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Choosing and Using a Co-Packer

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Choosing and Using a Co-Packer



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Impact Statement

Juice and wine grapes hold considerable promise as alternative crops. A USDA National Research Initiative-funded program at the University of Arkansas was developed to provide research and training to help small- and medium-sized farms in the state explore the production of grapes as an alternative crop to increase profitability and add stability to the family farm.

Although selling grapes for fresh use or to be processed is one means of marketing the fruit, many growers are finding they can extend their portion of the revenue generated by adding value to the fruit on the farm. Unfortunately, generating income from value-added products made from grapes or any other commodity involves a lot more than simply deciding to make a product and then putting it on the market. In fact, developing and marketing value-added products can be a lengthy process, requiring substantial inputs of time and money, with no guarantee of success.

Co-packing, also known as contract packaging, is when a producer contracts with another company to manufacture and package food items that the original producer will sell. The use of co-packers has become extremely popular with entrepreneurs such as producers of alternative crops who would like to make and market a product or products from their crops but are not willing or are not able to invest in setting up a manufacturing facility to produce the product.

Working closely with a co-packer experienced in product development and food processing can be invaluable to getting an idea converted to a marketable product. This publication provides information on the pros and cons of using co-packers and locating co-packers in your area and also provides guidance for working effectively with a co-packer.



UNIVERSITY OF ARKANSAS
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Choosing and Using a Co-Packer

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INTRODUCTION

Co-packing, also known as contract packaging, is when a company contracts with another company to manufacture and package foods that the original company will sell. Products on the market that have been co-packed range from nationally known brands to those sold under private labels. The use of co-packers has become extremely popular with entrepreneurs who have a product idea but lack the \$100,000 or more needed to set up a manufacturing facility to produce the product. In addition, many entrepreneurs starting a foods business find that, in today's market conditions, greater profits are achieved through sales and marketing innovations than by what is done in manufacturing. So, if a company has limited resources, they may get more profit using these resources to develop effi-

cient marketing procedures rather than spending them on setting up manufacturing operations.

WHY USE A CO-PACKER?

Entrepreneurs choose to use co-packers for many reasons. One of the most important of these is that co-packers can provide entrepreneurs with a variety of services in addition to manufacturing and packaging products. Scale-up of production from the home kitchen to the first plant trial is not as simple as many think. Often the initial commercial product is not at all what was expected. Activities occurring during processing such as

heating, agitation during incorporation of ingredients, holding at high temperatures, and pumping can affect the way ingredients behave and can result in very different products from those obtained



(Photo courtesy of Prospero Equipment Corp.)

with preparation in a kitchen. Adequate product development prior to the pilot run will minimize this, but unforeseen factors may still occur. Working closely with a co-packer experienced in product development and food processing can be invaluable to getting a recipe converted to a marketable product.

Co-packers can help provide the labor, facilities, equipment, and know-how to customize, formulate, or completely assemble the best recipe and packaging for a product. They can provide assistance in finding the best sources for raw materials. Because a co-packer already has production capabilities in place, purchases raw materials and packaging in bulk, and has the appropriate equipment to reduce labor costs, entrepreneurs often

find a co-packer can manufacture product cheaper than they can manufacture it themselves. Co-packers often have industry contacts an entrepreneur does not have and they can help establish marketing contacts as well as help with product production.

The range of services available from a co-packer will vary depending on the size and experience of the co-packer, the type of facilities, and the capacity of the plant. Some co-packers are in business strictly to pack other people's products. Others may have their own product lines as well. In many cases, co-packers who have their own line of products are extending their income by selling or contracting to others a production capacity that is greater than their own needs. ■



(Photo courtesy of University of Arkansas Institute of Food Science and Engineering)

WHAT ARE THE ADVANTAGES OF USING A CO-PACKER?

There are many advantages to using a co-packer. The most obvious is to reduce startup costs for the food entrepreneur. Capital costs for equipment and facilities can be so great that many entrepreneurs are not financially able to start a food processing business. Using a co-packer allows a more accurate prediction of overhead costs for manufacturing. It also can reduce the start-up time for a new business since the co-packer already has manufacturing, packaging, and labeling systems in place. In addition, the co-packer may have experience with similar products, which can prove invaluable in launching a new product.

