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Analyzing Shared Value and Social Business Principles: A Case Study of Honeydrop Beverages and Seven Hills Foundation

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Capstone

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Executive Summary

Can the business world come together with the nonprofit world to create systems to lift low income women, children, and families out of poverty? The following report aims to show how the changing principles of business have the potential to serve international populations living on less than $2USD per day. For-profit organizations working with citizen sector organizations instead of giving charity provides a sustainable model to connect profit maximization with social good.

Honeydrop Beverages is a company based out of New York that produces lemonade sweetened with honey. Their products do not contain any refined products, only using fresh and natural ingredients. Seven Hills Foundation is a health and human services organization located in Worcester, MA. They provide healthcare and behavioral services to underserved populations in central Massachusetts and Rhode Island. One of their affiliate organizations, Seven Hills Global Outreach, works with international partners to provide similar services to communities abroad who live in severe poverty. These organizations have come together to create a financial relationship that is more than just charitable giving from the private sector to the nonprofit sector. The following capstone describes this relationship as a case study for future business leaders to establish similar partnerships.

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Definitions

Corporate Social Responsibility
Corporate social responsibility (CSR) is a business approach that contributes to sustainable development by delivering economic, social and environmental benefits for all stakeholders.

Corporate Giving
Corporate giving or corporate philanthropy is the act of corporations donating a portion of their profits or resources to various non-profit organizations.

Shared Value
This concept, created by Michael Porter, can be present when companies generate economic value in a way that *also* produces value for society by addressing its challenges. A shared value approach reconnects company success with social progress.

Social Business
Social business was defined by Nobel Peace Prize laureate Professor Muhammad Yunus. In a social business, the investors/owners can gradually recoup the money invested, but cannot take any dividend beyond that point. It is a cause-driven business; the purpose of the investment is purely to achieve one or more social objectives through the operation of the company, no personal gain is desired by the investors.

Public Sector
This sector includes areas of the economy controlled by the state.

Private Sector
The private sector is the part of a country's economic system that is run by individuals and companies, rather than the government. Most private sector organizations are run with the intention of making profit.

Citizen Sector
This term, as used in this report, describes the portion of the economy that is run by private individuals or groups, serves the best interest of society at either a profit or not, and is not controlled by the State (nonprofits, NGOs, foundations, philanthropic organizations).

Foundation/ Charity/ Philanthropic Organization
A foundation (also a charitable foundation) is a legal categorization of nonprofit organizations that will typically either donate funds and support to other organizations, or provide the source of funding for its own charitable purposes.

For-Profit Enterprise
A for-profit organization may be formed to conduct any number of lawful business activities with the primary goal of making a profit.

Non-Profit Enterprise
A nonprofit organization is an organization whose purposes are dedicated to a social cause rather than making a profit. In financial terms, a nonprofit organization uses its surplus revenues to further achieve its purpose or mission, rather than distributing its surplus income to the organization's shareholders (or equivalents) as profit or dividends.

CICs (Community Interest Company)
A community interest company (CIC) is a type of company introduced by the United Kingdom government in 2005. It is designed for social enterprises that want to use their profits and assets for the public good.

L3Cs (Low-Profit Limited Liability Company)
A low-profit limited liability company (L3C) is a legal form of business entity in the US that provides a structure that facilitates investments in socially beneficial, for-profit ventures by simplifying compliance with Internal Revenue Service rules for program-related investments (a type of investment that private foundations can make). This enterprise structure was designed to bridge the gap between nonprofit and for-profit investing by providing.

B Corporations (“Beneficial” Corporations)
B Corporations are for-profit companies certified by the nonprofit B Lab to meet rigorous standards of social and environmental performance, accountability, and transparency.

Stakeholder
Stakeholders are people that can affect or be affected by the organization's actions, objectives and policies. Some examples of key stakeholders are creditors, directors, employees, government, owners (shareholders), suppliers, unions, and the community from which the business draws resources.

Shareholder
A shareholder or stockholder is an individual or institution that legally owns a share of stock in a public or private corporation. Shareholders are the owners; they buy shares which represent part ownership of a company.

Dividends
A sum of money paid regularly (typically quarterly) by a company to its shareholders out of its profits (or reserves).

MDGs
The Millennium Development Goals (MDGs) are the world's time-specific and quantifiable targets for addressing extreme and multi-faceted poverty; income poverty, hunger, disease, exposure, and exclusion while promoting gender equality, education, and environmental sustainability.

Earnings before Interest, Tax, Depreciation, and Amortization (EBITDA)
A measure of a company's operating performance; A method of evaluating a company's performance without having to factor in financing decisions, accounting decisions or tax environments. It is calculated by adding back the non-cash expenses of depreciation and amortization to a firm's operating income.

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Section 1: Introduction

This capstone team consists of Sarah Dys, Maya Grevatt, and Brianna Mirabile, all Masters of Public Administration candidates at Clark University. The following are the objectives for this capstone project for our client Seven Hills Foundation:

1. Define ‘corporate social responsibility,’ ‘shared value,’ and ‘social business.’
2. Describe and analyze the partnership of Honeydrop Beverages (for-profit) and Seven Hills Foundation (non-profit).
3. Prepare a report for distribution within the business community outlining the value potential of social business enterprises and private-citizen sector partnerships.

While our project is a case study on the partnership of two organizations, our direct client is Seven Hills Foundation. Seven Hills is the largest healthcare and human services non-profit in the Northeast region of the United States. A large portion of Seven Hill’s human and resource capital is dedicated to providing programming for children and adults with mental and developmental disabilities, and women and children in developing countries. The organization supports 11 operating affiliates in Massachusetts and Rhode Island, employing close to 4,000 professionals spread over 170 different locations.

Seven Hills’ core values focus on creating a culture of respect, diversity, and empowerment. These values are evident in the organization’s mission and vision statements:

Mission: “to promote and encourage the empowerment of people with significant challenges so that each may pursue their highest possible degree of personal well-being and independence.”

Vision: “to be a preeminent leader and resource in the identification of unmet community needs; in the promotion of professional and compassionate models of service; and as an advocate of emerging public policy which exemplifies the dignity of all persons regardless of physical, social, or emotional condition.”

Seven Hills Foundation is an organization with a large reach into many areas of healthcare services. They appear to be well established based on their website and social media pages. All of their programs and initiatives, be it adult behavioral health or water sanitation in Bo, Sierra Leone, come from a place of empowerment, engagement, and achievement.

Our primary contact and client for the project is the Seven Hills President and CEO, Dr. David Jordan. Dr. Jordan expressed interest in this project on a trip to Sierra Leone and Ghana. One of the purposes of this trip was to show a marketing representative from Honeydrop Beverages new beekeeping initiatives in those countries. Our understanding is that Dr. Jordan has organized a social partnership between Seven Hills Foundation and Honeydrop Beverages. A percentage of sales from the beverages will go towards supporting those beekeeping initiatives financially.

The industry of incorporating social missions into profit-generating business operations is not only young, but also fairly ambiguous in terms of language and operational consensus. However, there are a few widely agreed upon trends and objectives that unite many of those involved with this field.

One theory that has gained considerable consensus throughout the field and inspired fascinating research is the idea of *scaling* social progression. Organizations and creative entrepreneurs all over the globe are working hard for social good, and above all, improvement and change in the lives of those that are served.

However, there is widespread concurrence across the citizen sector that the current model of funding for the nonprofit and foundation business model inhibits growth and affectivity. Theorists suggest that, due to structural and financial limitations, these organizations may be incapable of accomplishing social change on the scale and at the pace that is necessary. That being said, many innovative design and partner-related solutions have arisen from this theory to increase the scope and sustainability of funding, and limit organizational vulnerability and dependency.

Most of these strategic solutions involve harnessing the sustainable and profit generating power of private business models, and applying it to the strategy and mission of social improvement. One of these emerging solutions involves establishing an expectation of corporate responsibility among both consumers and private business; these “socially minded” divisions of for-profit businesses would provide an entirely new and bottomless source of funding and stimulation for private/non-profit relationships.

Similarly, other solutions focus primarily on the development of committed public/private partnerships and the mutually beneficial value that could be generated. The daunting task of figuring out how to apply for-profit business principles and practice to a not-for-profit organization has been a challenge approached by many economic and development theorists.

The concept of self-sustaining social business in reality requires alterations to business practice regulations; a social business cannot be easily or effectively created under the legal structure of a non-profit (dependent upon funders) or a private corporation (due to the profit-maximizing lens). However, a variety of alternative business initiatives, structures and model are emerging to support social enterprise and sidestep the need for regulatory changes. Some examples include cross-sector social partnerships, social businesses (type I and II), CICs (community interest company), L3Cs (low-profit limited liability company), and b corporations (“beneficial” corporations).

Seven Hills can be understood and described as a prolific and successful example of business being done in the citizen sector. The term citizen sector is used to encompass the enormous range of groups and foundations that have been established all over the world to address unmet social needs and development. The key distinction between these citizen sector organizations and private socially minded businesses is that profits are reinvested and dedicated to the improvement and expansion of their programs. Furthermore, the very terminology of the citizen sector functions to symbolically house the sector of enterprise made up entirely of organizations attempting to solve complicated social problems. Although many are non-profit in their structure, they often emphasize sustainable innovation and entrepreneurial spirit. Seven Hills Foundation and CEO Dr. David Jordan provide a remarkable example of a citizen sector non-profit organization leading in the movement of uniting best practices of business with social good.

Many emerging ideas regarding best practices of social good in business exist. They range from Corporate Social Responsibility initiatives and programs, to more visionary projections about the evolutionary direction of capitalism. Organizations like Seven Hills play a critical role in the larger picture and future direction of this intersection between business and social good. These not-for-profit, social enterprises are dedicated to establishing mutually beneficial partnerships and designing funding solutions, and are making tremendous strides for social business advocates, theorists, and beneficiaries.

Our capstone report will include a review of existing literature, a description of our methodology, an in-depth case study analysis of our results extracted from interview responses and stakeholder reports, and a discussion of the implications and potentials of these findings in our 21st century economy.

Research Questions

We intend on using our literature review and case study analysis to address and answer the following research questions to the best of our ability, and to the maximum capacity possible for a single partnership case.

> **RQ1:** To what extent, if any, might a mutual relationship between private (for-profit) sector and citizen (non-profit) sector organizations enhance the tangible financial integrity of each?
>
> **RQ2:** What might be identified, if any, as intangible benefits that accrue to either/both private and citizen sector organizations in a mutually beneficial business relationship?
>
> **RQ3:** To what extent, if any, is Corporate Social Responsibility (CSR) and Shared Value (SR) between the private (profit) sector and the citizen (nonprofit /social) sector a 21st century capitalist imperative?

Outline

We will begin our literature review by discussing what social problems we face today, and why it is imperative to address them using the most efficient and sustainable solutions possible. We will then describe why it can be effective to apply certain business principles to social good, and in what ways. The poor population can play a pivotal role in these strategies, and we will expand on the ways in which this underutilized and undervalued population can accelerate social progress significantly if empowered to do so.

We will then delve into the existing literature, examples and history behind three methods of applying business solutions to social problems. We will begin by defining corporate social responsibility programs, and the role that these initiatives play in the current ideology surrounding private/citizen sector segregation, philanthropy, and corporate responsibility. Then we will move on to Shared Value, and the theoretical definition and relative implications associated with the concept. Lastly, we will examine the literature surrounding Social Business models. This will conclude our literature review, and lead directly into our methodology section.

The methodology section will describe our methods of collecting resources to inform our literature review, case study, and interview responses. It will also detail the procedures that were used in each of these pieces. Following this will be our interpretation of the ethical considerations associated with this engagement, and a brief discussion of why these concerns must be taken into account to ensure accurate and benevolent depiction of the enterprises, individuals, and concepts involved.

The following section will expand on our findings and the implications of these results. We will analyze and summarize the Honeydrop shareholder reports, and financial trends or relationships that are indicated. We will then discuss the results of our interviews as well as the inferences associated with them. Each research question will be answered comprehensively with evidence from our case study and research.

We conclude this capstone report by discussing the pragmatic takeaways from our report, and summarizing our learning, recommendations for and reflection on this engagement.

Section 2: Literature Review

Background

Addressing widespread societal problems successfully through citizen sector performance has been an ongoing struggle. Thinkers and theorists today are playing with the idea of bringing principles and resources of private for-profit business in line with social enterprises and their missions. Although this intersection of private and citizen sector enterprise can take many forms, this review will first focus on the theoretical justification for private-citizen sector partnerships, and then on three primary themes which emerge repeatedly throughout the literature reviewed. These themes include: corporate social responsibility initiatives, shared value theory, and social business theory. Although social entrepreneurship takes many forms, this review will intentionally exclude forms of private-citizen intersection that fall outside of our three primary themes in order to define and maintain the aforementioned areas of focus.

Though the examination of private-citizen sector businesses is a relatively new theme in economic and development disciplines, sources were available that showed the evolution of thought regarding private and citizen sector collaboration. Much of the literature used came directly from the two fathers of the shared value and social business theories; Michael Porter and Muhammad Yunus. This review will primarily function to explore and consolidate existing thought regarding private-citizen sector partnerships, and methods of applying business principles to social innovation.

Social Problems

Following the Millennium Summit of the United Nations in 2000, the eight international development goals set forth there, known as the Millennium Development Goals (MDGs), have become a standard under which worldwide progress is being measured. While relative improvement on the all of the MDGs gives the impression that the world as a whole has been making strides against inequality, breaking down the numbers tells a very different story. Overall, many of the measurements for health indicators have shown improvement; however, these developments have not been spread evenly across the world. Fourteen percent of the world's population still lives on less than $1.25 a day, 13% of the world's population is undernourished, 6 million children under 5 are still dying every year, and only 4.2 billion people have access to piped drinking water; those affected are concentrated in the developing regions of the world, particularly in Sub-Saharan Africa and Southeast Asia (World Health Organization, [WHO], 2015). In addition, our population is growing so fast that we are quickly approaching the maximum population that our planet can sustain indefinitely in regards available resources: the carrying capacity of the earth. According to the UNEP, a majority of scientific studies place the earth's estimated carrying capacity at 8 billion people, a number we're projected to reach in the next 10 years (Pengra, 2012). This will mean that there will not be enough food, space, or resources for everyone and the earth as a system will be in grave danger.

All of these factors have more detrimental effects in developing areas of the world where the wealth gap is largest and free market economy is unreliable due to corruption and lack of investment. In terms of environmental effects, in just the first two months of 2016 alone, over one million tons of toxic chemicals were released into the environment, unevenly affecting those living in crowded urban areas and in extreme poverty. In terms of health effects, the least developed areas of the world are the ones in which the least amount of progress has been made to the MDGs, leaving much of the population vulnerable. These issues are detrimental to the citizen, private, and public sectors because we're quickly depleting our resources as a planet. Without strong citizen and public sectors, the private sector is in dire need, and vice versa. Having so many social problems, with no clear end in sight, will destroy every sector if no action is taken.

