

Case study

What can NoFoodWasted learn from Food Donation Connection?

Based on: Food Donation Connection: Profitably Scaling Food Waste Reduction, a case study published by Harvard Business School

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Introduction

In this report we analyse the case study: *Food Donation Connection: Profitably Scaling Food Waste Reduction*. The case study describes how the company Food Donation Connection wants to enter the UK market.

Food Donation Connection

“When they had all had enough to eat”, Jesus said to his disciples, “Gather the pieces that are left over. Let nothing be wasted.” - John 6:12 (NIV)

Food Donation Connection (FDC) is founded in 1992 and they link surplus food to those in need through existing charitable organizations. They grew their company in a manner that provides a level of profitability necessary to carry out their vision [1]. They operate mainly in the US but also in Canada, several countries in Asia and Europe (the Netherlands included!). They have coordinated over 550 million pounds of quality prepared food. Foodservice locations donate their leftover foods to hunger relief organizations. Food Donation Connection links the donors to those in need by already existing hunger relief organizations. Currently they are coordinating Harvest Programs for Pizza Hut, KFC, Taco Bell and many, many more. FDC creates value by providing efficient communication and a reporting network for surplus foods.

Business Model of Food Donation Connection

Food Donation Connection (FDC) makes their necessary profit based on donors receiving economic benefit through tax savings (next to corporate goodwill and involvement in the community). The funding of the programs they provide comes from a small portion of the donor partners incremental tax savings. They get their tax savings by properly donating their surplus food. In exchange they coordinate all aspects of the donor parties donation program [1].

Case study

Back in 2014, Jim Larson (program development director at FDC) had a meeting with executives of Nando's in London. Nando's is a casual dining chain with more than 1000 locations worldwide. In the US the tax incentives for food donations, together with the expertises of FDC is a profitable value proposition for potential clients. But in the UK this will not work, because those tax incentives aren't there. Jim Larson still wanted to be able to provide companies with the opportunity to donate food and to provide the people in need with the leftover food. The motto of the company is: *“Let nothing be wasted”*. To enter the UK market, FDC would need to get creative. How could they also provide their services in other countries?

The case study describes the company, the food waste problem and the business model of FDC in the United States. Additionally, the plans to enter the UK market are elaborated.

The company distinctly operates from their motto: *“Let nothing be wasted”*. This means that this commitment occasionally led to decisions that had no short-term business benefits. At such moments, FDC coordinated the food donations for only the cost of the donation materials. To work on a sustainable business model for the UK market, FDC did several tests in the US with different ways for FDC to make profit.

Fee for Sustainability Business Models

FDC was interested in creating new business models. The company continued to expand its services, therefore it was required that they increased their adaptability to meet the needs of new donors. To gain new insights, they decided to work with new fee structures, to recruit clients in the US and abroad. The development team identified two new clients that wanted an alternative fee model. With those two companies they implemented two new versions of the fee-for-sustainability model.

Whole Foods Market - fixed fee

Whole Foods is a supermarket chain, specializing in organic and natural products. The corporate model of Whole Foods allowed each supermarket to operate semi-autonomously. Each location that works with FDC paid a fixed fee for FDC's service and costs of equipment and supplies.

This fee-for-service model appealed for both FDC and for Whole Foods. FDC benefited from the revenue certainty. Whole Foods benefited too, because this model made internal accounting simpler and meant that each location could recapture a greater percentage of savings when more food is donated.

Jim Larson however raised the question: If we move to a fixed-fee service model, will FDC be as motivated as it is now to encourage waste reduction?

The program turned out to be successful: the opportunity to save a lot of money annually on composting fees was significant.

Aramark Corporation - fixed fee per pound

Aramark Corporation provides food and refreshment services (for example on college campuses). They paid a fee per pound donated, which appealed to Aramark, because it allowed separate accounting for cost allocation and savings accrual.

The fixed fee per pound model, however, would discourage the reporting of donations, which originally is one of the key values of the service. Therefore they did not continue with this system.

Charities

When FDC was looking for ways to enter the UK market, they looked into the local charities in the UK. Since there was no tax deduction from the food donating side, they wanted to explore the possibility to create direct partnerships with charitable agencies instead of the food donors. This provided the charity with fee-based donor recruitment and tracking expertise.

