

2018 Michigan Good Food Summit

Breakout Session #8: Scaling Your Food Business with Financing—It's All in the Preparation

10:45 am

Speakers: Chris Wendell, Northern Initiatives; Vicki Zilke, Zilke Farm Kitchen; Angelia Sharp, Detroit Development Fund

Chris provided background information on MGFF and partners. He discussed providing gap loans to cover the amount a traditional bank will not provide financing for.

Angelia with DDF, CDFI located in downtown Detroit. Priority is to assist companies in growth, start-ups. They assist clients who have difficulty with funding due to start-up phase or credit issues. DDF is a spin-off of Shore Bank, starting with \$1M and has grown over time. Starting with \$50,000-\$250,000 for loans.

FEAST Detroit, referred to MGFF by Eastern Market, Garden Fresh Building sat empty and City of Inkster wanted to get building occupied, was funded by MGFF. Several small businesses moved to a stage 2 business model and needed space to process value-added products.

In Flint, the Local Grocer, will obtain funding from MGFF soon. Baobab Fare in mid-town Detroit received a Catalytic Investment Award to sell eastern African foods.

Torti Taco, Javier Fortoso is the owner, has won numerous awards for his business. He attended an MGFF bootcamp, received technical assistance, got a loan to increase catering business. Received help with a website for online ordering system from MGFF.

Scaling up often occurs when a business is growing and trying to meet demands for product. A business should ask who is my target market and do I have a good product? A business could offer pop-up shops to get name out to the public and see if you can meet the demands for the product. A farmers market may be a good way to test the market and product. To scale up we must increase sales but not over-head costs. Consider growing geographically. Work to increase economy of scale – increase sales without increasing labor and other costs at the same rate.

When scaling up becomes a challenge – demand and orders surpass capacity. Now there is a cash flow issue. Income statement = sales – net profit. Too many businesses look at checking account balance to assess how successful the business is doing. But we need to look at income statement instead. We recommend a cash flow statement to assess how much money is on-hand, how much is needed to be paid out, how much is coming in, and the cash flow statement. Consider seasonal ups and downs when looking at cash flow. If cash flow is needed, consider if financing is needed – a term loan (4-10 year loan) or a line of credit (a specific amount of money available to be borrowed over a specified time).

Where to find funding – savings, friends, family, bank, credit union, lending intermediaries (Northern Initiatives or Detroit Development Fun are examples), investors, crowdfunding. Be careful who you are in business with – if >20% invested/ownership, must be a guarantor on a

loan. SBA loan (Small Business Association) will review personal background and may prohibit loan approval. Consider crowdfunding, avoid pay-day lenders “money in your account in 24 hours” – these debit your accounts on a daily basis. A membership concept may work for you as well to pull in investors – offer a membership with no-cost meals/services/products to your investors while you are growing your business.

Lenders will look for cash flow, collateral, industry/trends, credit history, experience, management/systems. Lenders will look for a personal asset as collateral as well as business assets. Lender will look to the “story” before providing financing.

Vicki Zilke started her farmer role eight years ago which lead to her food justice and entrepreneur bug. Vicki is now the marketer of the business promoting their CSA and recipe ideas. Issue is that people are too busy to cook from scratch and cannot prepare food for themselves and families. Says hang up is time, not food deserts. Her business is centered around preparing healthy meals for busy people. Offering ready-to-cook meal kits out of her farm kitchen shop. Received a \$30,000 loan to update a building and learned how to cash flow this business notion. The Michigan Good Food Fund provides expert advice to her to build her business. Her business opened June 1, 2018, providing jobs and food to the people of Milan. The building took from November 2017 to May 2018 for renovations including removing asbestos tile and professionals to bring building to code. Northern Initiatives helped build the Zilke Farm Kitchen website. Website costs \$29.00 per month to maintain. She hopes to pay her staff \$15.00 per hour and is working with the Michigan Good Food Fund (Northern Initiatives and MSU Center for Regional Food Systems) to analyze her finances to determine when she can pay her staff a higher wage. She says her local bank would not be able to provide this level of support on the important issues like good food and good jobs. Sixty percentage of sales are her meal kits, she also sells grab-and-go salads, now adding comfort foods for fall season, like soups and shepherd pie.

Questions asked to Vicki:

Are you chopping your own or using equipment? *Answer* – Vicki says most are done by hand but does have a potato peeler piece of equipment.

Who are you licensed by? *Answer* – MDARD. Is this more profitable than the farm stand? – Sales of her fresh produce at her kitchen = 8%. She is still working on what her profit margin is. Used 4,000 pounds of Zilke Farm produce in her farm kitchen. Does have to purchase some items from other suppliers – olive oil, lemons, limes, etc. She has some customers who will travel 20-30 miles but most customers are from Milan.

How did you market the business? *Answer:* Their business is well known with the farm stand and has a large following already. She also has marketed herself and her business throughout the state.

How do you know how much to make each day? *Answer* – She makes 40 kits each day, keeps close records using a point of sale system, each kit can stay fresh several days, less kits needed the next day, and so on.

How much will the Michigan Good Food Fund support the business? *Answer* – The program will continue to support her and notify her of other funding options to help her business.

Can non-profits be included? *Answer* – Yes, the lender will look at collateral in a different way.

Do you help write business plans *Answer* – Yes, we do. You can also look at SCORE, SBDC (Small Business Development Center), and the MSU Product Center. In Detroit, Lifeline Business Consulting is a great resource.