Business as a Solution

The idea of applying business principles and innovation to the pressing issues mentioned above is quickly attracting the interest, evaluation, and critique of thinkers and business people from all disciplines. In his TED lecture on social good and social business, Michael Porter justifies his support of letting business solve social problems. Porter explains that while people's awareness of social issues is at a record high, solutions are not being implemented successfully. He explains that while, in the past, business has been viewed as the cause of these problems, it presents the extent of resources necessary to solve them effectively. Porter argues that applying business to social good is, in effect, meeting needs at a profit; funding is generated through performance of social mission. Furthermore, he argues that profit can actually be *increased* by addressing social change. This new thinking contradicts widespread consensus that economic efficiency/profit maximization and social progress are mutually exclusive. While emphasizing this type of innovation in business practices is not necessarily a new concept, it is a relatively new approach to addressing social problems (Porter, 2013).

There is a pervasive attitude across the citizen sector that the existing mode of funding and operation for the nonprofit and foundation organizational model hinders performance of mission. It is suggested that, due to structural and financial limitations, these organizations may be incapable of accomplishing social change on the scale and at the pace that is necessary (Wilson, 2006). In *More than Good Intentions*, Karlan and Appel (2011) suggest that, while these organizations are undoubtedly well intentioned, it is imperative at this pivotal point, that we aim to strive beyond existing practices. Thousands of individuals and organizations are working towards social good every day, but the methods and assumptions we are currently relying on are not resulting in high enough impact. They argue that good intentions are no longer sufficient, rather we must critically examine and reevaluate these methodologies and practices, experiment, innovate, and improve; not stagnate.

That being said, many innovative design and partner-related business solutions have been prompted by this critique, to increase the scope of impact and sustainability of funding, as well as to limit organizational vulnerability and dependency. Most of these strategic solutions involve harnessing the power of private business principles, and applying it to the strategy and mission of social improvement.

Profit-Generating Power

One frequently referenced advantage of the private business model over our existing social mission model is profit generating potential. Muhammad Yunus (2011) discusses the value of profit generation in his book, *Building Social Business.* He stresses the social impact limitations inherent to an organization that is wholly dependent upon grants and philanthropic donations for funding. However, a socially minded or social mission business model is intentionally structured to produce and even maximize profit in time. The revenue produced by operational functions of the organizational allow for full performance of the business's social mission, founding investors to be paid back in full, and subsequently, the organization to become entirely self-reliant. Depending on the degree to which business principles are adopted into the socially focused enterprise, these benefits vary. However, Yunus emphasizes the importance of creating self-supporting social enterprise, and sites profit generation as the most effective way to achieve this (2011). Ultimately, Yunus (2011) argues that once self-reliant, a social enterprise is able and obligated to dedicate all profits incurred to increasing the impact of the organizational mission. This bottomless source of funding invites and encourages creative innovation within best practices and mission performance. Therefore, applying these profit generating principles to social enterprise creates a business climate with limitless potential for innovation, growth, improvement, and expansion; quite a different reality than the highly constrained non-profit of today's world.

Market & Resource Advantage

Another attractive benefit of incorporating business principles into the world of social betterment relates to resources. Because profit generating business models have the capacity to employ the power of free market competition and human capital, this introduces a new caliber of resource and knowledge base in addressing social problems (Yunus, 2011). Private for-profit businesses have long practiced and experimented with techniques to gain and maintain competitive advantage over rivals. The application of this market savvy and best practices technique within a social mission focus presents an unparalleled advantage.

Benefit to Poor

In *The Mystery of Small Social Business Ownership By the Poor,* Nghia Chi Nguyen (2014) discusses the potential of creative solutions designed by the poor for poverty alleviation. Not only do business principles invite innovation, profit, and resource to join the social mission force, but poverty is also addressed in a sustainable, strategic manner. While many anti-poverty focused organizations exist in the world today, Nguyen (2014) emphasizes the additional benefits that enterprises with certain business-like characteristics can offer the poor. While typical citizen sector organizations aim to alleviate poverty by providing free or donated services and products, traditional private business, conversely, takes advantage of cheap labor and restricts the agency and autonomy of the poor. Nguyen (2014) claims that when a business structure is reframed to perform a social task, it can have the powerful effect of education, job, and business opportunity creation. When a social enterprise is able to successfully involve its beneficiaries in the economic market, the poor become an intrinsic and engaged engine in the fight to eradicate poverty.

Participating in the economy through working, earning, buying, and selling is distinctly empowering and offers long-term sustainability in lifting these individuals from poverty permanently. Both Yunus (2011) and Nguyen (2014), among others, agree that applying business principles to social problems is an excellent method of performing long-term poverty alleviation without stripping beneficiaries of autonomy and initiative.

Benefit to Corporation

In addition to providing enhanced and sustainable poverty alleviation to the poor, applying business principles to social improvement missions creates business value. Ian Davis, best known for his position as managing director of McKinsey & Co (2005) claims companies that dismiss social issues are feigning ignorance to external forces that could alter their strategic future in fundamental ways. In this sense, attention to and involvement in social responsibility and solutions prepare corporations for future challenges and open the door to new markets and expansion opportunities. Furthermore, corporate support for international development benefits both the poor and the company shareholders across the board (Wilson, 2014). To summarize this truly mutually beneficial collaboration, Michael Porter (2011) has coined the phrase “shared value”.

“Poor” as a New Market

Poverty is defined as “the severe condition of economic depreciation suffered as a result of being unable to sufficiently realize the economic potential of one’s own talents and efforts” (Marwaha, Kulkarni, Mukhopadhyay, Sivakumar, 2007). Categorizing the global population based on income looks like a pyramid. Wealth sits at the top spread among the few, while almost 50% of the global population (4 billion) survive on less than $2 USD per day (United Nations, [UN], 2010). This population is underserved and surviving inhumane conditions. Governments and economic markets often do not consider the needs of these citizens (Seelos and Mair, 2007). Those living in poverty lack clean water, food, and healthcare. Literacy and education rates are low while disease, malnutrition, and mortality rates remain high. Households in low income brackets of countries spend two-thirds of their income on food (Yunus, 2015).

Bottom of the Pyramid

These 4 billion people make up what C.K Prahalad termed the bottom of the pyramid. The current global market is full of potential for the bottom of the pyramid is valued at approximately $13 trillion USD. (Prahalad, 2005). Engaging this market requires an understanding of low income segments and collaboration with local partners (Jhirad and Woollam, 2007). When the poor are treated as consumers, they can reap the benefits of respect, choice, and self-esteem and climb out of poverty (Marwaha, Kulkarni, Mukhopadhyay, and Sivakumar, 2007). This phenomenon is a product of “bubble up” economics. The focus of economic endeavors is on the poorest half of any given population, especially women. Credit is a fundamental human right and there is movement for agency in employment (Grove and Berg, 2014).

Companies need strategies to engage with the bottom of the pyramid. Segmenting the bottom 4 billion people into categories based on income and basic cross cultural qualities can help organizations develop effective partnerships. The first segment is low-income who may have some level of education and semi-regular paying jobs such as construction. The next level is classified as subsistence. These individuals are poorly-educated and low-skilled. Those making less than $1 USD per day fall into the final segment, extreme poverty. People living in extreme poverty are completely shut out of organized economy (Rangan, Chu, and Petkoski, 2011).

Assumptions and Challenges

While the bottom of the pyramid population faces significant challenges, they are an innovative group. The main challenges low income markets and communities face include low purchasing power, collection, information exchange, security and environment, and beliefs and perceptions about the consuming public (Ablaza, Aquino, Beshouri, Romano, and Zobel de Ayala, 2007).

Superficially, it seems counterintuitive to target low income sections of the globe for business growth and social good. It is bound to fail if business and market principles used in developed countries are just applied to bottom of the pyramid markets. Incorporating low income segments of the global market requires redefinition of traditional business processes. Currently, capitalism values businesses that build profit. Working with low income markets, products and services must have both economic and social value (Kanter, 1999). Innovation is key; hence redefining business processes. C.K Prahalad (2005) identifies characteristics of successfully engaging the BOP market. In terms of products, Prahalad suggests prioritizing understanding functionality and ensuring products work in hostile environments. As it is likely consumers will be using the product or service for the first time, investment in research and a consumer focus is critical. Also, rather than offering the lowest price possible, companies should strive towards successful financing and price performance. Deskilling work, ensuring scalability of the business, and conserving resources are other necessary elements for a successful partnership with low income groups.

Current Business Models

Those businesses that engage the bottom of the pyramid share characteristics that attribute to their success. At the most basic levels, for profit entities that open new markets in low income areas must redefine their objectives to extend beyond potential benefits in that market (Austin et. al., 2007). Additionally, companies must develop partnerships with representatives of the target community.

DESI and Shell Solar are two energy companies in India that have adopted new business models to serve the communities where they operate. In contract with a local partner, DESI constructs and operates a local power station collaborating with local individuals and businesses to sell services to consumers. Shell Solar directly sells to consumers but offers financing plans and uses subsidies from local government to offset upfront costs. These companies exemplify key characteristics of business models that target low income communities. A deep understanding of the community, local market, and consumer needs and strategic financing are critical in the success of these programs (Jhirad and Woollam, 2007).

Sekem, a sustainable development organization, began in the 1970s by Dr. Ibrahim Abouleish. Abouleish started this business to create economic and social value by working with local communities to grow organic food in Egypt. Sekem's success is due to Abouleish's understanding of the requirements for a successful business model with low income communities. Sekem operates with a transparent exchange of market information, education element of marketing and financing concepts, a code of ethics, use of contracts, and clarified roles for everyone in the value chain (Seelos and Mair, 2007).

Manila Water Company in the Philippines utilizes its consumers to protect assets. In distributing water to communities, MWC experienced loss of revenue due to leaks and illegal connections. MWC used a network of individuals to protect and secure water lines from illegal connections, reducing their losses in non revenue water (Ablaza, Aquino, Beshouri, Romano, and Zobel de Ayala, 2007).

Existing Methods of Applying Business Principles to Social Good

Corporate Social Responsibility

Throughout this paper we will use the term 'Corporate Social Responsibility' or CSR. This term gained popularity in the 1960s and encompasses a company's sense of responsibility towards the community and environment in which it operates. Companies most frequently participate in CSR through reducing their waste and pollution and by contributing to educational and social programs. The idea of CSR was born from the citizen sector demanding more responsibility from companies operating in their communities; however, the idea wasn't welcomed at first. In a 1970 *New York Times Magazine* piece, Milton Friedman argues that rather, a corporation's only social responsibility is to make money for its shareholders (Porter & Kramer, 2002). Until the advent of CSR, the financial foundation of the private sector and the goals and programs of the citizen sector were seen as separate, unrelated entities. Friedman's article also highlighted the prevalent idea at the time that social spending comes at the expense of economic initiatives and returns and that corporate giving provided no greater benefit than what would be provided by individual donors (Porter & Kramer, 2002).

As CSR first began, and in many ways still continues to function, corporations make donations sporadically, to causes and programs unrelated to their business model. In addition, most contributions reflect personal beliefs or values of executive or employees instead of being tied to well thought out social or business initiatives. By the 1990s, companies began to realize that not only did social giving make their employees happier and appease citizen sector demands, but it also provided unrivaled marketing and public relations opportunities. In this way, philanthropy and corporate giving became a vehicle for advertising, rather than social good. As Porter & Kramer (2002) discuss, "U.S. corporate spending on cause related marketing jumped from $125 million in 1990 to an estimated $828 million in 2002" (p 29.). Often times however, the marketing expense jumps far beyond the actual amount being donated such as with Tobacco giant Phillip Morris, who spent $75 million on charitable contributions in 1990 and then launched a $100 million campaign to publicize these contributions (Porter & Kramer, 2002).

While there may arguably be some return on investment, it is not nearly enough to offset the incredibly high cost, especially when the benefits to the citizenship sector still remain low. As Wilson and Wilson (2006) argue in *Make Poverty Business,* if you use profit as a measure of how much value a corporation is creating for society, CSR programs do little to create social benefit when compared to programs in businesses that directly serve or employ the poor (p. 33). Increasingly, corporations have had more and more difficulty in appeasing citizen sector demands for higher giving while also being under pressure from shareholders to increase short term gains. In response, the term ‘Strategic Philanthropy’ was coined to describe any kind of charitable activity that has some defined theme, goal approach, or focus. The idea behind this being that companies focus more on cause-related marketing, or concentrating giving in one area or on one non-profit, in order to create stronger recognition and goodwill. The focus however, remains on the publicity and not on social impact, which still falls short for the citizen and public sectors.

As Porter & Kramer (2002) note, “Companies don’t function in isolation from the society around them” and that company productivity depends on having safe, educated, healthy, and motivated employees (p. 32). Thus, Porter & Kramer suggest a better way for companies to use CSR is by using their charitable efforts to increase their ‘Competitive Context’, or the quality of the business environment in which they operate. Doing so aligns social and economic goals, allows companies to leverage capabilities and relationships in support of charitable causes, and produces social benefits that exceed those provided by individual donors, foundations, or governments (Porter & Kramer, 2002). Increasing competitive context is always linked to business strategy as it is related to the availability and quality of skilled workers, the efficiency of local telecommunications and infrastructure, the size and sophistication of local markets, and the extent of government regulations which the company is dealing with (Porter & Kramer, 2002).

By analyzing this competitive context, companies can identify areas of economic and social overlap. Thus, by better understanding the link between philanthropy and competitive context, companies can identify both where they should focus corporate giving and how they can achieve greatest social and economic impact through their contributions (Porter & Kramer, 2002). As Handy (2002) states, "Businesses cannot always afford to be so generous to so many people, but doing good does not necessarily rule out making a reasonable profit" (p. 81-82). Few companies however have connected their giving areas in ways that would improve their competitive potential. In order to properly utilize strategic philanthropy, companies would need to address social and economic goals simultaneously, targeting competitive context in such a way that the company and society both benefit.

As Goodpaster and Matthews (1982) argue in "Can a Corporation Have a Conscience?" if a corporate can have the same rights as a person, then the logic follows that they should have the same role and responsibility in acting for the social good. Throwing money at a problem won't simply make it go away; only when sustainable, effective efforts are made to incorporate the citizen sectors needs can CSR begin to benefit both the poor and the shareholders. As previously discussed, using the private sector as a vehicle to create change in the citizen sector is the most effective solution. In "The Path of Kyosei," Kaku (1997) discusses the way in which Canon has made CSR an integral part of its identity. Being generous with employees, fostering a spirit of cooperation and pushing the importance of community have helped make this possible. By investing in developing countries, addressing trade imbalances, pushing for environmental responsibility Canon has made a significantly positive impact on the world while still maintaining

20% annual increases in profits. At Canon, they take this responsibility a step further by advocating for legal and education reform, upholding high moral and ethical standards in their product development cooperating with competitors. Kaku (1997) goes on to state that because "multibillion-dollar corporations control vast resources, employ millions of people, and create and own incredible wealth, they hold the future of the planet in their hands" (p.122). Thus, the importance of creating a better CSR that addresses everyone's needs is not only necessary but critical in creating change.

Shared Value

The term 'shared value' was developed by Michael Porter and Michael Kramer in their Harvard Business Review article titled "The Big Idea: Creating Shared Value" (2011). The definition, purpose, and characteristics of shared value described in the following are taken from this article. It is a concept rooted in the integration of business practices for the purpose of both economic and social benefits. Shared value is a distinct business practice from corporate social responsibility. The following discusses the identification of shared value, the similarities and differences between corporate social responsibility and shared value, examples of shared value in the world, and criticisms of the practice.

Socially responsible business practices evolve over time. In its simplest form, this evolution began with philanthropy and most recently exists as social business (Figure 1.). Companies and organizations still use all of these techniques for social responsibility. Shared value is an outcome rather than a practice. It is defined by Porter and Kramer (2011) as "policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions of the community in which it operates."

