Food Donation Connection: How a Pioneering Entrepreneur Built a Food Recovery Business Model Based on Maximizing Tax Donation Incentives and the Guarantee of Safe Food

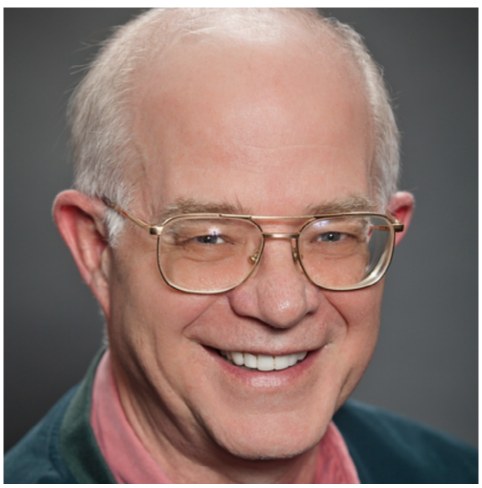

IMAGE CREDIT: FOOD DONATION CONNECTION

Bill Reighard had pursued a long career at PepsiCo, overseeing Asia operations for retailers like Pizza Hut and Taco Bell. In the early 1990s he started thinking about the next phase in his life. When he spoke with the executive team at Pizza Hut, they told him about an idea for an initiative that would allow the restaurant chain to donate leftover prepared food to food recovery agencies.

The idea immediately intrigued Bill.

Pizza Hut was testing a food donation program for personal pan pizzas, but it only covered a few restaurants. Bill convinced Pizza Hut to provide him with a small amount of seed funding to revamp and expand Pizza Hut's food donation program and named this new initiative Food Donation Connection (FDC).

Today, over twenty-five years later, Food Donation Connection has coordinated the donation of over 550 million pounds of quality prepared food from food service

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providers located in 24 countries including the United States, United Kingdom, Canada, Poland, Spain, Hong Kong, and Thailand. Each year they donate 60 million pounds of prepared surplus food to 11,000 hunger relief organizations.

Getting Food Donation Connection Off the Ground

With his background in the food and beverage industry, Bill had a robust pipeline of potential donors when he started the company. However, for the first four years of FDC, he worked exclusively with Pizza Hut. This was due to the challenge of finding charitable organizations to receive donations because "the infrastructure to handle prepared foods didn't exist in the US at the time." He could only guarantee that Pizza Hut donations were safe.

Within four years, Bill was working with many Pizza Huts in the US (over 3,000 restaurants). By focusing on one restaurant

IMAGE CREDIT: FOOD DONATION CONNECTION

chain, he was able to test out ideas. By working with the chain at scale, he was able to operationalize his processes and understand the similarities and differences in donor's needs. With Pizza Hut as his pilot, Bill identified his core business model, which has remained a stable foundation for FDC as it has evolved and grown over the past 25+ years.

Critical Attention to Food Safety

FDC creates a custom food recovery program for each donor. These programs are full-service, but they begin with the development of product quality and food safety standards for the storage and handling of surplus food.

Steve Dietz, the current Vice President of Business Development at FDC explains,"We use the philosophy: go in and look out. So we go into the restaurant and have a look at what's going on—what they're doing, what food might be there, how we can safely store that food and get it transported properly through an existing network of agencies."

"We have a unique program for each donor, even individual donors within a multi-unit group. We look closely at their set up and how they process their food—there are tons of similarities, but there are also differences that we don't want to overlook."

The Food Safety Standards include information and instructions on:

+ Type of food to be donated
+ Temperature requirements
+ Type of storage containers
+ Description of storage process
+ Shelf-life
+ Transportation system
+ Employee and agency responsibilities

FDC considers this emphasis on food safety a key value proposition for donors, who are often worried about liability. As Steve Dietz notes, "It only takes one problem. With one major food safety issue with donated food, everyone stops donating."

FDC insists that food safety is very straightforward, pointing to their rule that prohibits the transportation of hot food. When they take over an existing food recovery program managed by a different recovery organization, FDC always double checks, and if needed, updates the food safety standards to ensure that surplus food is cooled on donor property rather than putting the onus on the recipient agency. FDC does not touch the food itself so after developing these food safety standards, it identifies and coordinates local food rescue groups to manage pickups. While some of FDC's recipients are food banks; the team prefers to work directly with a hunger relief agency because it shortens the line of communication and transportation time. In the event that something goes wrong or a specific item needs to be recalled, FDC can manage the process much more quickly.

Additionally, Bill explains that the donations FDC coordinates "are relatively small in volume and have to be picked up frequently. The frequency of pickups and size of donations takes the food bank trucking model out of the system."

Building a Business Model Based on Maximizing Tax Donation Incentives

FDC is a for-profit company. Bill decided to adopt this legal structure because he "did not want to compete with non-profits for the limited private and government funding available" in the food recovery space. As a sole proprietor C-corporation, FDC is entirely funded by the businesses who donate surplus food with it.

So once FDC has established food safety standards and connected the donor with recipient agencies from the FDC database, the company begins the donation monitoring and reporting process. This process ensures successful program implementation and growth. More importantly, it allows FDC to properly prepare financial statements for the donor's tax benefit and internal reporting requirements.

Bill initially tried to convince the Pizza Hut executives to pay him 100% of the tax savings they would receive through their surplus food donations. He quickly found that this approach wouldn't work because corporations need incentives.

