

How To Start A Cottage Food Business From Your Home Kitchen

David Crabill: Hello everyone! Welcome to The Forrager Podcast. I'm David Crabill, and this is a special episode because it is Episode #1.

[00:00:09] This is going to be a little bit of a different episode today. This podcast is all about the cottage food industry and cottage food businesses. Typically, I'll be running the show interview style where I will be talking with cottage food businesses about what works well for them, what maybe hasn't worked well for them, what their strategies are, and all of the things that it takes to run a business successfully from home.

[00:00:33] If you're not familiar with the term cottage food industry or cottage food business, that's okay. I'll talk about that in a little bit, but basically we're talking about home food businesses and that's what this podcast is dedicated to.

[00:00:46] But as I said, it's a little bit different today. It's just me for this one, and I thought it would be good to do a little introduction of the show, and what the cottage food industry is. How did we get here? What does cottage food mean? Then I will be talking a little bit about what Forrager is. That's the website I started back with a friend in 2011 nine years ago. And I'll talk a little bit about why I am starting a podcast right now and what Forrager's all about.

[00:01:14] Finally, because this is a show about cottage food businesses and how to start one, I'll talk a little bit about my own adventures in getting my fudge business off the ground over the years. In line with that, I mean, there's a lot of things I could talk about, but for this episode, I wanted to focus on one of the core things that you need to do if you are trying to start a food business, or really, any business for that matter. And that is validating your business idea. Because you can't really move forward with the business concept until you have proven that it is something that the market wants and needs and is willing to adequately compensate you for. So I'll talk a lot about validation in this episode in particular.

[00:01:57] And with that, let's get started and talk about the cottage food industry. What does that mean? What is cottage food? Cottage food is a little confusing because it's not like there's an organization out there that has defined the term cottage food, or there's no legal definition. Cottage food is actually just a term that has become popular amongst people running these kinds of businesses, and in particular over the past decade or so, when the cottage food industry has really sprung up and gained some momentum.

[00:02:30] So there is no legal definition, but my definition of what I mean when I say cottage food or cottage food business would be specifically somebody who is using their home kitchen to start and run a food business, and in particular someone who does so legally under their state's cottage food laws. This contrasts from most food businesses that use a commercial kitchen, also known as a commissary kitchen or a shared kitchen, and it's a lot more complicated to start a commercial food business through a commercial kitchen

typically. So this podcast is only going to be focused on those people using their cottage food law and running their business out of their home.

[00:03:14] What is a [cottage food law](#)? Well, every state actually has their own food code. The FDA, the Food and Drug Administration in the United States, publishes a food code every two or three years in which they give a template for what a food code should be. Every state has adopted some version of the federal food code. The problem with the federal food code is that there is a line in there which specifically makes it illegal to sell homemade food. I haven't been able to go back far enough to figure out exactly when every state enacted a version of the food code, which had this line in it. But I'm pretty confident that at least by the early 90s every state had adopted some version, which made it illegal to sell homemade food. And certainly by the early 2000s that was the case. There were only a handful of states at the time that had some version of what we now call a cottage food law, which would have exempted certain people from that law prohibiting homemade food sales.

[00:04:25] This started to change, right about when the Great Recession happened. 2007, 2008, 2009... we started to see the introduction of a number of cottage food laws in the states, and there's a couple of reasons for this. One, the local food movement was growing like crazy at the time, and it's still growing today, quite frankly. People were much more interested in buying local, local organic foods, farmer's markets... that trend was on the way up. At the same time, we had the Great Recession and the economy was tanking. So you had a lot of people who were out of jobs and had their home kitchens and knew how to make food and knew how to sell food. People started to realize that if they could just sell their own homemade food legally, that would be a way of keeping money in local communities.

[00:05:17] If we go back starting about 2007, and in every year after there for a while, but 2008, 2009, 2010, 2011, 2012, 2013... each year, there were about five states that implemented some version of a cottage food law, which overrode their state's food code and said, yes, you can sell homemade food, but only if you adhere to these requirements. I'll get into those conditions in a little bit.