Striving for shared value involves three strategies: reconceiving products and markets, redefining productivity in value chain, and building supportive industry clusters at company locations (Porter and Kramer, 2011). As discussed earlier, redefinition of products, markets, and value chains is crucial. This is a measure of adapting business models to allow for both economic and social success. These tactics are similar to successfully engaging low income segments of the global market.

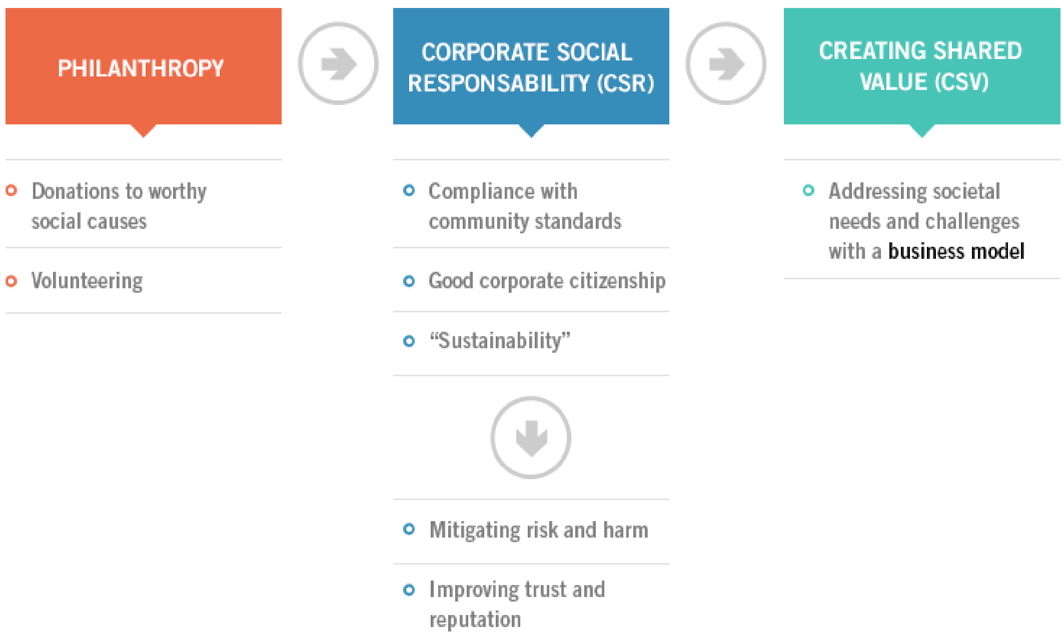

Figure 1. The role of business in society, evolving approaches. Reprinted from *Harvard Business School Institute of Strategy and Competitiveness*, by M. Kramer, 2011, Retrieved from http://www.isc.hbs.edu/creating-shared-value/Pages/default.aspx.

FSG, a social change organization cofounded by Michael Kramer and Michael Porter hosted a roundtable discussion in 2010. Executives from different companies came together to share their experiences of bringing shared value into their businesses. At the round table were executive representatives from Goldman Sachs, Hewlett Packard, Cisco Systems, InterContinental

Hotel Group, IBM, Medtronic Foundation, and Alcoa North American Rolled Products. The topics of conversation included motivation for creating shared value, strategic partnerships with NGOs, how each company measures success, and what shared value looks like in the future.

Most of the questions served to determine what kinds of shared value programs exist on a major corporate scale and the reasons for implementation of those programs. Programs included Goldman Sachs' 10,000 Women initiative. It is a financing program investing in women around the world who lack resources to begin businesses. IBM began hosting the Smarter Cities Challenge. IBM will award a $50 million dollar grant over the course of three years to cities around the world to assist them in projects related to growth and sustainability.

While the programs varied in innovation they all had a common theme. Each shared value initiative addressed the company's triple bottom line. A regular bottom line in business terminology refers to net profit for a company. The triple bottom line considers environmental and social measures in addition to financial (Slaper and Hall, 2011). In the words of Ezra Garrett, executive director of the PG&E Corporation Foundation, "If we're not conducting our business in a way that is responsible and that acknowledges the impact of our business on their neighborhoods and the environment, then it's big trouble. Big trouble for us, big trouble for our shareholders, and big trouble for our government regulators as well."

Social Business

Social business is frequently framed as a parallel institution to traditional private business. While the innate objective of private business is profit-maximization, social business, by definition, strives to address complex social problems. The social business concept was first conceived and defined by Nobel Peace Prize laureate Professor Muhammad Yunus. He establishes a working definition in his books *Creating a World Without Poverty* (2007), *Social Business and* *the Future of Capitalism* (2009) and *Building Social Business: The New Kind of Capitalism that Serves Humanity's Most Pressing Needs* (2011). The design of social business is new and still developing in reality. As a result, Yunus is the primary advocate and source of the concept. Therefore, much of the concept and theory surrounding this method of applying business concepts to social good is generated primarily through his work and writing. Although there are many entrepreneurs and economists now beginning to adopt and evaluate social business practices, the idea is still fresh, and is just beginning to infiltrate and inspire the studies and theories of widespread academia. In *Building Social Business,* Yunus (2011) defines a social business as a non-loss, non-dividend, financially self-sufficient company, designed to address a social problem (1). The social business structure necessitates that all profits incurred by the business are reinvested, with the objective of not only sustaining daily operations, but also funding improvement and expansion of the organization’s social impact.

As with any new concept, Yunus (2011) and other writers have found it critical to recognize and define not only what social business *is*, but also what it *is not*. Social business is distinctly different from other forms of enterprise, particularly social entrepreneurship, although the two concepts are frequently grouped together. In the book *Mission, Finance, and Innovation: Similarities and Differences between Social Entrepreneurship and Social Business* (2014), Beckmann, Zeyen, and Krzeminska discuss the key distinguishing features. While social business and social entrepreneurship have a shared focus on and dedication to their social mission, they differ considerably in regard to innovation and financing. Social entrepreneurship relies on innovative cutting edge ideas to carry out a social mission. Meanwhile, social business is centered on the self-financing and profit-generating potential of applied business principles to carry out their relative social mission, on an increasing scale. While social entrepreneurship aims to apply the power of innovation and creative concepts to addressing social issues, social business aims to apply the power of profit-generating business principles to addressing social issues *at scale* (Breckmann et. al, 2014).

Social business is also distinguishable from the private business model as shareholders are prohibited from receiving dividends that exceed their initial investment in the business. Due to the inability of invested parties to profit financially from the success of such an operation, social business dedicates its entirety to achieving social goals, rather than maximizing shareholder returns (Yunus 2011).

Social businesses require, as any other enterprise, significant startup investments upon their conception. Much of this funding is accessed through philanthropic and charitable investment and donation. This is another point where the social business model becomes distinctly unique. Where nonprofit and charitable foundations would remain dependent upon this external funding, a social business is designed to generate independent profit. This revenue is used to repay these initial shareholders over time, and ultimately, the business aims to achieve self-sufficiency. This is accomplished by applying traditional business principles to the socially oriented operation, resulting in a profit-generating and self-supporting model. In short, a social business is not social entrepreneurship, a private business, or a non-profit, NGO-like institution; It is a self-financing business in which investors strive to affect social problems without experiencing any financial gain themselves.

Why Social Business Works

Social business concepts are garnering increasing traction as economists, theorists, entrepreneurs, and conscious citizens across the globe are recognizing the limitations of our current methods of addressing widespread social problems. One of these limitations addressed in *Scaling*

Social Impact: New Thinking (2010), is the potential scale, or scope, of affected change. Due to the inherent financial dependency of citizen sector enterprises on donations and grants, these well-intentioned organizations are incapable of effecting social change on the scale and at the pace that is necessary (Bloom, 2010). Furthermore, government attempts to address social issues are reliant upon taxpayer money and thereby limited. Social business, however, has potential to expand indefinitely by raising investment funds in creative ways and operating the enterprise in a manner that supports and prioritizes development (Yunus, 2011). This limitless potential allows social businesses to create social change at scale.

Another advantage of social business relates to human capital and expertise. Citizen sector and non-governmental social organizations are often criticized for their fund-dependent existences. They expend obscene amounts of resource and human capital performing the fundraising tasks solely to maintain daily operations. A social business, once financially self-sustaining, is able to dedicate total resource and human capital base to service/mission related activity. Social business also has the capability to harness the power of the competition, freedom, innovation, and human capital associated with the private business sector through increased choice of goods and services (Yunus, 2011).

A third quality that makes social business inherently attractive to socially motivated individuals, investors, and people affected by social problems alike, is the manner in which beneficiaries are served. Yunus (2011) explains that charitable donations and services, although well-intentioned, have “the inevitable effect of taking away the initiative of those who receive benefits” (p. 6). In comparison, social business encourages self-reliance and agency through fair prices and active participation in the free market. This increased dignity and autonomy with which beneficiaries are treated results in long-term solutions to issues of poverty, and increased empowerment.

Lastly, social business makes the prospect of social betterment accessible to all. Yunus (2011) argues that the emerging sector recognizes a sense of shared responsibility between the government and citizens in solving society’s problems. He describes the political, fiscal, and logistical challenges that governments face in addressing social problems; the continued existence of so many social issues is hard evidence of government's inability to implement successful social solutions. Social businesses, however, acknowledge the potential ability and innovation that that individuals possess, but that government often lacks. The model then allows any and every citizen a chance to take social responsibility into his or her own hands. Of course, many advantages to social business exist, and this list is by no means exhaustive.

Types of Social Business

In *Building Social Business,* Muhammad Yunus (2011) classified the present variation of social business models into two primary types. The classification relates to the manner in which beneficiaries are involved with the enterprise, and the role that they play within the operation.

A type I social business is a profit-generating model of commercial business. This model focuses solely on a social good mission: producing goods or performing services that function to remedy a specific social problem or benefit a target population. Stakeholders do not receive dividends that surpass their invested shares, and therefore do not experience any financial profit from the engagement (2).

A type II social business is any profit maximizing model of business that is actually owned and operated by its beneficiaries. These poor and disadvantaged individuals can profit through direct paid dividends, among other indirect ways, such as through a foundation. While the business can be under ownership of either the poor or a foundation, it also employs those it intends to benefit; providing income for those who need it, and in this way lifting employees from poverty (78).

Muhammad Yunus: Theory on Capitalism

Muhammad Yunus is a Bangladeshi social entrepreneur, banker, economist, civil society leader, and prolific author. In his book, *Building Social Business,* he discusses the place that social business should assume in our complicated, profit driven world, and promotes the practice of applying the dynamics of capitalism to humanity's most pressing challenges (Yunus 2011).

Yunus' position reflects the assumptions on which our current capitalistic model was developed. His theory claims that these founding assumptions misrepresent humans gravely; as one-dimensional creatures, motivated solely by financial gain. According to his writing, the current model of capitalism was designed to recognize only one facet of human nature; the drive to profit. However, he stresses that proof exists (through the existence of charity and truly altruistic behavior) that there is another innate motive to human nature; the drive to do social good. Unfortunately, adhering to this biased, one-sided model of human motivation has led the capitalistic world to reflect a financially motivated and profit-obsessed population. Yunus argues that our current mode of capitalism fails to recognize the selfless and socially motivated side of human nature. He advocates that the adoption of the social sector as a fourth economic player (behind public, private, and citizen) would remedy this deficit, creating a sphere for those who are socially motivated to operate within (2011).

Yunus emphasizes combining sustainability and social good. Even when socially minded, every decision and priority of a private sector company must be filtered through the lens of profit-maximization, while the citizen and public sector often strive toward social good, but are innately dependent upon externalities for funding. Yunus argues that applying the profit generating and self-sustaining model of business to a social cause would have a chance at large scale affectivity (2011).

Limitations and Challenges in Implementation

Muhammad Yunus (2011) stresses the challenges that exist in actually designing and starting a social business, as the business structure regulations do not exist yet. This is a hurdle that not only prevents social business ideas from being carried to fruition, but also leads to the demise or compromising of existing businesses. This newly conceived concept of social business requires alterations to business practice stipulations; a social business cannot be easily or effectively created under the legal structures currently in existence. A social business could not be created under non-profit regulations because the respective funding systems of the two structures have irreconcilable differences. Therefore, the closest financial and regulatory format of business to the social model is a private for-profit corporation. However, using this profit-maximizing foundation for the social business introduces unrelenting danger that shareholders may change their minds and demand dividends upon financial success. According to Yunus (2011), this threat will be a reality in social businesses operating by private business regulations until a new set of regulating principles are developed to support social business and establish standardization.

However, due to this missing puzzle piece, many alternative business structures are emerging to support social enterprise. They include CIC (community interest company), L3C (low-profit limited liability company), and a b corporation (beneficial) (Yunus, p. 127).

Other limitations

In *The One and Many Sides of Social Business: A Critical Reflection*, Kreutzer and Mauksch (2014) discuss the logistical limitations to the present model of social business, and the difficulties faced in long-term strategic planning. The first limitation or danger that the authors of this piece offer is the risk of universality. This encompasses the idea that social business, if implemented and/or interpreted incorrectly, could begin to function as a sector of privatized public services. Already, many governments have and are considering privatization for the social services that they are unable to provide adequately. Kreutzer and Mauksch (2014) claim that the social business model could eventually run the risk of beginning to replace government and/or non-profit and NGO functions, instead of serving as an "innovation engine" for the social sector.

Furthermore, the challenge of navigating profit generation and adherence to mission presents a considerable and ongoing dilemma in social business. Developing the metrics to assess financial results without disturbing the social mission is imperative to maintaining a pure social mission tantamount to the pure business format. Particularly in times of economic downturn or financial hardship, Kreutzer and Mauksch (2014) suggest that it may be difficult to avoid compromising a social mission, particularly because the cost of continued service may come at a very high price, but consequences for loss of a high demand service may be even greater. These dilemmas only grow more confounding when the dynamic of the social business founders are examined; social entrepreneurs are not always trained managers. However important, appropriate management training is not likely to be the priority in the face of malnutrition and poverty (2014).

Another important consideration discussed in this chapter was the issue of long-term sustainability. Kreutzer and Mauksch (2014) state the observable fact that for a business of this purpose; providing vital services, products, and income to poor communities, failure would have consequences exceeding that of a typical commercial business.

Examples of Successes

There are more examples of successful social businesses all the time; type I, type II, and even models that incorporate the characteristics of both. Muhammad Yunus is responsible for the creation of a large branch of international social businesses. The innovative trial and error learning process is described thoroughly in his book, *Building Social Business*. When he founded the Grameen Bank, the bank "of the village" in Bangladesh, he had only just begun to shape the idea of a larger private business with a social mission. This bank exists as a source for microcredit loans and support for micro-saving among the poorest Bangladeshi communities. The organization gives very small loans to people who lack both credit and collateral. The minute loans make an immense difference in the small entrepreneurial ventures of the people who receive them. The opportunity to access and build credit is rare in these communities; commercial banks cannot afford the risk, and loan sharks would lend money but collect crushing and inescapable return interest rates. Not only does the Grameen enterprise employ poor villagers, providing decent working conditions and a stable and reasonable income, but the microfinance programs are designed to target and support poor Bangladeshi women and their businesses. Therefore the Grameen Bank represents both a type I and type II social business (Yunus 2011).

