Surplus Product Donation and Sustainability Strategy: Channels and Challenges for Corporate Product Donations

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Abstract. Sustainability addresses three aspects of corporate responsibility: economic, environmental and social. Over the years, the operations and supply chain literature has focused on economic and environmental objectives limiting the social agenda to ethical sourcing practices. Yet the disposition of surplus inventories in particular and charitable giving in general are key components of corporate social responsibility. We discuss the channels and challenges for companies' surplus inventory donations and describe why companies should integrate product donations within their overall corporate sustainability strategy.

Keywords: Corporate Philanthropy, Sustainability Strategy, In-kind Donation.

1 Introduction

Sustainability initiatives are now a common component of corporate strategy for large companies. Kiron et al.'s [1] 2012 global survey of 4,000 managers from 113 countries suggests that sustainability related strategies are now competitive necessities for companies and nearly 53% of S&P 500 companies published some form of corporate social responsibility or sustainability report in 2012 [2].

The 1987 World Commission on Environment and Development [3] defines sustainability as "development that meets the needs of the present without compromising the ability of future generations to meet their needs". Most of the management and operations literature has conceptualized sustainability as the interactions among a company's environmental, economic and social goals. Building on this triple bottom line, Carter et al. [4] define sustainable supply chain strategy "as the strategic, transparent integration and achievement of an organization's social, environmental, and economic goals in the systemic coordination of key interorganizational business processes for improving the long-term economic performance of the individual company and its supply chains".

Most corporate sustainability initiatives and academic literature in the area, however, focus exclusively on environmental and economic goals [5]. Ageron et al.'s [6] empirical study finds that most initiatives related to sustainable supply chain are linked to environmental and green practices. Common initiatives

V. Prabhu, M. Taisch, and D. Kiritsis (Eds.): APMS 2013, Part I, IFIP AICT 414, pp. 54–61, 2013.

include waste reduction, energy efficiency enhancements and packaging improvements. For many companies, waste reduction and energy efficiency are the first choices as they reduce environmental impact and cost at the same time.

Increasingly, social and ethical issues are becoming an integral part of companies' supply chain practices. After the damaging revelations implicating the supply chains of major brands such as Nike, Walmart and Disney in questionable social practices in Asia, companies pay close attention to legal and ethical practices in their extended supply chains. Some companies like Natura have already put real teeth in the social aspects of their triple bottom line metrics to the point that these can now drive bonuses and executive compensation to the same extent that financial performance does.

Many large companies work directly with key NGO partners to address specific social issues. For example, Walmart works with a large number of NGOs domestically and internationally to improve working conditions in supplier factories, to promote sustainable farming and to distribute surplus food to food banks in local communities [7].

According to Corporations Encouraging Corporate Philanthropy (CECP), a CEO membership organization of large global companies, U.S. companies donated a total of $19.1 billion in 2011 [8]. Nearly, 64% by value of U.S. companies' total donations is given in-kind, predominantly in the form of surplus or unsalable inventories that manufacturers and retailers donate to NGOs. Surplus product donation can help companies achieve all three aspects of their sustainability goals: environmental, economic and social. It can reduce reportable landfill waste, avoid the operational costs of disposal and advance philanthropic objectives.

This paper relies on literature reviews, formal and informal interviews with practitioners and case studies to explore the structures through which products donated by companies are distributed and used by NGOs in the U.S.. We apply the notion of channels from the marketing[15,16,18] and supply chain literature[17] in describing how NGOs use or distribute donated products to beneficiaries and describe the underlying incentives that shape these channels. This research introduces formal discussion of corporate in-kind donations to the existing body of literature in corporate philanthropy and nonprofit management.

2 Business Case for Product Donations

Companies have limited options for managing surplus or unsalable inventories, each with its own costs and benefits. We discuss the four main options in the following paragraphs.

Return and Reuse. Many retailers return surplus, damaged or unsalable inventories to suppliers who either refurbish and reuse the product or reclaim portions of it for reuse. Return and reuse are often financially impractical for low value goods - the cost of transportation, recovery and refurbishing can exceed the value of the product. Reuse also poses the familiar risks of obsolescence and quality problems.

Liquidation. Companies can sell surplus inventories to liquidators, typically for 10 - 15% of the product's original value. And this small revenue comes with the potentially large risks associated with ceding visibility and control of the product to liquidators. Concerns about the risks to brand reputation and of market cannibalization, for example, generally prevent luxury brands from selling surplus inventories to liquidators.

Disposal. Orderly disposal can be a costly operation as it involves sorting, transportation to landfills, waste handling and processing fees, etc. Disposing significant quantities of surplus inventory can also adversely affect a company's environmental metrics and progress toward its environmental goals.