This strategy was the opposite of what they do in the US market. However, FDC wanted to be aware of agencies with whom they can collaborate. While FDC reviewed those insights, they were on the one hand impressed by the ability to identify avoidable waste streams and the economic opportunities that those waste streams provide. But they also had to think about other big questions: *Will the company (Nando) be interested in the fee-for-service arrangement service? Will it be more profitable for the company than the composting fees? Can we charge British non-profit organizations?*

Conclusion Case study

The management team decided that the problems with food waste in the US were still really big (and profitable). They also did not want to charge non-profit organizations in the UK, because this was not in line with their corporate mission and vision. They therefore decided to not enter the British market at that point: they **pivoted** their strategy. They did however set high organizational goals for social and environmental impact. They also continued exploring new business models. So, even though they might have found a profitable business model with the fee-for-service arrangements, they decided to return their focus on the US market.

Conclusion - a few years later

While looking up more information about FDC, we found out that now (4 years later) they do work together with Nando's. They also operate in several European countries. We asked FDC via the Facebook chat how they do this. At this moment they ask a small fee from donating companies to cover the costs: this is a yearly fee. They do not ask any money from the non profit organizations for participating in their programs.

We also asked what, next to the reduction in food waste, are other profitable incentives for donating companies to participate. They answered that participating companies do have other incentives to donate - in some countries, like France, surplus food donation may be required by law; while other countries like Spain do have smaller tax benefits. Also, since donating food reduces the amount of food wasted, there is less food which goes in the garbage, so there may be savings on trash hauling fees. Beyond pure financial numbers, food donation is a positive engagement for store employees and the local community.

FDC's strategies

In this chapter we describe how we perceived FDC's strategies and what we thought of how they validated their findings.

Falsifiable hypothesis I:

UK donating companies will be interested in programs from Food Donation Connection and pay a fee-for-service (if the fees are lower than the cost that they make for throwing it away).

The fixed fee model that is used in the Whole Foods case, is definitely something that they could try to integrate in the UK/European market. The fixed fee on a monthly or yearly basis makes sure that there is a revenue certainty for FDC. It is unfortunate that they did not try this business model in the UK market. Then they could also find out if it would be more profitable for donating companies to participate in FDC programs than to throw the food away. A negative aspect of this could, indeed, be that the motivation for FDC would be lower, because in this case they are not working with a percentage but with a fixed fee. The only way to find this out is to test it in real

life: will the amount of food that is donated in the program of FDC be lower (on average) by companies that pay with a percentage (like in the US) or pay a fixed fee (like they proposed for the UK)?

The fixed fee per pound model would not work, as it will not motivate the companies to donate (as described before). the model discourages reporting of donations, which is important for traceability and sustainable accounting. It will also be more of a hassle for employees to carefully weigh everything.

Falsifiable hypothesis II:

In the UK market, the charities can pay for the costs of running the programs of donating foods, to make sure that donating parties participate.

As this was not in line with the companies vision, they pivoted this idea. As a group we thought it was worth mentioning that they maintain their integrity. Their corporate mission is for them more important than new revenue streams. They strive to find balance in between helping people and maintaining a healthy business.

They do now also operate more and more in Europe as well. They could not share with us if they are making profit with those projects, we think that they do not make (a lot) of profit with those. We suspect that they use the profit they make in the US to also make the European projects feasible. They told us that they still work from their mission: *“Let nothing be wasted”* and that they put that on number 1.

Food Donation Connection vs NoFoodWasted

The Food Donation Connection (FDC) and NoFoodWasted (NFW) are on the one hand very different companies, but they also have a lot of similarities.

Differences

FDC makes supermarkets/restaurants donate the food (give away for free)	NFW makes sure supermarkets/restaurants could sell their products with a discount
FDC makes sure that their donating parties get beneficial tax savings and makes profit by getting a part of their donating parties tax savings.	NFW makes money by: <ul style="list-style-type: none"> → Getting a small amount per sold item via the app → Money supermarkets pay for displaying their products (fee-for-service)
FDC is a B2B company	NFW is a B2C company

Similarities

- Both FDC and NFW strive to reduce food waste and make the best out of all the leftover foods.
- They both strongly work from their corporate vision and mission

Business Models

There is some overlap in the business models of NFW and FDC, but for sure also some differences. The main reason behind this is the service which they provide, which is then again reflected in the model. Whereas FDC provides the link between two organizations (B2B), NFW rather provides information from the business to the consumer. These business models can be found in the Appendix (figure 1 & figure 2).