The Grameen business became immensely successful, although not without trial and error. Later partnered with Dannon yogurt, Grameen Dannon began to address malnutrition in Bangladesh, particularly among children. They developed a yogurt product, sold at a subsidized price, and fortified with all the micronutrients lacking in the children's typical diet. Grameen Dannon is self-sustaining, profits are reinvested in the improvement and expansion of the product, and business success is measured not by revenue, but by the number of children able to escape malnutrition each year. This model is a type I social business, as it is structured as a private commercial product manufacturer, but addresses a social problem and does not pay dividends to shareholders.

Conclusion

While shared value and social business theories have evolved over the last few decades to become a realistic and marketable business strategy for the private sector, there are still huge gaps in implementation. Many businesses in the private sector have incorporated aspects, or ideas, from these theories into their models and structures; yet real, measurable change has yet to grab hold. In the following case study we will analyze a partnership between two private and citizen sector organizations which may offer a new ideal. This partnership is so far unlike any in the literature and may or may not be one which can be replicated across all organizations and industries.

This section is intended to provide a background for the theories and practices exemplified in the following case study of this report. The following section describes our methods and analysis.

Section 3: Methodology

Case Study Analysis

Researchers used qualitative research methodology in the form of interviews. The foundation of this project is a case study of the partnership between Seven Hills Foundation and Honeydrop Beverages. Part of the scope of this project is to create a narrative describing the business relationship between these two organizations. The qualitative research interview is used when 1) a study is focused on a particular phenomenon or situation, 2) individual processes within a social unit are studied prospectively, and 3) individual historical accounts are required of how a particular phenomena developed (King, 1994)

A case study is defined as "a process or record of research in which detailed consideration is given to the development of a particular person, group, or situation over a period of time." Key stakeholders were interviewed in-person and over the phone. Open structure interview questions were posed to interviewees (APPENDICES). In-person interviews were recorded electronically with the permission of the interviewee. Interviews over the phone were recorded via note taking. The purpose of these interviews is to build a case study of a partnership between a citizen sector organization and a private, for-profit organization. Interview questions were created based on the following research questions:

RQ1: To what extent, if any, might a mutual relationship between private (for-profit) sector and citizen (non-profit) sector organizations enhance the tangible financial integrity of each?

RQ2: What might be identified, if any, as intangible benefits that accrue to either/both private and citizen sector organizations in a mutually beneficial business relationship?

RQ3: To what extent, if any, is Corporate Social Responsibility (CSR) and Shared Value (SR) between the private (profit) sector and the citizen (nonprofit /social) sector a 21st century capitalist imperative?

Quantitative analysis is used in the form of creating projections for the financial relationship between Seven Hills Foundation and Honeydrop Beverages. Using stakeholder reports from fiscal years 2014 and 2015 researchers have access to sales, earnings, and financial forecasts from Honeydrop Beverages. This information is used to create a series of projections that showcase the financial relationship between Honeydrop Beverages and Seven Hills Foundation in the future.

Data Analysis

As part of this case study analysis, our team was given access to two 2015 Honeydrop Investor Update Reports. The first is a Quarter 2 Update dated July 12, 2015 and the second is a Quarter 3 Update dated December 1, 2015 (see Appendix C and Appendix D). In these updates, David Luks outlines the company's performance in 2015, strategy and initiatives, challenges, and their expectations for what's to come. Based on these updates, we have gathered an approximate picture of the state of the company's financial standing as well as the direction in which they appear to be heading.

Overall, Honeydrop is continuing to experience a net loss in their revenue. Their Earnings before Interest, Tax, Depreciation, and Amortization (EBITDA) experienced a loss in Q1 (-$113, 207), Q2 (-$57,780), and Q3 (-$106,356) because of increased spending on sampling costs, public relations, marketing, travelling to trade shows, and hiring personnel. As their Income Statement shows, spending on Advertising and Marketing across Q1, Q2, and Q3 totaled $294,587, accounting for a huge reduction in their net revenue. This spending has begun to pay off however as Honeydrop beverages were the featured in multiple magazines resulting in millions of page impressions, or individual requests for a webpage to load. In addition, Honeydrop has been steadily increasing the number of stores their products are available in as well as making critical connections with the beverage and grocery industry which have the potential for significant growth.

The overall trend in their sales has continued increasing, although they did experience a drop in Q3 of 2015. Their gross margin percentage has remained steady in the low thirties. Luks states that Honeydrop plans to increase this number to at least forty by increasing each product's shelf life, decreasing their Costs of Goods Sold (COGS) by finding new suppliers, purchasing a labeling machine, and exploring freezing raw materials to avoid seasonal price variation. In addition, Honeydrop will be adding over 400 stores to its distribution in Q1 of 2016. While Honeydrop did not consistently close the gap they are experiencing with a net loss, it appears as though Luks is taking the appropriate steps to address this discrepancy.

Ethical Considerations

As this case study and analysis did not compel us to perform any primary data collection beyond internal interviews, the ethical considerations that must be associated with the project are fairly straightforward. In this case, the confidentiality of financial records must be maintained. The Honey Drop Beverage shareholder reports that are later analyzed for evidence of Shared Value must be used as intended, only for the purposes of this report. Although these benevolent and non-incriminating records were graciously passed forward over email for our use, it is our responsibility to interpret and present the information appropriately, accurately and ethically. Not only is this an ethical concern, but also it would endanger the financial integrity and stability of both enterprises, as well as their shared partnership.

Another ethical consideration pertinent to this study relates to references. Because much of the existing literature on shared value principles and private-citizen sector partnerships is not common knowledge and is therefore sourced from original work, we must be careful to acknowledge the coined ideas and terms of other authors used in any part of the study's language.

We, as researchers, have the responsibility to analyze data in a manner that avoids misstatements, misinterpretations, or fraudulent analysis. This is difficult, in part, due to the nature of our data. Our only source of primary data was found in the open interview responses of David Jordan, David Luks, and Mareill Kiernan. While expected to maintain the highest level of objectivity in discussions and analyses throughout the research, we also must interpret and present data so that others are able to decide to what extent our interpretation is believable.

We also must be conscious of the implications of our case study. We do not want to imply that the Seven Hills- Honeydrop model of private-citizen sector partnership is unflawed, or even necessarily ideal. We aim simply to assess the validity of the private-citizen sector shared value principle through the study of a specific existing partnership. Furthermore, we must be cautious not to represent the partnership as stagnant or complete; it is a working partnership, still in the early, experimental stages of development and logistical design.

In addition, we must be wary of presenting the partnership narrative in a manner that readers may interpret as a form of Corporate Social Responsibility or corporate giving. While we discuss various methods of applying profit to social good in our literature review, and they are related under this purpose, they are intrinsically different and must not be confused. To lead a reader to understand the Seven Hills-Honey Drop partnership as a glorified CSR program rather than a shared value initiative would be to misrepresent the efforts of both David Jordan and David Luks.

The last ethical consideration that must be recognized relates to the potential misrepresentation of those impacted by the partnership. In this case, that group includes the Sierra Leonean, Ghanaian, and Guatemalan women who have been trained to raise bees and harvest honey and apian byproducts as a supplement to their income. The ethical risk involves perpetuating a cycle or dynamic of charity-dependency that functions to take personal agency away from beneficiaries. Furthermore, there is a risk of misrepresenting the women's true experience with the initiative, and of inviting stereotypes surrounding those who receive aid.

The following section outlines the findings of our qualitative interviews and financial analysis.

Section 4: Findings

Introduction

David Luks, CEO of Honeydrop Beverages, Mareill Kiernan, Sales and Marketing Director of Honeydrop Beverages, and Dr. David A. Jordan, President and CEO of Seven Hills were interviewed via the interview guides in Appendix A and Appendix B. The purpose of these interviews is to construct a narrative around the corporate partnership between these two organizations. This narrative will be used as a tool to project how this type of business relationship can succeed in the market.

Mareill Kiernan, the Honeydrop Beverage Sales and Marketing director of three years, plays an unusual role in the start-up's partnership with Seven Hills. Her direct participation and involvement with the beekeeping projects in Sierra Leone and Ghana is one of the factors that differentiate this partnership from a straightforward CSR program. As David Jordan explained when interviewed, "If this was just CSR, Honeydrop would just be writing [Seven Hills] checks." However, the involvement of one employee in particular, Kiernan, goes much deeper.

In January 2016, Kiernan joined CEO David Jordan and several Seven Hills donors and local students in experiencing the reality of these programs. The group of ten; including Sarah Dys and Maya Grevatt spent almost two weeks in Bo, Sierra Leone and Tema, Ghana. One purpose of the organized Seven Hills learning trip was to allow donors to witness the tangible results of their generosity, and to connect with the grateful beneficiaries. A second purpose of the trip was to bring the partnership between Honeydrop and Seven Hills to a heightened level. Through her participation in the experience, Dr. Jordan aimed to connect Kiernan, (and through her, Honeydrop) to the ultimate beneficiaries of their partnership: the rural women and their families who now keep bees to produce and sell honey. On this trip, Kiernan was able to get to know some of the women who had been introduced to and trained in beekeeping through this partnership. She was able, as we all were, to witness firsthand the incredible effect that the additional income from honey has on entire families and communities in rural Sierra Leone and Ghana. Furthermore, more experienced individuals participating in the initiative explained to us the strategic long-term plan for expanding hives and production sustainably.

Kiernan's presence on this trip spoke both to Honeydrop's commitment to and interest in this newly established partnership and initiative, but also to their intent to complete the often-disconnected cycle of donor to benefactor. Furthermore, she was able to engage with the women ultimately benefitting from the beekeeping projects initiated through the partnership. This direct connection was critical to establish personal sponsorship and passion from the Honeydrop side. Lastly, this engagement unofficially confirmed the validity and potential of the new cross-sector partnership. Kiernan returned from the trip with a newfound sense of urgency and motivation, and spread her enthusiasm throughout the company. Without the personal involvement of a Honeydrop employee, Honeydrop would be disconnected and very removed from the effect of this partnership, relying on Seven Hills' presentation of the benefits and remaining need. However, due to this unusually high level of cross-sector involvement, Kiernan is able to put faces, names, pictures, and memories behind the purpose of their partnership with Seven Hills and bee keeping project.

Case Study

The Partnership

How did the business partnership between Honeydrop Beverages and Seven Hills Foundation come to be?

Bill Davis, a current investor of Honeydrop, connected Dr. Jordan with the company. Davis has both a professional and personal relationship with Seven Hills Foundation. He encouraged Dr.

Jordan to invest in Honeydrop. Dr. Jordan posited a clean water initiative involving funding for wells in Sierra Leone as a condition for investment; however, this project does not align with the mission or vision of Honeydrop Beverages (Table 1).

What do you believe is Honeydrop's mission?
"To develop natural, clean honey lemonade, simply, with unrefined products, low-calorie and with health benefits"
"Bring a healthier version of a crowd favorite [lemonade] to the masses"
"To support bees and beekeeping"

Table 1. Respondent feedback to Honeydrop's mission

Honeydrop currently supports beekeepers in the United States through its "Buy a Bottle, Save a Bee" campaign. "A percentage of profits are donated every quarter and go towards providing local beekeepers with hives in their communities to combat colony collapse disorder." Colony collapse disorder (CCD) is the loss of managed honey bee colonies due to pathogens and other stress factors (van Englesdorp et al., 2009). Honeydrop's drinks are sweetened with honey from domestic and international sources. Dr. Jordan returned to the managing partners with a new project. The idea, created and refined by Dr. Jordan and Mareill Kiernan, was to increase economic development in villages by supporting local beekeeping initiatives. "All I care about is creating new hives. This may not have been my idea, but it's increasing the bee population, and that I fully support," said David Luks.

What does the partnership look like?

There are multiple layers to this business partnership. First, Seven Hills is a shareholder of Honeydrop Beverages owning 5% of the company. Second, Seven Hills Global Outreach facilitates the social good initiative to support local beekeeping projects currently in Sierra Leone, Ghana, and Guatemala. Honeydrop designed a label to go on its Manuka honey products (Figure

2). The label states: "For every bottle sold, 1% of proceeds goes towards Seven Hills Global Outreach, a non-profit initiative to build sustainable bee hives and economic development in emerging countries." 1% of proceeds from net sales of those specific flavors will be given to Seven Hills Global Outreach and 100% of those proceeds go towards social initiatives.

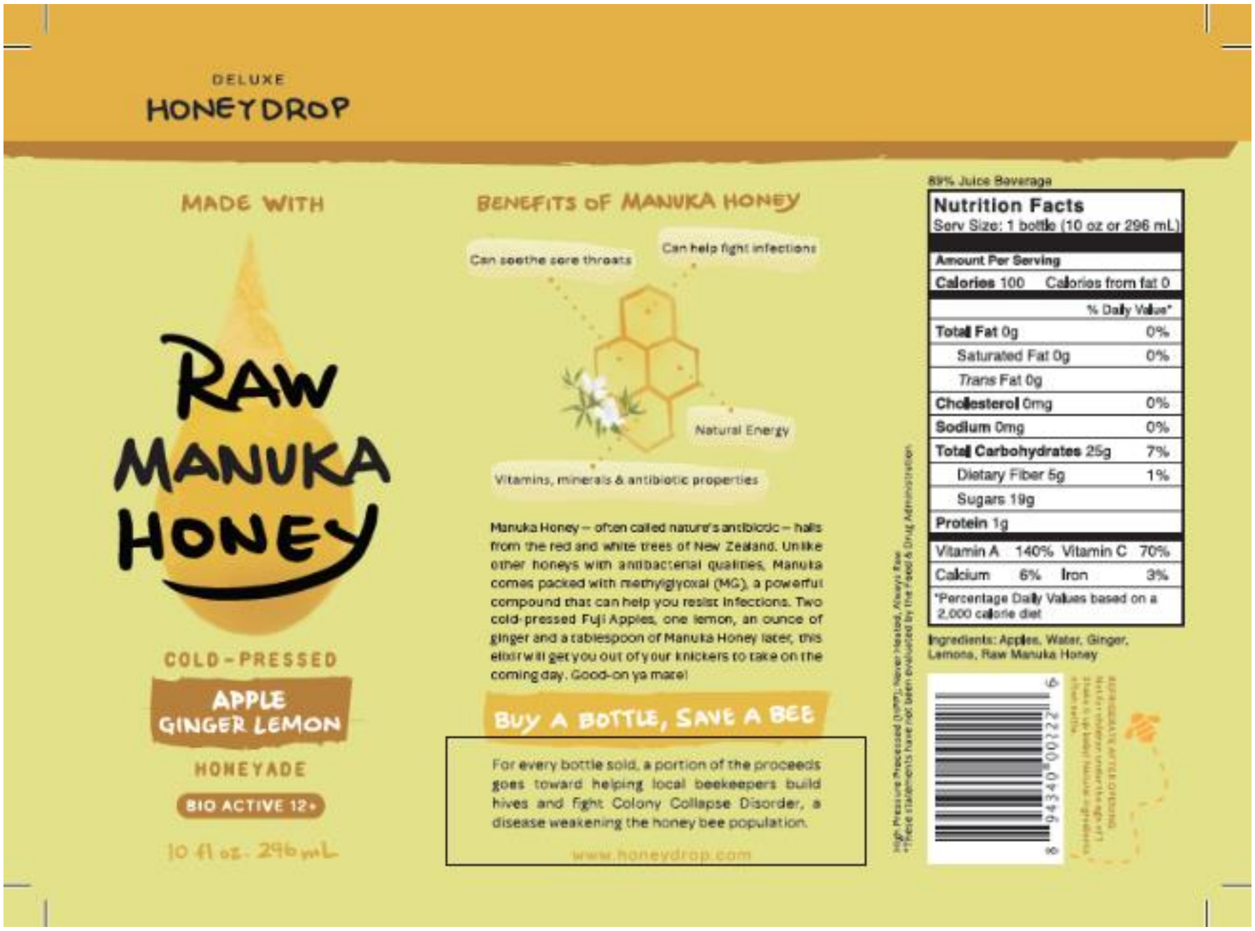

Figure 2. Sample Honeydrop Beverages product label

Honeydrop Beverages is currently applying to become a B corporation. B corporations are legal for-profit organizations that serve a triple bottom line: social, environmental, and profit. "This partnership with Seven Hills satisfies many of the social good requirements of a B corporation and assists with that aspect of our application," Mareill Kiernan says. "Additionally, we are working with a new PR agency that wants to maximize press coverage build our brand."

