

Chapter 8

UNDERSTANDING AND ATTRACTING YOUR “CUSTOMERS”

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The customer has moved to center stage. Company slogans, product brochures, even television commercials surround us with “customer-focused” approaches. At the same time, nonprofits are placing more and more emphasis on clients'/consumers'/customers' needs and desires as they figure out how to best accomplish their mission.

For-profit entrepreneurs are painfully aware that customers can choose whether to use their service or buy their product. Similarly, social entrepreneurs recognize that the individuals they hope to serve must make a conscious choice to participate in whatever their organization offers. Even the nonpaying clients of a homeless shelter or children attending a free art program are *voluntary* participants. In fact, accomplishing a nonprofit mission often requires convincing a range of voluntary participants—beneficiaries, volunteers, donors, Board members, etc.—to take specific actions.

Social entrepreneurs don't always use the word *customer*, but the most successful ones focus as intently on their participants as smart businesses focus on their customers. Why? Because entrepreneurs look for opportunities to achieve their goals. Customer focus is an approach from

the business world that can help any nonprofit organization succeed by creating real benefits for its customers.¹ Entrepreneurs know that the only way to create big changes with limited resources is to leverage these "win/win" situations—the sweet spots where what benefits the organization's participants *also* directly advances the organization's mission. Customer understanding informs how social entrepreneurs accomplish their mission.

In the business world, customers communicate what they value by making a purchase—or not. Nonprofits rarely have such ready feedback, yet their success still depends on whether their participants make the desired choices. True customer understanding helps nonprofits ensure that they expend their efforts and resources on something of value to their participants. This value might take the form of a hot meal, increased self-confidence, a safe place to create art, an evening of superb classical music, or the skills to become an advocate for the community. In fact, because nonprofits lack the clear financial bottom-line that keeps businesses on track, focusing intently on understanding their voluntary participants might be the *only* way nonprofits can be sure they actually accomplish their mission.

core
concept

Throughout this chapter, we describe practices adapted from the for-profit world. Accordingly, we'll use the term *customer* as a short-hand to refer to anyone who voluntarily participates in a mission-driven enterprise. This "customer" participation might take the form of using a service, participating in an activity, volunteering time, giving money or goods to a nonprofit organization, or even buying a service or product. A social entrepreneur's "customers" might include the following groups:

Direct Beneficiaries (the reason the nonprofit exists) who:

| | |
|-----------------------------|--|
| Use a service: | Food-bank grocery recipients |
| Participate in an activity: | Local library book group participants |
| Volunteer their time: | Low-income families who help build their own homes on donated land |
| Donate money or goods: | Members of a local art cinema |
| Buy a service or product: | Paying clients of a low-cost medical clinic |

Indirect Beneficiaries (those who benefit in a secondary way from helping the nonprofit accomplish its mission, including the satisfaction of simply enjoying making a contribution) who:

| | |
|-----------------------------|---|
| Use a service: | Teens who drop off soda cans at a nonprofit recycling center |
| Participate in an activity: | Parents who attend meetings to "reinvent" the neighborhood school |

| | |
|---------------------------|---|
| Volunteer their time: | Local residents who track otters for conservation programs |
| Donate money or goods: | Corporate sponsors of a job-training program |
| Buy a service or product: | Purchasers of goods manufactured by trainees with multiple barriers to employment |

Social entrepreneurs almost always have more than one set of customers, and it's very hard to keep all of these customers happy all of the time. Nonetheless, a few principles of customer understanding can help you convince many different kinds of customers to make the decisions that help support your mission.

IDENTIFYING YOUR CUSTOMERS

CUSTOMER GROUPS: THE SUM IS GREATER THAN THE WHOLE

Since it was founded to manage a renovated skid row hotel, the Weingart Center Association (WCA) has grown to be a large multipurpose complex of health and human services for the homeless and poor in Los Angeles, California. WCA's path to success began when it first asked itself "Who is our customer?" If it hoped to be successful, the WCA realized it had to move beyond the myths that all homeless people were disheveled men and women huddling in doorways with shopping carts. The WCA recognized that its customers formed a diverse market. The WCA focused on the circumstances that led people to homelessness and on to the type of barriers they needed to overcome to leave the streets. The organization's first president recalls helping develop different game plans for serving three distinct customer groups or "segments" of homeless individuals with very different needs. The WCA segmented its market into individuals who were on the street primarily because of:

- ✓ A temporary setback, often financial
- ✓ Substance abuse or other physical health issues
- ✓ Mental illness²

Social entrepreneurs often intuitively understand that all of their customers are not the same, yet most do not have the luxury of tailoring their services to please each individual customer. As the WCA demonstrated, however, this doesn't have to mean a "one-size-fits-all" approach to your service offerings or your marketing.

core concept

Customer segmentation is the identification of groups of customers with common needs, behaviors, and demographic characteristics that can help you target specific groups and tailor your offerings to them.

Airlines provide one of the most familiar (and often frustrating!) examples of customer segmentation. By identifying distinct customer types, airlines can sell the same basic product—say, transportation from New York to San Francisco—in a way that both maximizes their price per seat and fills the plane. Airlines consciously target different customer segments with offers ranging from wider business class seats to frequent-flyer perks, plan-in-advance promotions, last-minute specials, and Starbucks coffee. They are successful when they reach the right groups of customers with the right combinations of enticements at the right price.

Within the nonprofit world, direct mail fundraisers use segmentation constantly. They are likely to create five, ten, or more versions of a letter soliciting funds during the same campaign, tailoring each letter to a specific type of potential donor with specific likely motivations for giving. Think of a typical college's annual fund drive. The text of the letter you receive soliciting a donation varies depending on whether you are a recent graduate, an active alumnae, a lapsed donor, a parent, and even perhaps whether you spent most of your college years in the field house or the chemistry lab.

tool of the trade

Grouping potential customers into segments is as much an art as a science. Here are three common ways to "segment" a market:

| Segmentation Method | Definition | Example (Illustrative Only) |
|---------------------|---|---|
| Demographic | Based on identifiable factors, such as age, sex, family size, income, education, etc. | YMCA segments: young professionals, midlife men, mothers working in the home, youth, seniors, etc. |
| Behavioral | Based on actual behavior, particularly use of a relevant service or product | YMCA segments (based on gym use): daily workout, class attendee, occasional workout, twice a year, etc. |
| Lifestyle | Based primarily on activities, interests, and opinions | YMCA segments: body-conscious yuppie, male-bonding basketball player, doctor's orders exerciser, family fitness outings, etc. |

The segmentation method you choose depends on what information is relevant for the customer decision that *you* want to influence and on what information you can obtain. For example, a human services or-

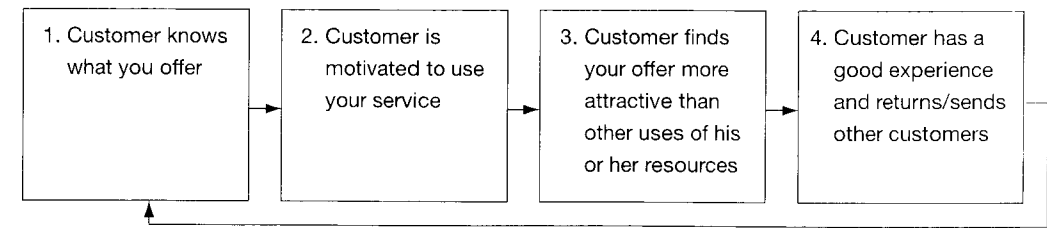


EXHIBIT 8.1 Participation decision process.

ganization might find that the gender of homeless people tends to influence their desire to stay in a shelter, so gender should be included in a shelter customer segmentation; however, the organization may discover that gender is irrelevant to attracting customers to its soup kitchen. Instead, the best way to group these customers may be in terms of self-image and length of time living on the streets—if people who share these characteristics tend to think in similar ways about soup kitchen offerings.

So why is segmentation valuable? As seen in Exhibit 8.1, at least four things need to happen for a customer to make a decision to participate in a program or make a purchase.

Segmentation provides a useful way for you to ensure that you meet each of these four conditions in the best way for each customer group. For example, you may need a sophisticated strategy to get your message out to one segment and may be able to do very cost-effective promotions to reach another segment. Based on a strong understanding of the specific behavior of one of its segments, very low-income youth, Spiral Arts, a Portland, Maine community arts group, created an "art-mobile." Knowing that this target segment is likely to be "hanging out" on the street, two artists show up at the street corner with a van, cover it with easels and canvases, and start to paint. Within a few minutes of the first curious kids coming close to inspect what's going on, a whole group of youths are painting with no hesitation because they're on their own turf.

Understanding and distinguishing among different potential types of customers can be extremely valuable for startup organizations. Smart social entrepreneurs can determine a particular kind of customer they will be able to serve most effectively and can concentrate their initial efforts on creating something of value to this group. Once these entrepreneurs have demonstrated the success of their approach or service with one type of customer, they have the credibility to obtain the resources to serve additional customer segments.

Unfortunately, treating customer segments differently can be costly. Marketing experts suggest segmenting your customer base only if the following conditions exist:

1. You can identify and measure segments that are clearly different from each other.
2. The segments are sufficiently large to be worth the investment in treating them differently.
3. You can actually communicate different messages or services to each segment.
4. The segments are likely to respond differently to your messages or services.

Market research and consulting firms use multiple information sources and statistical techniques to carefully define segments. Organizations with fewer resources can still generate significant insights by trying an entrepreneurial tactic for identifying different customer segments in their market.

practical tip

1. Gather all of the data you have on potential customers and their behavior, such as referral sources, demographic information, surveys, mailing lists, days when you serve the most customers, number of services used or items purchased per customer, responses to outreach campaigns, promotions, or anything that might hold a clue about your customers. Include potential customers who did not take advantage of your services.
2. Look for natural groupings within each characteristic or behavior. For example, what type(s) of customers sign up for your different programs? What day of the week and time of day are your busiest—who tends to come then? What kinds of customers ranked "quality" as most important on a survey? What do your strongest supporters among your customers or your biggest accounts have in common?
3. Solicit information from the employees who are closest to your customers, the social workers, the receptionist, the store clerks, the volunteers from the phone-a-thon, etc.—a group session works best. Ask them to describe the kind of customer(s) who meets the following criteria:
 - ✓ Uses all or buys most of the services you offer.
 - ✓ Takes advantage of your most successful programs or buys your highest-profit-margin items.
 - ✓ Signs up for a program then never shows up or looks but doesn't buy.

- ✓ Never comes to an open house or looks in the store window and doesn't come in.
- ✓ Uses only your lowest-fee services or looks first at the price.
- ✓ Refers friends to your organization or wants to know more about your social mission.

Ask the group questions to create an image of the people they are describing. How do they recognize these people? When do they see them? What service or product do these people seem to value most? What motivates them to use our service? What reactions do they typically exhibit when they first hear about what we offer them? What other nonprofit services do they consume? Where would you go to look for them in their free time?

4. Classify your findings from steps 2 and 3 into between five and ten customer segments. Make sure that each group of characteristics makes sense together and that a customer would have more in common with others in its segment than it would with those in other segments.
5. Ask your employees if they can picture an example of each segment. Then, ask them to give each segment a descriptive name, such as "Nervous Mother," "Talk-a-lot Tourist," or "I-don't-want-to-be-here Youth."
6. Brainstorm how you could better reach and satisfy each segment. Combine any segments that you would respond to in a similar manner.

If you're launching a new enterprise, start with the customer segments you discover in your market research. At a minimum, start thinking about how different demographic breakdowns might respond differently to what you hope to offer. Talk to organizations currently working in your field to understand more revealing segmentations—you can even try asking them some of the aforementioned questions.

VALUING SOCIAL ENTERPRISE CUSTOMERS

Most organizations, including for-profit companies, spend their early days just trying to get up and running. They then tend to frantically try to attract their first customers. In these early days, any customer is a good one; however, as an organization becomes more savvy, it recognizes that it serves some types of customers more successfully than it serves others. For example, one nonprofit may find that it really makes a difference in the lives of the WCA's "have nots" but has very little success with the "will nots." With this type of customer understanding, a nonprofit can decide how to

maximize its ability to accomplish its mission—a decision that will likely be as unique as the nonprofit itself.

If you are just starting out, now is the time to assess the type of customer you can serve most effectively and to focus your organization around serving that segment. Once you succeed, you can always grow to serve more segments!

