ISSUE BRIEF

Innovations in the Food Industry

The foodservice industry is transforming rapidly to meet consumer demand for healthy, transparent, and convenient food. This seismic shift is being driven by a new, rapidly growing generation of food and tech startups. From new business models to apps and software, these companies are developing products and services that aim to help foodservice professionals improve margins, efficiencies, and sustainability. As investment in the sector grows and startups mature, the divide between the technology and culinary worlds is beginning to narrow.

Food Waste Innovations

There continues to be much innovation in foodservice around reducing food waste and utilizing produce that is misshapen or slightly discolored. MintScraps, for example, offers a software platform that allows restaurants to monitor and reduce their waste. Using sensor technology, MintScraps gives restaurants real-time waste data and helps them identify potential cost savings. It also allows operators to monitor for inefficiencies and waste generation patterns to help streamline operations and cut costs. Also putting surplus food to good use, Zero Percent’s software makes it easier for restaurants and retailers to donate leftover food to food pantries and soup kitchens. The startup even handles pick-up and delivery of the food and tracks donations for tax deductions. Mogo’s app and web platform connect consumers to restaurants that offer leftover food at a discounted price.

Operators and chefs are increasingly recognizing the cost of food waste—an average of 10 to 12 percent of food is discarded—and looking for innovative solutions. In 2015, author and chef Dan Barber launched wastED, a month-long food waste pop-up serving dishes made entirely from scraps that are usually discarded. Inspired by wastED, chef Mario Batali and Dogfish Head Craft Brewery founder Sam Calagione launched WasteNot, beer made from waste such as overripe tomatoes, stale bread, and rotten grapefruit. Also inspired by its partnership with wastED, Baldor Specialty Foods—the Northeast’s leading distributor of fresh produce—launched SparCs, a new program that offers trim, tops, and peelings from the company’s processing facility to chefs and manufacturers.
Restaurant Innovations

Startups are leveraging technology and new restaurant models to make healthy, sustainable food more accessible, affordable, and convenient. Many of these companies are establishing their own local supply chains, which has been a boon to local food producers. These companies are also raising significant capital, a strong indication of investor interest in food startups.

Sweetgreen, a farm-to-table salad chain with 31 locations, for example, closed a $35 million Series F round of funding, led by funds and accounts managed by T. Rowe Price, bringing the company’s total funding to $95 million. Along with investments in talent and technology—Sweetgreen already has a mobile ordering app that processes more than a quarter of all its transactions—the funding will be critical as the company tries to establish a national supply chain of local producers.

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Dig Inn, a 10-unit farm-to-table fast casual chain, is able to offer meals at an affordable price point by contracting directly with small farms. The restaurant attracted $15 million in Series C funding in 2015 in a round led by Wexford Capital, bringing the company’s total funding to $21.5 million. As with Sweetgreen, this funding will be critical as the chain expands and builds out its supply chain and its online and mobile ordering system and loyalty program.

A new crop of companies is developing delivery-only restaurants. Unlike traditional delivery services like Seamless that deliver food from restaurants, startups like Sprig, Maple, and Munchery make and deliver their own meals—often featuring locally sourced and organic ingredients—in just 15 to 30 minutes. Each day, the companies offer a limited number of lunch and dinner options for $10-15, which people can order via mobile apps. In addition, these companies use technology and data science to predict demand, design menus, and optimize deliveries. To date, Sprig has raised $57 million in funding from investors that include Greylock Partners and Social+Capital Partnership; Maple has raised $26 million and is backed by celebrity chef David Chang; and Munchery has raised $117.2 million at a $300 million valuation.

Innovations in Sourcing

On the supply side, a number of companies have recently launched or expanded to make sourcing locally easier. Sourcery, Dine Market, and Blue Cart, for example, all offer online purchasing platforms that enable restaurants and foodservice operators to order from multiple local suppliers through a central dashboard. By streamlining the sourcing, invoicing, and payment process, these services make it easier to manage purchases from local producers who might not otherwise be set up to handle large commercial orders. Foodservice operators like Tom Colicchio’s ‘Wichcraft, Dropbox, and Munchery use these services.
Next-generation protein alternatives are aiming to reduce our dependence on animals for food. A growing number of companies are employing data science and technology to create alternative proteins that are more cost effective than animal proteins, not to mention tastier, healthier, and more environmentally sustainable than their predecessors.

