

ProductCentral

News and advice from the MSU Product Center.

July, 2008 edition

Welcome, learn, enjoy!

You are seeing the first issue of our new newsletter, Product Central. We plan to produce it quarterly and pack it with news and nuggets of entrepreneurial and new venture advice. When we did our strategic planning a year ago, we heard from clients and service providers alike that you wanted us to communicate regularly with useful information about markets, ventures and entrepreneurship. We intend to make Product Central our continuing means of meeting these information needs. [Click here for more](#)



Success Story



Tim and Melissa Ewing get their kids to eat vegetables and launch a successful business venture all at the same time! [Click here for more](#)

Ask the Experts



From Recipe to Launch

How can I get Nutritional labeling for my product?

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The Retail Guru

What is the best way to market my product?

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Hot Topics



Bill Knudson weighs in on the Food vs. Fuel debate. [Click here](#)

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Nutrition Facts Labels

By: Dianne K. Novak, RD, MS

According to the 2007 Hartman Group Label Reading Survey, over half of all consumers (59%) say they are reading labels slightly-to-much more often today, than compared to a year ago. With this, consumers look to product labels as a way to learn about the product, its use and in some cases, for health reasons. In fact, the Hartman study also stated, of the top five reasons why a consumer would carefully read a label, reasons two and three were health-focused. These reasons were self and/or clinically diagnosed health conditions and the avoidance or inclusion of certain nutrients. Consumers are doing their primary label reading in the store at the shelf, with 75% reporting they read this information because they are trying to “eat healthy.”

Of all the information provided on the product label, 82% of consumers surveyed by the Hartman group, always/usually look at the Nutrition Facts Panel. Therefore, producers should make it a priority to incorporate this information on their label. However, the FDA Code of Federal Regulations, exempt small businesses from including this information if the following conditions are met: (1) no health claim about the product is made (can only be stated within established FDA approved claims) and (2) annual gross sales made or business done in sales that is not more than \$500,000 or has annual gross sales made or business done in sales of food of not more than \$50,000.

The Nutrition Facts label for products can be generated either by a laboratory analysis for certain group of nutrients or by using a reputable, industry recognized, nutrient analysis soft-

ware program. The latter choice is the process the Product Center uses via the Genesis R&D program. The Nutrition Facts Label is based on the product formula (recipe) which is calculated by Genesis for the nutrient analysis. This is then incorporated into a label format. There are multiple variations of the format for the Nutrition Facts

label, based on the space available for the label. The Nutrition Facts Label is provided via an electronic format for ease of placement. All Nutrition Facts Labels are performed in conjunction with the MSU Food Science and Human Nutrition Department to ensure accuracy in product nutrient analysis.

Many considerations must be taken into account when one is determining whether or not to place a Nutritional Facts Label on one's product. However, given the high importance consumers place on being able to judge the nutritional content of a product before they buy it, the benefit of such a label will usually far exceed its cost. This service is provided through the Product Center's Specialized Services for a fee and can be obtained by submitting a request to an Innovation Counselor.

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Sample label for
Macaroni & Cheese

Nutrition Facts	
Serving Size 1 cup (228g)	
Servings Per Container 2	
Amount Per Serving	
Calories 250	Calories from Fat 110
% Daily Value*	
Total Fat 12g	18%
Saturated Fat 3g	15%
Trans Fat 3g	
Cholesterol 30mg	10%
Sodium 470mg	20%
Total Carbohydrate 31g	10%
Dietary Fiber 0g	0%
Sugars 5g	
Protein 5g	
Vitamin A	4%
Vitamin C	2%
Calcium	20%
Iron	4%

* Percent Daily Values are based on a 2,000 calorie diet. Your Daily Values may be higher or lower depending on your calorie needs.

	Calories: 2,000	2,500
Total Fat	Less than 65g	80g
Sat Fat	Less than 20g	25g
Cholesterol	Less than 300mg	300mg
Sodium	Less than 2,400mg	2,400mg
Total Carbohydrate	300g	375g
Dietary Fiber	25g	30g

The Undercover Vegetable Company

By Tom Kalchik

Tim and Melissa Ewing had a problem most parents are quite familiar with, “How could they get their kids to eat more vegetables?” They tried pureeing vegetables, mixing them with other foods, and many other methods but nothing worked. That is, until they created a version of their first product, the Yotta Bar. A healthier granola bar alternative that is all natural. Amazed at their newfound ease of overcoming the habitual struggle all parents face, they knew they were on to something, and The Undercover Vegetable Company was formed.