When for-profit businesses decide what customer segments to target, they tend to focus on the bottom-line profitability of each customer or customer segment, sometimes even estimating profits over the total "lifetime" of each customer. The larger the total dollar profit, the more valuable the customer is to their organization. Social entrepreneurs often create a different kind of "bottom-line." They use their social objectives as the measure of success. Instead of calculating the average financial gain or loss from each customer segment, social entrepreneurs want to know the social outcome(s) they accomplish relative to the funds they expend on each customer group.

Why should a social enterprise founded explicitly to help those most in need—not those with the most money—bother to determine its "most valuable" customer segments? A most valuable customer analysis does not necessarily lead a mission-driven organization to either pursue or avoid a certain type of customer. It should lead, however, to the organization examining the range of opportunities it has to make a positive social impact. Here are several questions to consider when evaluating customers:

1. Given our finite pool of resources, what are the pros and cons of focusing on the types of customers we seem to serve most effectively?
2. If we want to serve more of these clients, how do we attract and serve them in the best way possible?
3. What makes us good at serving these type of clients, and how can we apply that learning to drive better social outcomes in our other segments as well?
4. What makes our cost to serve certain types of customers so high relative to their social outcomes? With that knowledge, what can we do to decrease those costs without lessening our effectiveness?

For companies, calculating the profitability of each customer segment usually translates into big profit improvements. Often, a mere 20 percent of a business' customers generate 80 percent of its profits. A large percentage of customers tend to be moderately profitable to break even (see Exhibit 8.2).

Shockingly, most companies unwittingly aggressively market and sell to customers who are money losers, customers who cost the company much more than they bring in, even when that profit is calculated over

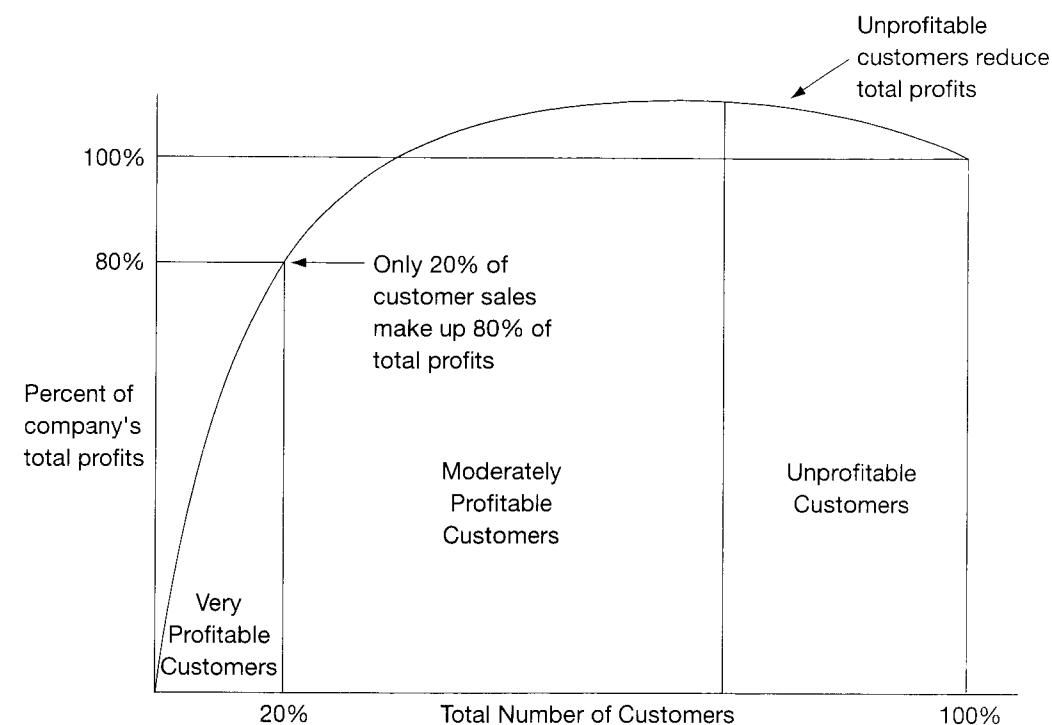


EXHIBIT 8.2 The 80-20 effect.

the long-term. Companies are becoming more skillful at identifying and pursuing customers who fit the "top-20" profile and at not investing to meet the needs of customers they are unlikely to serve profitably.

reality check

Ashbury Images, a San Francisco screen printer founded to employ individuals in transition from homelessness, recently analyzed its sales by customer type. Ashbury found that its oldest and most traditional screen printing customers, small nonprofits, were actually its least profitable segment. This social-purpose enterprise now expects much higher future profits from having reoriented its businesses to serve larger corporate clients. The corporate segment not only offers better margins and more predictable scheduling, but these customers also place the highest premium on Ashbury's strengths, a high-quality product and a social mission.

How do nonprofits respond when they learn that some of their target customer groups appear to be more "expensive" to serve than others? Several tools have emerged in the last few years to help organizations make the hard choices about how to devote their finite resources.

Among others, Jed Emerson of the Roberts Enterprise Development Fund and Fay Twersky of BTW Consultants have advocated incorporating a "degree of difficulty" factor in measuring social impact. They

suggest that adjusting "success measures" for the difficulty and risk of working with a given customer group or a specific mission creates a more accurate picture of the results per dollar spent. This technique also recognizes those who take on the most challenging work because these adjustments mean the most difficult work has the highest potential "return on investment" when it is successful.³

Various authors have used matrixes like Exhibit 8.3 to help organizations think through the relationships between "Mission" and "Money" (e.g., the economic implications of serving a specific customer segment or running a specific program). Academics R.E. Gruber and M. Mohr first suggested that nonprofits consider the different activities that make up their "portfolio" when they determine their strategy.⁴ Professor Sharon Oster uses a similar product portfolio map to help organizations determine the right balance among their activities, as does the National Center for Social Entrepreneurs.

tool of the trade Mapping your activities, programs, or customer segments can give you a good idea of what your organization can "afford to do" and a mechanism for evaluating potential strategies. For example, most organizations continue to support any activities in the top right-hand corner of the product portfolio map, ones that contribute highly both to the mission and to economic viability. At the other extreme, activities or customer segments with little social impact and a low or negative contribution to the organization's economic viability (bottom left) are good candidates for either a redesign (in the entrepreneurial spirit!), being shut down, or being transferred to an organization that can do them better. Knowing the size of activities (illustrated by the diameter of the

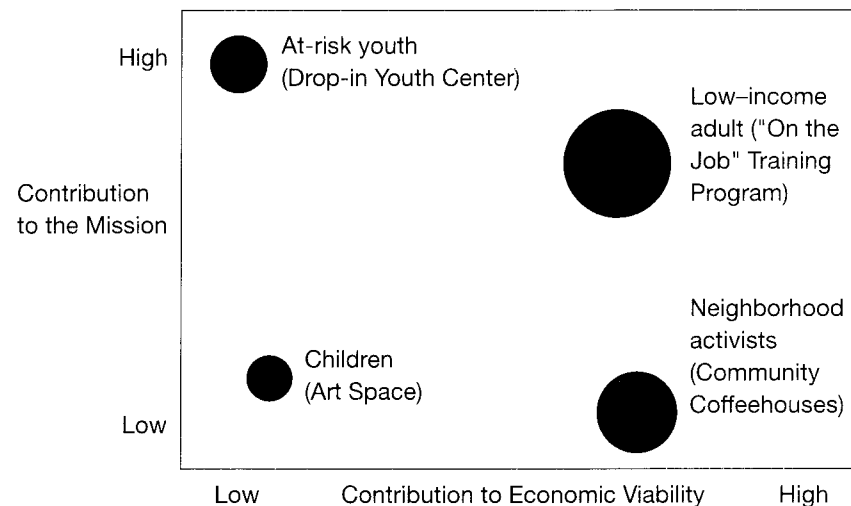


EXHIBIT 8.3 Example product portfolio map: Community nonprofit. (Size of spot represents program budget.)

spot on the map) that are of high social value but very costly to the organization (upper left) can lead to either an emphasis on controlling costs, while not compromising program quality, or on raising funds elsewhere in the organization that can subsidize these activities. Social entrepreneurs should be wary of customer segments that contribute significantly to the organization's viability but not much to the organization's mission (bottom right). The resources associated with these segments can be attractive but run the risk of dragging the organization's focus too far from its social mission.⁵

tool of the trade So, how do you calculate the "contribution to economic viability" axis of the matrix? You can calculate the profit of a customer segment by estimating the total revenues generated by all sales to the segment, then by subtracting the total cost of making those sales. Total costs include not only the direct costs of providing the product or service but also all costs of marketing to the segment and all overhead costs allocated to the segment based on use or necessity. For example, the total cost of serving a hypothetical "youth segment" at the YMCA might include not only youth staff, but also the following costs:

- ✓ The cost of developing a structured youth curriculum
- ✓ The cost of developing posters and marketing collateral to distribute in the schools
- ✓ The marketing director's time spent in meetings with school principals
- ✓ The administrative time spent processing registrations and permission slips
- ✓ An additional lifeguard
- ✓ Ten hours a week of locker room attendant time

By tracking and accurately allocating costs, this YMCA may find that it costs \$50 per month to double the average amount of physical exercise done by 9- to 12-year-olds and \$200 per week to do the same for 15- to 16-year-olds.

action step Do you know who your customers are? Who you want them to be? Take a moment to jot down several customer types that spring to your mind. Write a short paragraph describing each type, including where they're located, how they use your product, what other related products they use, what kind of radio station the primary decision maker probably listens to, and so forth. Use lots of adjectives. Share your profiles with others in your organization to see what they can add and to get everyone intrigued about starting a more rigorous process of customer segmentation.

Finally, choose the customer or customer segment you suspect is most "cost effective" in terms of social outcome per dollar or hour of time spent on them, the least "cost effective," and the one you assume is in the

middle. Enlist your accountant's help in doing a "back of the envelope" calculation of total annual costs of serving that segment, including estimating overhead costs actually used (e.g., what costs would go away if you didn't have that customer or type of customer). Now add up the number of the social outcomes that you care about (i.e., meals served, certification examinations passed, childhood diseases prevented) by that dollar amount. Were you right about what segment you served for less? What will you do differently now that you have this information?

UNDERSTANDING YOUR CUSTOMERS' NEEDS AND WANTS

Unfortunately, knowing who your customers *are* is not enough. To grow, indeed even to survive, you must understand *why* they are your customers, what they like, and what would turn those who are not participating in your programs or buying your products into customers. With a little diligence and creativity, you can do just that.

RESEARCHING YOUR MARKET

For-profit companies spend billions of dollars every single year on customer research. Luckily for social entrepreneurs with limited resources, you *can* do insightful market research on a budget.

Effective market research provides the information that will help your organization make specific decisions. Alan Andreasen, author of both *Cheap but Good Marketing Research* and *Strategic Marketing for Nonprofits*, recommends "backward marketing research" to make sure your research efforts will be useful *before* you start spending any money. Here's a version of the process he suggests:

1. Determine what key decisions will be made using the results of your research.
2. Determine the information you would need to make the best decision.
3. Draft an example of the results of the research you're proposing and ask yourself or the decision makers if this type of information is what they need.
4. Figure out what analysis you'll need to do to get these results.⁶
5. Determine what questions you must ask to provide the information for this analysis.
6. Check whether these questions have already been answered by your organization or elsewhere.

7. Design your sample (based on the customer groups you want to learn about).
8. Do your research.
9. Analyze your data and communicate your findings.
10. Help your decision makers use the findings to guide them.⁷

Existing Information

Information that has already been gathered by third parties can be effective for answering questions such as "how big is the market for the program we are considering launching?" Local organizations such as the Chamber of Commerce, the Small Business Development Center, or your state economic development office often have good information about the local population. Trade associations, government agencies, and industry-specific journals can be great sources for insight into the kind of people who might attend programs like yours or use services like yours, how often, and what they can afford to pay. Several resources on the Internet can provide additional data on how to link this information to the general demographics of your area to understand your potential customers. For example, at least one company provides free neighborhood "lifestyle" descriptions and demographic information by zipcode and more detailed information by zip+4.⁸

Exhibit 8.4 shows sources you might consult and questions you could ask to research the market for a summer jobs program.