He looked at his margins and identified that he could charge 15% of a donor's tax savings. For the past 25+ years, FDC has stuck with that 7:1 ratio, although it does make a few exceptions for donors that receive particularly high tax savings. In those instances, FDC will offer services for a fixed fee.

With funding contingent on donor's tax savings, it is critical for FDC to accurately track and report donations and provide tax advice. "It was a necessity back in 1992 so that we could convince Pizza Hut to take this deduction. We're quite integrated—we have access to their costs, their numbers.

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IMAGE CREDIT: FOOD DONATION CONNECTION

And our fee comes with defense against IRS audits—we've successfully defended our donors multiple times."

FDC's data capture is so integrated, in fact, that it prepares modified Form 8283s—the document submitted to the IRS that reports information about noncash charitable contributions greater than $500—for donors.

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From Phone Books to an In-House Tech Team

FDC was started in 1992 before SaaS companies, cloud storage, and ubiquitous digital communication.

Bill recalls a time when eSignatures for donations weren't accepted by the IRS. " We were chasing individual hand signatures on every donation that took place. We're talking more than a million documents."

Bill needed to transition from a spreadsheet, paper documents, and physical signatures when he realized that he should not be tracking the tax data of thousands of restaurants in a single spreadsheet.

"We were reporting on tax savings before we had all the laws passed, so we were dealing with audit issues, and it was challenging. We made the jump to a Customer Relationship Management tool (CRM) that has turned out to be quite powerful."

Now, eLog serves as the backbone of FDC's system. It's the way FDC tracks donors, recipient agencies, and donations. It's used all across the world and allows for online data entry and digital signatures, and it is available on all types of devices.

While some might consider FDC 'low-tech' because the company doesn't have an app, Bill challenges that idea. FDC has invested heavily in its CRM and servers. With some of the largest restaurant chains in the nation as donors, FDC knew it had to prioritize data security.

In addition to building out their tracking and reporting infrastructure, FDC has hired a team of 26 full-time employees who manage programs and provide support to donors through a live phone answering service. Every employee has been ServSafe® Food Safety-certified and is prepared to answer calls on topics ranging from donation status to tax saving information.

Future of FDC

FDC plans to continue pursuing business opportunities wherever they see prepared food. The company is already working with airports and beginning to work with hospitals and casinos. FDC believes that while a lot of these places have a food donation program in place, they are inefficient or inconsistent.

One of the biggest challenges that FDC is focused on right now is getting a donor to donate all of their surplus food. According

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to Steve, "they'll always donate the bread in the bakery. But that's not necessarily what agencies need or want. Everyday we're educating donors on what they have. We try to humanize the data, break it down into something useful so they can make their program better." He shared the following as an example of how FDC has been able to build more robust programs with existing partners:

FDC originally reached out to Whole Foods Market to discuss a program for its prepared food section, which includes grab-and-go meals like sandwiches and salads, heat-and-eat dinners like pizzas and casseroles, takeout counters, and a salad bar.

For the first 20 years, FDC was focused exclusively on prepared foods because it felt like a gap in the


IMAGE CREDIT: FOOD DONATION CONNECTION

recovery ecosystem that needed to be filled. Executives like Bill and Steve assumed that food recovery for retailers like Whole Foods Market was figured out. However, as soon as FDC connected with John Mackey, the CEO of Whole Foods, they realized that retailers still had unmet needs and that food was still going to waste.

FDC expanded their initial program with Whole Foods Market to address these issues, taking a data-driven approach to help demonstrate opportunities for improvement. FDC will look at stock keeping units (SKUs) by store or by region to understand where programs are underperforming. For example, if SKUs for produce are low in the Atlantic region, FDC will investigate to see if items aren't being scanned properly, or if stores just aren't donating. From there, FDC communicates with these regional managers to say, 'Here's where the rest of the company is in terms of what they donate. Why aren't you here, as well?'

In addition to this expansion of programs within the US—for existing donors and donors in new sectors—FDC is expanding internationally, primarily in food service operations where food banks do not pick up. FDC's US business drives profitability and allows the company to build programs in global markets.

One challenge that FDC has experienced as they launch in new countries is the lack of legislation to support a tax donation incentive model. For now, they charge fixed fees, but they are working with the government in countries like the UK and Canada to change that. While this is certainly a hurdle, political advocacy and activism is not new to FDC. Bill had hundreds of discussions with the IRS and testified in front of Congress twice in order to accomplish the permanent passing of the PATH Act in 2015.

Advice for Organizations in the Food Recovery Space

For Bill, the future requires different organizations and companies operating in the food recovery space. As he explains, "We need to have that tension and competition. The food recovery space is still in the shakedown period."

Drawing on his years of experience, Bill shares a few suggestions for newer players in the food recovery space:

+ When it comes to monetizing sustainability, regardless of the way your business is incorporated, the first thing you need to do is land a customer.

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+ Do not create the financial structure and fee requirements before knowing your donor.
+ If you don't know your true cost, you'll never survive.
+ You might need to search for financing in order to reach critical mass so that your fee structure can better reflect what the donor wants. From there, if you spend money smartly on technology, you have a better chance of reaching that critical mass and getting customers what they need.

This case study was produced as part of [The ReFED Nonprofit Food Recovery Accelerator](). It was written by Kimmy Bettinger of Acumen, 2019.

IMAGE CREDIT: FOOD DONATION CONNECTION