Seven Hills has also broadened Honeydrop's relationships in the international community and provides them with additional areas to fight CCD.

	How do you define the partnership between Seven Hills and Honeydrop?
Dr. David Jordan	SHGO receives 1% of net sales and 100% of that is put towards social initiatives. Honeydrop uses partnership for press, goodwill, and introduction to the global market. SHF will receive benefits from investing in Honeydrop.
David Luks	Seven Hills provides Honeydrop with an international community. Honeydrop in turn puts Seven Hills on the label of three drinks made with Manuka honey and 1% of profits made from these drinks will go towards international beekeeping through SHGO.
Mareill Kiernan	The partnership needs to develop further as it is currently at a standstill. SHGO brought me to Africa and there is a possibility of using honey from SHGO's projects in a drink. Honeydrop puts Seven Hills on the label of three drinks made with Manuka honey and 1% of profits made from these drinks will go towards international beekeeping through SHGO.

Table 2. Defining the partnership between Honeydrop Beverages and Seven Hills Foundation

What is the future direction of this partnership?

Dr. Jordan makes the analogy that this partnership is like "a movie with multiple characters and storylines." While these two organizations are in a partnership together, it was interesting to learn where they hope the future of this partnership leads. Table 3 shows the juxtaposition of Dr. Jordan, David Luks, and Mareill Kiernan's thoughts on what the future looks like for Honeydrop and Seven Hills.

Both Luks and Kiernan envision growth of Honeydrop Beverages, hoping their product becomes a staple in health food stores across the country. They are constantly working on developing new flavors and seeing what is popular among their consumers. Additionally, they are working on a website overhaul. They are going to include a social good initiatives section that capitalizes their domestic and international campaigns to support bees and beekeeping. Currently, movement towards seeing benefits come to fruition has been slow. But both Luks and Kiernan are excited for the potential with Seven Hills.

	How do you see the future direction of this partnership?
Dr. David Jordan	Eventual purchase of Honeydrop by a major corporation (such as Pepsi) that would multiply the initial investment. Secondly, increase the number of wells, clinics, and schools that could result from acquiring that money.
David Luks	For Honeydrop to expand outside of the United States, update our website and promote CSR, and get our products in new areas (example: Worcester, Northeast).
Mareill Kiernan	Growth and expansion of Honeydrop; educate consumers in order to create a healthier population, and continue to support the efforts of domestic and international beekeeping.

Table 3. Stakeholders discuss the future of the business partnership.

Dr. Jordan's vision for Honeydrop is somewhat different. As an investor in the company he also hopes they experience growth in the market place. However, there are significant financial gains with sales from products made with international honey. Honeydrop Beverages produce unique, healthful drinks, sweetened with one teaspoon of honey. Dr. Jordan hopes a major corporation will see the need to fill that niche on their shelves and offer to purchase the company. The potential payout could provide significant funding for Seven Hills Global Outreach international health and human services initiatives. In both "storylines," Honeydrop's growth and success is at the forefront of the future of this partnership.

What does shared value mean to you?

In this scenario, shared value is present or has the potential to be present in different capacities. The first, and most obvious, is via the partnership between the two organizations. Honeydrop Beverages is receiving public relations potential, assistance with their b corp statues, association with a prominent health and human services organization in the northeast of the United

States. We asked Dr. Jordan, Luks, and Kiernan to describe what they think shared value means (Table 4). Regardless of their background on this concept, each individual commented on the mutual business benefits *and* social impacts. Business benefits include advertising, financial gain, and market expansion. The social impacts concern the communities in Sierra Leone, Ghana, and Guatemela that are utilizing resources to boost economic development in their areas, for the end goal of living a better life.

	How do you define shared value?
Dr. David Jordan	Not just an equity ownership; It is a mutually beneficial relationship where we both want to gain something and we have found a way to do that while helping people who need it.
David Luks	Having a similar aspect of mission and vision between organizations wherein the shareholders, company brand, and stakeholders win.
Mareill Kiernan	A symbiotic relationship which is beneficial to both sides wherein you give as good as you're getting. Building a small business brand while committing to a social good.

Table 4. Stakeholder definitions of shared value.

Another type of shared value is among these two organizations in the United States and the international communities they support. Considering Porter and Kramer's definition of shared value, we wanted to assess what the concept meant to the main stakeholders. Shared value, assesses social needs and challenges via a business model. Seven Hills and Honeydrop are on their way to addressing the needs of families (primarily women) who are at the bottom of the pyramid. International communities that are raising and maintaining honeybee colonies retain all of the profit from the products they make and sell as a result. Honeydrop and Seven Hills are providing a means of economic development in places where there resources are almost nonexistent. The goal is to provide families in these areas with the means to pull themselves out of poverty.

Research Questions and Findings

Our first research question asks: To what extent might a mutual relationship between for-profit sector and non-profit/social sector organizations enhance the tangible financial integrity of each?

For-Profit Sector

Within the for-profit sector, companies must be in touch with the needs and desires of the consumer. Through creating a mutual relationship with a non-profit organization, for-profit institutions have the ability to see significant growth. The first most tangible benefit is consumer buy-in of the mission and sustainability of the product or service leading to a committed community based market. The second is the substantial tax benefits a corporation can experience through tax-deductible charitable contributions. Furthermore, companies can see a tangible reduction in costs related to marketing, advertising, and public relations over time as their partnership is spotlighted and promoted to supporters of the issue they are attempting to address.

Non-Profit Sector

The tangible financial benefits to a non-profit organization will likely be realized more quickly, as many partnerships of this kind will involve some kind of monetary aspect. If this is the case, then the non-profit is given a guaranteed stream of revenue and support which is incredibly valuable. In addition, the non-profit organization will gain from the visibility that a for-profit company can provide, resulting in donations and further sources of revenue.

Honeydrop and Seven Hills

With the Honeydrop and Seven Hills partnership it is too soon to tell how these tangible financial benefits will fully form and the extent of their significance. As Dr. Jordan states in his interview, receiving the first check from Honeydrop will be the first measure of success for this partnership as it will be the first tangible financial benefit to SHGO. For Honeydrop, the fact that the Manuka drink labels which show SHGO have been stalled in production means that no tangible financial benefit can be directly tied to this partnership until the labelling process occurs. Honeydrop has however received the initial benefit of the Seven Hills Foundation investment into the company. Seven Hills will need to wait until Honeydrop starts making a net gain before they will see any of their investment returned, but it appears that Honeydrop is on track to accomplish a gain in the coming year.

Our second research question asks: What might be identified as intangible benefits that accrue to either/both private and citizen sector organizations in a mutually beneficial business relationship? From our analysis of the Honeydrop-Seven Hills partnership, we identified three primary areas of potential intangible benefits; networking, reputational, and strategic.

Expansion of Network

One advantage that a social corporate partnership such as this can provide for both members is network expansion and publicity. Particularly for smaller, newer, start-ups like Honeydrop, media buzz and brand networking is critical. From Kiernan’s interview, we learned that Honeydrop was actually able to attract additional investors through this connection with the Seven Hills organization. This sharing of a professional network is a critical method of expanding an organization’s set of contacts, consumers and potential investors. One of the crucial next steps that Luks specified for Honeydrop in his interview was brand expansion. He aims to expand brand and product recognition to both new domestic areas (like Worcester) and also internationally. The connections and publicity that could be generated by this partnership have potential to accomplish these goals. Bringing the internationally recognized Seven Hills Foundation name to be associated with the products will likely assist in building and securing an international consumer base. Kiernan discussed her work with a new public relations agency in regards to the partnership, claiming they are very excited by this cross sector collaboration and are preparing to get major press attention. For Seven Hills, press and advertising will stem from the labels once they are in production. These labels will be printed on three drink products made with Manuka honey, and will describe the partnership and beekeeping initiative in Sierra Leone, Ghana, and Guatemala. This press and media attention will ideally be just part of the intangible benefit of the partnership to both enterprises.

Reputational

Another valuable and intangible benefit of the partnership is reputational. This benefit has a much higher payoff on the side of Honeydrop, although the partnership could potentially advance the reputation of Seven Hills as well. The partnership and beekeeping initiative furthers Honeydrop's reputation as a socially aware and progressive company. This display of corporate social responsibility is growing more and more attractive to the socially conscious millennial consumer base, and this partnership reinforces that image. This type of reputation can be categorized as a "B corporation", or beneficial corporation; one that is socially conscious and/or constructive. Today, there is a growing community of more than 1,600 Certified B Corps from 42 countries and over 120 industries working to redefine success in business. The partnership assists in establishing Honeydrop as a "B corporation", particularly because this initiative demonstrates international corporate responsibility. As both Kiernan and Luks described, Honeydrop is powered by a triple bottom line; social, environmental and financial benefits. The partnership has potential to aid in building this status. Furthermore, the public corroboration of these values from the partnership will function to develop a larger consumer base. Both Luks and Kiernan also described their immediate goal as identifying and building meaningful relationships with consumers. Honeydrop beverages are high end cold pressed beverages being marketed to a very specific niche market like shoppers of Whole Foods or Wegmans. Similarly, and according to Jordan's interview, the demographic most enticed by CSR and shared value initiatives are young adult consumers; more specifically, a socially and health conscious niche group similar to that which Honeydrop targets. Therefore, the partnership has the potential to establish and reinforce Honeydrop's "B corporation" reputation, and further contribute to attracting the niche market that is already being targeted.

Strategic

The third benefit that was clearly identified as a potential payoff through the interviews and case study is strategic. These strategic benefits relate to this partnership case in particular, but could be potentially present in any shared value collaboration. By "strategic benefit" we are referring to a benefit that could potentially be experienced if the directional vision is accomplished for each organization, or an intended or unintended consequence of the partnership. For Jordan, the ultimate goal would be a large corporation, such as Coca-Cola Company, buying out and flipping Honeydrop. While the partnerships in Sierra Leone, Ghana, and Guatemala would dissolve with Honeydrop funding- "the tradeoff in ending those initiatives would be the millions of dollars that could be put towards additional programming", said Jordan. This would This long term goal would be a strategic benefit if it occurred as it would multiply the investment and the eventual number of international Seven Hills sponsored wells, clinics, and schools that could and would result from acquiring that money.

In a more immediate way, the Honeydrop mission is acquiring a strategic benefit from the beekeeping initiative. Both Kiernan and Luks emphasized the consequences of Colony Collapse Disorder (CCD) and the loss of our planet's bee population. Regarding beekeeping in Western Africa and Guatemala, Luks went as far as to state, "All I care about is creating new hives. This may not have been my idea, but it's increasing the bee population, and that I fully support." In this sense, the sponsoring of beekeeping in these three developing areas will function to save more bees, and combat CCD both internationally and domestically.

Current Position

When analyzing these intangible benefits, however, the vast majority of them are still to be seen. While this partnership is young, the Honeydrop company is just as new. In all three interviews, it was recognized that true benefits had yet to be experienced. When asked about the progress, Jordan described that the first indication of success would be that first check from Honeydrop funding the initiatives, and the production of Seven Hills labels on bottles. However, the for-profit company has not quite reached that point. When asked about the nature of benefits experienced thus far, Luks replied that it was too early in the relationship to tell, and that he wished to see benefits on a larger scale than what was occurring. However, he hopes to encounter benefits of the partnership in the next 3-12 months. Both he, Kiernan, and Jordan agree on this account. They explain that since progress is moving somewhat slowly in development and initial sales of the brand, they have not seen much in the way of benefits, tangible or intangible. However, Kiernan claims that investors have been acquired due specifically to the connection with Seven Hills, and press releases regarding the partnership are hopefully forthcoming. Furthermore, bringing this brand's name to an international market will serve to introduce Honeydrop to the global market and consumer community.

Our third research question states, to what extent is corporate social responsibility (CSR) and shared value between the private (profit) sector and the citizen (nonprofit /social) sector a 21st century capitalist imperative? The entire purpose of analyzing this case study is to see what real business professionals think about employing shared value into their business mission.

While it is important to remember that this is a specific relationship between two individual organizations, there are important themes that have the potential to scale to the greater business world. The first emphasis is the wealth of study and research by leaders in this field, such as Muhammad Yunus, Michael Kramer, and Michael Porter. Including environmental and social principles to a business's prerogative can have great benefits. David Luks said it best: "Consumers are driving this change. They want transparency, be it foods they eat or products they buy. They want to know they are putting their money towards ethical sources." Kiernan also mentioned that she felt this is the direction businesses were heading towards. However, "large corporations are not going to pull this off. Small businesses need to lead these initiatives." The following section addresses future directions of these types of partnerships and where the business world is heading.

Section 5: Conclusion

Summary

This paper examines how private sector and citizen sector organizations can join together and change the face of business. We discussed history and theories behind the creation and implementation of business principles. There are differences among charitable giving, corporate social responsibility, and social business. Additionally, we highlight the importance of engaging low income populations for innovation, sustainability, and tapping into a trillion dollar market.

Honeydrop Beverages and Seven Hills Foundation provide an example of applying social business principles in a real world setting. While neither organization is classified or operates as a social business, they show how the citizen sector and the profit maximizing sector can join to advance social and economic good. We do not expect the relationship between Seven Hills and Honeydrop to be generalized; as every business is individual, partnerships must be designed with intent.

In the minds of these business-oriented individuals, it certainly seems that adapting business principles to incorporate social and environmental objectives is where the market is moving. On an international scale, it has become time sensitive to lift the billions of people living in devastating poverty at the bottom of the pyramid. As the business world does its part in expanding the middle class, corporate social responsibility will be a thing of the past. Shared value and social business will be commonplace, uniting for profit, public, and citizen sector organizations in pursuit of social progress.

Recommendations

As we examine the partnership between Honeydrop and Seven Hills, several recommendations surface immediately. These are steps that would have ideally occurred already, but have not due to unforeseen setbacks on the side of Honeydrop. The first of these recommended actions relates to the specialized product labels. These labels describe the partnership and beekeeping initiative, and familiarize consumers with the Seven Hills' name and organization. Furthermore, these sales will lead to the eventual funding of the beekeeping initiative, which has yet to see direct funding contributions from Honeydrop sales. We recommend that these labels enter production and are included in product packaging as soon as possible. This step not only has potential to generate attention for the partnership and beekeeping initiative, but could absolutely aid in attracting a niche consumer base and increasing product sales.