[00:05:48] As the states started to adopt these laws, it became more popular. Today, virtually every state has some version of a cottage food law. There's only one state -- that's New Jersey -- that's still a true holdout. There are a couple of states that also have very limited cottage food laws, but for the most part, most states have some way of letting you start a legal food business from your home kitchen.

[00:06:12] What is a cottage food law? My website, Forrager, goes into great detail about each state's cottage food law and what you can do and can't do as a home food business. You can head over to [forrager.com](#), and click on your state and learn all about your state's cottage food law. But I'm going to talk a little bit about what states generally allow or disallow in their cottage food law.

[00:06:42] A typical cottage food law has three main restrictions to it. They say you can sell homemade food, but they restrict what types of food you can sell, where you can sell, and how much you can sell.

[00:06:56] So starting with what you can sell. The types of food that are typically allowed in a cottage food law are nonperishable foods. These would be foods that you don't need to put into a refrigerator to keep them safe. By doing this, what they're trying to do is only allow these unregulated home food businesses to sell food items that are very low risk and therefore are very unlikely to contribute to a public health problem. Things that need to be refrigerated, like meats, dairy are definitely off the table.

[00:07:31] But I have learned over the years that there is a ton of stuff that does fall under the cottage food laws. There are some states that only allow a very specific list of items that you can sell. Every state allows baked goods at the very least, but then you have jams, different snack items like granola and popcorn and nuts and dry goods like cereals, coffee beans, spice mixes, and then some other types of foods like honey, vinegars, oils, sauces, like barbecue sauces, etc, etc. There's a number of items, and you'll see the list on your own state of what you can and can't do.

[00:08:14] So you can only sell these nonperishable foods, but then on top of that, a lot of states restrict where you can sell the foods, and most states only allow you to sell directly to the end consumer. That means that you can't sell wholesale. You can't put your food onto a store shelf. And the reason for doing this is they want to build in some accountability there. If you know the person who you're selling to, it's a lot more likely that you're going to take a lot of care in how you prepare that item in your home kitchen and make sure that it's safe. That's the theory at least.

[00:08:49] These kinds of direct sales typically happen from home or at farmer's markets, at public fairs or events, and maybe at roadside stands. There are a number of places where you can sell your food product, and you can always advertise it anywhere, including online, like in a Facebook page or a website. Some states also consider the sale of food items online to be a direct sale, and a few states even allow you to ship your product within your own state.

[00:09:20] Some states do allow the indirect sale of homemade food. That would mean that you can put your products on a store shelf and never meet the end customer, but oftentimes they come with greater restrictions or more oversight, such as getting your kitchen inspected.

[00:09:36] Finally, a number of states actually limit how much food you can sell over the course of a year. That would be the annual sales limit. In some states it's \$50,000, but in other states that are relatively weak, it's like \$15,000 in a year, which makes these businesses really small businesses, almost like hobby businesses, and I should say a number of states have no sales limit whatsoever. You can sell as much food as you want.

[00:10:02] The theory behind this is that the cottage food laws are really meant to help you get your food business up and running more quickly without as much government oversight. You don't need to get a kitchen inspection. Sometimes you don't need to get even a license from the health department or the ag department. So it's a lot less expensive and easier to get your business started, but then they expect that once you hit a certain amount of sales, say \$15,000, \$30,000, \$50,000... then you're going to take your business fully commercial,

you're going to get licensed, you're going to use a commercial kitchen, and you're going to do what every other food business does.

[00:10:41] That is an overview of the cottage food industry. And as I said, you can learn about your state's laws on Forrager. Now, what is Forrager? Forrager's the website that I started back in 2011. Initially it was going to be an online marketplace for homemade food, much like an Etsy for homemade food, and at the time I didn't know anything about the cottage food industry or what cottage food was. In the process of starting this business, I learned all about the cottage food laws and thought, "Wow, it's actually pretty hard to keep track of all of these laws." So I created this website, which overviewed the laws, and it was for the benefit of the people who would use our marketplace.

