

The FruitGuys CEO Shares His Story On Business Model Innovation During COVID-19



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Founder, CEO, Chief Banana,
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Full transcript

Gene Marks:

Hey everybody, I'm your host, Gene Marks, and this is season two of the Paychex Business Series Podcast. As you know, I'm a certified public accountant, a regular business columnist for a bunch of publications you probably read like *The Guardian* or *The Hill* or *The Entrepreneur* and *Forbes* and *The Philadelphia Inquirer*. But most importantly, I'm a small business owner of a financial and technology management services company and I have teamed up with Paychex, the leading provider of human resources, payroll, benefits, and insurance services to bring you real-life stories and advice from real-life business owners and experts.

Now, last season, we talked about the challenges associated with COVID and surviving it, but this season we're focusing on moving forward and innovating and navigating the road to recovery. We have a very special guest who is going to help us and actually explain how he has been navigating this road to recovery and what ideas and innovations he's come up with. It's Chris Mittelstaedt. Now, first of all, Chris, did I pronounce your last name correctly?

Chris Mittelstaedt:

Yes, you've got it.

Gene Marks:

Okay. First of all, that's the first time I pronounced your last name so that was complete luck, but I am happy to hear that. Chris, he is the founder, CEO, and of course the chief banana of a company called The FruitGuys. It's fruitguys.com. Chris, let's just start out and get the obvious out of the way. What does The FruitGuys do?

Chris Mittelstaedt:

We started about almost 23 years ago delivering fresh fruit to offices as a way to help companies excite and keep healthy employees at work. It's a replacement to breakroom junk food originally was the idea.

Gene Marks:

I like it. First of all, I like it especially because even though you're based in South San Francisco, I see you've got a hub in Philly, which is where I'm from so that's a mark in favor. Just out of curiosity, so you deliver fresh fruit to offices as opposed to me just going out to the supermarket and buying fresh fruit?

Chris Mittelstaedt:

Well, originally, the concept is that it's sort of like a business service, right? It's sort of like in the same way that you stock your breakroom with coffee or snacks and things like that, that we were really the first in the country, really globally even, to think about bringing something healthy into the breakroom office.

We grew the business, originally sort of started in the Bay area. I'm originally from Philly myself and I moved out to here a long time ago. And we started delivering fresh fruit to offices during the first .com wave. It sort of took off. We survived the original crash, we survived 2008, and we continued to serve companies, and our business grew organically around the United States. As companies, as they grew, we sort of grew with them, and we're servicing their offices all over the U.S. And we have offices now around the United States. Our goal is to buy from as many local growers as we can in the regions that we serve so that we can support local small ag; and at the same time, bring something great to offices.

And obviously the COVID crisis has affected us as companies have been shut down. We've really had to think about what our pivots are and how do we keep the business going as people are not in the office right now.

Gene Marks:

Yeah. Here's a business like yours that... First of all, it's a great idea. But, yeah, people aren't going into the offices as much and you're supplying offices, so what happened to you?

Chris Mittelstaedt:

It's been pretty brutal. There's no doubt about it. I mean, we've been a really steady business for 23 years. Again, we're a family business, so we've self-funded it over all these years. In the beginning of March, we were on track to hit our revenue numbers for the year and we grow every year a little bit. And by the end of March, we were looking at a 90% drop off in revenue for us.

Gene Marks:

Crazy. That is crazy.

Chris Mittelstaedt:

It is crazy. I think the challenge for us has been the trying to kind of like ride the tidal wave with our customers. Because as they have been going through things and as they have been adjusting their estimates, we've had to then adjust our estimates as well too. And so originally customers in March were saying, "Hey, we'll get back in June." Then we get to May and customers are saying it's going to be September. And as we got into July and August, and now into September, we're pretty locked in here six months on, we're now hearing customers saying, "Hey, it's not going to be until 2021."