Secondly, the website must be updated to provide curious consumers and viewers with accurate information and representations of the partnership's nature and purpose. Additionally, the website should include regular updates for the interested public's benefit; success stories and photos of the women, villages and communities affected. This could go as far as information about beekeeping practice and products/uses for apian byproducts in these remote villages.

Our final recommendation relates to press attention. This partnership is new, and according to Dr. Jordan, unlike any established cross-sector partnership he is aware of. There is major publicity potential in this concept that will result in increased Honeydrop sales and identification of possible investors, as well as support, recognition, and even funding for Seven Hills Global Outreach and this initiative and/or partnership. We recommend that the Honeydrop public relations agency work quickly and deliberately in creating a press release and generating PR attention.

Lessons Learned

Through the lens of this case study our team has learned the following lessons. First, that small businesses are excited and engaged in the possibility of an opportunity which will commit them to social good. More and more, entrepreneurs are finding ways to link a social mission or cause with a practical business model. That being said, we have also learned the importance of having both parties engaging in a partnership on the same page when it comes to that mission and the objectives that follow. Due to the differences in how Seven Hills and Honeydrop view their future together and what success will mean for their partnership, there is significant room for failure if these differences are not rectified. In addition, we believe it is prudent for organizations in the citizen sector to start behaving and operating within the mindset of the business sector in order to ensure their own sustainability and growth. By investing in Honeydrop, Seven Hills Foundation has ensured that as long as Honeydrop is successful, they will be able to continue to provide support to SHGO. Lastly, and most importantly, we have learned that this kind of relationship is possible. While all of the aspects of the Seven Hills and Honeydrop partnership have not yet come to fruition, the foundation has been laid.

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APPENDIX A:

Interview Questions- David Jordan

Organization:	Person interviewed:
Address:	Interviewer:
	Date:

1. What is the vision statement for you partnership with Honeydrop?
2. What is the vision for this specific project?
3. Who is affected by this partnership?
4. Who is interested in CSR and shared value?
5. What is the target audience(s) for this case study analysis?
6. What is Honeydrop's profile?
7. If a large corporation flips Honeydrop, would the partnerships in Sierra Leone, Ghana, and Guatemala dissolve?
8. Is this the first time you have made a partnership that looks like this?
9. How do you know when you're successful?

APPENDIX B:

Interview Questions- David Luks and Mareill Kiernan

Organization:	Person interviewed:
Address:	Interviewer:
	Date:

1. Please describe your primary relationship to Honeydrop Beverages.
2. How long have you been associated with Honeydrop Beverages?
3. What brought you to work for Honeydrop/What was your inspiration for founding the company?
4. What's your position? What level of involvement do you have concerning the strategic direction of Honeydrop Beverages?
5. What do you believe is Honeydrop's mission?
6. Do you think the company is accomplishing that objective?
7. What do you think is the directional vision for the future?
8. What is your ideal outcome for this organization?
9. How did the business partnership between Honeydrop Beverages and Seven Hills Foundation come to be?
10. How would you describe Seven Hills' participation/role in this partnership? How would you describe your role in this partnership?
11. What motivated you to partner with Seven Hills Foundation? Why does it go beyond typical CSR? (ex. Mariell going to Ghana, SH purchasing stock, etc.)
12. Have you seen a benefit (financial, reputational, strategic, marketing) from this partnership? What are the nature of these benefits?
13. Have any of these surprised you?

14. Have there been any costs/unintended consequences of this partnership?
15. Where does social responsibility and your partnership with Seven Hills fit into your mission/vision?
16. Where do you see this partnership fitting into today's market/world/partnerships/sectors?d
17. How do you see this type of partnership working for a larger corporation or more established business?
18. Do you think they are capable of addressing the social issues of the world?
19. Do you think of these kinds of partnerships are a necessary/imperative for this development?
20. What's your definition of shared value?
21. What are the lessons you have learned so far (if any)?

APPENDIX C:

Honeydrop Beverages Quarter 2 Investor Update (2015)

DELUXE

HONEYDROP

To: Honeydrop Investors

From: David Luks
Founder and CEO, Honeydrop

Re: Update and 2ND Half Guidance

Date: July 12th, 2015

I want to thank you all in advance for taking the time to read this Investor update. This update is intended to provide you a perspective on our performance over the past six months and guidance with our 2015 plans. Overall:

- **2015 Performance:** As detailed in Exhibit 1, Q1 sales were $250K, a 61% increase vs. Q4 2014. Q2 2015 sales were $355K a 42% increases vs. Q1 2015. Revenue was driven by our two cold pressed skus that have been performing exceedingly well in the marketplace in NY/NJ and CT.

- As seen in our P&L, our gross margin continues to increases quarter over quarter as we produce larger production runs and achieve greater economies of scale in both production and shipping costs.

- Our EBITDA loss in Q1 increased vs. Q4 as we:

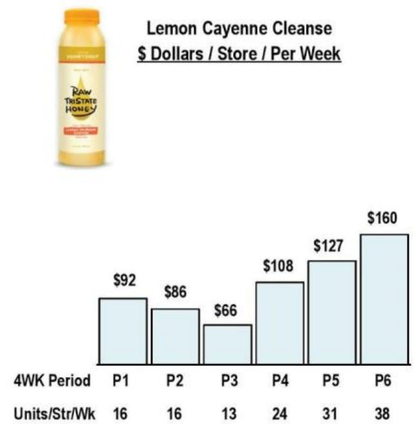
    - Spent significant dollars on sampling costs (both labor and bottle costs) in order to create trial and awareness for our two skus.
    - Spent significant dollars on a PR firm, media kits and postage to editors in order to obtain press about our products.
    - We attended trade shows and travelled extensively to meet with new retailers and distributors to introduce our products to a wider audience.

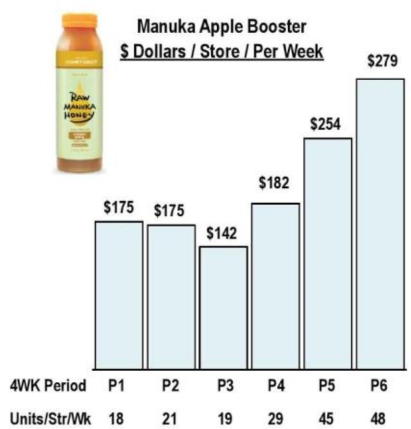
- Importantly, our cash burn decreased in Q2 vs. Q1 as revenue rose significantly and we began to lower costs associated with public relations and sampling.

- Moving forward, I expect our EBITDA to continue to improve with the goal of realizing breakeven months by end of 2015. This financial goal will be achievable by growing our portfolio of cold pressed skus from 2 flavors to 6 flavors and expanding from +350 stores to over +750 stores.

2015 Expectations

As stated in my previous emails and newsletters, our two cold pressed juices are selling at an impressive rate. In the only store where we receive syndicated data (Whole Foods), we continue to realize increases in our same store sales. Per the below chart, over the past 24 weeks in Whole Foods, we continue to realize increases in dollars / per store / per week on our two cold pressed skus.





** Source: Whole Foods North East Region; Last 24 Weeks by Period

To stimulate demand, we have been promoting our brand in store via temporary price reductions (TPR's). TPR's are a common tactic to stimulate demand, but more importantly, influence consumer trial of products with the goal of obtaining loyalty and have consumers purchase your product when not on promotion.

Period	Pre	Promo	Post
Units / Str / Wk	27	48	31
Unit % Chg		76%	14%
$ % Chg		36%	10%

Period	Pre	Promo	Post
Units / Str / Wk	34	56	36
Unit % Chg		65%	7%
$ % Chg		28%	5%

Source: NE WFM Portal Data; 24 wks ending wk 34 2015
Pre: 2 weeks pre promo; Promo: 2 weeks during promo; Post: 2 weeks post promo

As detailed in the above chart, our Lemon Cayenne sku has displayed increases of 14% (units) and 10% (dollars) vs. the previous non-promoted sales period while our Apple Ginger Manuka sku has displayed increases of 7% (units) and 5% (dollars) vs. the previous non-promoted sales period, indicating increases "repeat" consumer behavior.

On June 3rd, 2015, we had the opportunity to present the above data to the North East Whole Foods buyer who is responsible for all buying decisions in 37 Whole Foods stores in New York, New Jersey and Connecticut. His response to our data was great. Specifically, he felt we had created a strong story around our two cold pressed juice skus that warranted us to begin selling to other Whole Foods regions around the country as well as launch more skus in his current region.

In Q2, we also realized our first sale to 150+ Fresh Market stores for our three "Manuka skus" as well as opened Associated Buyers, a warehouse natural foods distributor who covers New England, with all six of our skus. We also gained distribution in Cibo Express kiosks in LaGuardia, JFK and Newark airports. We have also recently been authorized in Duane Reade stores for our two original cold pressed skus. We expect to hit Duane Reade shelves over the next month with our distributor.

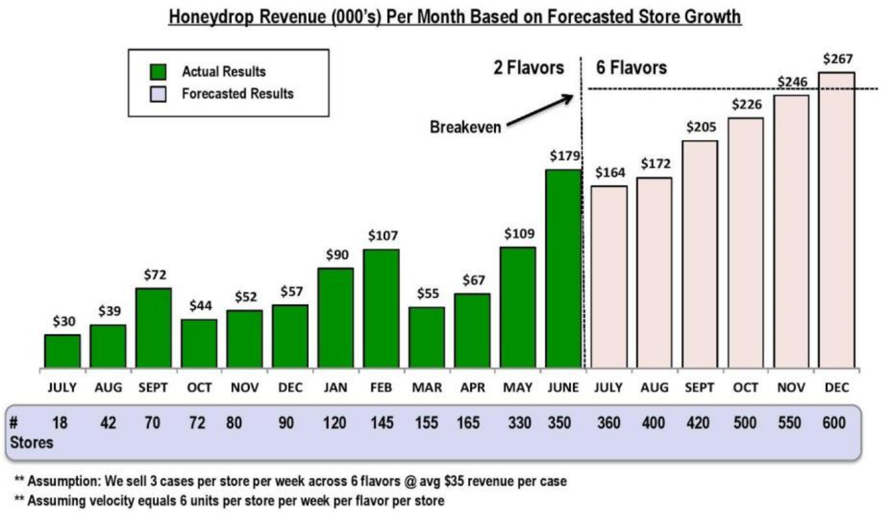
As detailed in Exhibit 3, we recently launched four new cold pressed skus that will begin to hit store shelves in Q3. Two of those skus have already been authorized for distribution in North East Whole Foods stores, Kale Cucumber Manuka Honey Lemonade and Strawberry Honey Lemonade. Additionally, using the North East buyer as a reference, we have begun to aggressively court additional Whole Foods regions to purchase our cold pressed skus.

As detailed in Exhibit 4, our pipeline of new stores covers 799 stores in Stage 1 (next 6 months) and 3069 stores in Stage 2 (next 12 months) with the potential to realize $14.9 million in revenue.

To help close our pipeline of stores, we recently hired the former Director of Sales for Blue Print Juice, a brand that was purchased by Hain (HAIN: NASDAQ) in 2013. Our new Sales Director brings +20 years of selling and relationship experience with natural and conventional retailers as well as refrigerated distributors that I believe will help close our pipeline faster.

Leveraging her relationships, we plan to close significantly more stores in the 2nd half of 2015 as well as land 3 to 6 skus on the shelves of new retailers and in the warehouses of new refrigerated distributors. Doing so will bring us closer to our goal of realizing EBITDA positive months in the back half of the year.

As detailed in the below sales forecast, I am estimating that we can achieve over $250K a month in revenue by securing over 500 points of distribution for our current two skus if we can sell a blended average of 36 units / per store / per week across 6 flavors. Clearly some stores will do more velocity, some less. Nevertheless, achieving and exceeding this velocity should place us EBIDTA positive.



Time will tell how our upcoming four new skus will sell off the shelf. But assuming some cannibalization on our existing skus, and a significantly slower sales rate, I believe we can achieve a monthly sales rate 4x to what we are currently realizing.

Marketing

In the first half of 2015 we actively engaged the media with the hopes of receiving placement about Honeydrop. Albeit expensive, we did receive significant exposure from magazines and websites. Below are some examples of the impressions we received (see Exhibit 4 in Appendix for press clips):

US Weekly: Niki Reed uses Apple Ginger Manuka Sku	5.9 million impressions
InTouch: Rumer Wilson Lemon Cayenne Sku	2.1 million impressions
Daily News: Quote Manuka Honey	1.9 million impressions
DuJour Magazine: Profile of Lemon Cayenne Sku	270K impressions
Real Health Magazine: Profile of Lemon Cayenne Sku	300K impressions

We continue to actively engage the media with the hopes of receiving placement on our products and brand story. Our outreach continues to be targeted towards the most influential media including Huffington Post, Wall Street Journal, New York Times, TV and radio stations. We are working with PR consultant that I believe has the relationships necessary to convince a portion of editors to write about our products. We should know in a few more months what media we will be securing about our brand.

As part of our press outreach we have been fortunate to engage influential consumers and celebrities who have expressed interest in growing our brand on social networks such as Instagram, Facebook and Twitter. We continue to be in conversation with such individuals and hope to secure at least one signed agreement in the balance of the year that will have a celebrity mentioning Honeydrop on the above "social networks" with the goal of significantly increasing our digital presence.

Importantly, we have also partnered with the Seven Hills Global Outreach foundation, a nonprofit helping women led cooperatives in developing countries fight Colony Collapse Disorder and further economic development. As part of our program, we will be supporting Seven Hills with a portion of proceeds on our "Manuka" skus to help build beehives and train female co-operatives in Sierra Leone, Ghana, and Guatemala to be beekeepers. Doing so provides these co-operatives as sustaining economic resource to build their communities as well as help fight colony collapse disorder.

In the back half of the year you will see more content on this partnership and hopefully press in significant media profiling the economic impact Seven Hills and Honeydrop are making together in these developing countries.

Financials

As seen in Exhibit 1 in the financial statements, our quarterly gross and net revenue continues to improve. Our gross margin continues to increase, as does our gross margin % relative to revenue.

To continue to increase our gross margin, we are looking at ways to decrease our COGS by sourcing cheaper bottles and labels, lowering our co-packing costs as well as securing long term contracts with produce companies that should lower our variable fruit / juice costs. Additionally, our current co-packer is adding enhanced pressing equipment that should increase our juice extraction yields by close to 30%. Overall, I would like to realize north of 40% gross margins after discounts, allowances and freight costs.

As detailed in Exhibit 2, our balance sheet has:

- $493K in cash; $218K in receivables for a total of $711K in current assets,
- Our current liabilities are limited to $108K.

To help enhance our balance sheet, I am looking to source a line of credit that will allow us to produce larger production runs without sacrificing our cash flow. One challenge we have continuously had is collecting accounts receivable. Our days outstanding has averaged 45- 50 days which compromises our business as we typically are required to pay our production invoices within 15 to 30 days.

Concluding Thoughts

Our new initial two cold pressed juice skus have displayed great performance in the sole market of New York, New Jersey and Connecticut. We have received confirmation and endorsement from Whole Foods that our products are turning off the shelf at a great rate and we should begin expanding to other regions. Our four new flavors are starting to hit the market now and combined with a robust sales pipeline, we should achieve significant revenue increases if we follow the same model of extensive in-store demos and pulsing temporary price reductions.

