

Financing Your Specialty Food Business

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Overview

- Insurance
- Financing Sources
 - Debt
 - Equity
 - Community Funding

Liability Insurance

- Unlikely that home or farm policies cover specialty food business (SFB)
- SFBs susceptible to losses to fire, theft, auto or employee injury
- SFBs also at risk of lawsuits for causing foodborne illness or foreign objects
- Could lose personal and financial assets

Liability Insurance

- Request referral for agent experience with food businesses
- Insurance for general commercial liability covers:
 - Employee injury claims
 - Customer foodborne illness
- "Inland marine" covers property other than buildings

Insurance

- May be asked to indemnify a customer or an organization that you market your products through
 - Indemnification, or “hold harmless” agreements, require you to pay their legal fees and expenses if they are sued by a third party
 - Usually called “additional insured”

Typical Insurance Coverage Limits

- \$2,000,000 General Liability Aggregate
- \$2,000,000 Products & Completed Operations Aggregate
- \$1,000,000 Each Occurrence (applies to General Liability)
- \$1,000,000 Each Occurrence for Products & Complete Operations Aggregate
- \$5,000/\$10,000 Business Personal Property (single/aggregate)

Liability Insurance Options

- National firms
 - Nationwide
 - Progressive
- Food Liability Insurance Program
 - www.fliprogram.com
 - Policy premium is about half

To be able to get external financing, you will need to:

- Conduct a **market** analysis
- Estimate start-up/expansion costs
- Prepare financial statements, including cash flow projections
- Create a Business Plan (which includes a *Marketing Plan*)

Debt financing

- Usually require collateral
- Often require related experience
- Sources
 - Direct local bank loan
 - Guaranteed SBA Loan
 - \$5 million maximum
 - Average loan is \$334,000
 - Normal guarantee fee is 3% of SBA-guaranteed portion on loans of \$150,000-\$700,000
 - Cover working capital, inventory or supplies, fixtures, machinery or equipment, land, building construction or renovation

Debt financing

- SBA Microloans (via CDFI)
 - \$50,000 maximum
 - Average loan is \$13,000
 - Cover Working capital, inventory or supplies, fixtures, machinery or equipment
 - Interest rate 8%-13%

<http://www.sba.gov/content/borrowing-money>

Whole Foods Local Producer Loan Program

- Goal is to increase supply of locally produced foods
- Target borrowers needing \$1,000 to \$100,000
- Start-up businesses and applicants with low credit scores are limited to \$25,000
- Funding to be used for capital improvements to expand capacity
- Interest rates range from 5% to 9%
- Loan recipients in California include:
 - Coco Delice-artisan chocolate maker
 - Gelateria Naia-gelato on a stick made by hand in small batches using local ingredients

Equity Financing Sources

Besides credit cards and 2nd mortgage:

- Your personal savings
- Friends and family
- Create business with “partners” through LLC or S-Corporation
 - Venture capitalists
- Some Crowdfunding programs

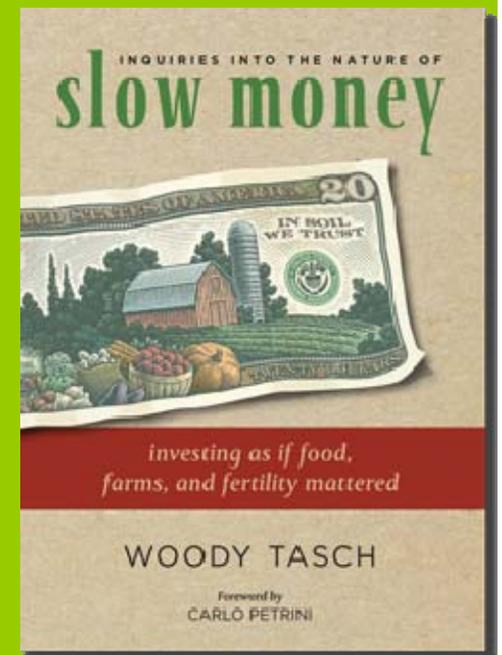
Crowdfunder.com

- CircleUP circleup.com
 - Online platform that connects high-growth consumer and retail companies with experienced investors
- Crowdfunder.com
 - Strong business orientation
 - Businesses submit complex Term Sheet, Executive Summary, Pitch Deck (Powerpoint)
 - Investors must be Accredited Investors
 - Have at least \$1 million in assets excluding main residence, or \$200,000+ annual income past 2 years

"Community" funds

- Slow Money <http://slowmoney.org>
 - Relationship between food, money and soil
 - National & regional gatherings
 - Can be either debt or equity

We must learn to invest as if food, farms and fertility mattered. We must connect investors to the places where they live, creating vital relationships and new sources of capital for small food enterprises. ---Slow Money principle