For our business, I think it's been a journey of understanding how to tread water and stay afloat during that six month period and what other projects we can take on, what other things we can do for immediate revenue. But then at the same time, it's also, how do you predict a future that's completely uncertain and that's completely in a state of disruption? That it's not just that you don't know when the companies are going to come back, you don't even know if we're going to be looking at cities or offices or the economy in the same way. That really does make it challenging, there's no doubt.

Gene Marks:

Yeah. Okay, so I mean you lose 90% of your revenues. We're still in an atmosphere now, we're in September where, like you said, the future is sketchy. I realize, Chris, you don't have all the answers, right? You'd be lying if you said you did, but you are doing something though. This whole season of this podcast is about innovating, so what are you doing to replace those revenues?

Chris Mittelstaedt:

Part of our mission with FruitGuys has always been this idea of being driven by service. Since I started the company, we've always donated 100% of our excess produce to organizations that feed the hungry. We have a nonprofit we spun out in 2012 that does grants to small farms for sustainability projects. For me, one of the things I'm really motivated by and I think about is, I think about business modeling, is how are we developing business models that allow the business to be successful but at the same time allow us to accomplish some greater community or service ends that we're interested in? And the two we're really interested in are supporting small farms and then feeding the hungry.

And so, one of the things we've done to pivot is, as we've talked with small farmers about their challenges, we've driven some specific programs around supporting small farmers that may themselves be in trouble, not just because of the loss of the business with us but because of farmers' markets are down in certain areas, you're seeing other sales channels destroyed, and those farmers that are impacted by that.

We did a program, for example, for a citrus grower who's been growing citrus since 1968 in Southern California at Bernard Ranches. And we did a program where you can buy a 10 pound bag of oranges as a "Save Bernard Ranch" sort of a promotion that tries to get people to understand what he's going through. And then specifically through us, we can get those sales for him so that he can help support his farm. That's something that we're doing on the farm side.

On the charitable side, we've started a new nonprofit called The FruitGuys, or what's called The FoodWorks Fund, and it basically comes out of The FruitGuys. We have a third-party, a nonprofit administrator that oversees it. People or companies can make donations to it. It's 100% tax deductible. The nonprofit entity then basically we fulfill and deliver basically boxes of fresh fruits and vegetables to nonprofit food partners that then distribute that to those that are in need, and the money is going towards that.

We're trying to do things that are responding to the moment. We feel that there's a lot of crisis in this moment, both a lot of pain on the farm side and a lot of pain on the hunger side. And we're trying to come up with solutions that allow us to keep working and to keep the wheels going in the business and our supply chain in the last 23 years of the infrastructure we've built alive. And in order to do that, we want to be in service and in those ends. Those are some of the things we've innovated.

We've also do some B2C delivery. I mean, we have a site for individuals and families that they can order fruit and vegetables and produce to their homes. We have that, and that's something we've also done as well too. I think we're doing the things we need to do.

Chris Mittelstaedt:

We've also done some project work, so we've done some packing work for other organizations to keep us going at this point as well too. Things that we might not normally have done in the normal course of our business, but because we're looking at our supply chain and looking at our infrastructure as something that is a valuable asset, it's knowledge and it's regulation that we've been able to comply with over the years and things like that around food safety and distribution, that we're then thinking about how do we apply that to other situations where there are companies or organizations that may have business that need help, how do we help support them as well too?

We're doing a lot. And I would say that this is a very disorganized puzzle of a thousand pieces that we're just trying to make sure we're putting the pieces together in the right order to kind of keep things going.

Gene Marks:

Approximately how many people do you have that work in the company, Chris?

Chris Mittelstaedt:

Before COVID, we had about 160, and then we went through a layoff in July that cut that in half so we're at about 80. And that is flexing right now, to be honest, because of the amount of business that we have that comes in. One of the things that has been, for 23 years, steady about our business is that we are a subscription model. We've been steady and predictable. COVID because of the way it's working right now does put that model much more into a project format where things sort of flex up or they flex down because of the work that we have at any given time. That makes it a little harder for planning from a business cycle standpoint, but that's what we're adapting to right now.