1. Will there be sufficient youth who want to work for the summer?
 - School System: How many juniors and seniors in target neighborhoods?
 - Dept. of Labor: How many under-18-year-olds worked last summer?
 - Local youth organization: Estimate of how many juniors and seniors looked but could not find a job last summer
2. Are enough employers likely to hire summer youth at the proposed wage?
 - Chamber of Commerce: How many businesses in target area with more than five employees?
 - Dept. of Labor: Average starting hourly wage and number of seasonal jobs
 - National pilot program: Average number of students hired per size of business under comparable economic conditions
3. Will there be sufficient economic benefit to the community to underwrite the summer jobs program?
 - Census bureau: % of families at given income levels in target neighborhoods
 - Youth advocacy group: Studies showing medium-term benefits of internship-like summer jobs in terms of being role models, office and interviewing skills, etc.

EXHIBIT 8.4 Example: Determining markets.

You can often also learn a lot from another source of existing information—your own organization. Although it might not look like “data,” your organization’s records may be revealing if you look at them systematically. For example, before acting on a suggestion to start providing in-house child care for residents of a program for formerly homeless mothers moving back into the workforce, you could analyze the child care situations of past and present residents. Job coaches’ reports could reveal how many potential jobs residents were not able to accept because of child care constraints. Case managers’ reports may provide the data needed to identify the primary child care providers used to date by residents and the solutions found by other women in comparable situations. The numbers may even suggest that partnering with an existing provider might offer the extra coverage needed.

Observation

core
concept

Observation is an effective and usually inexpensive means of collecting new information about your market and how your customers or potential customers actually behave in their natural environment. Observing, counting, and measuring physical clues can provide social entrepreneurs with information that can become ammunition for social change. For example, counting how many full buses pass by a bus stop in a low-income neighborhood without stopping during rush hour could be a compelling rationale for increasing service. Or analyzing the amount of litter in specific downtown locations could lead to a campaign focused on encouraging shoppers to deposit their trash or urging high school students to use the school’s recycling bins.⁹

When observing customers, you can heed the guiding rules of for-profit “new market researchers” as follows:

*“Explore natural settings. Observe. Listen. Really listen. Put aside biases. Analyze.”*¹⁰

Not only is this sort of “new market research” inexpensive—anyone can be an observer—but there’s also lots of room for creativity. For example, a nonprofit developing a “nonviolent games” curriculum could take a cue from the founders of Skyline Products, creators of children’s toys. Having no kids of their own, Skyline’s founders created play groups at local schools and parks. With the parent’s permission (and while receiving payment for child care!), these entrepreneurs carefully observed the kids playing with new toys, asked them lots of questions, and used these insights to develop toys that would appeal to their target customers.¹¹ As a nonprofit service provider, you might take note of the first brochure customers pick up when they enter your waiting room or how different types of customers respond when they hear about prices or payment options. Similar to all market research, however, be careful not

to extrapolate your findings too far. It’s well worth your time to understand such basic principles of research as how to select the “sample” you observe to make sure it accurately represents the market you’re trying to understand.¹²

Focus Groups

tool of
the trade

By definition, social entrepreneurs look for innovative ways to meet society’s needs. Focus groups are useful ways to get new ideas about your potential customers’ needs and reactions to new services or marketing messages—straight from the source. A focus group consists of eight to ten members of your target market (try to include both current customers and potential customers who don’t know you at all) who are guided by a facilitator to answer open-ended questions about a specific topic. Focus groups are a low-cost means of conducting face-to-face interviews, with the additional benefit of interactions that occur within the group. Relatively homogenous groups whose members share similar verbal skills, values, and experiences reduce the risk that some participants will feel intimidated and not voice their own opinions—often a particular concern for entrepreneurs in the social sector.

Volunteers of America, a large, national volunteer organization with 43 affiliates, recently conducted focus groups before deciding on a statement to describe itself in a major media campaign. The focus groups were a real eye-opener. The organization was surprised to find that the statement that had motivated its staff for years “didn’t resonate with the public . . . we were [just] talking to ourselves.”¹³ In response to this finding, Volunteers of America restated its mission in terms to which the general public could relate.

Focus group participants are recruited from places you are likely to find individuals who represent your customer base. Depending on your mission, you may draw participants from a soup kitchen, a symphony hall lobby, or the local shopping center. Explain what you’re doing and prepare to offer participants \$30 to \$50 for their time. Professional facilitators who can guide and subtly focus the group and can get all of the participants to contribute will get the best results, but you can also guide a session yourself—if you are convinced that you can be objective. Remember that it’s just as important to know what customers don’t like! The key is to set a specific goal for the focus group, such as understanding how to provide better customer service or how to promote a desirable behavior. Then ask questions such as the following:

- ✓ What appeals to you about the program I’ve just described?
- ✓ What aspects of this program turn you off?
- ✓ For whom do you think it’s designed?

- ✓ How often would you attend this program? What if it had this additional feature? This one?
- ✓ What would convince you to try this program for one session?

Encourage participants to say more about comments that take you by surprise and be sure to videotape the session so that you capture all of the details and observe participants' nonverbal reactions.

Test Marketing

*tool of
the trade*

Once you have a concrete service or product you'd like to offer, make sure to do your test marketing, even if your funder already thinks the program's a great idea! *Test marketing* is essentially performing an experiment. Rather than asking your customers what they think they'd do, you give them the opportunity, record the results, and if you're entrepreneurial, you figure out why they did what they did. Celestial Seasonings, the U.S. leader in herbal tea, has put its teas through taste tests since its earliest days, when its entrepreneurial founder walked up to health food store shoppers with cups of different blends. The now \$100 million company estimates that 250,000 people tested its products in 1998—that's one tester for every \$400 in sales.¹⁴

You can test your service or product by taking prototypes to potential customers or to distributors that you can count on to be honest. For example, when the nonprofit Grupo de Trabajo Redes prepares health education brochures for low-income women in Peru, the editors take time to show drafts of the illustrations to women from their target audience. One-on-one discussions that reveal how a typical customer is likely to interpret their colorful drawings help ensure that the message of the text is effectively communicated, particularly to customers with limited literacy.

*gem of
wisdom*

Although testing can seem time consuming, Ava DeMarco, co-founder of Little Earth Productions, a company that makes fashion accessories from recycled rubber, license plates, and the like, explains why they believe market information is essential. "If you design a product, introduce it and it fails, you've lost time and money on that product—time and money you could have spent on something else [including your social mission!] so there's a double loss. The sooner you can do your market research, the sooner you'll guarantee yourself you've got your ladder leaned up against the right wall."¹⁵

Organizations with nonprofit origins may be surprised to hear that the need to test products holds true even when products are donated. The San Francisco City Store, a social-purpose enterprise that sells unusual San Francisco memorabilia in stores that employ individuals in transition from homelessness, found out that even "free" products can be expensive. In its early days, the store stocked many unusual items donated because of its social mission. Management did not factor in the opportunity

cost of not filling its shelves with other products that they had proof customers would actually buy. Needless to say, once proven products were featured, overall sales and profits went up, despite the higher cost of stocking these goods.

Surveys

*tool of
the trade*

The *survey* is another low-budget market research tool at social entrepreneurs' disposal. Indeed, mentioning your organization's social mission may be one way to convince customers to answer your questions, along with more traditional enticements such as coupons or free merchandise. Keep the survey short and easy to return, and you will get information that is a valuable start to understanding your customers, even when it's not statistically significant. For example, wholesaler Little Earth designed a short survey that fit on a small tag attached to its products. The survey asked customers for their names, addresses, salary ranges, whether they were students, why they bought the product, and what other products they tended to buy. The results confirmed many hypotheses and identified a brand-new group of buyers.¹⁶

National Public Radio conducts informal surveys of its listeners during each pledge drive. By specifically encouraging listeners to call in "if this is a program that you value," NPR enables members to "vote" for their favorite programs by calling in pledges during that timeslot.

The Internet is also rapidly increasing the speed and volume of available customer data. Because the Internet is interactive, customers can instantly tell you what they like. Whether you use a survey to ask or whether you just observe customers' preferences, you can use your "research" to tailor what you offer each online customer—whether you're promoting a healthy behavior, a new book, or graduates from your job-training program.

Regardless of the medium, however, asking "valid" questions—questions that do not bias the survey's findings—is no easy task. Your interviewers, your respondents, and especially the way you write your questionnaire can all distort your results to the point that they do more harm than good. If you can't enlist the help of an expert question writer (they do exist!), try to use questions that have already been tested by qualified researchers, and have your questionnaire both reviewed by harsh critics and tested by real people.¹⁷

*red
flag*

Market research is far from infallible. Our world would be very different, without the telephone, the Xerox machine, and much more, if valiant entrepreneurs had not persisted in pursuing ideas despite customers' initial lack of interest. As a social entrepreneur, you may very well come up with a service or product that your target customers don't yet know that they will come to value. "Pushing" an idea, rather than responding only to what your customers say they want or need, can make sense—if you truly know your customers.

GETTING TO KNOW YOUR CUSTOMER

If you can go beyond demographic facts and survey responses to understand the needs and attitudes of the customers you have targeted, you can learn how to make them glad they use your services. If you can make today's customers happy, they'll stay with you and will tell their friends. You'll know you're creating value, and you'll have the best chance of growing your customer base—and of doing more good.

**core
concept**

"The value of any product or service is the result of its ability to meet a customer's priorities."¹⁸ Nonprofit and for-profit organizations alike often assume that they know what their customers need. In fact, you can only discover customers' priorities, spoken and unspoken, through careful listening.

Jack Welch, CEO of General Electric (GE) led this corporate giant in the customer-focused thinking that made it one of the most profitable companies in the 1990s. Welch pioneered the technique of CEO marketing. Rather than trying to sell a product, Welch and his executives sat down with the CEOs of their customers to understand the forces that influenced the profitability of their customers' businesses. Using that customer perspective, GE developed solutions that increased the profitability of its customers. In the words of the President of a GE customer with more than \$1 billion in sales:

*"My plant guys love [GE]. They're used to dealing with product pushers. With GE, they're dealing with a group of people who have taken the time to learn their problems, and to help solve them. When it comes to deciding who's going to get our plastics business, it's not even close."*¹⁹

From CEO to plant engineer, GE also makes sure to talk to the *multiple* individuals who influence a purchase decision. Similar careful listening provides clues to the multiple individuals that may have an interest in your service. For example, a nonprofit manufacturer of custom-designed adaptive equipment for children, The Kids' Project, realized that although physical therapists were strong advocates for their equipment, they also needed to educate mainstream teachers and principals, the decision makers with control over the classroom and the budget.

City Lore, a nonprofit folklore and urban culture center in New York City, describes the customer priorities that underlay its Culture Catalog for teachers:

"We need to begin with the premise that folk arts does not sell. We have learned that lesson over and over again. No teacher who will get this catalog is teaching folk arts or has folk arts at the top of a list of priorities. We need to bring OUR vision to THEIR needs. Their needs are not: 'How can I teach my children about folk arts in the city or in rural Nevada?' In-

*stead, their needs are something like: 'How can I bring the Civil War to life for my students? How can I put together a unit on Latin America that speaks to my Dominican students?' . . . Organizing the catalog around questions like these will give it a far greater chance of success."*²⁰

City Lore's customer understanding has not changed its mission, but it has enabled City Lore to present this mission in the form of a customer solution. The folk arts catalog preserves 100 percent of City Lore's core belief that "grassroots culture and local learning are crucial to building a creative, viable society"—yet actually gets these materials into the classroom.

In the world of the social entrepreneur, it's not unusual to find a situation in which your core customers seem to want something directly opposed to the mission of your organization. Don't translate "getting to know your customers" into "give the customers what they want." Instead, use customer understanding to help you identify the "sweet spots," those areas where what benefits your customers *also* directly advances your organization's mission.

**core
concept**

Understanding what is important to your customers can inform your strategy without dictating it.

INTERVIEW

JOHN DURAND, MINNESOTA DIVERSIFIED INDUSTRIES

John DuRand founded Minnesota Diversified Industries (MDI) in the 1960s to create jobs with long-term career opportunities and good benefits for the developmentally disabled. From an idea initially "capitalized" with \$100, DuRand grew MDI into a \$60 million a year manufacturing and assembly company that today employs and offers great benefits to more than 1,000 people with a range of barriers to employment. MDI sells to corporate customers like 3M and Toro through one division. Its other division is the exclusive supplier of heavy-duty plastic mail crates for the demanding U.S. Post Office.

We asked John DuRand how MDI used its understanding of its customers to start up an organization that has had tremendous social impact.

QUESTION: How did you find your first customer?