Because co-packers are already established in business, using them has other advantages such as:

- They usually already have the proper regulatory certifications, lines of credit for purchasing supplies and ingredients, and insurance. In addition, they have food industry contacts and established sources to efficiently manufacture and handle the product.
- They should be familiar with quality parameters, food safety requirements, and shipping needs.
- They will have the proper facilities for receiving and storing ingredients and can arrange storage of finished product.
- Some co-packers will offer other services for entrepreneurs, such as product stability testing, nutritional labeling, and product development services such as formulation assistance and ingredient substitution. In addition, they can suggest the best options for packaging and labeling the product when working with the types of filling, capping, and labeling equipment in their facilities.
- They can direct the entrepreneur to professionals who can assist in the design and marketing of product.
- They usually offer the advantage of buying supplies and ingredients in bulk.
- They can arrange palletizing and shipping of finished product to meet the needs of the buyer. ■

WHAT ARE THE DISADVANTAGES OF USING A CO-PACKER?

The most obvious disadvantage to using a co-packer is loss of control over the product and its manufacture. An entrepreneur is at the mercy of the co-packer's production schedule, fixed costs, and method of doing business. Because the product must conform to the co-packer's equipment and facility limitations, it may not be possible to get a product that exactly matches the entrepreneur's vision.

Co-packers will almost always have a number of customers and it is not unusual for a co-packer to manufacture several competing products. This raises

concerns that confidentiality may be a problem since formulations, ingredients, and product specifications must be shared with the co-packer. This information can be protected to some degree with agreements, but confidentiality can never be totally assured. Although giving up a secret formula may seem like a major concern to most entrepreneurs, it is not as serious as one might believe if they consider that, if they wanted to copy a product, the experts at most spice companies can duplicate a product's flavor profile in 2-3 weeks. ■

HOW TO FIND THE RIGHT CO-PACKER

Finding a co-packer is not an easy task. It is generally suggested that, if at all possible, entrepreneurs work with a co-packer who is in their geographical area since several trips to the co-packer are usually required during the initial stages of manufacturing. A smaller co-packing operation may be preferable to a larger one since they may be better able to produce small batches and may be less intimidating to someone just starting in food processing.

When choosing a co-packer, it is important to thoroughly investigate the companies being considered. Get information such as their reputation in the industry, how long they have been in business, and their track record. For the entrepreneur, the best source of information about co-packers, their abilities, and how they work with entrepreneurs is often other entrepreneurs. A person just starting a food processing business is encouraged to take every possible opportunity to meet and visit with other entrepreneurs. This generally involves attending state association meetings, food shows, and trade shows.

Specialized co-packers often advertise in food industry trade periodicals and directories. State directories of manu-

facturers provide information about manufacturing companies. Companies listing private-label products are usually co-packers. University extension services and state food and drug or agricultural marketing agencies also can help in locating potential co-packers.

Some entrepreneurs have found it helpful to go to retail food stores or specialty shops and find products similar to those they plan to produce. Often the label of a food product provides information about the manufacturer and how to contact them.

The Contract Packaging Association is an organization of co-packers. Their searchable database of members found at www.contractpackaging.org can be a good starting place for finding a co-packer. Many co-packers participate in and/or attend the Packaging Services Expo, a show featuring contract packers and others that is held in May of each year. A list of contract manufacturers can be found at www.packservicesexpo.com. Another useful resource is Contract Packaging Magazine, a quarterly publication for that industry. They maintain a list of co-packers that can be found at www.packworld.com ■

WHAT SHOULD BE DONE BEFORE VISITING THE CO-PACKER?

Before beginning work with a co-packer, an entrepreneur must do their homework. Business and marketing plans should be developed that outline product needs in terms of size and type of container, number of units per given period, price to the buyer, and selling price. Small Business Technology and Development Centers can be of assistance in assembling this information.