Hampton Creek, a startup using data and food science to develop plant-based food products, is one such company making waves in the foodservice industry. In 2015, it deepened its partnership with Compass Group, becoming the foodservice operator’s exclusive supplier of baking mixes and dressings. The partnership will also significantly expand Hampton Creek’s reach, as the deal puts the startup’s products in over 85 of US Foods’ and Sysco’s warehouses. Shaking up the industry is not without opposition, however. Last year, the company was sued by Unilever—though the suit was ultimately dropped—and targeted by the American Egg Board for labeling its eggless product a “mayo.”

Many of the alternative protein startups are working on products that are months or years from coming to market. Impossible Foods, for example, is developing a plant-based burger that has the taste, look, and mouthfeel of a beef burger. The product is reportedly launching through a foodservice operator in 2016. To date, the company has raised $182 million in funding from prominent investors like Horizon Ventures, Bill Gates, and Khosla Ventures. Interestingly, Google tried to acquire the company for $200-300 million in 2015, but Impossible Foods declined the offer.

**Investment Growth**

Significantly more capital—$9.75 billion across 507 deals—is flowing into food and ag tech startups around the globe from venture and angel investors than in previous years. In the past, investors were wary of investing in food and agriculture because of the highly regulated and political nature of the industries, as well as the low margins, complex supply chains, and limited adoption of technology. A series of high-profile valuations, acquisitions, and IPOs, however, have helped to warm investors to food. For example, meal kit delivery startup Blue Apron garnered a $2 billion valuation; Priceline acquired OpenTable for $2.6 billion in 2014; and Shake Shack doubled its IPO price in its first day of trading, valuing the company at more than $1.6 billion. The growing number of high-profile investors like Steve Case, founder of AOL and chairman and CEO of Revolution LLC; Danny Meyer, CEO of Union Square Hospitality Group; and Bill Gates, founder of Microsoft, also help to boost investor confidence in the space.

Another sign of progress on this front is the growing number of food and agriculture-focused investment funds. Twenty-two food and agriculture funds launched in 2016. One such firm is S2G Ventures, which launched a $125 million fund to invest in “soil to shelf” food and agriculture startups.
Its investments include Sweetgreen, Beyond Meat, and Shenandoah Growers. Another growing area of startup capital is coming from corporate venture funds, like Mars, General Mills, and Unilever.

Finally, METRO launched the Techstars METRO Accelerator, the first food accelerator dedicated to digital transformation in restaurants, hotels, and catering companies. Through the program, startups receive €120,000 ($137,000) in investment capital, as well as access to mentors, investors, and customers. While it is encouraging to see so much capital flowing into food, some worry that startups are overvalued and a food bubble is looming. Blue Apron, for example, which raised $190 million at a $2 billion valuation, has yet to reach profitability.

RECOMMENDATIONS

Consumer demand has made it clear that health, sustainability, and convenience present some of the greatest opportunities for growth in the foodservice industry. Given increasing investment in food and agriculture innovation, and a growing array of available tools in the foodservice industry, culinary professionals should embrace new menu techniques, technologies, and business models to help reduce food waste, enhance convenience, and source locally. Foodservice operators should focus on how to improve convenience by offering mobile ordering and delivery options. Additionally, operators should seek out partnerships with emerging companies that can help them better meet these consumer demands.

SCORE: 4

From the significant increase in capital flowing into food and tech startups to the growth of startups focused on sustainability and health, the past year has seen a wide range of innovative new initiatives that are narrowing the gap between the culinary and the tech worlds. While there are more technologies, services, and business models available to foodservice professionals, many startups are focused on growth and have yet to reach profitability. It remains to be seen what happens if the bubble bursts.