Gene Marks:

I guess the subscription model is only as good as your subscribers. And I'm assuming that a lot of your subscribers canceled their subscriptions, at least for the short-term until they navigate their way through this?

Chris Mittelstaedt:

I mean, we've had relationships with companies, I kid you not, for 20 plus years. I mean, some of the original companies we sold, and they're big names that you would recognize, have been customers of ours for 20 plus years. There's still companies that are very, very profitable and they're very successful-

Gene Marks:

There are.

Chris Mittelstaedt:

... They're just not in the office. And so we are doing work for those companies in remote staff ways, and we're sending sort of gift packages to people in homes as well too of those organizations for the companies. We've even organized some virtual fruit tastings where we'll take an heirloom piece of fruit, we'll send it out in sort of nine-in-a-pack kind of formats. We send it out to 500 employees and then we do a Zoom call where we have somebody going through and explaining where the fruit comes from and exactly what they're eating and what they're tasting, and those kinds of things. We've done things like that.

Chris Mittelstaedt:

That's why I'm saying it's more project-based. It's not sort of the same thing every week like we normally would do in offices. But we are doing some work with it, it's just not going to be at the same volume or the same repeatability that the previous business was. And part of that is just because companies themselves are figuring out what to do, right. I mean, they're figuring out, how do they manage through this? And they're trying to keep folks engaged and they're trying to keep people happy. There is no doubt though that there's a lot of fatigue out there still and there's a lot of worry still, and I think that that impacts all of these decisions in companies.

Gene Marks:

It's funny, like you just said, there are a lot of companies in this country. I mean, the vast majority of them actually are still operating, many are still profitable, are keeping up. I mean, there's essential businesses and a lot of strong areas, construction, e-commerce, things like that, big companies. But you're right, people have been working from home and your product is essentially one that gets sent to offices.

But there is something to be said. These companies do want to keep their employees. They know that this is going to end at some point, they want to make sure they keep their staff, and every little benefit is helpful to them even if it means, I don't know, receiving a pineapple delivered to your house once in a while or some kind of fruit from The FruitGuys. It's just a nice, "Hey, thanks for... We're looking forward to getting back to the office and here's some fruit to enjoy." I think that a lot of employees would embrace that.

How about the upcoming holidays, Chris? Have you thought about anything in particular that you might be doing to prepare or plan or capitalize on?

Chris Mittelstaedt:

Yeah, we do gifts during the holidays and we do corporate gifts for companies, right? We can do things where companies can even have us customize with notes and messages and things like that as a gift product. And we can do that to their staff or their customers or anybody else they'd like to send to you throughout the United States. And we do do that, and that's something that we're definitely into this year. And again, that's just the ups and downs with this kind of work right now. But we're super excited to take it and to work with companies to help them with that, and to bring in that business, and to support them on the gifting programs as well too.

Gene Marks:

You had mentioned earlier that you were doing stuff from a nonprofit standpoint. Now you're helping out small farmers, you're helping out feeding the hungry. One of the advantages of that, I think, and you had mentioned this, is that it keeps your people working, right? I mean, it keeps the wheels going, it keeps the supply chain in operation. There's a lot of value in that. When you're working and doing these charitable things, is there any money coming into you from this? I mean, are you sharing of any revenues generated or is it just completely altruistic?

Chris Mittelstaedt:

We're not allowed to make money if we're receiving... Like on the FoodWorks Fund side, if people make a donation, they get a tax deduction. We are paid to basically buy the fruit from the farmer, get it together, and deliver it, but it can't be at a profit. It's got to just be at a breakeven level.

Gene Marks:

No, right. But it still reimburse or compensate some of your costs, correct? I mean, and is that something that you've been able to do?