Requirements for product stability and safety must also be determined. Technical help for these determinations can usually be obtained from a university, a consultant, or a testing laboratory. Once product information has been established, preparation and process instructions should be prepared along with specifications for ingredients, packaging materials, regulatory compliance, and finished product characteristics. ■

THE FIRST MEETING WITH A CO-PACKER

After a potential co-packer has been identified and all processing instructions, formulas, etc. have been established, it is time to schedule a meeting with the potential co-packer. The goal of the first meeting should be to establish a working

relationship. The co-packer should be adequately reimbursed so he/she is available to help meet future needs. A good working relationship with a co-packer allows the entrepreneurs to focus time and resources on the sales and marketing of

their product. At the first meeting with the co-packer, product specifications should be presented. This is the time to discuss issues of confidentiality. Some co-packers will restrict confidentiality



(Photo courtesy of USDA Natural Resources Conservation Service)

wanting to use co-packers than there are co-packers. This means that it is important to develop a strong working relationship with the co-packer. The cornerstone of this relationship is trust. Both parties are interested in a profitable venture and achieving this goal means working

together. The co-packer should be adequately reimbursed so he/she is available to help meet future needs. A good working relationship with a co-packer allows the entrepreneurs to focus time and resources on the sales and marketing of their product. At the first meeting with the co-packer, product specifications should be presented. This is the time to discuss issues of confidentiality. Some co-packers will restrict confidentiality agreements only to written specifications, formulations, pricing, and customer information. Most will not agree to non-compete arrangements, i.e. agreements to not manufacture a competitor's product, since that would restrict their livelihood and their business interests. Established

co-packers may have model confidentiality contracts that they have used in the past which can serve as a basis for establishing these agreements. Try to get all agreements in writing since this will help clarify what each party has agreed to do.

During the initial visit, ask to tour the co-packer's facilities. Note cleanliness and order. Look at the most recent inspection report. This is also the time to determine if the co-packer can provide the appropriate equipment to process, label, and package your product and to determine if the co-packer is operating under a quality-control or food-safety system such as HACCP. This may be important if potential customers require that these systems were used for products they buy.

The names of other clients should be requested as references. It is a good idea to speak with some of these to determine what it's like to work with the co-packer. They can provide valuable information about the co-packer's commitment to schedules and to quality.

THINGS TO CONSIDER WHEN WORKING WITH A CO-PACKER

In the process of developing a relationship with a co-packer, it is important to put as many of the details as possible in writing to assure accurate communication and to prevent any confusion in the future. In many cases, the written communication will become part of a formal work contract since it is important that everyone involved understand their responsibilities in producing, packaging, and marketing the product.

Obviously, written orders should be placed with the co-packer. Specifications should be furnished for supplies, ingredi-

Problems or difficulties they had with the co-packer should be considered when making a decision to use a particular co-packer.

Discuss with the co-packer both present needs and future plans. Early in the relationship, small production runs may be all that is needed but later more volume may be required. It is important to determine if the co-packer can deliver on all required production levels. Also discuss with the co-packer if they will be able to meet product needs during peak seasons. In the specialty foods business, there are often seasonal needs, such as during the Christmas holidays, when turn-around time for re-supply of stores may be short. Determine if the co-packer can accommodate the timeframes of these special situations.

Early in the process, it is usually necessary to produce product for storage/stability testing. This often involves producing samples in alternate sizes or different containers. Check to make sure these can be processed by the co-packer. ■

ents, processing, and finished products.

Below are some items that should be considered and discussed with a potential co-packer:

Level of Involvement – Co-packers work at various levels with entrepreneurs. Some co-packers want to be told exactly what is wanted and then they will assume all responsibility for producing it. Others want the product owner present during the first few production runs to make sure the products produced meet expected quality standards. When beginning work with a

co-packer, establish with them how they prefer to handle this step. Although co-packers often will request that the entrepreneur be available in the plant during the first product run to ensure the product is made to the customer's satisfaction, the presence of the customer is generally not expected for subsequent runs.

Ingredients and Supplies – Some co-packers expect the product owner will be responsible for buying ingredients and supplies and the co-packer's job is simply to assemble the product. Other co-packers want to do all of the purchasing themselves. If the co-packer offers this option, it is often less expensive for the entrepreneur to have the co-packer buy the ingredients and supplies because they generally purchase in bulk. Co-packers often like to use in-stock ingredients because this assures they will be adequately supplied during product surges when a lot of product must be made quickly to replace sold items. At the time contracts are being set up it is important to establish with co-packers the specifics of how ingredients and supplies will be obtained and the quality of materials that will be used.