[00:11:20] But after a couple of years, we learned that it was very difficult to start an online marketplace for homemade food. We eventually abandoned that idea and just switched over to the informational site because more and more people were finding it, using it, liking it. In the process of doing that, it became a community for the cottage food industry, and I let people list their cottage food businesses on the map. When you go to Forrager, you're going to see a number of dots on there and every single one of them is a cottage food operation that listed themselves on the website.

[00:11:53] I also wanted to talk a little bit about this Forrager Podcast. Why did I start it here in 2020? It's mainly because I've gotten a ton of value out of listening to podcasts over the last couple of years, and as far as I can tell, there isn't a podcast dedicated to the cottage food industry. I am connected with a number of people who have their cottage food businesses listed on my site, and podcasting is an excellent platform to allow these small businesses to share their stories and to help others who are getting started themselves.

[00:12:24] Speaking of starting, I'm going to talk a little bit about my own venture into a cottage food business. If we go way back before even the Forrager marketplace, I had my own interest in starting a cottage food business. I didn't call it cottage food at the time, but it basically would have been a business to sell my homemade cookies because everyone told me, "Wow, these are the best cookies. You need to sell these."

[00:12:46] So I always had this concept of starting a cookie business in my head. But I never really felt stable enough to start it in one place because I kept moving. I think after I graduated college, I probably moved about five times in the next six or seven years, including moving to Thailand for a few months even.

[00:13:07] It just never really felt like the right time to start the food business, but in the process of starting Forrager and talking with a lot of cottage food businesses about what works and what doesn't, I learned that a cookie business is not necessarily the best idea for a cottage food business. I wrote a long blog post about why that's the case, but basically cookies are a very labor intensive item and they also have very short shelf life. My cookies probably last about two days before they start to go stale, because they don't have any preservatives in them. They also have a really low perceived value. That's because most of the cookies that are sold in grocery stores are mass produced by a factory, and they can sell three dozen of them for \$5. To actually make a significant amount of money selling cookies,

you'd have to sell them for far more than what people actually perceive them to be worth. That's not necessarily a fair thing or a good thing, but that's just kind of the way it is with the marketplace sometimes.

[00:14:10] Sometimes cookie businesses can work, especially if you're selling specialty cookies like gluten free or vegan cookies, or if you are doing custom decorated cookies for events, and then you don't have to worry about shelf life because you can just make as many cookies as you need to make. But generally speaking, the kind of cookies I was planning on selling would not make for a very lucrative cottage food business.

[00:14:32] Like I said earlier, I wanted to focus this episode on the process of validating your idea. I share this information about starting a cookie business because even though your family and friends and everybody you know might say you should sell something, it doesn't necessarily mean that you should sell it, because there are a lot of factors it takes to run a successful food business. A lot of people who get started in this industry are interested in selling their homemade cookies, so I thought I should share that in this episode.

[00:15:02] Ultimately, I've learned as an entrepreneur that I need to be humble. Instead of trying to push and sell my product, I need to listen at first and potentially change my idea to match the needs of my community.

[00:15:16] Fun fact, that's actually part of the reason why you're even listening to this podcast. It's not like I just went out and said, "I think the world needs a podcast", and I made it. I actually first listened and asked my community on Forrager what they wanted me to create, and they said, through a survey, that a podcast was what they were most interested in me creating. So here I am!

[00:15:40] Okay, moving on. You need to listen and change your idea potentially, and for me, that wasn't that hard because I am equally known for my chocolate fudge. People rave about that, they've told me I should sell that too. Fortunately, fudge actually has a very high perceived value relative to the amount of effort that it takes to make it.

[00:15:59] I really started to focus on that business in 2016 in Boston, Massachusetts. The problem with that was that Massachusetts doesn't make it that easy to start a residential kitchen, which is their term for a cottage food business. However, if you do start a residential kitchen, then it doesn't have as many limitations as a lot of cottage food laws have.