DURAND: I started calling numbers I found in the Yellow Pages. Then I went to look at the buildings of the company to make sure it would be large enough to be a good customer. Next I visited the plant. I talked my way into a meeting with the plant managers and asked, "Do you have any

(continued)

problems?" I didn't tell them what we did. Instead, I let the potential customers talk about what *they* needed. It turned out they needed something we could do quite well. Once we were done with that job, I asked the same question, "What other problems do you have?" The plant manager was frustrated with some high-labor stitching requirements. I said, "We're good at that" and we figured out very quickly and successfully how to do stitching.

QUESTION: How do you create the strong customer relationships to which you often allude?

gem of wisdom

DURAND: I don't talk about me. I want to talk about you, the customer. That's how we figure out how I can help you. Occasionally, MDI has fallen into the trap of focusing on ourselves too much. For example, some of our customers asked us if we could warehouse some product. MDI refused because we had decided on a policy of entering only high-labor-content businesses. Later I realized that we had been wrong. We're in business to serve our customers. Therefore, if our customers want warehousing for their product, our business should automatically be eager to provide that warehouse.

QUESTION: Who are your most valuable customers?

DURAND: I select my customers carefully. I probably spend more time qualifying customers than pursuing them! After even a small contract, we can usually rule out the customers who are buying only on price. We chose to have very deep relations with just a few customers. We feel it's no more risky than tying your business to producing only one or two products.

Early on in the process, we talk to customers about issues with their previous supplier. What couldn't their past supplier provide? What changes are they expecting in their industry? What changes could we help them anticipate, such as better materials, speedier delivery, etc.? The goal is to communicate that we're serious about wanting to be part of their solution. If I can't have that conversation after having done good work for them, I don't want the company as a client. We continue meeting with clients throughout our relationship, usually with a mixed team of plant managers, production managers, engineers, quality assurance, etc. We not only ask them what we're doing well and where we can improve, but also talk about what they anticipate for the future. We often meet with our suppliers and bring their ideas back to the client. For example, we'll find out about a new machine that would substantially reduce the client's unit costs. We might offer to buy that machine in return for our customer signing a two-year contract.

QUESTION: How do you price?

DURAND: We price for next year; that is, we look at the total cost for the customer to work with us over time. If there's an investment we can make that will increase our productivity or lower the unit cost, we'll do our homework, then ask them to partner with us. We frequently lower our unit prices in the second or third year when we see our own costs go down.

A "getting to know you" strategy doesn't just work when you have a few big customers, like GE or MDI. You can apply these same tactics to learn more about segments of individual participants. Whether it takes the form of public recognition for a large charitable donation, mastering a marketable skill, or the perfect gift for Father's Day, customers are looking for solutions to their needs. You can understand those needs through casual conversation as well as direct questions. Do you hear comments such as "I'm in such a hurry" or "My daughter would love this!"? Are your customers dressed as if they're coming from work? Do they have kids in tow? Do they seem to enjoy their time in your location? These tidbits are all clues to your customers' lifestyles and potential needs. Make a habit of jotting them down and looking for patterns. Test your hypotheses in regular conversations with customers, and you will start to develop a constantly evolving picture of your customer segments.

action step

Make an appointment today with three of either your largest or most frequent customers. If you work with many individuals, the next time a regular customer comes in, offer to take him or her out for coffee to briefly get an opinion on how to increase customer satisfaction. Don't try to promote anything during this interaction. Instead, do your homework about the customer and come armed with open-ended questions focusing on them and their family, business, etc. And make sure to include the questions to which you're afraid to hear the answers because they'll be your best guide to continuing to please your customers in the future.²¹

LEARNING FROM YOUR COMPETITORS?

Competitive analysis? We're a nonprofit! We don't have competitors! The authors of *High Performance Nonprofit Organizations* disagree, arguing that "Nonprofits are in fact engaged in various forms of competition. They compete for funding, but also for staff, volunteers, and sometimes even clients."²² Think about it as learning from the "best practices" of others.

Competition keeps the marketplace of capitalism in check and for-profit companies constantly on their toes, making sure they deliver the best value at the lowest cost. Because they know their customers can vote with their participation and/or resources, social entrepreneurs must also observe the competition to get insights into what customers value.

First, identify your direct competitors. Who is offering a similar opportunity to the customers you target? For example, for a nonprofit organization hoping to partner with corporations for cause-related marketing, "competitors" would include other nonprofits with different missions but the same goal of corporate partnership. In the era of many "Welfare to Work" programs, nonprofits have found themselves competing with one another and with private companies for government-qualified job-training

candidates. The local animal shelter may not face any competition for receiving stray cats and dogs, but it could easily find its fundraising campaign competing for local funding dollars with nonprofits ranging from the local Boys & Girls Club to national organizations for the prevention of cruelty to animals.

tool of the trade To make sure you are gleaning customer insight from those who are competing for your customers' attention or dollars, be able to answer the following kinds of questions, and revise your answers at least every six months:

- ✓ *What types of services/products do my competitors offer that I do not? Vice versa?*
- ✓ *What additional services or conveniences does the competition provide?*
- ✓ *How are our competitors' programs structured?*
- ✓ *What level of customer service do my competitors achieve?*
- ✓ *What sales and marketing tactics are my competitors employing? (e.g., guaranteed job after training, referrals from case workers)*
- ✓ *What prices do my competitors charge? Who pays that price? (e.g., participants, government contracts)*
- ✓ *What else do my competitors require of their customers? (e.g., mandatory attendance, tests, early morning work schedules)*

practical tip What is often the cheapest source for an entrepreneur to obtain competitive information? "Visiting" the competition! Stop by competitors' offices or showrooms. Ask a hard-to-answer customer service question. Buy a product and try it out. Ask for information on a program. Get a quote for a project. Place an order. Notice every detail about your experience as a customer: atmosphere, product quality, signs, professionalism, prices, customer service, efficiency, convenience, and so forth. If you can't visit your competitors yourself, send a volunteer.

To truly learn from other organizations, you'll also need to take a long look in the mirror. Immediately after visiting a competitor, make yourself walk through the same process at your organization. What is different? Where can you improve or modify what you do? Remember the details.

Tom Stemberg, the CEO of Staples, the office-supply superstore chain, is a competitive shopping disciple. Every week, Stemberg still visits at least one of his competitor's stores nationwide and at least one of his own stores. He claims that such observation is critical to his company's growth and that he has "never visited a store where I didn't learn something."²³

Social entrepreneurs serving customers without a "retail front" can gather their competitive information in other circumspect ways. Collect-

ing brochures, handouts, and annual reports from your colleagues and competitors enables you to keep track of others' themes and positioning, as well as their program and fundraising outcomes. Websites also provide an often informative yet anonymous glimpse into organizations. And don't underestimate the value of a good chat with a customer, employee, or volunteer who has first-hand experience with a similar organization. After explaining what you're hoping to learn from these questions (how to improve your ability to serve your mission, right?), you can ask these individuals what they especially liked or didn't like, what was different from their experience with your group, and so on.

Now think beyond your immediate competitors. Read the magazines about your industry. Go to trade shows and association meetings. What can you learn from organizations in other parts of the state or the country? What other organizations are filling similar needs for your customers? If you are a nonprofit developer of educational software, what can you learn from the most successful videogame producers? Internet sites for kids? Educational cable programs? The world is full of examples of ideas to replicate (and to avoid!).

By their nature, social entrepreneurs are constantly on the lookout for new ideas, no matter what the source. You can even look at what your customer types like in completely different industries. For example, when the Boston Ballet wanted to learn how to change its public image, it looked not only at the San Francisco Ballet but also at The Boston Museum of Science, which had recently improved its public image, and at Au Bon Pain, a locally headquartered chain of bakeries with a reputation for good customer service.

action step Visit three direct competitors during the next three weeks—physically or through brochures and conversations with participants.

Gather at least three new ideas from each visit. If your organization compares favorably on all aspects, use the visits to observe what seems to matter most to the other organizations' customers and make a commitment to focus on improving that aspect of your own organization. Within the following three weeks, visit three organizations that serve your customer segments but in different industries or markets. At each one, challenge yourself to find three lessons you can apply to your organization.

CREATING A WINNING VALUE PROPOSITION

LEVERAGING YOUR COMPETITIVE ADVANTAGE

core concept

Competitive advantage is an overused term but an incredibly powerful concept. Simply stated, a competitive advantage is a resource or characteristic that gives your service, program, or product a

cost, quality, or other benefit relative to others competing in the same market. In all likelihood, these competitive advantages will vary by customer segment.

Entrepreneurs are known for creating their competitive advantages by identifying customer needs that are not being met by others and responding to those needs with their own innovations. For example, Celestial Seasonings is constantly searching for opportunities based on what their competitors have *not* done.

"It's extremely important that you identify and understand your competition's equity. If you don't do that, you're not clearly differentiating yourself in the marketplace. Find out what needs are not being met by your competition. We talk to Lipton users, for example, and say 'Okay, you like Lipton because it's cheap and you can find it everywhere, but how is it not meeting your needs? What would you like to see Lipton doing that they are not doing?'"—Michael Karrasch, Senior Manager of Consumer and Marketing Research, Celestial Seasonings²⁴

The Initiative for a Competitive Inner City (ICIC), led by competitive strategy guru Professor Michael Porter, wanted to encourage businesses to move into urban areas suffering from unemployment and poverty. It began by investigating how such a move could benefit businesses. The ICIC found that inner cities offered four primary competitive advantages:

- ✓ "A strategic location at the core of major urban areas, highways, and communication nodes with potential logistical advantages
- ✓ An underutilized workforce with high retention amid a tight overall national labor market
- ✓ An underserved local market with substantial purchasing power that can support many more retail and service businesses than it now has
- ✓ Opportunities for companies to link up with and provide outsourcing for competitive clusters (for example, health care and tourism) in the regional economy"²⁵

For Gateway Security, the company ranked number 66 on *Inc.* magazine's Inner City 100, the founder's link to the inner city was his competitive advantage. When large corporations were looking for security services in crime-ridden Newark, New Jersey, Louis Dell'Ermo got the job precisely because he was a lifelong resident and veteran of the local police force. Over the years, Dell'Ermo has built on that competitive advantage with strategies such as hiring graduates of local security-training programs who, as he says, "Can tell by the noise of the traffic what's happening. They know what to expect."²⁶

As a nonprofit entering new markets, you are likely to find that the characteristics that have enabled your core programs to prosper are different from the advantages you need in these new markets.

red flag In fact, some of your traditional competitive advantages may actually turn out to be liabilities in your new endeavors.

"We discovered that our brand name was so strong and so strongly associated with helping the disadvantaged that potential customers of our staffing services businesses assumed we would not send qualified workers. We changed the staffing business' name to Community Employment Services."—Jane Kenneally, Director of Development and Community Relations, Goodwill Industries of Northern New England

As an entrepreneur fighting to get your voice heard over the general din of marketing messages, it makes sense to focus your marketing on communicating your competitive advantages. Once you know why you are a different and better choice than the alternatives, make sure that your target customers hear that as well.

tool of the trade Before you launch any marketing efforts, take this "test" developed by Jay Levison, the author of *Guerrilla Marketing Excellence*, to make sure that you've really hit on a competitive advantage—you might even consider asking these questions of your frontline staff or, in a different format, asking a sample of customers:

- ✓ "Will my target market perceive this as an advantage?
- ✓ Is this advantage really different from what competitors offer?
- ✓ Will customers honestly benefit from this advantage?
- ✓ Will potential customers believe my statement about the advantage?
- ✓ Does this advantage motivate customers to buy or to take the desired action right now or very soon?"

If you answered "no" to any of these questions, go back to your customer and competitor research and your assessment of your own organization to find, or create, a stronger advantage to promote.²⁷

DESIGNING YOUR VALUE PROPOSITION

core concept Simply put, a *value proposition* is "the value of what you get relative to what you give in exchange for it." Although your marketing highlights the most compelling reason for customers to be interested in your program or product, you are still offering a total package. Many factors besides the service or product affect the customer (e.g., interactions with staff, convenience, a follow-up phone call, referrals to other services). The combination of quality, delivery, interaction with your employees before, during, and after participating in your program,

the features and price of the product or service, the relative ease of volunteering, the requirements for completing a program, and so forth, all compose your "value proposition."

