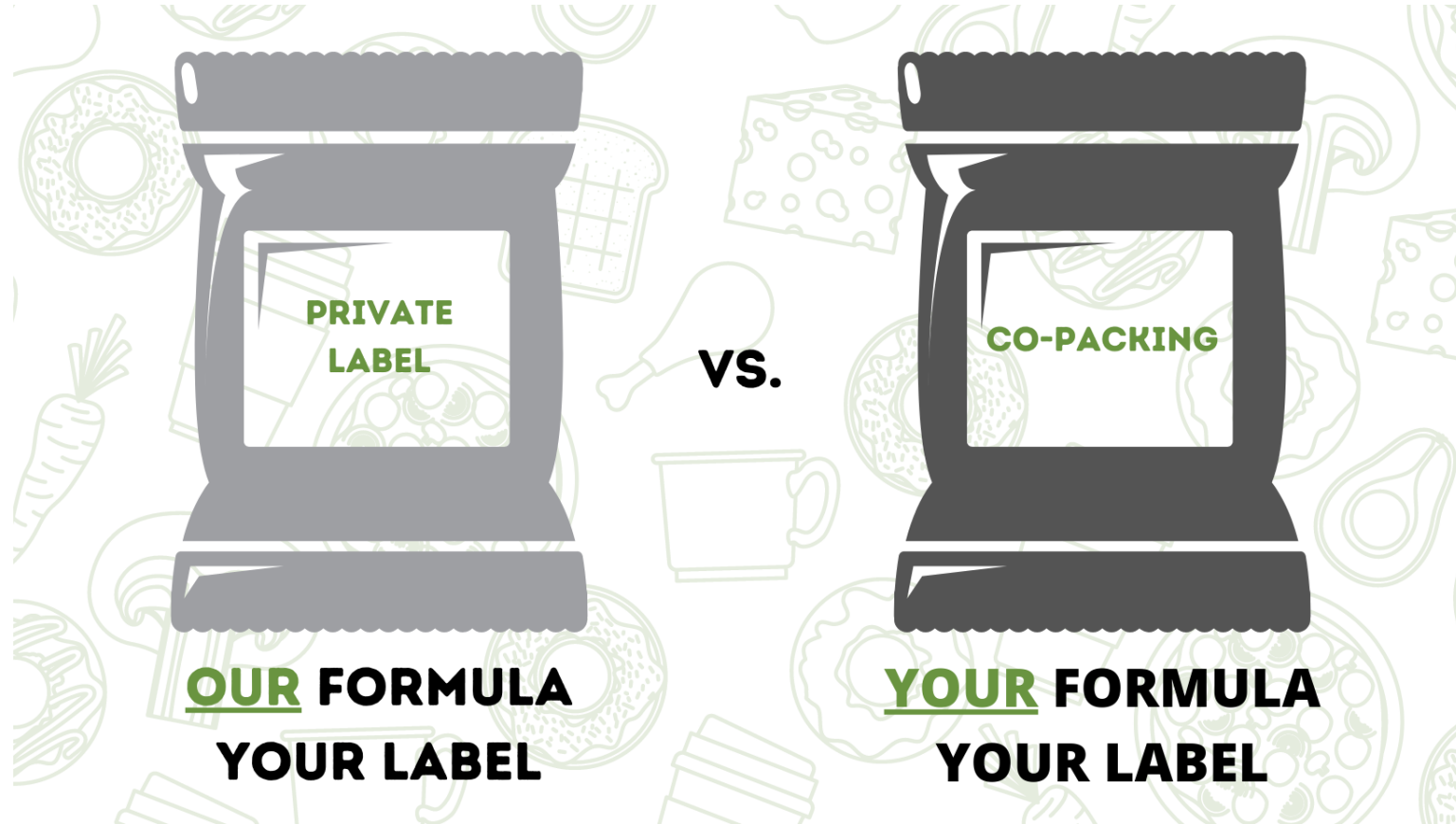
---

**Definition:** A co-packer (or contract manufacturer) is a company that manufactures and packages products for their clients. A co-packer works under contract with the hiring company to manufacture goods as though the products were manufactured directly by the hiring company.

Co-packing is commonly used when the hiring company doesn't have the manufacturing facilities, packing capacity, machinery, or knowledge to produce the products themselves.