[00:16:20] I could tell that it was going to take quite a bit of time and effort and money to get my fudge business into the farmer's market in my local small town. I knew that I needed to validate my idea first before putting a ton of resources into it to make sure that it's something that my community actually wanted.

[00:16:39] I considered a lot of different options, but eventually I realized that I could actually test my idea simply by not trying to make a profit from it. It is actually illegal to give food away to the public, because it doesn't make any difference whether you're selling it for money or giving it away. Either way, homemade food has the potential to be a threat to the public health. But every state, as far as I know, does have an exemption for nonprofits and

charitable efforts to run a bake sale without needing a license or inspection or any of that, and you can make those items from your home kitchen.

[00:17:18] The farmer's market in my town was actually run by a local church, and they always had a table of donated items from their church members to make some money to support the church. I talked with the church and I asked them if I could sell at their table and then donate all the proceeds of my fudge to their church. That way I wouldn't need all of the licensing and expense of starting a business just so I could test the waters.

[00:17:45] It was a really good thing that I did that because I learned very quickly at the farmer's market that almost nobody wanted to buy my fudge. This actually wasn't because my fudge wasn't a good product. It was mainly because it was the summertime, and I've learned that fudge is a very seasonal item. Most people buy it during the holidays. Also, because a lot of farmer's market goers, by definition, are very health conscious. So they're not necessarily looking for fudge. Because I had gone into it with the hope of selling my fudge at a farmer's market, I quickly realized that this wasn't going to be the best plan moving forward, and I was really glad that I didn't go to all the effort of starting a residential kitchen.

[00:18:28] I couldn't have known it at the time, but it actually turned out to be a blessing for me not to start my cottage food business in Massachusetts. Because a couple of months later, I met Tara, who's now my wife, and shortly thereafter we got engaged, and shortly thereafter I moved across the country, shortly thereafter we got married, and then as of last year, 2019, we had our first child, Ray.

[00:18:51] So it was actually not until 2018 that I felt stable enough to focus on the fudge business again. The story about that is actually a very interesting one. I always make fudge for my family every year at Thanksgiving time. But in 2018 I accidentally left all of the fudge in the fridge before we headed down south to our Thanksgiving get-together. So I had all this fudge on my hands and I was like, "What am I going to do with all this fudge?"

[00:19:17] I had this thought occur to me that I could give it away to people on Nextdoor. If you don't know, Nextdoor is like an online community or social network for your own neighborhood. It allows you to connect with your neighbors online.

[00:19:33] I had been learning a lot about online marketing strategies and how it's typically a good idea to give away a lot of good content or information or value first before you try to make a sale. I thought I could blend that strategy with a local food business by giving all this fudge away to my neighbors, and then maybe in turn, that'll kick start and validate my fudge business. That's basically what happened.

[00:19:59] In offering my fudge for free on Nextdoor, a number of people said, "Yeah, I'll take some for free." Even more amazing to me was a number of people said, "Are you selling it? I'd be interested in buying some." This is before I've even given any away. I said, "Well, I'm just giving away some for free, but enough people have expressed interest in it that I am thinking of selling it and I'll include a price sheet when I give out the free fudge."

[00:20:25] I had, almost instantly, people asking to buy my fudge, or expressing interest in trying my fudge, without me having any of the typical things that a business has. This is one of the core principles of what's known in the entrepreneurship community as a minimum viable product. You're doing the bare minimum to get to your first sale in order to validate and prove your product.

[00:20:53] A lot of people have this concept in their head of what a business should have, or needs, in order to sell a product. For instance, people might think you need a business plan, a business name, a logo, business cards, a business license. You might need to perfect your recipes before you can sell them, or have catchy product names. You need a website, you need insurance, you need nice labels and packaging. Maybe you need to go get a banner for your booth.

[00:21:24] If you notice, I had people asking to buy my fudge, and I had *none* of those things. I didn't have a business name. I had no logo. I had no website to sell it on. I literally was just getting out and offering it to people and seeing if they were interested. And people said they were.