Think about how you decide where to buy groceries on a given day. You might consider a supermarket's selection of foods, the quality of its vegetables, and its prices, but you might also make your decision on the basis of the store's hours, its location, the ease of parking, how crowded the store is likely to be, or whether you will also be able to pick up a prescription in the same store. Alternatively, you may simply go to the neighborhood grocery you patronize as a matter of principle. A community food-bank customer might make a similar set of decisions based on his or her priorities. Designing a value proposition means disaggregating the

CASE STUDY

WORKING ASSETS LONG DISTANCE

Working Assets Long Distance uses a carefully crafted value proposition to successfully compete against companies many times its size. Working Assets matches the rates and calling plans of the major long-distance companies, but instead of spending billions of dollars on mass-market advertising, the company distinguishes itself by helping its customers "build a better world." Working Assets tries to incorporate and communicate this value in everything it does. The company donates 1 percent of its revenues to progressive nonprofits nominated by its customers. Working Assets also makes it easy for its customers to donate to these types of groups by allowing them to "round up" their bill each month—any money paid over the amount due goes to charities. The company features key social issues in each monthly bill and offers its customers free calls to Washington to support these issues. Working Assets also keeps its customers informed by promoting a short list of "thought-provoking" books on the back of its bills and by including progressive syndicated columnists on its Website. The company does joint promotions with like-minded socially responsible companies such as Ben & Jerry's Ice Cream. All Working Assets billing statements are sent out on 100 percent post-consumer recycled paper. Even its calling card is made of recycled plastic! The result of this internally consistent "socially responsible" value proposition is that Working Assets customers are among the most loyal in the industry. Working Assets saves a bundle by not having to re-recruit former customers back from competitors, has extremely low bad debt, and grows primarily through word-of-mouth and great public relations. And from 1986 through 1998, a relatively small phone company has given more than \$16 million to progressive nonprofits.

individual factors that are likely to contribute to a customer's decision to participate in what you offer.

action step How do you create a winning value proposition? Start by going back to what you've learned about your target customer segment. Ask yourself not only what services or products they like but also what else is important to them. Do they value friendly human interaction? Are they consumed by the need to feel efficient? Do they like having technical advice before making a decision? Are they only comfortable speaking in a language other than English? Will they involve their children or spouses in major decisions? Try describing the "ideal package" from their viewpoint. What are the one or two changes to your value proposition that would be most important to your customers. How can you get there?

You can also identify customer priorities that are unspoken, maybe even hidden to the customers themselves, by thinking through the total *economics* of their worlds. Instead of focusing on your organization's service or product, imagine that you are the head of a household in each of your top five segments (or president of your five largest customers) and answer the following questions:

- ✓ What are my goals for my family (or my business)?
- ✓ What things worry me?
- ✓ How could this organization help me meet my goals? What is this organization doing that keeps me from meeting those goals?²⁸

core concept The dollar cost of participating in your program or using your service is only a small portion of your customer's investment. A customer may also have to take off time from work, pay for child care, prepare for the program, pay for transportation, and maybe even wait around for your services. In return, using your service promises to produce tangible and/or intangible benefits for your customer. A customer's total economic equation is this sum of dollars, time, hassle factor, and related costs, balanced by the "value" of benefits received.²⁹

Two entrepreneurial social-purpose enterprises in Maine, Alpha One and Faithworks, successfully use their understanding of their customers' economics to accomplish their social missions.

action step How close are you to becoming your targeted customers' first choice for meeting their needs? Take your best guess at ranking your customers' priorities, including total economic cost, whether or not you have the market research to back you up (but do repeat this exercise when you've got some more precise customer data!). Now give your organization a score from 1 to 10 on meeting each of these priorities. As objectively as you can, score your competitors—direct and indirect—on how they meet each priority. A winning profile looks like this example below, in which your company outperforms its competitors by the largest margin on the highest priority items.

CASE STUDY

ALPHA ONE

Alpha One's mission is to "be a leading enterprise providing the community with information, services, and products that create opportunities for people with disabilities to live independently." Since well before the Americans with Disabilities Act, Alpha One has been convincing decision makers to ensure that new public buildings are designed to be accessible to all. Their most compelling argument? Comparisons between concrete examples of the costly renovations and/or lawsuits caused by lack of accessibility and the costs of incorporating these objectives from the earliest planning stages. Over time, Alpha One became known for its expertise and began offering information and assistance to builders. Today the organization's access consultation and barrier-free design services employ architects who are experts in their field and charge for their services.

The business card of Faithworks founder Paul Rubin summarizes his organization's goal, "Providing a productive workforce for the packaging industry and employment opportunities for all." Rubin has figured out how his biggest asset, a pool of more than 1,000 workers who can be mobilized on a few hours' notice to handle more than 500,000 pieces a day that must be inserted, sealed, stuffed, packaged, or otherwise prepared to be sent to the consumer, can be his customers' biggest asset as well. Faithworks' customers tend to be companies that have a tight deadline for a large project with manual labor requirements that they couldn't possibly meet with their own workers. Because it employs individuals with barriers that have prevented them from obtaining work in typical structured environments, is very flexible, and pays on the basis of performance, Faithworks can quickly fill its more than 150-person shop with eager workers. Faithworks' quick turnaround and high quality often saves its customers thousands of dollars. In turn, Rubin's ability to meet his customers' economic priorities has translated into the equivalent of more than 80 full-time jobs for individuals living on the edge.

| Customer | My Score | Competitor 1 Score | Competitor 2 Score | Competitor 3 Score | Me Relative to Best Competitor ³⁰ |
|-------------|----------|-----------------------|-----------------------|-----------------------|---|
| Priority #1 | 10 | 8 | 6 | 7 | +2 |
| Priority #2 | 8 | 7 | 6 | 5 | +1 |
| Priority #3 | 7 | 7 | 7 | 6 | +1 |
| Priority #4 | 7 | 8 | 6 | 4 | -1 |

How can you change your value proposition to make sure you have the winning profile?

Meeting Market-driven Demand with Mission-driven Supply

What do you do when your social mission stands in the way of what your target customers want? Typical dilemmas include the following scenarios:

- ✓ A wood furniture maker that employs the developmentally disabled realizes that its current employees can't make enough volume in the short turnaround time required to get profitable large orders, yet the organization can neither find new developmentally disabled candidates with the right skills nor run a second shift.
- ✓ Volunteers make top-quality custom-designed adaptive equipment, but do it on their schedule, not the customers' timing.
- ✓ When homeless individuals in an art-therapy program get the chance to have their work sold, the participants' creations become more and more commercial and less and less therapeutic.

A few real-life solutions are as follows:

- ✓ *Make sure you're focusing on the customer segments that are the best fit for your organization.* After diversifying into several higher-end, multistep wood products, The Nezinscot Guild—a Maine wood product manufacturer with a developmentally disabled workforce—looked carefully at its core strengths. They decided to target only customers who wanted the more basic products that employees could produce most efficiently.
- ✓ *Check your assumptions about how you pursue your social mission.* Initially, nonprofit Juma Ventures assumed that to fulfill its mission it had to employ exclusively at-risk youth in its San Francisco Ben & Jerry's Ice Cream franchises. Over time, however, Juma's managers found they could employ more at-risk youth in total if they also hired a few more seasoned employees who would help the business grow.
- ✓ Creative Work Systems began as a manufacturing facility exclusively employing the developmentally disabled. Today only 50 percent of their furniture-manufacturing workforce comes from that population. Creative Work Systems discovered that having a mix of workers improved its profitability at the same time as it furthered its mission of integrating the disabled into the community.
- ✓ *Proactively offer a different type of value to your customer.* The Kids' Project, a program of Easter Seals in Maine, relies on volunteers to make the customized adaptive equipment it offers to schools, physical therapists, and families. They make sure that each customer understands that The Kids' Project can't guarantee delivery dates, and they also make sure that each customer knows that their low prices depend on volunteer labor.

- ✓ *Think through the mission implications of your business design during the planning stages.* Before launching its greeting card line, Portland Maine community arts organization Spiral Arts asked store owners and graphic designers to select images from its arts programs that would likely sell well. Once customers began buying cards with images designed during its normal programs, Spiral Arts was comfortable that featuring its students' work would not compromise the integrity of its classes, and the organization started encouraging participants to submit their favorite works specifically with greeting cards in mind.

PRICING TO MAXIMIZE SOCIAL IMPACT

Price is what customers are willing to give up—in the form of freedom, money, or anything they value—in exchange for something else. Price is just one of the many factors that go into a customer's decision to participate in your program or use your services. Nonetheless, for entrepreneurs who are willing to shake things up, pricing can be a valuable tool to accomplish a social mission. We'll take a look at some of the more common options for setting prices, how you can use different pricing strategies to meet your organization's objectives, and how you can take advantage of customers' price sensitivity. Although pricing takes many forms, this section addresses monetary payment. Please see the case study about Social Marketing on page 238 for a brief discussion of other forms of "prices."

YOUR PRICING OPTIONS

To Charge or Not To Charge?31

In contrast with for-profit entrepreneurs, social entrepreneurs often face situations in which there are compelling reasons not to charge the customer anything at all. Before you simply set a price that covers your costs, think about the following circumstances. Most of us would agree that it doesn't make sense to charge drivers who "use" a stop sign to guide their driving.

Customers who obey a stop sign also benefit society as a whole because they reduce traffic accidents. This rationale for not charging users is known as a "positive externality." Rather than discouraging drivers from using the guidance of stop signs by asking them to pay for this privilege, communities choose to encourage unlimited use of stop signs by not charging. Similarly, eliminating tolls for carpoolers and fees for local shuttle buses makes sense because of the positive externalities they provide.

Other factors may also influence your pricing decision. For instance, you'll notice that few churches require even a minimum donation for attending their services, presumably on ideological grounds. Sometimes it doesn't make economic sense to charge a customer: the costs of collecting the amount charged would be larger than the total fees collected. At many small parks, for example, station rangers collect user fees in the summertime but allow visitors free access to the park during the rest of the year because the total number of visitors is so low that it's literally "not worth the time."

On the other hand, as heart-wrenching as it might be, there are also excellent mission-driven reasons why social entrepreneurs should charge their customers. In the first case, charging a fee requires customers to allocate their dollars, time, or other resources among different options and by so doing demonstrate the programs or services they value. By agreeing to pay for a service (even a small amount of the total cost), customers indicate that the service is worth at least that much to them. Services that are underutilized when they have a price tag suggests that the intended customers don't (or can't) value the service at that price. Customers' responses to prices can translate into useful guides for social entrepreneurs who are trying to allocate their scarce resources to best serve these customers.

Asking customers to pay a price for using a program or service also tends to reduce their consumption. For example, when towns introduce a "per-garbage-can" collection fee, they often see residents reduce their "trash" and increase the amount of waste they recycle. Of course, charging a fee can also accomplish ideological objectives, such as generating additional commitment from a customer who is literally "more invested" in a program outcome.

| Rationales for Not Charging the Customer | Rationales for Charging the Customer ³² |
|--|--|
| Public good | Program resource allocation |
| Positive externalities | Understanding minimum value to the customer |
| Ideological goals | Reducing consumption |
| Costs of collection | Ideological goals |

Who to Charge?

Someone has to pay the costs of your service, and it turns out that *who* pays the bills does matter. As in many families, those who pay the bills tend to make the rules, or at least they wield significant influence. Think about how you can align your sources of funding to your mission. For example, the first Board President of Seattle's Hugo House, "a literary arts center dedicated to serving the community," restrained herself

from using her ample personal financial resources to solve the startup's growing pains. Rather, she encouraged the arts center to make connections and generate funding throughout the community. As a result, two years later Hugo House had a very diverse funding base, including 30 percent earned income, and a close "customer relationship" with a much more diverse group in the community.³³

Asking beneficiaries to pay, in monetary or other terms, can be a form of treating them with respect. Contributing in visible ways gives beneficiaries a voice in the organization, the voice of the customer. For instance, Habitat for Humanity's requirement that low-income families contribute "sweat equity"—that they pay for their future dwelling with hours worked on their own and others' homes—makes the home-buying process more a transaction than a donation. And Habitat never has a shortage of families eager to work their way into a home.

Your pricing strategy must also take competitive realities into consideration. Someone or some combination of people does have to pay. Many years ago, Bennington College made a philosophical decision not to be beholden to large donors. As a result, the college now does not have the option of subsidizing tuition with endowment funds and has found itself at a competitive disadvantage when recruiting students.