However, having a great idea and product is one thing, turning it into a great business is another. Not sure exactly how to proceed, the Ewings turned to the Product Center in July 2004 for assistance with developing their new business. Initially, Jim Bardenhagen, Innovation Counselor in Northwest Michigan, helped them use the Mintel market research reports to gather information about the market for snack bars for the completion of their business plan.

After completing their business plan, the Ewings needed to figure out how to get that nutritional label required for all food products sold in retail onto their package. “The Product Center really helped us with nutritional information,” says Melissa. “Janice Harte and her staff at Food Science and Human Nutrition not only provided us with nutritional labels, but provided the analysis for our product’s claims, for example the amount vegetables and fruit in



each bar and our claim levels for Vitamins C and A.”

Melissa also credits Matt Birbeck and Dianne Novak of the Product Center with helping her with general information about distribution and marketing. “They showed us the ropes and how it works in the food business.” Dianne also helped her understand the school distribution system, a consideration for future distribution plans.

Melissa was then introduced to another Product Center customer, Becky DeYoung, who makes DeYoung’s Foreseasons spices. Becky helped her make connections to potential customers and became a mini-distributor for her fledging business. “Through the connection with Becky we realized that other people could help us sell our product,” says Melissa, “You can only do so much alone. For us, it seemed right to leverage others who can really help expand distribution, rather than try to do it all ourselves.”

The company’s small size also gave them an advantage. Shortly after they started distribution they learned that their initial target audi- (Continued next page)

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ence was greater than they originally thought: “We realized quite quickly that adults were purchasing Yotta bars for themselves as well as for their kids. Since we were small we could be nimble and quickly changed our marketing strategy to focus on adults as well as children.”

Melissa has a background in public relations and has used that knowledge to help spread the word about The Undercover Vegetable Company. “I subscribe to a service that provides me with PR leads and advice about how to respond to those leads. I would be glad to refer any Product Center customer to my PR service.” Those contacts have proved to be valuable to the start up business. Yotta Bars have been featured on QVC five times and is scheduled for another airing in July. “Keeping with our approach to use experts in marketing and sales we have created a network of brokers and distributors around the country to increase sales and help roll out Yotta Bar and future products.” Through that network, Yotta Bars are now available in all Whole Foods stores nationally, as well as health food stores and conventional grocery stores. The distribution network they have developed includes UNFI (United Natural Foods, Inc.),

Tree of Life, and Kehe (specialty and gourmet foods), among others.

In looking toward the future, Melissa says, “We hope to raise capital in order to increase our marketing and support our new products. Tim (Melissa’s husband and Co-Founder of the company) has some experience in raising capital. He participated on a team that listed a company on NASDAQ, and that experience should help The Undercover Vegetable Company raise capital.”

When asked about an exit strategy, Melissa states, “from the beginning our goal has been to create good products that have good markets. When we accomplish this, then good exit strategies will naturally evolve.”

Melissa’s advice to other aspiring entrepreneurs is succinct. “In the beginning, you need to do much of the work yourself but if the business requires volume growth, then you have to quickly seek other resources and other people to help you grow your business. Our contacts with the Product Center and other Product Center customers helped us get to where we are now. We still have a long way to go, but we are proud of our accomplishments so far.”

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Food vs. Fuel



By Bill Knudson

The global economy has recently seen a rapid increase in agricultural commodity prices. The World Bank estimates that global agricultural commodity prices have increased by 83 percent over the past three years. The price of rice has increased particularly rapidly, by as much as 141 percent from the beginning of 2008 through April of this year according to the Economist magazine. These increases are having a dramatic impact on low-income households that spend much of their income on food.

These rising food prices have led to calls for the U.S. to cut back on ethanol production in order to reduce food prices and alleviate global hunger. Clearly, the transfer of corn from food and feed production to energy production is impacting the agri-food system, and has led to higher prices, especially in the livestock sector. However, several other factors are also at work. These include the growth in income in developing economies such as China and India, the reduction in the value of the U.S. dollar, production shortfalls in other exporting countries, government policies that restrict imports and cap prices, and an increased level of speculation in agricultural commodities markets. Therefore, one must question how significant is ethanol's role in the rise of food prices, and would decreasing ethanol production really provide much relief?