However, as stated in my previous newsletter, I still need your help. Specifically:

- Tell your friends about our products
- If you have a favorite store that doesn't sell Honeydrop, ask for the manager. Tell him or her about our products. Get their contact info and send it to us. We will make sure that store begins to sell our products.
- If you walk into a store that does merchandise Honeydrop, do us a favor and tell the store manager or buyer how much you love our products.

These little hits combined can add up to a homerun.

Lastly, please do not hesitate to contact me if you have any questions, comments or ideas on the business. I am always available to speak.

I hope everyone had a great 4th and thank you again for all of your support.

I look forward to speaking with you soon.

Kind regards,

EXHIBIT 1 – Quarterly Income Statement

	2014		2015	
P&L	Q3	Q4	Q1	Q2
Revenue	$141,757	$155,407	$250,022	$355,635
D&A	$29,204	$26,419	$54,551	$126,162
Net Revenue	$112,553	$128,988	$195,470	$229,473
COGS	$48,418	$85,474	$112,511	$100,841
Freight	$8,787	$6,568	$5,013	$4,742
Gross Margin	$55,348	$36,946	$77,947	$123,889
GM %	39%	24%	31%	35%
Advertising & Mktg	$38,986	$24,621	$97,206	$103,602
General & Admin	$69,147	$40,786	$57,909	$67,438
Selling	$14,151	$7,376	$36,038	$10,629
Total Budget	$122,284	$72,783	$191,154	$181,669
EBITDA	-$66,936	-$35,837	-$113,207	-$57,780

EXHIBIT 2 – Balance Sheet as of 6/31/14

	6.31.15
ASSETS	
Current Assets	
Checking/Savings	$ 493,033.00
Accounts Receivable	$ 217,947.00
Total Checking/Savings	$ 710,980.00
Inventory	
Finished Cases	$ -
Raw Materials	$ 15,925.00
Prepaid Juices	$ -
Total Inventory	$ 15,925.00
Fixed Assets	
Accumulated Depreciation	$ (50,688.00)
Bottling Line	$ -
Cold Press Machine	$ -
Label Development	$ 39,100.00
Label Equipment	$ -
Website Development	$ -
Total Fixed Assets	$ (11,588.00)
Other Assets	
Custom Glass Mold	$ 67,620
Tot Security Deposit	$ -
Total Other Assets	$ 67,620
TOTAL ASSETS	**$ 782,937**

LIABILITIES & EQUITY	
Liabilities	
Accounts Payable	$ 85,369
Credit Cards	
American Express 0% Int 1009	$ -
American Express Gold 1004	$ 23,234
Visa 0% Interest	$ -
Total Current Liabilities	$ 108,603
Total Liabilities	$ 108,603
Equity	
Honeydrop Holding Co (Series A)	$ 685,000
Investors Equity (Series B)	$ 2,585,076
Founders Equity	$ 402,352
Total Equity	$ 3,672,428
Members Equity	$ (2,724,334)
Net Income	$ (273,760)
Total Equity	$ 674,334
TOTAL LIABILITIES & EQUITY	**$ 782,937**

EXHIBIT 3 – Honeydrop Product Portfolio

	Regional Honey'ade Skus			Manuka Honey'ade Skus		
Flavor Name	Cayenne Lemonade	Strawberry Lemonade	Turmeric Lemonade	Matcha Manuka Lemons	Kale, Cucumber, Apples, Manuka	Apple, Ginger, Manuka
Ingredients	Water Lemons Raw Honey Cayenne Pepper	Water Lemons Raw Honey Strawberries	Water Lemons Raw Honey Turmeric	Water Lemons Manuka Honey Matcha Green Tea	Kale Cucumber Apples Manuka Honey	Apples Ginger Water Manuka Honey

EXHIBIT 4 – Sales Pipeline

Name	Type	PHASE	Region	# Stores	Annual Rev Potential	Closed?	Comments
Andronicos	Retailer	PHASE 1	Nor Cal	5	$ 18,200	NO	Appt pending
Bristol Farms	Retailer	PHASE 1	So Cal	14	$ 50,960	NO	Samples being delivered this week.
Gelsons	Retailer	PHASE 1	So Cal	18	$ 65,520	NO	Appt wk of 7/13
Hi-Touch	Distributor	PHASE 1	So Cal/AZ/NV	100	$ 546,000	YES	Will place first order when we give green light.
Jimbo's	Retailer	PHASE 1	San Diego	4	$ 43,680	NO	Pending DSD distributor
Lassens	Retailer	PHASE 1	So Cal/Nor Cal	11	$ 40,040	NO	Pending DSD distributor
Mother's Market	Retailer	PHASE 1	So Cal	7	$ 25,480	NO	New item board will review on 7/15.
Nugget Markets	Retailer	PHASE 1	Nor Cal	12	$ 65,520	NO	Appt pending
Olivers	Retailer	PHASE 1	Nor Cal	3	$ 10,920	NO	Pending DSD distributor
Raley's	Retailer	PHASE 1	Nor Cal	130	$ 473,200	NO	Appt pending. Will require Nature's Best as primary distributor
Rock Island	Distributor	PHASE 1	Nor Cal	80	$ 436,800	YES	Need firm commits from WF before 1st order is placed
Sprouts	Retailer	PHASE 1	SoCal/Rockies/Texas	165	$ 900,900	NO	Tentative meeting set for 7/29
Whole Foods	Retailer	PHASE 1	Midwest, PacNW, SoCal, Rockies, Florida, N. Atlantic, M. Atlantic	250	$ 2,730,000	NO	So Pac appt set for wk of 7/20. Nor Cal appt pending.
Akins Chamberlin	Retailer	PHASE 2	Oklahoma / Florida	17	$ 92,820	NO	Q4 Submission
Haggen	Retailers	PHASE 2	PNW/So Cal	165	$ 900,900	NO	PHASE 2 - all buying on hold until SoCal acquisition
Kroger	Retailer	PHASE 2	National Stores	2625	$ 7,166,250	NO	Call set 7/17; Focus on Fred Meyer, King Soopers
Lucky's Natural	Retailer	PHASE 2	Midwest	13	$ 70,980	NO	Q4 Submission
Natural Grocer	Retailer	PHASE 2	SoCal/Rockies/Texas	65	$ 354,900	NO	Q4 Submission
New Seasons	Retiler	PHASE 2	PNW	18	$ 98,280	NO	Q4 Submission
PCC	Retailer	PHASE 2	PNW	11	$ 30,030	NO	Q4 Submission
PNW Food Co-Ops	Retailers	PHASE 2	PNW	20	$ 72,800	NO	Q4 Submission
R&K	Distributor	PHASE 2	PNW	135	$ 737,100	YES	PNW will be part of Phase 2 launch in West.

	STORES	REVENUE
PHASE 1 POTENTIAL	799	$ 5,407,220
PHASE 2 POTENTIAL	3,069	$ 9,524,060
TOTAL SALES POTENTIAL	**3,868**	**$ 14,931,280**

EXHIBIT 5 – PR Placements

US WEEKLY

DAILY NEWS

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DELUXE

HONEYDROP

To:	Honeydrop Investors
From:	David Luks Founder and CEO, Honeydrop
Re:	Q3 Review and Forward Guidance
Date:	December 1st, 2015

I want to thank you all in advance for taking the time to read this Investor update. This update is intended to provide you a perspective on our performance over the past 9 months and guidance into 2016. Overall:

- **2015 Performance:** As detailed in Exhibit 1, Q3 sales were $244K, down -25% from the previous quarter. Revenue was impacted as we were slow to open new stores outside of our core market of NY/NJ and CT and also slow to gain significant distribution of our four new skus.
- As seen in our P&L, our gross margin decreased vs. the previous quarter as we agreed to run an aggressive price promotion in Whole Foods during the month of June that increased our discounts and allowances and cut our net margin.
- Our EBITDA loss in Q3 increased as we:
  - Hired a new Sales Director in Q3 to help close our pipeline of new stores and took on additional salary.
  - Continued to spend significant dollars on sampling costs (both labor and bottle costs) in order to create trial and awareness for our two skus.
  - Continued to spend towards PR, media kits and postage to editors in order to obtain press about our products.

APPENDIX D:

Honeydrop Beverages Quarter 3 Investor Update (2015)

DELUXE
HONEYDROP

To:	Honeydrop Investors
From:	David Luks Founder and CEO, Honeydrop
Re:	Q3 Review and Forward Guidance
Date:	December 1st, 2015

I want to thank you all in advance for taking the time to read this Investor update. This update is intended to provide you a perspective on our performance over the past 9 months and guidance into 2016. Overall:

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- As seen in our P&L, our gross margin decreased vs. the previous quarter as we agreed to run an aggressive price promotion in Whole Foods during the month of June that increased our discounts and allowances and cut our net margin.
- Our EBITDA loss in Q3 increased as we:
  - Hired a new Sales Director in Q3 to help close our pipeline of new stores and took on additional salary.
  - Continued to spend significant dollars on sampling costs (both labor and bottle costs) in order to create trial and awareness for our two skus.
  - Continued to spend towards PR, media kits and postage to editors in order to obtain press about our products.
  - Attended two key trade and travelled extensively to meet with new retailers and distributors to introduce our products to a wider audience.

- Moving forward, I expect our EBITDA to improve as we recently have started to gain meaningful distribution of our skus that will be realized in Q1 2016.
- As stated in my last update, I was hoping to have our products in +750 stores by end of Q4. I do expect to achieve that distribution goal now by the end of Q1 2016 as detailed in Exhibit 5.

- **Equity Raise**: We have been speaking with new investors and I am glad to report that we have a commitment of $650K of new equity. The price of the equity is at the same financial structure as our previous raises, $0.69 a share.

Per our operating agreement and your investor rights, please let me know over the next 15 days if you would like to keep your pro-rata share and invest more in this round with these new investors. If you are interested, please send me an email at dluks@honeydrop.com or give me a call at (646) 942-8058 to discuss.

- With this equity we intend to:

  - Support the launch of Sprouts and numerous other stores with an aggressive sampling and PR campaign
  - Continue to expand distribution of our cold pressed honey lemonades with key distributors and retailers
  - Decrease our COGS by switching to a larger co-packer
  - Use for working capital
  - Increase our monthly run rate to above $300K a month as we bring on significant new distribution

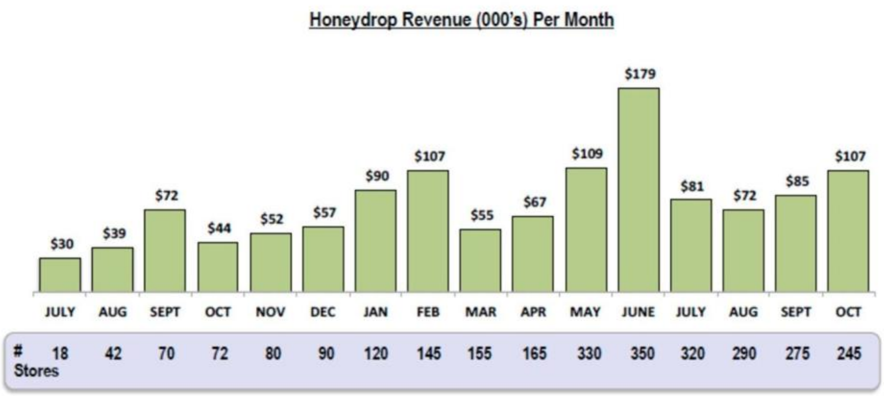
I deeply appreciate each of you for taking the time to review these materials and/or speak with me in regards to the current offering.

Q3 Results

Unfortunately we realized softer sales than expected in Q3. In speaking with our NY/NJ and CT distributor, sales for their entire portfolio (milks, eggs, cheese and juices) were also unexpectedly week, down -22% vs. previous period. We believe softer than expected results were driven by poor performance in Whole Foods where we saw weaker sales per store per week. I believe lower sales velocity was driven by the negative press Whole Foods received this summer that caused the chain to see lower traffic. Additionally, we believe the market in general displayed slower traffic at grocery stores as consumers vacationed more than usual on the weekends this summer, a byproduct of a better than expected economy.

Lastly, we lost distribution in smaller NYC stores who were reluctant to purchase our product during the summer when traffic was slow for them.

As displayed below, October sales have returned to over $100K as traffic has returned to the greater metro area.



To secure more up/down street stores in NY, we are changing our package configuration from a 12pk to a 6pk of bottles. Doing so will lower the cash a small retailer needs to "shell out" for our products by half, especially as we pitch 6 flavors to them. Our new package configuration will hit the market 11/20/15. I expect the new 6pk configuration will allow is to close and retain smaller retailers who are hesitant to spend significant dollars for any one brand. To give you perspective, a case of 12 bottles from our distributor to a store costs $40 for skus with "regional" honey and $50 for skus with Manuka honey. Cutting those prices in half will allow stores to purchase all of our flavors while taking less of a hit to their cash flow.

Additionally, though we launched four more flavors in July, securing distribution of these products on store shelves took a loner than expected. Notably:

- Fairway Market: Authorized in July. Just allocated 4 new flavors for a total of all 6 skus to 15 store shelves first week of November
- Duane Reade: Authorized in May. Just allocated 2 skus to 45 store shelves end of October
- Fresh Direct: Authorized in August. Just allocated all 6 of our skus to their website in October

Regarding Duane Reade, it is incredibly important we perform well in these initial 45 stores. Duane Reade is testing how fast our products sell. If we can meet their internal sales hurdle, we will receive additional authorization in more Duane Reade locations and possibly throughout Walgreens in the Northeast.

Importantly, we recently started testing our products at two Rite Aid locations in NYC, 534 Hudson Street and 303 West 50th Street (8th Ave). Like Duane Reade, if our products turn well in these stores, we will have the opportunity to expand to more Rite Aid locations throughout the North East.

Forward Guidance

Though we had a weaker than expected Q3, I could not be more excited about our growth prospects. Our new Sales Director has leveraged her previous relationships and finally started to put some points on the board, most notably:

- **Sprouts**: (SFM: NASDAQ) Chain of 245 natural food stores out west has agreed to authorize all 6 of our flavors. We will begin distribution in all of their stores in Q1, 2016.

- **Earthfare**: Chain of 38 natural food stores in the southeast has agreed to authorize 3 of our flavors that contain "local" honey. We will begin distribution in all of their stores in Q1, 2016.

- **SoCal Retailers and Distributors**: Gelsons, Bristol Farms, Jimbos and Mothers, all retailers in Southern California, have authorized us. Along with a new DSD refrigerated distributor in SoCal, we expect to be in over 150+ stores in Southern California in Q1, 2016

- **Whole Foods:** Most importantly, we were able to secure a meeting with the national buyer of refrigerated juices from Whole Foods. During this meeting, the buyer indicated that the sales of all of our products were **out performing** the overall category by 110%. In particular, our Apple Ginger Manuka sku was outselling the category and the average sales per sku for the category by 471%!

Due to these initial sales results in the Northeast region, the National Buyer of Whole Foods decided to "bless us" and arranged a call with all 11 of his regional buyers to educate them on our products and performance. Over the next 6 weeks, we will be speaking with the remaining 10 regions where we don't sell our products to see what other geographies will take our products for distribution in March and April.

Equally important was to hear that Whole Foods will no longer be accepting more cold pressed juices / beverages into their stores. The National Buyer articulated they have too many products and are looking to clear up their assortment.