Calculating a Price

The most common, although not necessarily the best, formula for pricing a good or service is "cost plus." Cost plus means calculating the organization's cost to produce or procure one unit (for example, one hour of counseling) and marking that cost up by a given percent. For example, if an art museum gift store purchases an item from its supplier for \$5, it will likely mark up this cost 100 percent and charge the consumer \$10. There is an inherent assumption that this markup will at least cover all of the organization's overhead costs, such as rent, salespeople, advertising, and the like.

Pricing to "break even" is a slightly more complex endeavor. An organization calculates how many units it must sell at a given price to pay for both the costs of each unit sold and the organization's fixed costs. Setting this price means making assumptions about the likely volume that will be sold at a given price.

core concept Instead of focusing internally on a company's costs, pricing based on *economic value to the customer* (EVC) focuses on the maximum price a customer is likely to pay for a specific item or service purchased for a specific purpose. This customer perception may be based primarily on tangible economic value (e.g., "I will save \$400 in one year on heating bills if I install new \$300 windows") or may be intangible (e.g., "I'll spend up to \$100 on a pair of pants if they make me look and feel great"). As you may have guessed, EVC is likely to vary

widely among heterogeneous customers, so it is usually used in conjunction with the segmented pricing strategies we discuss later in this section.

Unlike their for-profit counterparts, whose existence is predicated on maximizing profits, nonprofits often struggle with the concept of charging more than the bare minimum for a product or service. At the nonprofit-owned San Francisco City Store, young employees questioned the ethics of a nonprofit charging "too much" for certain products. These at-risk youth understood the need to mark up products in order to cover all of the business' costs, but they were uncomfortable about charging more than the local drugstore's price for a roll of film simply because of the store's tourist destination location. Likewise, these employees were often surprised to find that customers would pay two or three times what they estimated an item was "worth" based on their own incomes and priorities.

Of course, customers' willingness to pay is often directly influenced by the price of alternative services or products that can meet the same need. *Competition-based pricing* means pricing in relation to the "going rate" in the industry. Pricing at or very near competitors' prices is almost obligatory in a commodity-like business in which a small price difference is likely to have a large impact on the customer decision. Organizations bidding for contracts by submitting sealed bids engage in another form of competition-based pricing. They attempt to price their work just under the price of the other competitors while still covering their costs and making the largest possible profit.

All organizations whose customers have a choice, including all social entrepreneurs, must be aware of the prices of their competitors, direct and indirect. Choosing a consistent level of prices relative to what competitors are charging (e.g., match, at a premium, always the lowest) is a key strategic decision.

Forms of Payment

Thinking entrepreneurially about how you structure your fees, no matter how high or low they are, can give more customers access to your service and can potentially strengthen your organization.

- ✓ *Payment over Time.* A dental clinic in a low-income neighborhood might make orthodontic work available to parents for whom paying a single \$2,000 bill would be impossible by simply offering an installment plan. Creative timing options exist for fundraising "customers" as well. For example, the Stanford Business School Alumni Association cleverly assumes that recent graduates are "feeling poor" and are likely to increase their earning power over time, so it offers a five-year pledge with the lowest donation in year 1 and the highest in year 5.

- ✓ *Loans.* As car manufacturers and real estate agents have clearly recognized, average customers think about affordability in terms of their monthly income. Social entrepreneurs may be able to create a world of opportunities by offering loans or layaways for nontraditional items. For instance, microenterprise lenders have successfully built on the fact that very small business owners can and do consistently meet the required monthly payments on loans for business investments that would have been out of their range as one-time purchases.
- ✓ *Single Unit versus Package Deal.* Consider giving consumers the option of purchasing just an individual item, rather than a package. For example, many arts presenters have recognized that few 30- to 50-year-olds will commit to a series of concerts far in advance and have responded by also making "series" seats available as a single-ticket purchase at a higher price per performance.
- ✓ *Package Deal versus Single Unit.* Payment structures can also be used to benefit an organization. Offering good deals on concerts sold as a complete series can help increase attendance and advance ticket sales, not to mention improve the presenter's cash flow.
- ✓ *Money-Back Guarantee.* Thomas College, a small business college in Maine, recently created headlines by introducing a "money-back guarantee" for its Bachelor of Arts program. Thomas believes that reducing potential students' risk removes a big initial hurdle for students who might not otherwise be in school. At the same time, the policy gives the school additional incentives to ensure that it's actually helping its students meet their career goals.

TAILORING YOUR PRICING TO YOUR OBJECTIVES

Step 1: What are your strategic objectives?

Step 2: What pricing strategy will best accomplish your objectives?

Like every other element of your marketing strategy, your prices should be carefully calculated to bring about a desired response, whether you're running a Fortune 500 company or an entrepreneurial nonprofit. Let's look at possible outcomes of a few pricing strategies.

Price to Maximize Revenues at the Lowest Possible Price that Covers Your Unit Costs

For-profit rationales: The laws of supply and demand say that as price goes down, demand goes up. You'll sell more widgets if you sell them at a lower price, and you will gain a larger share of your market. Producing or selling a high volume of widgets may bring down your total cost per widget, meaning that you may actually make a higher profit by selling at a lower price.

Social entrepreneur rationales: Lower prices mean that your products or services are accessible to more people in the community, regardless of their economic means.

One of the primary goals of The Good Shepherd Food Bank is to lower its prices. For Good Shepherd, a consolidator of donated and low-cost food for food banks across the state of Maine, the lower the per-pound maintenance fee it charges, the more the food banks can provide to families in need.

The fact that lower prices lead to a higher volume of sales (i.e., more work) also makes this a tempting strategy for supported employment businesses—the more work, the more jobs—as long as the work enables the organization to fully cover its costs, including paying a "fair wage" to its employees.

Because Faithworks often takes on unique projects, it sometimes estimates a price that is higher than their actual cost plus a markup turns out to be. In these instances, Faithworks routinely passes on that saving to its customers. The organization believes that the best way to keep the maximum number of its employees working is to develop an honest relationship that keeps customers coming back repeatedly.

Price To Maximize Profit from Those Who Are Able To Pay and Charge Each Type of Customer the Price at Which You Receive the Most Total Profit

- ✓ Choose a single price for the entire market based on the combination of price and resulting sales volume that will generate greatest total profits.
- ✓ Give discounts to groups of identifiable customers who are likely to be willing or able to pay less than other groups of customers. For example, offer a student or senior citizen discount or a sliding scale for fee based on family income.

The sliding-scale fee that Planned Parenthood charges for health services is directly tied to patients' self-declared income. Those who identify themselves as not being able to pay the entire bill are charged less than those whose income exceeds a certain level. This segment-based pricing ties directly to Planned Parenthood's belief in the "fundamental right of each individual to manage his or her fertility regardless of the individual's income."³⁴

- ✓ Use price promotions that appeal only to price-sensitive customers because they require some type of effort. For example, offer a rebate, coupons, hold short sales, offer to match competitor's prices, and so on.
- ✓ Give discounts based on customers' usage of your product. The customers who use the most of your product are likely to be most

concerned about its cost. At the same time, they tend to cost you the least because of the size of their orders. Treat them right.

For-profit rationales: A business should extract maximum dollars from customers over the lifetime of the relationship.

Social entrepreneur rationales: Charge a higher price to those customers who are willing to pay more so you can subsidize customers in need. Check your product portfolio map to make sure you're keeping a viable balance of programs to achieve this goal.

Alpha One also operates Wheelchairs Unlimited, retail stores that sell adaptive equipment that enables the disabled to live more independently. Wheelchairs Unlimited may sell custom equipment to Medicaid recipients even when management knows it won't break even on those transactions. Founder Steven Tremblay believes that using profits from higher-margin clients to subsidize equipment for those without financial means is simply "part of the organization's mission."

red flag Price can be simply calculated by $\text{Cost} + \text{Operating Expenses} + \text{Profit} = \text{Price}$. If you've gotten this far into the book, you're not likely to think that you should just substitute "zero" in profits' place in this equation just because you're a nonprofit. Remember that for their first five to seven years, most small businesses plow all of their profits (and more) right back into building their business. A reasonable amount of profit will not only help you subsidize your social goals, but it may also help you build an organization that will be there over the long haul.

Price To Encourage Customers To Try a New Product or Service at Zero or Low Initial Cost

For-profit rationales: Once customers try a great product, they will come back for more at the same or higher price.

Social entrepreneur rationales: Make it easy to change behavior. In 1984, the nonprofit Populations Services, Inc. (PSI) introduced condoms into Bangladesh to help reduce the country's population growth. PSI successfully priced condoms at the same price as other "little luxuries," such as one cigarette, a cup of tea, and the like.

red flag Make sure your price is greater than the cost of collection, unless you are prepared to make an even larger subsidy.

Price To Increase Perceived Value by Setting a Higher Than Necessary Price

For-profit rationales: Maximize profit by capitalizing on the "snob appeal" of a product.

Social entrepreneur rationales: Increase the perceived value of a service or product that furthers a social mission. PSI also introduced birth control

pills into Bangladesh at a low price, thinking this would increase demand. In fact, the organization soon realized that it needed to raise its prices to the level of other brands on the market—a price many times PSI's break-even cost—in order to give potential users confidence in the product.

A select \$1,000 per plate fundraising dinner may generate much more interest and net profit than a lower entry price, but larger event.

Price To Generate Commitment From Your Customers by Setting a Price High Enough that Customers Are Motivated To Take Full Advantage of Your Service or Product

Resources is a private job-training program for immigrants in New York City. Among the organization's distinctive features is that the participants themselves, not the government or local charities, must pay for a part of their training. The immigrants pay \$400 per semester, either in advance or from their salaries once they are working—and about 98 percent of the program's graduates are now employed.³⁵

Price to Test the Value of Your Offering by Setting a Price That Customers Will Pay if They Attach a Minimum Value to Your Product or Service

Medical clinics often charge a minimum co-payment, in part to encourage customers to use only the services they need.

action step Jot down your current pricing strategy. Is it consistent with your overall strategic objectives? Look through the previous list of common strategies. Is there a pricing strategy that can better support your core mission?

USING PRICE SENSITIVITY TO YOUR ADVANTAGE

core concept *Price sensitivity* describes how dramatically a group of customers will react to a price change. High price sensitivity means that even a small increase in price will cause customers to buy much less of a given item and, similarly, that a small price decrease will prompt a noticeable increase in purchases. When there is low price sensitivity, customers change their buying habits relatively little in response to prices moving up or down, unless the price changes are dramatic.

Price sensitivity can vary by product, by product category, by total price range, by type of store, by service level required, by geography, by time of year, and so on, as well as by customer segment. A social entrepreneur can apply an understanding of price sensitivity to provide more service at a higher price that is still perceived as "good value" by the customer. Alternatively, for example, by taking advantage of price

sensitivity, a social entrepreneur may be able to reduce the individual fee for a class, yet still cover the fixed cost of the class because the lower fee attracts more students.

*red
flag*

Nonprofit staff members who are used to providing free services or serving low-income populations are likely to assume that customers are more consistently very price sensitive than proves to be the case. For example, Senior Spectrum, a nonprofit Maine Area Agency on Aging, recently launched a for-profit business that provides services to help seniors live more independently. Some Senior Spectrum staff who made the switch to the for-profit business initially felt uncomfortable charging for their services. These staffers projected their own assumptions that customers would not want to pay for the assistance they were providing, even though their *customers*, many of whom were contracting for services on behalf of elderly family members, valued the service highly and felt the price was absolutely fair.

The following kinds of factors lead to *decreased* price sensitivity:

- ✓ Perception that the product or service is unique
- ✓ Small relative cost in total product or service purchase
- ✓ Perception of good price/quality ratio

The following kinds of factors lead to *increased* price sensitivity:

- ✓ Awareness of easily available alternatives or substitutes
- ✓ Ease of using directly competing products
- ✓ Large total expenditure for the customer

The best way to determine price sensitivity is to experiment. Staying aware of the potential backlash of perceived injustices, try changing your prices on different services. Track your participation rates at the new price, and compare them with your rates at the old price (make sure it's over a comparable period). Whenever possible, watch your customers. Do they inquire about the price of a service, only to say "no thank you" when they learn how much it costs? Do they see a low price and sign up for two classes when they would normally commit to only one? Also check for competitors' responses to your changes and factor their moves into your own strategy.

You are likely to find that you've been charging customers less than the optimum price for some types of items and the converse, that you would generate more interest (or sell more of your socially desirable service) if you lowered the price for other services or items. Keep experimenting over time. Even if your customers' tastes and priorities aren't changing (and they usually are), your competitive environment is.