"Community" funds

- Local Investment Opportunity Network (LION)
<https://www.local-investing.com>
- Credibles <https://credibles.co>
 - Similar to an unsecured loan
 - Customers prepay for food and receive edible credits to use like a gift card, usually at a discount
 - Food business get the money they need to grow
 - Large prepayments can even earn edible interest
 - SFBs include Farmhouse Culture, Naia, St. Benoit Creamery, Golden Coast Mead, Garden Variety Cheese

Crowd funding (donations)

- Collective effort of individuals who network and pool their money, often via the Internet, to support efforts initiated by other people or organizations
- Can capture different types of supporters simultaneously
- Tap into people's natural affinity to support causes they believe in
- Often reward funders with unique rewards



Crowd funding

- Kickstarter www.kickstarter.com
 - Broad range of projects; no screening but Staff Picks
 - Raised \$65 million for 3438 food projects
 - All or nothing funding; 5% fee only if funded
 - 444 live food-related projects on Friday
- Foodiecrowdfunding.com
 - No fees while in its Beta phase
 - Variety of food categories--artisan food, specialty restaurants, wineries, breweries, specialty food retailers

Crowd funding

- Indiegogo www.indiegogo.com
 - Claims to be world's largest crowdfunding source
 - Very broad range of global projects—business, medical, education, animal
 - 4% Indiegogo fee and ~3% PayPal fee charged to successful Fixed Funding project
 - No fees charged to unsuccessful Fixed Funding project
 - For Flexible Funding projects, ~3% PayPal fee & 3% Credit Card fees charged, plus 4% Indigogo fee if

Barnraiser

www.barnraiser.us

- Supports projects that shape how we farm and eat, locally and globally
- 82% funded, \$12,000 average, \$2,000 minimum
- Charges 5% fee only if funded, plus 4-5% for credit card and payment processing partners, based on the total number of transactions.
- Suggests developing a community to support the project before launching campaign

Barnraiser Sample Project: Kitchen-Witch Bone Broth



- The Project—2 40-gallon steam kettles
- About: Broth made using only the highest quality ingredients with 100% Pastured, Grass-Fed animal bones, organic vegetables, and reverse osmosis filtered water, all sourced locally in the Bay Area.
- Other Ways You Can Help: Share link to project with friends via email, Facebook, Twitter. Get free bottle of broth for every 5 friends that contribute at least \$25 each
- Vimeo—2:47, featuring founder, processing, staff, farmer suppliers, and new equipment
- Included photos of staff with short descriptions
- Goal \$15,000, ranging from \$10 to \$2,000 (year supply of broth)
- Raised \$19,348 by 5/20 with 122 Barnraisers

\$30 Broth Tote, Recipes, Stickers!
Get our "Good to the Bone" cotton tote bag, and show your allegiance to broth and health! Also get our custom #bonebroth-heals stickers, and beautiful Bone Broth Fact Sheet and Recipe Cards. Shipped to your door.

\$75 Nutritional Consult with Magali
Let's talk about eating for health. Our Kitchen Director Magali, is a Licensed Acupuncturist and Herbalist, trained in dietary therapy. Take advantage of this opportunity: we will hone in on the changes you can make to heal your gut, calm allergies, soothe arthritis, and so much more. Followed with personalized nutritional plan and resources.

Direct Public Offering (DPO)

- Public offering of securities by a business to both accredited and non-accredited investors
- This is not a donation, nor is it a “Wall Street” investment
- Another form of crowd funding
- Investors hold preferred, non-voting, equity shares
- Used by both Ben & Jerry's and Annie's

Brio DPO



- Brio Breadworks founded bakery in 1997, then opened Café Brio in 2007, both in Arcata
- Needs capital to expand and improve its operations
- Offered to residents of California are *preferred, non-voting, equity shares* of BRIO BAKING INCORPORATED, a California Benefit Corporation
- \$100 a share, with a minimum investment of \$1,000
- Offering \$600,000 in shares
- Provide Prospectus to serious investors
- Produced 1:45 min video for Invest page on its website

Brio DPO

- Worked with [Cutting Edge Capital](#) to launch campaign
- A DPO avoids the pitfalls of both Venture Capital and Debt financing
- Paying back its community than the bank
- Have considerable community that supports us everyday
- A DPO will keep money in the local economy

Brio DPO Investors Receive:

- An annual interest return
- Invitation to an annual shareholder meeting
- Perks and investor-only events as decided by the company
- Good vibes about supporting the community and contributing to the local real food movement

SUMMARY

- Broad range of financing options
- Community funding requires using social media, which could also strengthen product marketing
- Imagination and persistence required!