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Case study

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Case synopsis

Hana Fořtová founded the promising start-up Frusack, which sold an innovative reusable and compostable food bag, with her friend from Faculty of medicine. Initial reactions were very positive, Frusack was a media darling and soon managed to get an investor for another launch. In the first years, everything turned out rosy, distribution (primarily retail food stores) grew, as did the number of foreign markets and employees. But then the „black swan" arrived in the form of COVID, when the lockdown and the subsequent large drop in retail sales caused a hard fall and even the end of the company. So the story is almost closed and we can learn about its beginning, middle and end. It provides great learning about setting up a company with a unique business model where every detail matters but is still vulnerable to unexpected changes in demand and external environment.

HOW BLACK SWANS CAN FLY AWAY WITH A SUSTAINABLE ALTERNATIVE TO PLASTIC BAGS

OVERVIEW

Hana has been interested in sustainability, ecology and healthy food for a long time, when she discovered during her medical studies that there was no ecological substitute for the disposable microtene bags commonly used in supermarkets. Each Czech uses about 400 disposable plastic bags annually, leading to a huge impact on the environment. Globally, only 10% of the total production is recycled. In addition, only a fraction of plastics can be recycled, and there must also be interest in the market for recycled materials. Although the use of recycled plastic is one of the solutions for the circular economy, low oil prices encourage manufacturers to use virgin plastic and move away from the use of recycled.

She started gathering information and researching how this situation could be changed. The research was extensive - what current solutions exist, what is the consumption of plastics and waste, how much of it is recycled, what is the awareness of sustainability, how much would consumers be willing to pay for an ecological solution, etc. Hana assessed that the time is favorable for such an innovation and she began to bring it to life. She teamed up with her friend from school, Teresa. The motivation was a combination of doing something worthwhile, finding a new direction, trying out a business, and also making a living from what she felt was her calling. She did not finish her medical studies and threw herself headlong into her business. Ambitions were not small – to conquer the global market.

THE PRODUCT

Frusack as a product is one of a kind bag, actually a bioplastic bag with a drawstring available in an array of colors. It made from corn starch fibre – instead of petroleum -and made ethically in Europe. It is used as a reusable shopping bag for fruits, vegetables and other food stuff. Frusack reportedly lasts for up to two years.

Medicine study was the inspiration for the material of the bags, specifically absorbable surgical sutures. The raw material is corn starch, from which PLA fibers are produced. These are woven into the form of netting, from which the final bags are sewn. These are recyclable and compostable. Since the textile application of PLA was a big innovation, it was not easy to find a manufacturer. They almost gave up, but after a long period of searching, they managed to find a Swiss manufacturer of PLA filaments. A Czech weaving mill took up the weaving, cutting and sewing of bags.

THE BEGINNINGS

The beginnings were typically garage-like. Hana Fořtová says: *„The first pieces were sewn by my aunt on a sewing machine and the first presentation to the public was at the stand during the Prague design week event in 2015."* The prototypes were already under the name Frusack (fruit and sack). By the way, the name frusack became a synonym for a new category of ecological bags, which is still used by competitors today. Not everything was flawless from the very start but the partners preferred speed and instant feedback from customers to perfection. But somewhere there was no room for compromises, the material had to be compostable and production in the Czech Republic. The premiere was very successful and the friends gained valuable contacts. invested in marketing and PR activities, so they had very strong and positive publicity from the beginning.

Frusack also got its first investor thanks to Prague design week. They got more funding through crowdfunding - the Czech HitHit. A bank loan followed later. They also obtained a loan that was 50% guaranteed by the European Investment Bank. A company was established and the first production was ordered. Hana and Tereza were encouraged by a successful crowdfunding campaign, where the financial goal was quickly exceeded. This generated further publicity including media such as Forbes or selected TV shows. Free PR has been a key marketing tool all along.