[00:21:48] This was the most low-key start to a business imaginable. I actually got enough interest that I had to make more fudge just to give away, but I was fine with that. I typed up on Microsoft Word the price sheet of what I would sell it for.

[00:22:07] I also incorporated some online marketing strategies involving setting a deadline for when people can order by, which for me was really easy because it was Christmas-time and I knew I wanted to finish all of my orders by a week before Christmas. So I told people you can order by this date and after that I'm not selling it anymore. It gave people a really clear time frame as to when they could buy the fudge.

[00:22:33] And guess what? A number of people bought, and I sold about \$500 of fudge within the span of a couple of weeks, which wasn't huge, obviously, but it was better than nothing, and it was enough for me to really prove the concept of this fudge business.

[00:22:51] Now, those of you who are sticklers for the law will be saying, "Wait, wait, wait, David... Isn't that all illegal? Didn't you illegally sell \$500 of fudge?" The answer is that technically, yes, I did.

[00:23:03] But here's the way I look at that. There are a number of risks that people take when they start a business, and people often think about the risk of starting illegally and then potentially being sued. Having been in this industry for quite some time and seen a lot of the cottage food businesses, I know how rare that kind of risk is. The much greater risk is the risk of losing your time and money and energy in putting a lot of effort into starting a business that doesn't go anywhere.

[00:23:37] I knew that if I could make \$500 or so over the holidays, then I would definitely use that money to become fully legal and start the cottage food business and get the permits, all of which, when you add it all up, costs about \$500 believe it or not. I had that integrity in myself to know that I was testing the waters, but if it panned out, I would

definitely be going fully legal very shortly thereafter, and in the following January of 2019, I did.

[00:24:06] Then this past Christmas, just a few months ago, I really started to get into farmer's markets and sell at some events, and I made about \$2,000 overall in the Christmas season. So again, we're not talking about huge numbers, but definitely a solid growth of where I was a year before. It all started from that process of very simply validating my idea by giving my fudge away for free to my neighbors.

[00:24:34] There are a lot of ways of validating a product idea. I just shared the one that I used, but the biggest thing for me is validating with paying customers. I don't know of a way to accurately test the waters of a product without having people pull out their wallets and pay for an item. It's not enough just to have people try it, especially if they're your family and friends and say that you should sell it. You really need to have people who say, "I'm willing to fork over my hard earned cash in order to get your product." The faster you can get to that point, the quicker you can validate your product, the better.

[00:25:13] Along those lines, before I wrap up this episode, I should mention that I do have a free guide to give you. It's called the [Top 10 Mistakes to Avoid When Starting a Cottage Food Business](#). Can you guess what the number one mistake is? It's exactly what I focused this episode on, all about validating your idea, and the mistake would be trying to validate with non-paying customers like your family and friends.

[00:25:40] If you'd like to check out the other top nine mistakes that cottage food businesses typically make, just head over to the show notes for this episode on my website. You can access those by going to forrager.com/podcast/1. There you should see a link for the [Top 10 Mistakes guide](#). Just click on that and enter your email and I'll send it to you right away.

[00:26:03] That wraps up the first episode of this Forrager Podcast. Again, we talked about the cottage food industry, what cottage food is, and what cottage food laws are. You can go to forrager.com and click on your state and learn what your cottage food law is and how you can start a home food business. I also talked about my own cottage food business on this episode and how to validate your idea.

[00:26:30] But starting next episode, I'm going to be talking to some amazing entrepreneurs about how they have run their food businesses from their home kitchens, and what tips and tricks and strategies have worked, or maybe what hasn't worked so well. I am looking forward to learning from them, and helping you start a cottage food business and make some real dough.

[00:26:52] Remember to head over to the show notes for this episode on Forrager to grab the free guide, the [Top 10 Mistakes to Avoid When Starting a Cottage Food Business](#). Thanks for listening, and I'll see you in the next episode.