Volume – The entrepreneur's business plan should specify how much product will be needed and when for at least the first year of business. These requirements should be discussed with the co-packer. It is important to determine if the co-packer has the capacity to produce the amounts needed for a specified period of time. In many instances entrepreneurs just starting out may find that a smaller co-packer will be the best choice since large-scale co-packers may have minimum batch sizes that exceed potential first-year sales.

Packaging – There are numerous options for packaging food products, including various types of glass bottles; plastic, vinyl, and foil pouches; and metal cans. It is sometimes difficult for food entrepreneurs to determine which of the various options would be best for their product. In general, guidance can be obtained from a co-packer since they have knowledge of what options work well with various products and what they have the capabilities to produce. Because a co-packer may have equipment that can only handle certain types, sizes, and shapes of containers, the choice of a co-packer may be a factor in how the product will be packaged. On the other hand, if entrepreneurs have specific packaging requirements, this may limit their choice of co-packers.

Labels – Labels are very expensive and most co-packers want the product's owner to purchase the labels. However, these labels must be made of the proper materials and sized to fit the co-packer's labeling machines. Some co-packers will require labels be purchased from label companies and designers they do business with to assure the label will work on their machines.

Cost – It is critical that the cost of having the product co-packed is discussed before any work begins. At first the cost may seem high, but when this figure is compared with the cost of building a facility, equipping it, and hiring people to operate the equipment, the cost may seem much more reasonable. Some co-packers will provide a breakdown of the cost structure with the cost of overhead, packaging, labeling, labor, etc. specified. It is not unusual for the packaging and labeling to

cost more than the ingredients themselves. The cost of co-packing product also will be dependent on the amount ordered. As the amount of product produced goes up, the cost per unit generally decreases. When discussing costs, it is also important to establish how payment will be made. When working with new customers, some co-packers will ask for one-half of the cost up front with the remaining amount due on delivery of the product. Others may want 10% down with the remainder on delivery.

Storage and Distribution – Another area that should be discussed is the cost for storage and distribution. In most cases, the co-packer will make the product but the product's owner must be responsible for storing the product and paying for distribution to retail or sales outlets. Some co-packers may have storage they can rent on a weekly or monthly basis but arrangements for this should be discussed before product is made. If the end customer has any specific requirements for distribution, such as size of pallets, wrapping of the boxes on the pallet, or how the boxes are to be placed on the pallet, this should also be discussed with the co-packer.

Manufacturing – As discussed previously, a tour of the facility is an important part of the initial meeting with a co-packer. While making this tour, observe the type of equipment the co-packer has. Determine if the co-packer has the correct equipment to manufacture a particular product. Also discuss details such as how much lead time is necessary for future production runs and appearance factors

for the container, such as label placement, closure-gasket materials, closure color, and/or neckband placement, size and color.

Quality Control – It is important to let the co-packer know what quality characteristics are expected in the finished product. This should be specified in the written, finished product specifications. Include in these specifications critical processing factors such as pH, packing temperatures, or heat-processing requirements. Include a list of the factors that would make a finished product unacceptable. In addition to failure to meet processing specifications, these might include appearance factors such as color, contents separation, piece size, and texture. It is important to understand the system the co-packer uses for batch or lot coding and his/her recall plan. The co-packer will also need to know if any of the potential buyers of the product require that the food be manufactured under particular quality, safety, or certification systems such as HACCP, ISO 9000, Kosher, or Halal, and must guarantee these requirements can be met, if required. The co-packer must be aware of any requirements for third-party audits required by the customers.

Insurance – Most food retailers and restaurants require liability insurance on products they purchase. Determine if the co-packer has liability insurance and if that coverage will extend to the products he/she manufactures under contract for others. Note that, in almost every case, it will be necessary to furnish liability insurance on any product sold to stores. ■

CONCLUSION

Entrepreneurs often find that using a co-packer can make it easier to get into the food business, by drastically reducing the time it takes to get a product to market and saving capital for more important things like sales and marketing. In order to make the process of using a co-packer as easy as possible for everyone involved, it is important that the entrepreneur work diligently to develop a working relationship with the co-packer and to assure that all parties understand their responsibilities by writing down as much information as possible.



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