Donation. Donating surplus products to NGOs is relatively easy and cost efficient. It helps companies fulfill social and philanthropic goals while reducing the operational costs associated with managing surplus inventories. Many product donations are also eligible for enhanced tax benefits under U.S. tax code, section 170(e)(3). However, poorly managed donations can harm donor's reputation, especially if the donated items are sold in the secondary market or used for unethical or inappropriate purposes.

Ross et al.'s [9] recent study on the business benefits of product donation shows that in most cases the low cost recovery from liquidation and high costs of return processing make donating surplus inventories to registered charities the most attractive option.

Table 1 summarizes the benefits, costs and risks associated with the four options discussed here.

3 NGO Motivations for Accepting In-kind Donations

According to a 2012 non-profit sector report by the Urban Institute [13], there are 2.1 million charities in the U.S.. This number has grown significantly over the last decade and has almost doubled since 2001. Total giving by U.S. donors, however, has not increased in as quickly. In fact, adjusting for inflation, total giving has remained essentially flat since 2001 [11] while corporate in-kind giving has increased from 60% in 2009 to 64% in 2011 [8]. A matched dataset of 144 companies' inflation adjusted yearly giving from CECP's survey shows that in-kind giving increased from \$7.41 billion to \$10.12 billion over the same period.

Most corporate in-kind donations are given in the form of product donations. In-kind donations are helpful to NGOs, but are not nearly as versatile as cash. Product donations can be very specialized and so not appropriate for every NGO's philanthropic mission. Consequently, NGOs face a growing challenge of deciding which in-kind donations to accept and those decisions involve much more than simply determining whether the product is appropriate for the organization's mission.

Many NGOs fear that declining an in-kind donation can adversely impact their relationship with the donor and preclude opportunities to receive more

Table 1. Summary of benefits, costs and risks of disposal methods

Disposal options	Costs & Benefits	Risks
Return or reuse	Significant cost recovery Reverse logistics cost Return processing cost	Product obsolescence Quality issues
Liquidation	Limited cost recovery Easy to do	Risk of brand reputation Market cannibalization
Disposal	Waste processing cost Easy to do	Environmental regulations Reputational effects
Donation	Waste reduction Operational cost savings Tax benefits Potential social impact	Risk to brand reputation Product liability Market cannibalization

valuable donations, including cash donations, in the future. Consequently, fundraisers try to accept in-kind donations from key donors even when the goods are not particularly well suited to the organization's mission.

Accepting high value in-kind donations increases an NGO's revenue without significantly affecting its administrative expenses and so improves its financial efficiency, the direct program expenses as a fraction of total revenue. A 2011 Forbes article [12] explores how many international NGOs report higher revenues and financial efficiencies by inflating the value of in-kind donations, especially of medical and pharmaceutical donations. Higher revenue and financial efficiency make an NGO look bigger, more important and therefore more attractive to donors.

These incentives can lead NGOs to accept in-kind donations that are not well suited to their needs. This can be especially true for smaller NGOs whose fixed administrative costs for staff salaries and office expenses typically represent a larger portion of total revenues, driving down financial efficiencies and making it difficult to attract donors and, as a consequence, to decline in-kind donations.

4 Channels for Corporate In-kind Donations

Given the motivations for accepting in-kind donations even when they may be poorly suited to the organization's mission, NGOs are often left with the challenge of what to do with the products they've received. Donors generally prohibit an NGO from selling the goods, leaving three main options: Use the goods, share them with other NGOs, or dispose of them. A complicated network of NGO types and donation channels has evolved to help in-kind donations find their way to NGOs that can use them effectively. We describe the salient features of that network in the following paragraphs.

In the simplest case, a company, which we refer to as the *original donor*, donates surplus products to an NGO that distributes them directly to *final beneficiaries*, i.e., to individuals or families in need. In this case, we refer to the NGO as an *end-use organization*[1]. Not all NGOs are end-use organizations. Many simply serve as *Intermediary NGOs* who pass the donation on to other NGOs. This provides corporate donors with a variety of channels for moving in-kind donations to end-use organizations and beneficiaries. Here, we characterize three primary channel categories.

Direct Distribution. The direct distribution channel is the simplest and most familiar: the original donor contributes directly to an end-use NGO, which in turn distributes the goods to final beneficiaries. In response to major natural disasters, for example, companies like Walmart, Target and others donate relief supplies to end-use organizations like the American Red Cross, Salvation Army and others, who distribute the gifts to disaster victims. This model works particularly well when the original donor and the end-use organization have a partnership in place and the donated products are carefully matched to the victims' needs.