Chris Mittelstaedt:

Yeah, it pays our staff to do the work, right? I mean, that's part of what the... In the same way if something's purchased for donation, that's basically we're purchasing the fruit from the farmer. One of the things we're trying to accomplish there is sort of like it's a triple benefit, right? We're trying to say, "Hey, the person making the donation gets tax deductible status on the donation." The farmer, we're able to purchase from a farmer that's in need right now and that needs to sell their produce because they're hurting. We're able to basically kind of allow our staff to receive that and put it in a box and deliver it. And then the fourth benefit is that... Then the number one benefit really is that then the nonprofit organization, that's a food donation organization, they receive a box that they can give to people that are in need that can't afford food right now.

To me, it's truly a structure... We're not making money from that and that's not our goal. We're trying to really think about how we get through this moment and be as helpful and sort of contribute as much as we possibly can.

I'll be honest with you, the worry I have right now, that's sort of more macro economic, that we're actually seeing in our industry that I'm really worried about. People talk about this time as being like, "Oh, there's going to be a big consolidation. A lot of companies will go under, the big companies are going to eat the small companies," and that's going to be true. There's no doubt that's going to happen.

But I worry there's a much deeper and more concerning thing happening that I don't think really has been written about, which is, as you see companies especially in food and distribution, wrestle with these things, or farming for example... Like our farmer in Southern California, if he goes under and he plows those trees under, that have been there since 1968, it's not like when he can make money two years later that those trees regrow. That is a permanent removal of food supply chain resource that doesn't come back.

And I am worried that as you start to see food distribution and growers wrestle with going out of business or even just staying alive to be able to do it, you actually harm the United States' ability to supply itself with a diverse set of food and a diverse distribution system of food that can be flexible. That is a real problem that I see on the horizon that if we don't start to make sure the supply chains are staying stable and growing, especially on the small farms side, I think you're going to see real, real catastrophic failure there.

Gene Marks:

Well, you had just mentioned about making the supply chains stay. I mean, you in your own very, very small way are trying to do that. By funding these nonprofits, again, helping the small farms, feeding the hungry, you're able to get a little bit of money coming in the door to help cover some of the costs. Again, it's a nonprofit, so you're not making any money on that, but you're keeping people employed and you're keeping the supply chain going. And the hope is that you can keep doing that for a little bit longer. You can't do it forever, but until hopefully COVID eventually goes away.

Final question for you, Chris. You're doing all these different things, the specialized things you're delivering your gift packages, delivering to people at home, doing your non-profit work as well. All these things that you've been sort of innovating with, what do you think is going to stick around? What do you think your business will still be doing a few years from now? When everything is back to normal and life is all peachy and rosy, what do you think that you'll be taking away from this?

Chris Mittelstaedt:

I think our business will be much leaner, there's no doubt about it. I mean, I think the things that we're wrestling with on just the pure, basic business side, it stresses the vine, right? It really is going to lean the business out in terms of the way that we run it on a day-to-day basis, which is the reality of what we've got to do to survive and get through the moment.

But I do believe that offices will come back. I mean, I know there's a lot of people that say, "Oh, we're outsourced forever, and everybody's going to work from home. And it's all going to be rosy." Humans are social creatures, right? I don't think that the office is dead or the collaborative work environment is dead. And I think we will have a business to come back to it just may take a while to recover and it may not be singularly focused as it was before in the way where we were just focused on the office. It might be more broad and that we're doing some other things to enhance that revenue with other business lines as well, that we're learning about in this moment as well.

Gene Marks:

Yeah, it makes complete sense, and I think that you are right about the office thing the way they are. Let's think, who knows, people will be coming back to work. But in a few years from now maybe it's not just fruit that you're delivering, but it's milk and cheese and a record albums.

Chris Mittelstaedt is CEO, founder, and chief banana of The FruitGuys, which sells and supplies fruits through an online process and delivers to companies, 3000 companies, all around the United States at fruitguys.com. Chris, thank you for sharing what you're doing to navigate and grow and survive through all of this. it was really, really helpful.

And for more great podcast episodes from the Paychex Business Series Podcasts and other information to help you run your business, please visit paychex.com/worx, that's W-O-R-X. I'm Gene Marks. Thanks for listening and we'll see you again soon.