EXPANSION

The distribution channels were their own e-shop (the maximum share of sold bags using this was about 25%) and mainly retail stores. Most of the retail stores were small and independent stores, but they also had chains like Albert. There, Frusack was part of a loyalty campaign that was extremely successful. In a few days, 10,000 packs were sold and Albert had to reorder. Part of the production was used as gift merchandise, for example for an outdoor New Zealand company. The team grew to 8 people and a total of up to 100 people worked on Frusack, including production.

Not everything went smoothly, there were problems with the product itself. The bags began to tear and the complaints grew. The founders then discovered that dyeing was to blame. One batch was dyed twice and disturbed the fibers which started to tear. After that, the bags were no longer dyed and the structure of the bag was more coarse, rough.Trust was threatened, but the situation was managed.

Frusack was also sold in other European countries and then even in Australia or the USA in 2019. There, a Czech immigrant managed to get into large chains. Just before COVID, the company had a turnover of about 8 million CZK per year, and that with only one product. Frusack was sold in a pack of two bags for 210 CZK, which was not cheap.

TROUBLES

And then it happened - retail stores were closed and grocery stores had to go back to single-use plastic bags for hygiene reasons. During the first wave of the pandemic, the consumption of single-use plastics in the Czech Republic increased by 30%. Demand also dropped dramatically at the e-shop. The drop in turnover was more than 90%. The company then sewed masks from its own material, but that didn't help much either. Frusack had ordered large production volumes (albeit only on a good word, without a signed contract), which could no longer be cancelled. *„During the pandemic, all partners started canceling orders for Frusack. But we had a lot of big orders in the pipeline, so we increased the order of material in advance. When we wanted to cancel the order with our supplier company, they refused to do so. We didn't want to go to court, so we had to take the goods from them anyway,"* Hana recalls.

They paid for the order, even though they no longer had anyone to deliver the goods to. During this period, the company ran into cash flow problems and went into debt. That was the beginning of the end for Frusack. The company had to continue repaying the loan to the bank in the amount of four million.

They considered legal action, but it would take a long time and there was no alternative manufacturer. Even the weaving mill itself went bankrupt. In addition, they had to repay bank loan. The bank was not willing to talk about extending the maturity. It turned out that bank financing with regular installments is not advantageous for start-ups. All three co-owners, i.e. Hana Fořtová, Tereza Dvořáková and investor Martin Stránský, had to reach into their own pockets in order to pay claims amounting to 4 million CZK. Hana invested over a million crowns from her own money into the business.

CLOSING DOWN

The company formally still exists, there's plenty of material in stock, there's still a well-known brand with a strong social media fan base, but it's pretty much over. The owners are trying to sell the company and are looking for a suitable buyer with a compatible vision. Negotiations are ongoing, so let's keep our fingers crossed for them.

Despite the resulting failure, Hana does not evaluate this first attempt at business only negatively. Although it was „expensive training", it was also very valuable. She gained experience, contacts (mainly in the media) and stayed in the industry. All former co-workers now have new jobs. Tereza studies medicine, which she completed. Hana is newly employed. She stayed with her heart field, i.e. sustainability. She works as a manager at the textile company NIL textile, which deals with sustainable textiles and uses her product knowledge from Frusack. She admits that now she would be more careful if she were to do business again.

Problem statement

They say that after a battle, everyone is a general... The „black swan" arrived in the form of COVID and lockdowns, when retail was repeatedly closed. Questions offered:

1. What was the business model that Frusack used?
2. What distribution channels did Frusack used? Where did the main cashflow come from?
3. What made Frusack vulnerable to the COVID pandemic?
4. COVID could not be predicted, but was there any way to prepare for an unexpected event of this kind?
5. How could Frusack be more resilient to changes in consumer behavior?
6. How could Frusack be more resilient to the problems of the supplier?
7. Were the company financing methods chosen correctly? Why?
8. Please analyze the environment for products like Frusack at the moment (use Porter model or similar)?

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