# Private Label vs. Co-Packing



Many of the worlds largest food companies utilize co-packing services

---



# Producing for Yourself Vs. For Someone Else

---

## **YOURSELF**

- You're your own boss
- Facility serves your own needs
- Audits, quality, food safety to your requirements
- Promote and grow your own brand
- Relationship with your own employees

## **SOMEONE ELSE**

- The customer is the boss (Give up some control)
- Facility must be set up for others
- Audits, FSQA to meet customer requirements
- The best interest of your customer must be highly considered with every decision
- Close relationship as your customer may be included in the decision-making for your business





# Terms to Understand

---

- ❑ **Co-packing** – Customer’s formula, customer’s brand and packaging
- ❑ **Private Label** – Your formula, customer’s brand and packaging
- ❑ **Manufacturing Agreement (Contract)** – Outlines the purpose and terms of a co-packing arrangement
- ❑ **Turn-Key Pricing** – The manufacturer determines an upfront price for a product and buys most if not all raw materials and packaging required to deliver the product. Generally, turn-key pricing is guaranteed for some period; 1 year, 2 years, etc., and can only be changed with 90 to 120 days notice.
- ❑ **Toll Pricing** – Co-packer determines a base charge (“toll”) that includes overhead, profit, and cost of small supplies used in production. Raw materials are supplied by the customer at cost or purchased by the co-packer with a true-up every month, or quarterly with the cost to the customer being adjusted accordingly and on the same schedule.
- ❑ **MOQ (Minimum Order Quantity)** – The amount of product your customer is required to order. Generally, refers to the quantity; pounds, cases, etc. deemed necessary to start up a production line, engage employees, and make a profit.

# Why hire a Co-Packer?

---

- Lower capital investment in facilities and machinery
- Speed to market
- Access to the knowledge of an experienced manufacturing team; some co-packers offer R&D services with a staff of educated food scientists and culinary experts
- Lower material costs from co-packer congregating volume and purchasing for all customers
- Using a co-packer allows more time for the hiring company to focus on marketing and selling its products





# Why get into the co-packing business?

---

- Increase facility and equipment utilization
- Potential volume (Sales) with little effort or distraction from core business
- Co-packing volume can help even out seasonal ups and downs with proper scheduling
- Regulatory requirements needed for co-packing. Improves existing business and helps draw sales that would have not been available
- Procedures: Quality and Food Safety programs not otherwise required
- Food safety audits: BRC, SQF
- Identity preserve: USDA Organic, Non-GMO, Gluten Free, etc.
- HACCP, Recall, etc.



# Minimum Order Quantity (MOQ)

---



*Very important:* What will be the minimum amount of product you will produce on each order for a customer?

- Need to determine what quantity is profitable for your business based on overhead, change-over time, waste/scrap, and labor.
  - Downtime cost must be calculated into your toll or turnkey pricing.
- Is your overhead or change-over time different for organic, non-GMO, allergen concerns, etc.?
- Example: MOQ of 12,000 lb per sku = Eight hours of production on a 1,500 lb/hr line.
  - Change-over happens during shift change; less downtime, less lost revenue

# Lead Time & Terms

---

- **Lead Time:** The time from when you acknowledge receipt of a customer's PO until the date you have the order ready for pickup.
  - Typical lead time: 14 days, 21 days
  - Must be consistent and dependable – Product needs to be ready when you say it will.
  - The lead time you promise must work for your procurement and production schedules
    - Don't promise what you can't deliver
- **Terms:**
  - Net 15, 20, 30
  - Don't suggest a cash discount for early payment
  - Be prepared to not accept new PO's if customer is late with prior payment
  - Ask for payment for first PO up front and have new customers supply any printed materials

# Facility & Regulatory Requirements

---

Producing products for someone else is very different than producing for yourself.

- Strong Manufacturing Agreement that clearly defines the relationship, products to be produced, responsibilities of both parties, termination terms, payment, length of agreement
- Adequate liability and re-call insurance
- Facility must be clean, organized, and presentable
- Accreditation needs: SQF or BRC audit program
- USDA Organic, Gluten Free, Non-GMO, Halal, Kosher



# Food Safety

---

As with any food manufacturer, nothing should be more important than **FOOD SAFETY.**

- The fastest way to go bankrupt is to cause a recall due to poor food safety, quality, or sanitation programs at your business.
- Experienced and strict FSQA Manager – The best hire you’ll ever make.
- Build a culture focused on food safety and quality
  - If the owner or executive management doesn’t embrace and support FSQA initiatives no one else will
  - “Do as you say”
  - *Integrity is doing the right thing when no one else is watching*



# Relationship & Service

---

- **More than a vendor / customer relationship**
  - The customer will rely on you to make their most precious commodity – The items they put their name or brand on.
  - Trust you to maintain their brand's reputation for quality, taste, appearance, on-time shipment, etc.
- **As a co-packer you need to provide a level of service you may not be used to:**
  - On time, in full delivery (Order attainment %)
  - Obtain product(s) specification, flawless packaging, attention to detail
  - Making your facility available for visits and retailer audits
  - Your team becomes their team
  - Availability: Weekly calls, respond to customer complaints with data or other details quickly