Importantly, as detailed below, both the Whole Foods and Sprouts buyers feel our brand fills a void for them, cold pressed lemonades, a sub-segment of our category that is not yet served by any brand:

Category Void?

Brand					
Segment	Premium Juices Smoothies	Premium Juices Cleanses	Green Juices Kids Smoothies	Coconut Water Watermelon Wtr	Honey Lemonades
MSRP	\$9.99 \$3.99	\$9.99 \$5.99	\$8.99 \$4.99	\$5.49 \$3.49	\$6.99 \$3.99
Acquired	Yes KO & GS	Yes Hain	No	No	No

We are currently "tweaking" our labels to better communicate that our brand is a "raw honey lemonade". Conventional lemonades are a large and growing segment of the non-alcoholic beverage category. Nevertheless, the large strategic players (Coke, Pepsi, Nestle, Hain, Dean Foods, Dr Pepper etc) have not focused in this area and do not have significant presence in the lemonade segment.

We believe by refining our labels and positioning Honeydrop in this fashion will allow us to own an emerging sub-segment of the cold pressed juice category. Additionally, it will allow our brand to appeal to a variety of retailers seeking refreshing offerings (sandwich, soup and salad quick serve restaurants as an example) while also appealing to consumers seeking "functional" health benefits via our added value ingredients. We expect to have our new label on store shelves in Q1 of 2016.

As detailed in exhibit 4, we believe our pipeline of new retailers and distributors combined with our refined brand positioning will allow us to continue to win more retailer and distributor accounts and build our distribution significantly.

Supply Chain

Besides increasing our topline we are actively looking for ways to decrease our COGS and gain more efficiency through the supply chain. Per the below chart, I anticipate shaving at least $0.30 per bottle off of our COGS over the next 6 months as we:

- Enter into a supply agreement with a new bottle supplier that will lower our COGS by $0.05
- Move to a plant that requires larger production runs but in turn charges a lower co-packing fee per bottle.
- Either purchase a labeling machine or sign a co-packing agreement with a plant with a pressure sensitive labeler. This will allow us to remover almost $0.09 per bottle from our COGS as our current plant does not have the proper equipment to label our bottles and thus, we are forced to go to a third party partner who solely labels our bottles before production.

Margin Improvement w / Volume

- **With scale and purchasing a label supplier will allow us to improve our COGS / Margin**

Avg Per Bottle COGS	Current	Future	Notes
Bottles	$0.195	$0.15	Scale @ 1MM Bottles
Wrapping Bottles	$0.085	$0.00	CAPEX: Labeler
Caps	$0.030	$0.03	At scale
Labels	$0.060	$0.05	Close to scale
Trays	$0.010	$0.01	Close to scale
Co-Packing	$0.460	$0.30	Scale @ 1MM Bottles
HPP	$0.200	$0.19	Close to scale
Freight	$0.040	$0.05	Longer Distances
Avg Ingredients	$0.460	$0.41	Purchase pressed juices
Total COGS	**$1.530**	**$1.20**	**$0.33 a bottle savings**

Our gross margins will increase to +60% via the above improvements

One supply challenge all produce based companies face is the constant fluctuations in the prices for such produce as lemons, apples and other ingredients that we press into juice. Higher produce prices hurt our gross margins, as we can't pass those costs to our distributors and retailers who work on set prices. To alleviate some of this variability I am testing the ability to flash freeze our products after bottling to see the impact it may have on taste and stability. If flash freezing does not compromise flavor or stability, we may look to enter into an agreement with a storage company to hold our frozen inventory and only thaw our products out when ready to ship. Doing so will allow us to produce larger production runs and decrease our overall co-packing costs.

Recently, we finished a stability study that analyzes the impact of pressurizing our products on our liquid. I am happy to report that the study revealed we can increase our shelf life significantly, from 80 days to 120 days. We are still in the middle of the study and believe we may be able to legally claim a 150 shelf life. Doing so will also allow us to produce larger runs, ship from one co-packer across the country and decrease our overall co-packing costs while also reducing and bill backs we may have realized from product not sold past its expiration date.

Marketing

In Q3 we continued to actively sample our products in stores as well as at healthy/active events. In particular, we have formed a relationship with SoulCycle where we have become a key partner allowed to sample at no cost in their studios and events. As many of you know SoulCycle has a cult following of engaged consumers. We unfortunately are not selling our products at Soul Cycle who only allows one type of bottled water brand to sell at its studios. Nevertheless, we believe the opportunity to sample our products to SoulCycle consumers allows us to reach an type of consumer who influences trends and also have large social media followings.

From a PR standpoint, we continue to actively engage the media with the hopes of receiving placement on our products and brand story. Our outreach continues to be targeted towards the most influential media including Huffington Post, Wall Street Journal, New York Times, TV and radio stations. We expect to receive local and national press hits in Q1 when the media starts reporting on "healthy" products again vs. writing about "holiday" stories.

As detailed in my previous newsletter, we have partnered with the Seven Hills Global Outreach foundation, a nonprofit helping women led cooperatives in developing countries fight Colony Collapse Disorder and further economic development. As part of our program, we will be supporting Seven Hills with a portion of proceeds on our "Manuka" skus to help build beehives and train female co-operatives in Sierra Leone, Ghana, and Guatemala to be beekeepers. Doing so provides these co-operatives as sustaining economic resource to build their communities as well as help fight colony collapse disorder.

Our labels for our "Manuka skus" as well as our website will be updated shortly to reflect our partnership. Additionally, Seven Hills will be flying to Sierra Leone in January of 2016 where they will train local communities to build and manage beehives to help develop sustainable economies.

We are also actively working with Whole Foods to see if we can publicize our partnership with Seven Hills as part of their Whole Planet Program.\

Financials

As seen in Exhibit 1 in the financial statements, our quarterly gross and net revenue decreased from the previous quarter as we realized slower sales velocity in stores, particularly in Whole Foods stores in New York, New Jersey and Connecticut. We are working to reverse this trend by aggressively opening more stores while switching to a 6pk package configuration to make our products less of a burden on a stores cash flow.

To continue to increase our gross margin, we plan to decrease our COGS by sourcing cheaper bottles and labels, lowering our co-packing costs and producing larger production runs to achieve greater economies of scale.

As detailed in Exhibit 2, our balance sheet has:

- $342K in cash; $180K in receivables for a total of $522K in current assets,
- Our current liabilities are limited to $90K.

Concluding Thoughts

Though we realized a softer Q3 than expected, I couldn't be more excited about our growth prospects. With Sprouts, Earthfare and the Southern California market launching along with the prospect of more Whole Foods Regions coming online, I believe we can realize a monthly run rate north of $300K a month and position our company in an attractive position for strategic round of financing.

As stated in my previous newsletter, I still need your help. Specifically:

- If you live in New York City, please purchase our products in Duane Reade and the two Rite Aid locations where we have distribution, 534 Hudson Street and 303 West 50th Street (8th Ave). Supporting the brand in these stores will only help increase the value of your ownership as we have the chance to significantly expand our footprint with these two banner retailers.
- Tell your friends to purchase our products, especially at Duane Reade and Rite Aid.
- If you have a favorite store that doesn't sell Honeydrop, ask for the manager. Tell him or her about our products. Get their contact info and send it to us. We will make sure that store begins to sell our products.
- If you walk into a store that does merchandise Honeydrop, do us a favor and tell the store manager or buyer how much you love our products.

These little hits combined can add up to a homerun for all of us.

Lastly, please do not hesitate to contact me if you have any questions, comments or ideas on the business or the current equity raise. I am always available to speak.

I hope everyone is well and thank you again for all of your support.

I look forward to speaking with you soon.

Kind regards,

EXHIBIT 1 – Quarterly Income Statement

P&L	Q1	Q2	Q3
Revenue	$250,022	$355,635	$243,850
D&A	$54,551	$126,162	$85,348
Net Revenue	$195,470	$229,473	$158,503
COGS	$112,511	$100,841	$75,514
Freight	$5,013	$4,742	$4,221
Gross Margin	$77,947	$123,889	$78,767
GM %	31%	35%	32%
Advertising & Mktg	$97,206	$103,602	$93,779
General & Admin	$57,909	$67,438	$72,545
Selling	$36,038	$10,629	$18,779
Total Budget	$191,154	$181,669	$185,123
EBITDA	-$113,207	-$57,780	-$106,356

EXHIBIT 2 – Balance Sheet as of 10.15.15

	10.15.15
ASSETS	
Current Assets	
Checking/Savings	$ 342,205.00
Accounts Receivable	$ 180,170.00
Total Checking/Savings	$ 522,375.00
Inventory	
Finished Cases	$ -
Raw Materials	$ 9,450.00
Prepaid Juices	$ -
Total Inventory	$ 9,450.00
Fixed Assets	
Accumulated Depreciation	$ (50,688.00)
Bottling Line	$ -
Cold Press Machine	$ -
Label Development	$ 39,100.00
Label Equipment	$ -
Website Development	$ -
Total Fixed Assets	$ (11,588.00)
Other Assets	
Custom Glass Mold	$ 67,620
To Security Deposit	$ -
Total Other Assets	$ 67,620
TOTAL ASSETS	**$ 587,857**
LIQUIDITY	**$ 431,784**
MONTHS CASH REMAINING	**9.3**

LIABILITIES & EQUITY	
Liabilities	
Accounts Payable	$ 53,800
Credit Cards	
American Express 0% Int 1009	$ -
American Express Gold 1004	$ 36,791
Visa 0% Interest	$ -
Total Current Liabilities	$ 90,591
Total Liabilities	$ 90,591
Equity	
Honeydrop Holding Co (Series A)	$ 685,000
Investors Equity (Series B)	$ 2,585,076
Founders Equity	$ 402,352
Total Equity	$ 3,672,428
Members Equity	$ (2,897,819)
Net Income	$ (277,343)
Total Equity	$ 497,266
TOTAL LIABILITIES & EQUITY	**$ 587,857**

EXHIBIT 3 – Honeydrop Product Portfolio

Brand Portfolio: Honeydrop Cold Pressed Lemonades

	Regional Honey Skus			Manuka Honey Skus		

Flavor Name	Cayenne Lemonade	Turmeric Lemonade	Strawberry Lemonade	Apple, Ginger, Manuka Lemonade	Kale, Manuka Lemonade	Matcha Manuka Lemonade
Ingredients	Water Lemons Raw Honey Cayenne Pepper	Water Lemons Raw Honey Turmeric	Water Lemons Raw Honey Strawberries	Apples Ginger Water Manuka Honey	Kale Cucumber Apples Manuka Honey	Water Lemons Matcha Green Tea Manuka Honey

3

EXHIBIT 4 – Sales Pipeline

Name	Type	Region	# Stores	# Skus	Annual Rev Potential	Comments
Akins Chamberlin	Retailer	Oklahoma / Florida	17	3	$ 46,410	CLOSED! LAUNCHING 2/16
Andronicos	Retailer	Nor Cal	5	4	$ 12,133	Appt pending
Bozzutos	Distributor	Tri-state/New England	200	6	$ 546,000	CLOSED! FIRST ORDER 1/16
Bristol Farms	Retailer	So Cal	14	3	$ 38,220	CLOSED!! LAUNCHING 1/16
Central Market	Retailer	Texas	9	6	$ 98,280	2016 Promo plan submitted
Costco	Retailer	Northeast	4	6	$ 436,800	Samples sent, appt requested
Earth Fare	Retailer	Southeast/Midwest	38	3	$ 207,480	CLOSED! LAUNCHING 1/16
Fresh Market	Retailer	East Coast, Texas & CA	161	3	$ 219,765	2016 Promo plan submitted
Gelsons	Retailer	So Cal	18	3	$ 49,140	CLOSED! LAUNCHING 1/16
Hi-Touch	Distributor	So Cal/AZ/NV	100	6	$ 364,000	CLOSED! FIRST ORDER APPROX 12/28/15
Jimbo's	Retailer	San Diego	4	6	$ 29,120	CLOSED! LAUNCHING 1/16
Kroger	Retailer	National Stores	2,625	3	$ 4,777,500	Re-engaged after Expo East. Category to be reviewed in January
Lassens	Retailer	So Cal/Nor Cal	11	3	$ 30,030	CLOSED! LAUNCHING 1/16
Lucky's Natural	Retailer	Midwest	13	3	$ 35,490	Contact made with Buyer. Appt request submitted
Mother's Market	Retailer	So Cal	7	3	$ 19,110	CLOSED!! LAUNCHING 2/16
Vitamin Cottage	Retailer	SoCal/Rockies/Texas	65	3	$ 177,450	Contact Made with buyer. David using prior relationship to get in the door
Nature's Best	Distributor	So Cal/Nor Cal/TX	300	6	$ 546,000	First order to come with retailer commitment (Sprouts or Raleys)
New Seasons	Retiler	PNW	18	6	$ 98,280	Appt pending
Nugget Markets	Retailer	Nor Cal	12	6	$ 65,520	Samples sent, appt requested
Olivers	Retailer	Nor Cal	3	4	$ 7,280	Pending UNFI
PCC	Retailer	PNW	11	3	$ 30,030	Appt pending
Pine State Bev	Distributor	Maine	300	6	$ 546,000	Initial conversations just started after Expo East. Working thru logistics.
PNW Food Co-Ops	Retailers	PNW	20	4	$ 48,533	Pending DSD distributor
Publix	Retailer	FL, GA, SC, NC, TN, AL	1,100	3	$ 1,501,500	Conf call set with buyer (Rana) for 12/10
R&K	Distributor	PNW	135	6	$ 491,400	Appt pending
Raley's	Retailer	Nor Cal	130	4	$ 315,467	APPT SET for 1/5
Rock Island	Distributor	Nor Cal	80	6	$ 291,200	Need WFM Commit before 1st order is placed. Store count is 80 + all WF in Nor Cal
Sprouts	Retailer	SoCal/Rockies/Texas	265	6	$ 1,446,900	CLOSED!! LAUNCHING 2/16
UNFI	Distributor	National Warehouses	4,000	6	$ 3,640,000	Set up in process.
Whole Foods	Retailer	Other Regions	250	4	$ 1,820,000	Cat. Review closed 11/20. Responses from regions expected after Thanksgiving
Wegmans	Retailer	East Coast	83	6	$ 604,240	Meeting end of December
			9,998		$18,539,278	

EXHIBIT 5 – Distribution Forecast by Market and Quarter

Distribution Forecast by Market and Quarter

Stores with Distribution

Year	2016	2016	2016	2016	2017	2018
Quarter	Q1	Q2	Q3	Q4	FY	FY
Market						
NY/NJ/CT	258	325	350	392	500	500
SoCal	103	158	215	242	300	300
New England	35	75	97	100	200	200
Mid-Atlantic	0	0	33	100	100	100
NorCal	13	73	145	250	300	300
Florida	0	0	33	100	400	400
PacNW	0	50	67	100	100	100
Mid West / Rockies	0	50	67	100	200	300
Texas	23	50	67	100	100	100
Total Store Count	433	782	1,073	1,483	2,200	2,300
National Accounts						
Fresh Market	150	150	150	150	150	150
Sprouts	110	165	165	165	165	165
Kroger	0	0	100	300	500	500
Earthfare	40	40	40	40	40	40
Publix	100	300	400	600	600	600
Total Store Count	733	1,137	1,528	2,138	3,015	3,115

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