You can also develop pricing techniques to enable customers who are very price sensitive to pay less for the same product than customers

from low price sensitivity segments. Go back to the Pricing to Maximize Profit examples to review ethical techniques for making this distinction.

*action
step*

Conduct at least one price sensitivity experiment. Lower the price of one of your best-selling services or products by 10 percent. Make sure the markdown is clearly visible and watch the results. Observe what happens when you move it back up again. What if you increase the price by 5 percent? Which price best meets your organization's ultimate goal?

PROMOTING YOUR PRODUCT, SERVICE, AND MISSION

Marketing takes many forms. Relationships are the most quiet, but perhaps the most effective form of marketing. Most social entrepreneurs are also justifiably proud of their reputations. Building a strong brand can reinforce those reputations. And many social entrepreneurs have a "shouldn't be a secret" weapon, their social mission—if they choose to use it. We'll look at each of these forms of marketing individually.

MARKETING BY BUILDING RELATIONSHIPS

Management scholar Peter Drucker once said, "The purpose of business is not to make a sale, but to make and keep a customer."³⁶ Marketing by building customer relationships makes sense for social entrepreneurs because it is effective, can be done at *very low cost*, and draws on the people skills that often reside in nonprofit leaders. Social entrepreneurs can benefit from thinking strategically about customer relationships, customer referrals, and key valuable intermediaries with whom to create relationships.

One challenge for social entrepreneurs is to channel their strong relationships in the community to their greatest advantage. Carrie Portis, Director of Enterprise Development at Rubicon Programs, gives a great example: "At Rubicon Bakery, when people [would-be volunteers] ask how they can help grow our bakery, we tell them to buy our cakes, tell their friends to buy our cakes, and thank the grocery store for stocking our cakes. At first they laugh, then they get it and hopefully they go out and make a purchase."³⁷ Rubicon knows that relationships can create customers.

Your continued investment in understanding your customers' needs and exceeding their expectations is the best source of repeat business. When we asked Rick Surpin, the founder of Cooperative Home Care Associates, what marketing techniques he used to grow his home health care business from a startup created to employ women moving off welfare to a profitable \$7 million business, his answer was simple.

gem of wisdom

"I don't know anything about marketing," he said. "I just built good relationships with clinics and with government agencies, one by one."³⁸

A recent survey of 900 sales and marketing professionals confirmed that entrepreneurs should focus their energy on those who already know and support them. These experts ranked "referrals" as the most effective technique for attracting new customers. The survey's authors, the Nierenberg Group, concluded that "the shortest path to new customers comes from reviewing existing contacts and asking them who might give the warmest reception."³⁹

Relationships can also play an important role for social enterprises trying to reach small individual customers. You may simply need to identify the right intermediary. The owner of Hereford House Restaurant (#70 on *Inc.* magazine's 1999 Inner City 100) illustrated this technique when he turned around a dying steakhouse in the middle of a very tough part of Kansas City. He "cozied up to concierges at downtown hotels, coaxing them to stop by his restaurant by handing out gift certificates. And to ensure that cabbies would steer newcomers his way, he occasionally threw 'cabbie soirees' with free finger food."⁴⁰ Similarly, the nonprofit San Francisco City Store developed a good relationship with the San Francisco Tour Guide Guild when it realized that the Guild's members could literally lead tourists to their stores.

Advocacy group Alpha One figured out that architects would be strategic allies in its fight to ensure that all public buildings were accessible. Although building owners must approve the costs associated with accessibility, architects have a powerful voice—and the trust of these decision makers. Alpha One has actively cultivated those relationships and educated architects about the social and economic benefits of designing buildings for maximum accessibility.

Social Marketing

As we talk about marketing tactics, it's important to acknowledge that some social entrepreneurs face special challenges. Social change often requires participants to alter their behaviors for the "good of society" at a high personal cost. For example, low-income farmers in Colombia are unlikely to switch from cultivating coca plants to growing crops that do not earn them enough to feed their families, even if they sympathize with the goal of reducing cocaine addiction. Convincing individuals to participate in a social program when their personal costs of participation seem to outweigh their personal benefits is a much more difficult task than convincing customers to make purchases that are arguably in their own best interest.

Professors V. Kasturi Rangan, Sohel Karim, and Sheryl Sandberg argue that the best way to approach social marketing is to first systematically

analyze the desired behavior change from the target participant's perspective. Social entrepreneurs should plan their marketing on the basis of two factors: (1) the desired participants' costs, whether financial, psychological (such as giving up smoking), or in terms of time, and (2) the tangible and intangible benefits that these participants will enjoy as a result of making the proposed change. The most effective marketing approaches vary according to the combination of these costs and benefits. Exhibit 8.5 can help you determine the key marketing tactics to apply in a given situation by mapping the participants' cost and benefits.⁴¹

BUILDING A BRAND

core concept

According to a recent ranking, McDonald's is the #1 brand in the world, "the quintessential international brand with consistent brand values, industry dominance, and a living personality."⁴²

Brands are valuable because they directly influence customers' decisions. They provide buyers with shortcuts in processing all of the information involved in choosing a product, service, or action. In the words of Norio Ohga, Chairman of Sony, "Our biggest asset is four

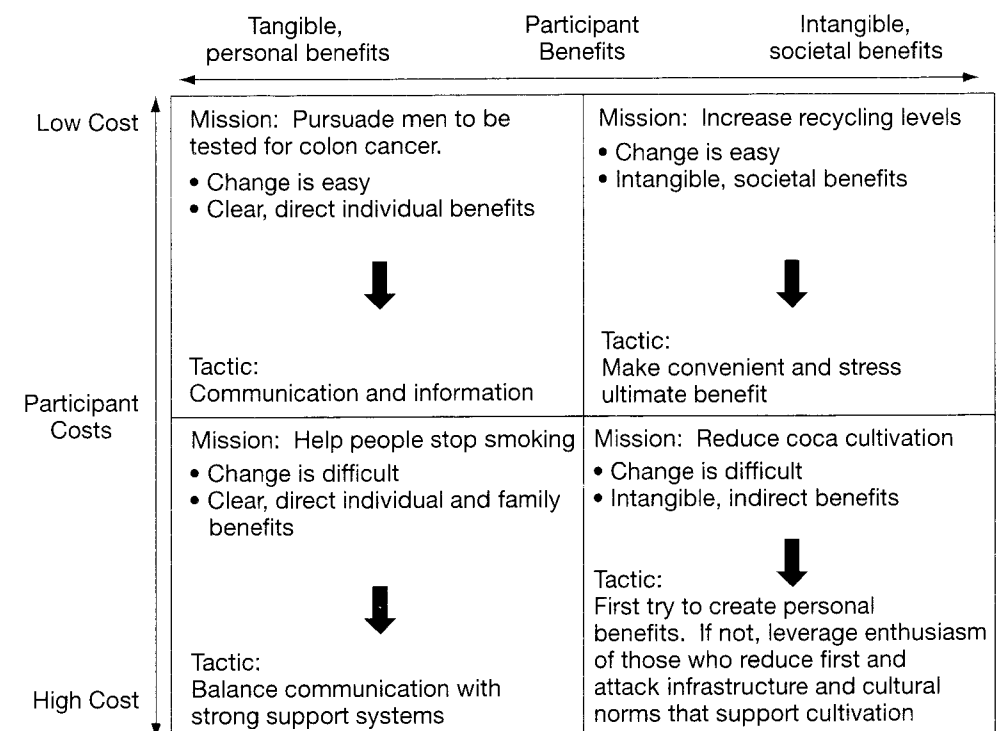


EXHIBIT 8.5 Marketing plan analysis.

letters: SONY. It's not so much our buildings or our engineers or our factories, but our name . . . we must preserve and build our reputation, because that determines the value of the company in the 21st century."⁴³ Brands can be very powerful for startup organizations as well. Two brands that did not exist in 1990, Amazon.com and eBay, are now so strong that their names instantly evoke Internet commerce and stock market success.

core concept Social entrepreneurs working in the nonprofit sector may have an advantage when it comes to building a brand. According to a former Procter & Gamble marketing executive, "Most nonprofit institutions are a brand already. The question is whether they are defining, articulating, and managing it to their advantage."⁴⁴ Today, many nonprofits are paying attention to their brands and trying to create holistic approaches to building loyalty with donors, clients, and the public through their group's reputation and image. Nonprofits are hoping to use their brands for increased fundraising pull, merchandising, for-profit alliances, even, they say, to increase their voice in public policy. Steven Abbot, spokesperson for Volunteers of America, describes branding as a defensive tactic: "If you don't brand yourself, focus your message, integrate your message delivery, and use every means at your disposal to get your message out there, you are going to be lost in this message bombardment."⁴⁵

The Boston Museum of Science has incorporated a brand remake into its traditional marketing materials. Both a new slogan, "It's Alive," and a new logo conveying a sense of movement were created to reinforce the museum's goal to be seen as constantly changing (i.e., worth frequent visits). But the Boston Museum's logo and slogan are also doing double duty. For the first time, they are helping sell merchandise in the museum's store. Why this pairing of a museum-quality brand and gift shop merchandise? Says the museum's retail sales manager, "we recognize the real need to perpetuate ourselves commercially."⁴⁶

red flag More than their for-profit counterparts, social entrepreneurs run a risk when they market their brand too aggressively or stray from their core mission. Going after the spotlight, funding dollars, or donor loyalty can distract from your organization's programs. And if the public thinks that your marketing is more fluff than substance or that you sound like you're selling soft drinks, instead of promoting a good cause, you can quickly alienate donors, volunteers, and the wider community.

Branding campaigns also have their limits. No amount of marketing is a panacea for a weak or disorganized organization. In the words of the vice-chairman of the Boston Museum of Science, "Branding requires a truthful statement about what an organization has to offer. You don't just make up an image and pray."⁴⁸

CASE STUDY

THE SOHO REP BRAND

The Soho Repertory Theater in New York recently tried its hand at improving its brand identity. Guided by Board member Cynthia Round, Soho Rep analyzed what consumers thought of the theater. Not only did Soho research what its customers thought about its avant garde plays, but it also asked them what they thought of the theater's logo, its seating capacity, and its niche in the arts world. Soho liked the fact that its audience expected it to be "innovative" and "experimental" and decided to build this expectation into a true competitive advantage through its brand.

Soho's branding plan includes much more than creating an image. In Round's words, "the delivery of a consistent personal experience of using the service" was the goal. The theater's artistic director, Daniel Aukin, put this concept in more concrete terms: "When an audience member or prospective member interacts with the theater—whether they're seeing a show, waiting in the lobby, seeing a poster on the street, or receiving a postcard or letter—there is a consistency and vision beyond those interactions."

Informed by its customer research, Soho Rep is implementing its brand strategy in big ways and in small details. The theater's advertising now clearly reflects its avant-garde image, and so do Aukin's business cards. Soon even the color of the theater lobby's painted walls will subtly do the same.

And Aukin, who came in with the skeptical attitude that a branding strategy "sounded like something you would do if you were trying to sell potato chips" has found the process nothing short of "incredibly useful."⁴⁷

tool of the trade

So, how do you strengthen your brand, albeit carefully? Scott Bedbury, the force behind both the Nike "Just Do It" branding campaign and the Starbucks brand identifies eight brand-building principles:

- ✓ A great brand is in it for the long haul.
- ✓ A great brand can be anything (think Intel, as well as Starbucks and Nike).
- ✓ A great brand knows itself (ask the consumers to find out what they believe).
- ✓ A great brand invents or reinvents an entire product category (Disney, Apple).
- ✓ A great brand taps into emotion (like the emotion of a close basketball game).

- ✓ A great brand is a story that's never completely told (The Levi's story, The HP Way).
- ✓ A great brand has design consistency (Ralph Lauren, Nike).
- ✓ A great brand is relevant (not just trying to be cool).⁴⁹

As Bedbury states, building a brand is a "long haul," and it can mean investing scarce resources. Before you make that commitment, ask yourself whether your organization falls into one of these common situations in which investing significantly in your brand makes sense:

- ✓ *Do we need to build our identity relatively quickly because we're moving into new markets where we're not known?* The Habitat for Humanity brand helps small volunteer groups around the world to recruit volunteers and donors by communicating a recognized set of values and approach to low-income home ownership, eliminating the need for each local affiliate to slowly develop credibility over time.
- ✓ *Is perceived quality a very important value to our customers and does quality vary significantly among providers?* The nonprofit Visiting Nurses Associations, better known as the VNAs, have continued to prosper in an era of increased health care provider competition in part because of the strength of their name and tradition of caring and quality that harken back to the founding nurses' early house calls to the sick in poor communities.
- ✓ *Do we have little chance for direct interaction with a large segment of our customers?* UNICEF has almost no direct contact with the average American consumer, yet it sells millions of dollars of cards and gifts each year. UNICEF counts on its brand to convey its explicit focus on helping children, to evoke the image of "what just a dollar can buy," and to engender a sense of international goodwill.