Insights from Food Donation Connection for NoFoodWasted

Based on this case study (Food Donation Connection: FDC) and previous research, we advise our client (NoFoodWasted: NFW) to critically reconsider their approach. Depending on the (underlying) mission they want to pursue, we counsel two big pivots:

1, Mission (persevere): “reduce food waste”, business (pivot): B2B

- a) FDC made use of **tax incentives** in the US, in order to make their business model work. However, the Dutch context in which NFW operates, works with a different tax system that doesn't share the same incentives. Further research can be conducted into what options we do have in the Netherlands, that could create a **similar incentive** for clients to work together with NFW. What costs are there concerning food waste? Are there e.g. costs for waste processing, that can be compensated by means of using NFW's service? NFW could therefore make overviews of how much it costs to make use of the NFW application compared to how much it costs to throw the food away. If this balances out, they can promote this in their business model.
- b) FDC **invests** time and money in training their full-time employees to become ServSafe-certified, which helps them to understand the partners they are working with and the concerns around food safety that they have. Also, they invest time in every potential partner to see what is the best way for them to participate in the service. By doing so, they (could) create **small pivots per partner** in order to provide the most optimal service together. NFW can learn from this approach and do the same with their partners: different supermarkets and restaurants may differ in the way they could optimally participate in the overarching mission of food waste reduction. FDC shows that investing extra time to pivot per partner, is worth its return of investment.
- c) The business model of NFW could be altered, according to these values, as is depicted in figure 3 (Appendix). The main alterations, in comparison to the original business model, are: the way NoFoodWasted incorporates their partners in their business, namely by seeing if they can pivot their service in such a way that it fits their partners; checking if there is a “tax-deducting-like” incentive for their partners to participate in the service.

2. Mission (pivot): “teach children about a sustainable future”, business (persevere): B2C

- a) The needs and benefits of FDC's clients are clearly linked to each other: on the one hand, there is food donors with way too much food, that can deduct taxes by donating it; on the other hand, there are charity organisations that are in need of food to feed the ones in need. The need addressed is a basic, physiological need, according to Maslow's hierarchy of needs (figure 4, next page).

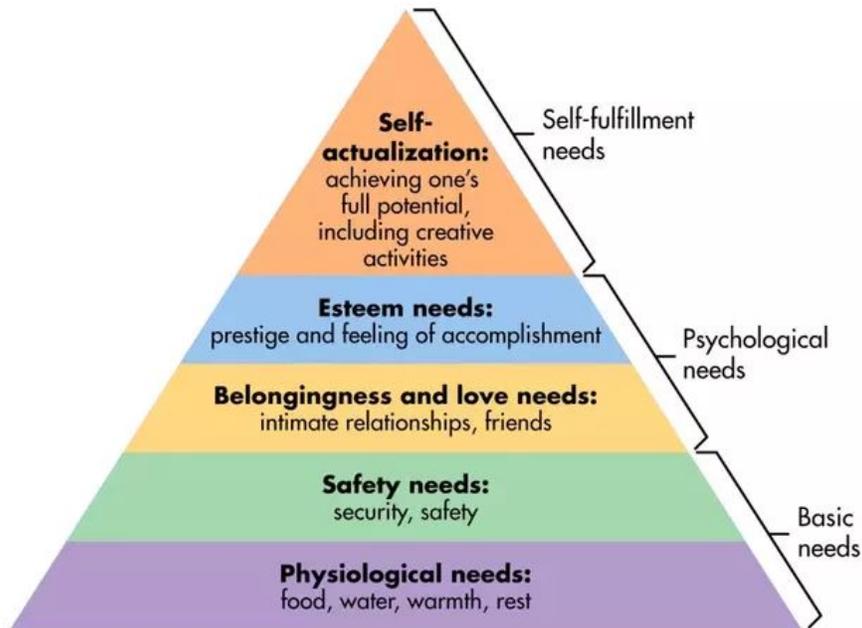


Figure 4. Maslow's hierarchy of needs [2].

In the case of NFW, the needs of their customers are less oppressive: buying products with a discount out of food waste reduction, can perhaps give you a feeling of accomplishment (psychological need) or achieving one's full potential (self-fulfillment needs) - but this accomplishment is quite nugatory. To increase this feeling of accomplishment, we therefore advise to invest in creating an experience around the service. This could either or both be done by e.g. data visualization, tangible products, supporting each other through a NFW community, etc. In this way, the balance of how much effort people put into reducing food waste and what benefit they get out of it, becomes more of a profitable business model (increasing the need).