There have been several attempts to measure the impact of ethanol on food prices, which provide mixed results. The International Food Policy Research Institute believes that the expansion in biofuel production accounts for 25 to 33 percent of the increase in global commodity prices. However, in 2007, Tokgoz et al estimated that in 2007 consumers paid only 1.1 percent more for food as a result of increased use of corn for ethanol. From 2006 to August of 2007, the same paper estimates that per capita food costs have increased by \$47 or \$188 for a family of four. The weekly increase in food spending in this case is slightly more than 90 cents per person or \$3.62 for a family of four. Most of this increase is due to higher meat and dairy prices. While research carried out by Informa Economics shows little impact on consumer food costs as a result of increased use of corn for ethanol. They found that there was little evidence to support the hypothesis that high corn prices caused higher meat, egg and dairy prices.

While there is some variation in the results of these studies the conclusions tend to be similar. The increased use of ethanol has impacted corn prices, and higher corn prices have affected other commodity prices such as wheat and soybeans. However, these impacts are relatively small and are not the primary source of agricultural commodity price inflation or the rising cost of food.

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Perhaps the greatest cause of agricultural commodity and food price inflation is a combination declining output and increasing demand. The increase in demand is due to an increasing global population coupled with increasing affluence, especially in the developing countries such as China and India. Drought and production shortfalls have reduced supply and reduced carryover stocks. The reduction in carryover stocks have led to the lowest level of grain stocks in decades. The reduction in supply coupled with an increase in demand has likely been the greatest cause of rising prices.

Other factors, such as the decline in the value of the dollar has made the increase in commodity prices higher in the U.S. than it has in most major exporting and importing countries. On the other hand, it has also improved the competitive position of U.S. exporters relative to other exporting nations.

The increases in corn and grain prices have also impacted other sectors of the agri-food system. Input prices have risen for all farmers. Grain dependent sectors such as the livestock sector have been adversely affected. This is particularly true for hog and poultry producers. The costs of food manufacturers have also increased dramatically and, to some extent, these costs are passed on to consumers in the form of higher prices.

In the long run the markets will adjust and agricultural commodity prices will decline. Farmers throughout the world are already adjusting to higher prices by expanding output. The old adage that, "High prices cure high prices," will hold. However, in the short run higher agricultural commodity prices and the higher food prices that result from that will reduce the standard of living for consumers. This will not cause major disruptions in the U.S. but could have serious implications for developing countries that whose consumers spend much of their income on food.

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New Product Ideas: Resources at the Product Center



By Getachew Adatekassa

New product development is crucial to the success of new entrepreneurs and existing businesses. Product development starts with a product idea. Great and successful product ideas meet the consumer's need thereby creating and expanding market opportunities. The Product Center provides entrepreneurial programs and services to entrepreneurs and businesses in the agri-food and bio-energy sectors. The Center uses different product development and market resources to assist its clients in their business, product and market development process.

The Product Center subscribes to the Mintel Global New Product Database (GNPD) (<http://www.mintel.com/gnpd.htm>) for new products in the food and beverage sector. GNPD monitors worldwide product innovation trends in consumer packaged goods markets. This covers a wide range of product activities in the food, beverage, and non-food (beauty and personal care, household good and pet care) sectors that help entrepreneurs and businesses in product idea generation and competitor monitoring. GNPD lists about half a million new products introduced in three years in more than fifty countries. GNPD makes daily updates on new products launched, and produces monthly and quarterly trend reports focusing on latest trends and novel products.

The Product Center used the Mintel GNPD and Mintel consumer reports to develop re-

sources and information on product development and market opportunities for its clients in the agri-food sector. This included Rapid Opportunity Assessments (ROAs) and fact sheets in seven sectors (dairy, beef, fruits, vegetables, field crops, specialty crops, field crops, and nursery and greenhouse). The ROAs broadly identify product lines with high market potential. These fact sheets and ROAs are being used by entrepreneurs and existing businesses to test or confirm their business ideas. These resources can also be used to learn more about market drivers in order to select product lines that have high market potentials. In addition, Center staff, a network of innovation counselors and educators, and clients use these resources to develop business plans or conduct market analyses and feasibility studies. The ROAs and the fact sheets are available on the Product Center's web site at <http://www.productcenter.msu.edu/strategic.htm>.

Whether you are a current Product Center client, a new entrepreneur who wants to start a business in the agri-fod sector or an existing business (producer, farmer, wholesaler, distributor, processor or retailer), these resources at the Product Center will help you learn about market drivers and product development trends. This could help you develop new product ideas, test existing ideas or move your product idea forward.

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To Retail or Not To Retail: That is the Question.