Aggregation. When the products aren't well suited to the disaster response or when the donation is made outside the context of a disaster, it can be difficult for a company with a large donation of specialized products to find a single appropriate end-use organization with sufficient scale to manage the entire gift. In this case, a form of intermediary NGO, which we refer to as aggregator NGOs serve as "one stop donation points" for donors. Food banks are a good example. They collect food from various donors and distribute them to smaller food pantries and soup kitchens [14]. NGOs like AmeriCare, Map International and MedShare aggregate medicines and medical supplies donated by various hospitals and corporations and in turn distribute them to partner NGOs or non-profit hospitals nationally and internationally. The aggregation channel is most appropriate for reaching smaller local NGOs with a specific mission, whose limited operational and fund-raising capacity makes it difficult to work directly with large corporations and manage large in-kind donations.

Pass-Through. Often NGOs feel obliged to accept in-kind donations from corporate partners even when these donations are poorly suited to the organization's mission. In these circumstances, NGOs typically look for another more appropriate organization to pass the gift along to. Subsequent NGOs in the chain are similarly motivated to pass it along as each one can, according to the Financial

[1] Adopted from AERDO Interagency Gift-in-Kind Standards -2009.

Accounting Standards Board (FASB), also recognize the associated revenue as long as it has the authority to independently decide how it distributes the gift.

Any NGO can participate in the pass through channel and most do. This channel provides a convenient and welcome alternative to sending potentially valuable, but ill-suited donations to the landfill. The loose association of NGOs in this channel makes it difficult to track donations and, for intermediaries to be motivated to participate in the chain, the donor must allow them to determine how the donation is distributed. Consequently, relying on the pass-through channel provides little assurance that the gift will have significant social impact and poses risks that the gift may ultimately be used inappropriately or even irresponsibly.

5 Ensuring Social Impact of Corporate Product Donations

A large and growing share of corporate giving comes in the form of surplus inventory donations. Yet these product donations can prove difficult for NGOs to usefully employ. In the worst case, the product is so ill-suited to legitimate philanthropic needs that it simply passes from NGO to NGO until one finally disposes of it. Along the way it generates tax benefits for the donor and enhances the financial performance of the intermediate NGOs, but produces no social benefit and simply shifts the burden of disposal from the original donor to the final NGO in the chain.

In the best case, surplus inventory donation can help companies achieve significant benefits in all three dimensions of sustainability if they are conceptualized and executed with a larger strategic framework. For example, in 2005, Walmart announced bold steps towards sustainability, when the company decided to run 100% on renewable energy, create zero waste and sell products that help protect environment [10]. Since then, Walmart has taken numerous initiatives to achieve these goals. One initiative, “Fighting Hunger Together” redirects surplus perishable foods to local food banks. The program commits a total of $1.75 billion in food donations between 2010 and 2014 and donated nearly 600 million pounds of food to Feeding America’s food bank network by the end of 2012. Perishable foods and produce constitute a significant part of solid waste generated from Walmart’s stores and distribution centers in the U.S. and donating it to food banks significantly reduced that waste. According to Walmart’s 2012 Global Responsibility Report [7], solid waste from U.S. operations reduced by 80% from 2005.

“Fighting Hunger Together” is not simply a waste reduction initiative. It is part of an integrated sustainability strategy focused on all three pillars of sustainability. In an effort to support the social objectives, Walmart donated nearly $122 million in cash to help food banks strengthen their logistics capacity (e.g. by purchasing refrigerated trucks). Donating to local food banks is also a targeted way to improve Walmart’s reputation and relationship with local communities.

Other retailers such as the Home Depot, Guess, Bed, Bath & Beyond donate surplus inventories to local NGOs too. Home Depot's store donation program, "Framing Hopes" has donated over $90 million worth of surplus inventories since 2008. Many store donations programs, however, lack specific focus and are primarily a means for disposing of surplus inventories while generating public recognition. Such donation practices do little or nothing to advance a company's philanthropic agenda and and enhance its social impact.

It is important for companies to use in-kind donations strategically to achieve their specific philanthropic goals. Donating surplus products haphazardly without the benefit of a larger strategic vision is wasteful and potentially risky. Beyond the questionable social impacts, unmanaged product donations can be a source of reputational risk. Unmanaged donations that pass though series of unidentified intermediaries may ultimately be sold in the secondary market or disposed of improperly or worse.

6 Conclusion

Surplus product donation has become a major form of corporate giving in the U.S., valued at billions of dollars each year. Companies can save operational cost, gain tax benefits, re-direct waste from landfills and meet their philanthropic goals though surplus product donations. However, the effectiveness of surplus product donations depends, to a great extent, on the company's effort to integrate it within its overall sustainability strategy. Successful in-kind giving programs require long term partnerships with recipient NGOs and strategic alignment between the NGOs' missions and the donor's philanthropic goals.

Absent this strategic guidance and organizational alignment, in-kind donations are likely to be used as a means to achieve organizational benefits for donors and NGOs, without meeting social needs. It is important that donors understand NGOs' motivations for accepting in-kind donations, the alternative channels of distribution, and the role of donation within sustainability initiatives and the larger corporate sustainability strategy.

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