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## **Understanding and Managing Risk and Return for Small-Scale Value-Added Food Businesses**

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## Introduction

- Colorado State University's role:
  - Investigated legal, food safety and business development issues originating in other states with cottage food legislation (see map)
  - Explored the implications for Colorado consumers and producers of cottage foods
  - Identified education and support necessary to encourage safe and successful home-based businesses.



## Background

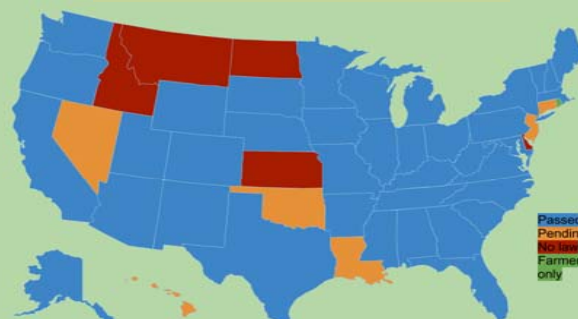
- In March 2012, Colorado passed its first legislation authorizing the production of a limited range of *non-potentially hazardous* foods in unlicensed home kitchens, stipulating that these products only be sold direct to consumers. Colorado's Cottage Food Act was then amended in April 2013 to change food safety training requirements and provide clarifying language regarding market outlets, labeling and egg sales.
- Advocates for small-scale food production and marketing believe that Colorado's Cottage Food Act provides a significant opportunity to develop and test new food products, test marketing strategies and new small-scale business models, generate additional household income and provide employment (Fusaro, 2012; Krebs, 2013).
- Food safety advocates, which include public health, Extension, and agriculture professionals are concerned with the potential for foodborne illnesses resulting from inadvertent contamination of products produced in the unregulated home kitchen environment, or possibly from intentional contamination (Scott, 2003; Rheinart, 2011).
- As more states respond to home food producers' demands for lower barriers to entry for sales of commercial food products, it emerges that there are unintended consequences to these initiatives that may need to be addressed in future legislation and through on-going education and technical assistance.

## References

- Fusaro, Dave. 2013. Colorado's Cottage Foods Act. Food Processing, April 24, 2012.
- Krebs, Candace. 2013. "Cottage Foods Act helps ease regulatory burden." La Junta Tribune. April 19, 2013.
- Rheinart, Courtney. 2012. An Analysis of Regulatory Schemes Used Throughout the U.S. for Home-Based Food Businesses: Options Available to Enhance Food Safety. The Journal of the Association of State Food and Drug Associations, Vol 72:1.
- Scott, Elizabeth.. 2003. Food safety and foodborne disease in 21st century homes. Canadian Journal of Infectious Diseases, 14(5), 277-280.

## Research and Materials Development

### States with Cottage Foods Laws



In-depth surveying of 12 states' public health, University Extension, business development agencies and farmers' market managers to understand how they responded to food safety issues, provided technical assistance to producers, and addressed any unintended barriers or benefits with respect to their states cottage food laws.

### Budgets to Assist Producers in Understanding Costs and Returns of Home-Scale Food Production

#### 1. Sell cottage food product at farmers' market

Summary costs and returns, based on 500 jars of strawberry jam:	Source of strawberries:		
	Your own produce	Purchased from retail grocery	Purchased at farmers' market
1. Fixed costs per 1/2 pint	\$ 0.25	\$ 0.25	\$ 0.26
2. Variable costs per 1/2 pint	\$ 3.35	\$ 4.01	\$ 5.44
3. Total costs per 1/2 pint	\$ 3.61	\$ 4.26	\$ 5.69
4. Expected revenue per 1/2 pint	\$ 6.00	\$ 6.00	\$ 6.00
5. Expected returns per 1/2 pint	\$ 2.39	\$ 1.74	\$ 0.31
<b>Net return on 500 jars</b>	<b>\$ 1,196.00</b>	<b>\$ 867.99</b>	<b>\$ 154.22</b>

#### 2. Sell cottage food product from home:

Summary costs and returns, based on 500 jars of strawberry jam:	Source of strawberries:		
	Your own produce	Purchased from retail grocery	Purchased at farmers' market
1. Fixed costs per 1/2 pint	\$ 0.25	\$ 0.25	\$ 0.26
2. Variable costs per 1/2 pint	\$ 2.67	\$ 3.33	\$ 4.76
3. Total costs per 1/2 pint	\$ 2.93	\$ 3.58	\$ 5.01
4. Expected revenue per 1/2 pint	\$ 6.00	\$ 6.00	\$ 6.00
5. Expected returns per 1/2 pint	\$ 3.07	\$ 2.42	\$ 0.99
<b>Net return on 500 jars</b>	<b>\$ 1,536.42</b>	<b>\$ 1,208.39</b>	<b>\$ 494.62</b>

Budgets illustrated the constraints on production efficiency and resulting costs of production from using home-scale equipment and small-batch recipes, and the risk premia for purchasing product liability insurance.

## Project Outcomes

Colorado State University's Departments of Agricultural and Resource Economics and Food Science and Human Nutrition collaborated to complete:

- Educational materials —
  - Webinar – "So You Want to be a Cottage Food Producer?" Review of 2012 legislation, allowable foods, food safety training, and guidelines for developing a home-based food business
  - Online **food safety and food business development curriculum** – "Developing a Safe Food Business" 8-week course comprising 16 units
    - food safety:** sanitation procedures, food safety hazards related to ingredients, allergens, production, packaging, transport, and labeling.
    - business development:** business planning lessons, mission statements, long-term goals, licensures, marketing, budgeting, and record keeping.



- Online resource platform — [www.cofarmtomarket.com/cottagefood](http://www.cofarmtomarket.com/cottagefood)  
Provides up-to-date information on food safety training, allowed and non-allowed products, and business development.



- Colorado Cottage Foods Product Information Sheets — Provide an overview of food safety considerations pertinent to the following categories of allowable food products:

- Baked Goods
- Candies & Confections
- Dehydrated Produce
- Honey
- Jams, Jellies, Preserves, and Fruit Butters
- Nuts and Seeds
- Teas, Herbs, & Spices



- Navigating Colorado's Cottage Foods Act and Starting a Home-Based Food Business — A guide to clarify the regulations applicable to Colorado cottage food producers; describe the costs and benefits of doing business under Colorado's Cottage Foods Act; identify potential business risks; and explore some common business development and risk management practices.