# Building a Team and Culture

---

## #1 biggest risk to a food manufacturer...?

- Experienced team that cares about the jobs they are doing
  - High employee turnover creates risk and adds cost for the company
- Communication from executive management on down
  - Monthly employee meetings
  - Visibility, be accessible, Holiday events, cookouts, etc.
- Atmosphere of respect and culture of teamwork
  - Create an environment your employees enjoy being in
  - Facility that is clean, well organized
  - Promote and enforce programs and procedures



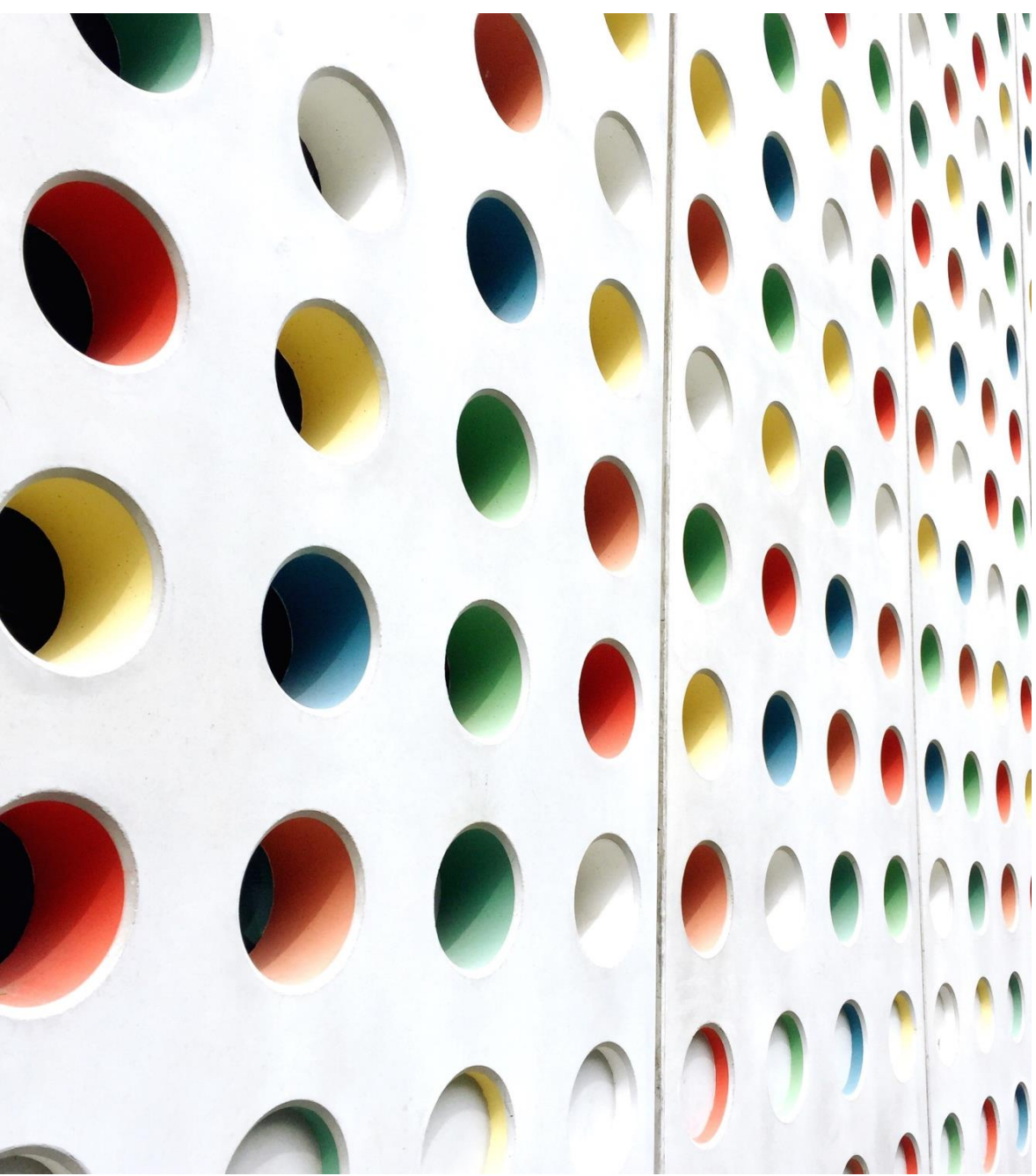


# Make your plant environment pleasant

---

Create a culture of teamwork, respect, and trust

- Fun isn't a bad word
  - Your employees spend about a third of their days in your facility – Make it a place they WANT to be
  - Nice, clean, well appointed breakroom
  - Clean bathrooms and changing rooms
  - Big screen TV in the breakroom; 2; one for TV and one for company announcements and pictures
  - Electronic device charging stations
  - Water bottle filler
  - Vending with fresh foods
  - Employee contests, special events
  - It's hard to keep good people – Give your folks a reason to stay.



*Thank  
you*