By Matt Birbeck

Like the old saying goes: “Build a better mousetrap and the world will beat a path to your door.” What the saying doesn't tell anyone or even mention is: YOU MUST get out there and let "the world" know about that better mousetrap! The following is intended to help you understand the steps necessary to make retailing a reality.

Consider your options. Retail marketing may not be the easiest place for you to start. Other marketing options that you haven't considered—or haven't considered recently—may be more appropriate for you. Is there a farmers' market nearby? Is there a market for your products among local chefs? Are there opportunities to market through a cooperative?

Listen to the experiences of other producers selling their products in each of these different markets. These and other market opportunities can offer producers a chance to gain sales experience while building financial equity and brand name recognition. Direct sales to consumers can offer greater control of cash flow for your business, compared to waiting for retail stores to process paperwork and write checks. Direct marketing may also pay a better premium than selling to retail stores. Start by writing down your options on paper. You should compare the numbers by laying out the products and volume you are capable of producing; analyze your production and delivery costs; calculate your time required to meet the needs of the retail store with the prices



you can earn; consider how each marketing option fits your lifestyle preferences and values. How these compare can help you decide what route is best for you.

Before you approach retail buyers, it's not a bad idea to understand their work environment and constraints. Start by spending time in the stores that interest you—study the products and prices. Return regularly to stay up-to-date on stores you want to approach. Here is some background that may help you understand where buyers are coming from. Buyers have a lot of people to please. Buyers need to satisfy both their store managers and customers. Managers want a steady flow of satisfied customers and assured income, preferably with increasing sales. On the other hand, store customers have their own needs and desires. They want certain products and pricing. If they don't get what they want, they will take their business to another store. So remember that buyers may have a very narrow space to negotiate on price. If things are going well, they may have no interest in a new account like you. From a buyer's point of view, why rock the boat? Buyers are busy people. Because they have little time, buyers may prefer to work with

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a distributor that supplies multiple products. They may not see sufficient value in products available directly from farmers to justify the time it takes to work with individual suppliers. If you are going to sell to buyers who normally work with a distributor, they will probably expect all of the services and support they get from the distributor—plus more—to justify the extra time it will take to work with you.

Here are some basic criteria when approaching retail stores, whether it be a Mainstream supermarket chain or Natural Food / Specialty store:

- A written sheet about what your product is and who is your audience.
- Product Sample.

Most producers approach retail sales by thinking about their own needs—to sell their products at a certain price within a specified time frame. But you may have better success if you try to solve a buyer's problems or point out a new opportunity your product offers. Look for a situation where you are selling something that a buyer is looking for—maybe it's organic broccoli to complement conventional broccoli. Or perhaps you can offer the buyer a better price because you're local. Or maybe your product has some other novel characteristic—like antibiotic free or pasture-raised. Once you have the buyer's attention most buyers will expect you to be able to discuss the following:

- Consistent product quality.
- Product meets packaging and labeling requirements.
- Timely delivery.
- Consistent and professional service.
- Handling low sales levels.
- Advertising money.
- Free product for demos.
- Production and processing information.
- Knowledgeable person to host demos.

Always speak to the retail owner or buyer as it is rare that your information sheet or phone number will be passed on from an employee to the correct person. Ask when a better time would be for you to come back to meet him or her. This information sheet is intended to help you get time in front of the retail owner or buyer to discuss your product.

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If you are a venture client—either a new entrepreneur or an existing business looking for new opportunities—please let us know of topics that you would like us to cover in future newsletters. You can see from the outline of columns in this issue that we can cover a wide variety of topics of interest and use.

If you are a service provider partnering with the Product Center, please share topic ideas as well. You may also want to contribute articles to the newsletter that would help our clients.

For everyone, keep us abreast of key events that we can help promote in the area of market and venture development, entrepreneurship, and business innovation.

We want the newsletter to serve as a “central” place for us all—Product Center staff, clients, and service providers—to share and learn. Welcome, learn, enjoy!

Chris Peterson, Director.

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Schedule of Upcoming Events

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|-----------------------------|--|-----------------------------|--|
| • July 15-17, 2008 | Ag. Expo, MSU Campus | • August 12-14, 2008 | MI Agribusiness Assoc. Summer Outlook Conference |
| • July 24, 2008 | “Buy Local” Farmers Market | | |
| • August 12-13, 2008 | Choices Conference, C.S. Mott Group for Sustainable Food Systems | • September 16, 2008 | MSU Student Organic Farm Daylong Workshop |
| | | • November 13, 2008 | Making it in Michigan Product Center Conference And Trade Show |

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