So what can resource-strapped entrepreneurs do to strengthen their brand without breaking the bank? Think creatively and draw on their organizations' assets. Here are a few examples:

Think visibility: City Year gave President Clinton a sweatshirt and a watch with its logo—and in return got its name on national TV and radio in a context that communicated the importance of its work and respect for the organization.

Build on what you do well: Through their cookie sales, the Girl Scouts reach far beyond the young girls and parents who are the organization's core customers. Recognizing that each box of cookies will be handled and perhaps read several times by consumers, the Girl Scouts have turned the cookie packages themselves into effective vehicles for communicating the new ways that their organization is preparing young

women for the future—mountain biking, computer classes, and building self-confidence.

Design a product that reinforces your brand and mission: The National Headache Foundation's newsletter, HeadLines, demonstrates the organization's commitment to improving the quality of life for migraine sufferers by devoting several pages to detailed answers to members' specific migraine questions. At the same time, HeadLines reinforces its credibility as a cutting-edge information source by enlisting different specialists to answer each question, reporting on the latest advances in migraine treatment (actually listing the dates of the latest academic studies), and sticking its neck out to recommend specific drugs.

**red
flag**

Social entrepreneurs can borrow many low-cost marketing tactics from their for-profit colleagues.⁵⁰ Just as branding and marketing campaigns can reinforce a reputation, however, they can also bring it down. Cash-poor entrepreneurs often face the "do-it-yourself" temptation. Although you can use many guerilla marketing techniques to effectively implement the principles in this chapter, beware of shortchanging your marketing materials and making a lasting bad impression.⁵¹

**action
step**

Go back and think about your most valuable customers. In general, what kind of reputation do they value? What brands attract them? Now, imagine what they would say if they were asked to describe your brand. Could they? Conduct your own focus group or enlist the help of a marketing professional to actually ask your customers how they perceive you. Armed with that knowledge, decide how you can build on or change that perception with two or three concrete steps.

Cause-related Marketing

Cause-related marketing can be a very effective way for social entrepreneurs to leverage the financial and creative resources of more established organizations. Cause-related marketing often takes the form of linking two brands in the customers' eyes or "co-branding."

Got Milk?—The California Milk Producers linked up with the Girl Scouts to create a high-impact billboard ad that conveyed the altogether wholesome appeal associated with a cute Brownie, Girl Scout cookies, and milk.

Charge Against Hunger—Over several years, American Express donated \$.03 to Share Our Strength's (SOS) hunger relief efforts every time an American Express card was used during the holiday season. Together with other corporate partners, American Express gave more than \$16 million to SOS, while increasing its own transaction volume, its cardholder satisfaction, and the number of merchants accepting its card.⁵²

Adopt-a-Pet—A local Humane Society gets free advertisements for one or two pets available for adoption every week in a local newspaper. The paper scores points for supporting the community and undoubtedly

pleases a few readers with the cute animal photos and profiles. The featured animals often find a home, and the issue of proper pet care gets good visibility.

Marketing professor Alan Andreasen encourages nonprofits to think of themselves as bona fide "partners" in these marketing pair-ups. He suggests three steps: (1) Evaluate your organization to understand what value you could offer a potential partner; (2) Identify and approach the potential partners that could most benefit from what your organization offers; and (3) Actively help create and monitor the partnership. Here are the questions he recommends you answer to understand what your organization could offer a potential corporate partner:

- ✓ What is our image?
- ✓ Do we have strong brand recognition?
- ✓ Is our cause especially attractive to certain companies and industries?
- ✓ Is our core audience particularly appealing to some corporations?
- ✓ Do we promote a cause that the public considers especially urgent?
- ✓ Do we have clout with certain groups of people?
- ✓ Are we local, national, or international?
- ✓ Do we have a charismatic or well-known leader?
- ✓ Is our organization experienced and stable?⁵³

MISSION-DRIVEN PUBLIC RELATIONS

Social entrepreneurs have an enviable advantage when it comes to generating publicity, the lowest direct cost form of marketing. Most media folks *like* to tell human interest stories about people doing "good things," particularly when the approach is original. The first step in public relations is to assess how publicizing your social mission is likely to work in favor of your organization . . . or against it. Then you can put the basic tools of public relations to work.

If you're a social-purpose enterprise offering a product or service not directly tied to your mission, you'll need to check your market research to make sure that your target customers are likely to feel motivated by the social mission of your organization. Unfortunately, for many people, the word *nonprofit* conjures up associations such as "inferior quality" or "un-professional." Potential customers who view your product or service as "charity" are unlikely to let themselves perceive the value in your value proposition. John DuRand of MDI explains: "In my experience, the business world does not trust nonprofits. They assume that if an organization doesn't have monetary incentives driving its quality or timeliness, it just

won't do a good job." DuRand avoids this issue by not mentioning MDI's social mission in his sales pitches. The management of San Francisco's CVE, a social-purpose commercial janitorial service, take a more proactive approach. "Sometimes we will wait until we've been cleaning a building very successfully for six months before we really highlight our mission to the customer. At that point, the fact that our employees are recovering from mental illness is more likely to be seen as a plus. In fact, we think that conversation helps break down some of the stigma attached to mental illness. However, earlier the same information might have been seen as a potential weakness," says John Brauer, CVE's Executive Director.⁵⁴

Alternatively, your social mission may be a powerful selling point. Ask yourself how many Girl Scout cookies are purchased every year at a premium price. The Girl Scouts have completely incorporated their mission into their marketing. East End Kids Katering, a provider of low-cost nutritious meals for low-income child care programs in Portland, Maine, has found its mission to be a major factor in attracting the initial customers for a new catering business. Screen printer Ashbury Images markets its social mission strategically, to different degrees to different customer segments.

Publicizing a social mission with the goal of generating sales for a market-driven activity often raises ethical questions, as can "poster child" forms of fundraising in some organizations. The leadership of social enterprises must set a clear policy with examples of what is and what is not acceptable for this type of promotion. When formulating your policy, make sure you ask questions such as the following:

- ✓ *What is the right thing to do from the point of view of our beneficiaries? (Do not forget to get their input because it may not be what you expect.)*
- ✓ What do we expect from beneficiaries in terms of stories, interviews, photos, and so forth?
- ✓ Would a public relations opportunity truly advance our social cause?
- ✓ How will our traditional supporters react?

Revisit the issue of promoting your social mission periodically as your enterprise evolves. After many years, Creative Work Systems, a nonprofit organization with three supported employment wood-manufacturing businesses, decided to include on its tags: "Saco Bay Provisioners is a nonprofit Maine company producing quality products for the discerning customer. Your purchase of products supports people with physical, mental and acquired disabilities." Susan Percy, Executive Director, explains that a fear of "exploiting" their beneficiaries made the decision difficult, but that the organization believed that the value of promoting their work in terms of a high-quality Maine product made the tag's social "hook" acceptable.

Once you've decided if and how you'd like to communicate your social mission to the public, put the traditional tools of public relations to work; it's by far one of the best ways to stretch your marketing dollars.⁵⁵ Start by recognizing that you've probably got the basis for something that most reporters want—a good story. Next, help the media turn your story into "news" with a positive spin. Like any company, you can send out press releases promoting your "new" programs or products, giving lots of specifics about what makes them newsworthy. As a social entrepreneur, you're probably even better positioned than most companies to host an event that the public should hear about. Don't forget that politicians love to publicly support good causes at such events and that where politicians go, the media follows. If your social endeavor is underpinned by research or if you think the outcomes of your work are something to crow about, try preparing intriguing information in an easy format for the local newspaper or television station to use. Or use a classic nonprofit asset, the volunteer. Suggest profiling a superstar volunteer or warn a junior reporter that 50 employees from a local company will be painting your homeless shelter on Saturday morning with a great photo opportunity (talk about reciprocal goodwill!). Here are a few tips to make sure your great story makes it to your customers' eyes and ears:

- ✓ Target your efforts to the magazines, newspapers, television, or radio programs that are most likely to be seen by your customers.
- ✓ Get familiar with these publications and shows. What kinds of stories do they include? Are they analytical? Lots of human interest? Do they have monthly new product features?
- ✓ Ask how you can help the journalist. Talk briefly with the editors. Ask for writers' guidelines and other information to help you prepare your press release appropriately.
- ✓ Start to network and build relationships with the media. Tap into relationships already cultivated by Board members and other stakeholders in your organization.
- ✓ Remember that you don't buy public relations. Be flexible and work with journalists even if they don't want to put your organization on the front page—every little mention helps awareness.
- ✓ Make it easy on the journalist. Pull together a one-page fact sheet. Facilitate access to anyone in your organization. Suggest great photo opportunities.
- ✓ Focus on what you're trying to market and structure easy ways for the story to include these specific benefits. Depending on your goals, you may highlight the benefits of your social programs or focus on the biggest selling points of the craft items whose sales support your mission.⁵⁶

action step

Answer the following questions:

- ✓ How would promoting our social mission affect our most valuable customer segments?
- ✓ What is our organization's social mission public relations policy? Has it been revisited in the last three years? If not, revisit this policy.

Now think about the last year. What "news" did you not publicize that would have had good public relations value? Think of this year. What is the key message you would like to communicate? Go through your calendar to identify three potential news items that would showcase that key message. Lay out an action plan for getting at least one of those stories placed where your most valuable customer segment will see it.

SUMMARY

Social entrepreneurs have energy, conviction, creativity, compassion, drive—you name it, you've got it. A conscious customer focus can channel *all* of these resources in a single direction, creating an incredibly powerful force for social good. Here are keys to finding and maintaining that focus:

- ✓ *Identify your customers.* Separate your customers into distinct groups that you can picture, reach, and, above all, understand. Figure out what type of customers you serve most effectively, ask yourself why, and use that knowledge to serve your "best" customers exceptionally well and to improve your service for others.
- ✓ *Research—don't assume you know what customers value.* Dig into information sources. Observe. Most important, ask your customers! Listen attentively to their answers and get to know the people who make up your market . . . and who will determine your success.
- ✓ *Meet your customers' priorities.* Once you've grasped what your customers value, make sure you provide it in big and little ways. Constantly be on the lookout for better ways to delight your customers.
- ✓ *Market your competitive advantage.* Identify how you can serve your customers more effectively than anyone else can. Make sure potential customers know just how well you could meet their needs.
- ✓ *Use price to help accomplish your goals.* Select the pricing tactics and price levels that support your overall strategy.
- ✓ *Create a strong brand image.* Define, communicate, and manage your organization's name and reputation. Ensure that your customers' experience is consistent with the image you strive to convey.

- ✓ *Market your mission.* Decide how and when publicizing your social mission will further your goals. Employ public relations tactics to translate your mission into free marketing.

Endnotes

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Chapter 9

FINANCIAL MANAGEMENT

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IN THIS CHAPTER

The only five financial reports you'll ever need
The basics of financial management
Keeping track of it all (cost accounting)
The price of success (isn't terribly high)

You don't start the climb up Mt. Everest with just energy and enthusiasm. You need to know that you can trust your colleagues, your equipment, your supplies, your plans, and your support network. In short, you have to be able to trust your systems. It's the same way with social enterprise. Okay, maybe the Mt. Everest thing is overdoing it, but you get the idea.

Financial demands are implicit in virtually all of the components of social enterprise. They are particularly important in innovation, resourcefulness, and accountability. Innovation is nearly impossible when finances are in chaos. What may look like innovation in the face of financial crises is really just clever reactionary management. Resourceful managers know how to recognize and use their financial strengths to their advantage.

Traditional ideas about accountability play out a bit differently for social entrepreneurs because accountability in traditional nonprofit funding is almost always associated with accountability to external funders or regulators. In traditional nonprofit funding, external funders often predefine the need as well. Government agencies do that all the time when they issue Requests for Proposals for specific programs. By contrast, social entrepreneurs rarely get proof of the need and the funding for it tied up in the same tidy package, so internal financial accountability is critical. Financial systems must be in place, financial information