- b) The business model of NFW could be altered, according to these values, as is depicted in figure 3 (Appendix). The main alterations, in comparison to the original business model, are: the collaboration with multiple partners from different domains, that are presented on one platform; a focus on young families as users, who can teach their children about a sustainable future by means of the platform.

Conclusion

Food Donation Connection is a frontrunner in the field of food waste reduction, operating as the link between food donors and charity organizations. NoFoodWasted can use insights from this case, such as on how to look for incentives for partners to collaborate or how to pivot on partner scale. Based on this case study, we recommend NoFoodWasted to either: pursue their current motto and pivot to a B2B business; broaden their mission and tailor the experience of their customers in order to become a successful B2C business.

References

1. (n.d.). Retrieved from <https://www.foodtodonate.com/>
2. (n.d.). Retrieved from <https://www.simplypsychology.org/maslow.html>

Appendix

NoFoodWasted: Business Model Canvas

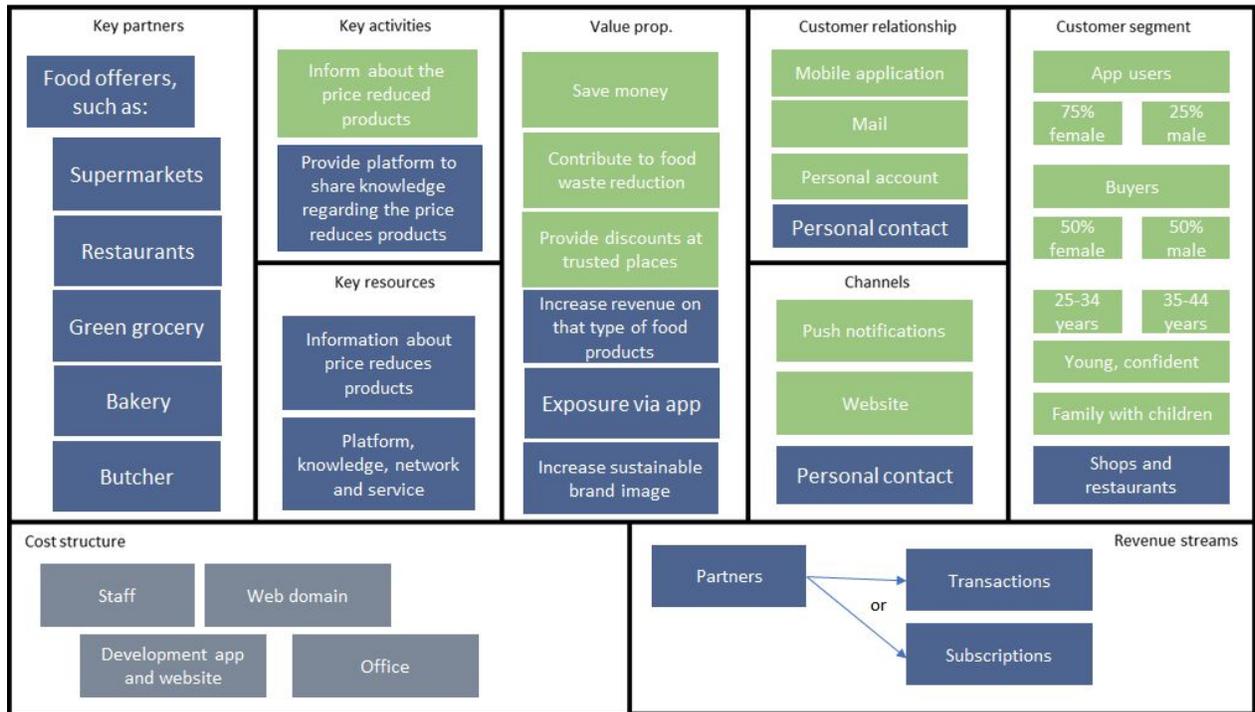


Figure 1. Business Model Canvas NoFoodWasted

Food Donation Connection: Business Model Canvas

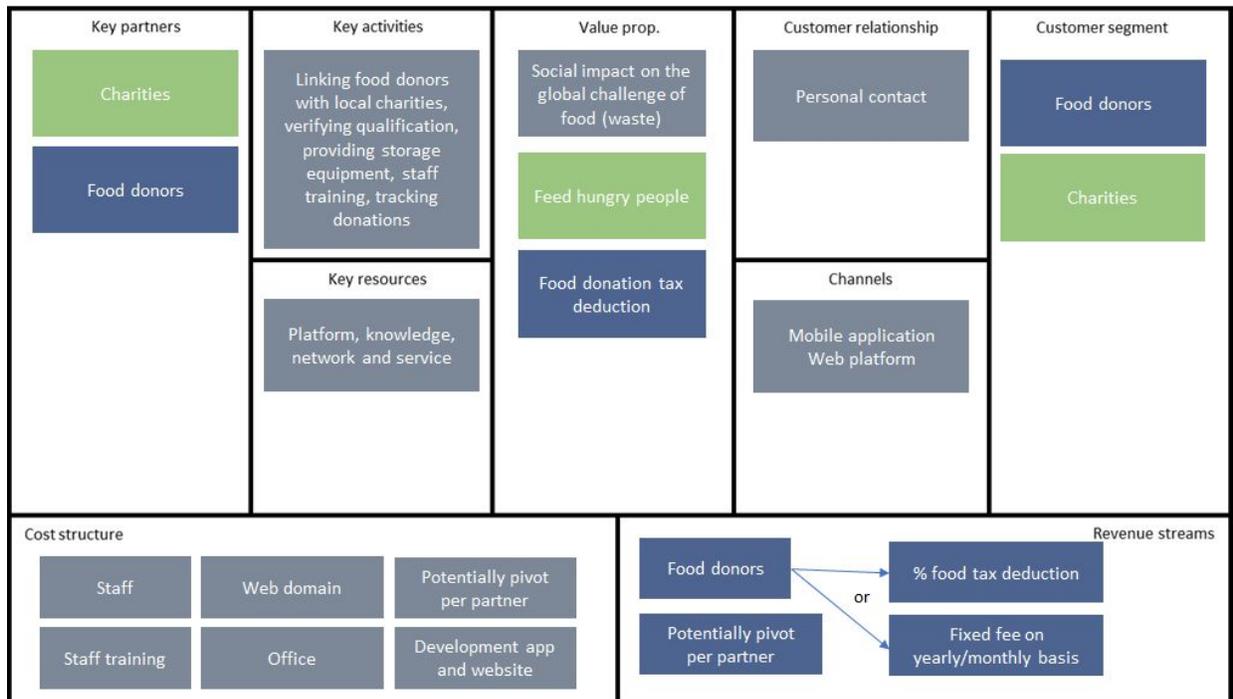


Figure 2. Business Model Canvas Food Donation Connection

NoFoodWasted: Suggested Business Model Canvas B2B

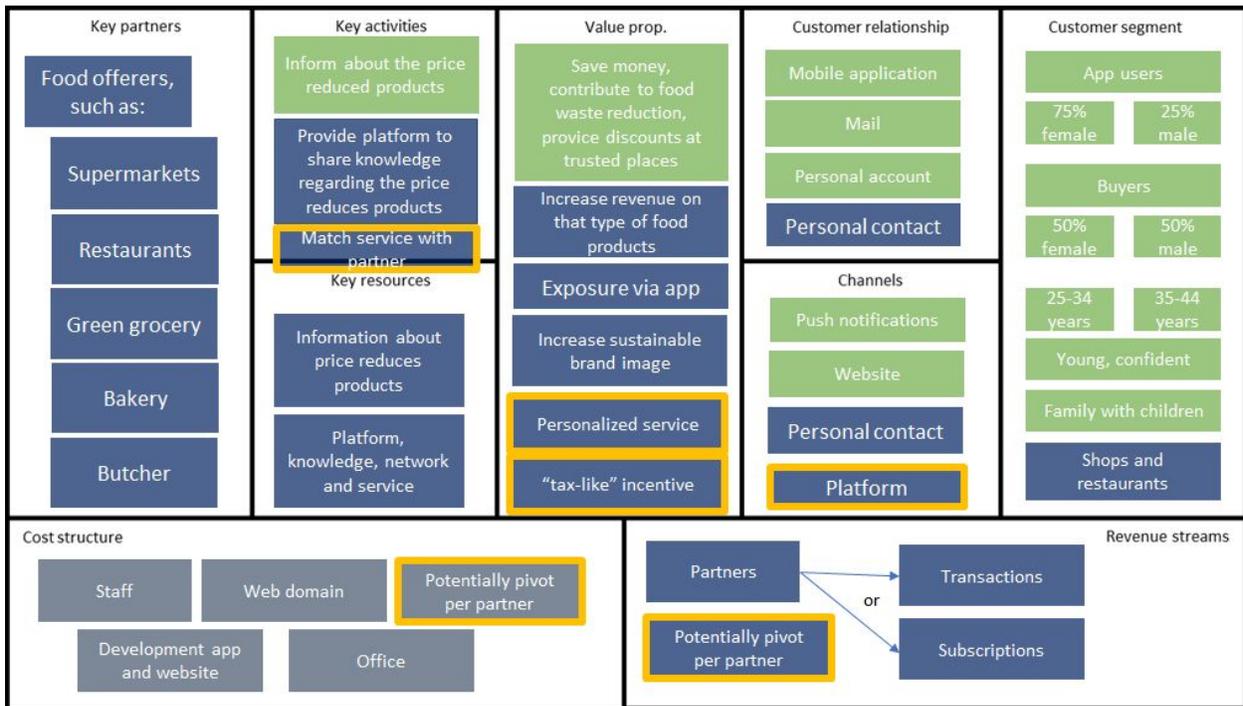


Figure 3. Suggested Business Model Canvas NoFoodWasted B2B

NoFoodWasted: Suggested Business Model Canvas B2C

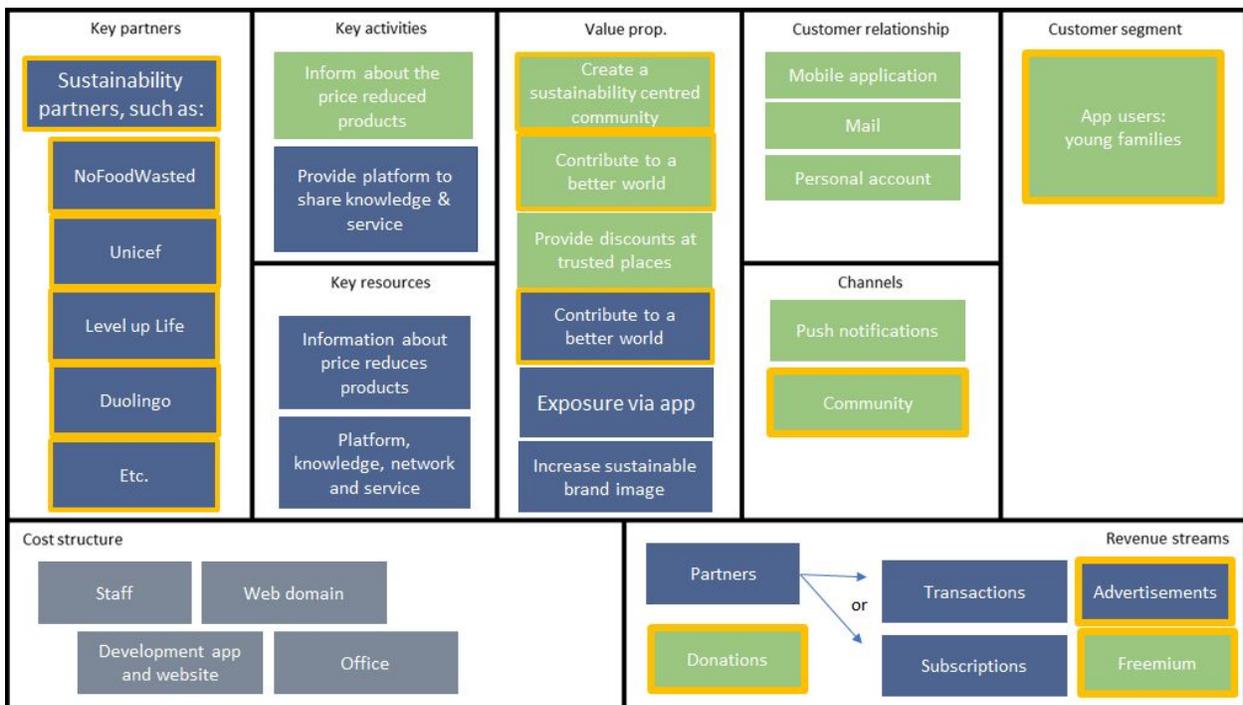


Figure 5. Suggested Business Model Canvas NoFoodWasted B2C