Social Enterprise Reporter

Innovative Solutions for Social Entrepreneurs

"Boschee on Marketing"

***The first 13 columns (November 2004 – February 2006) in a series currently being written by Jerr Boschee for the online newsletter* Social Enterprise Reporter**

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"PRINCIPLES FOR MARKET-DRIVEN ENTREPRENEURS"

(November 2004)

Marketing is *not* a business function. It *is* the business.

Marketing begins when the senior management team makes two important strategic decisions: What products or services to offer and what target markets to pursue.

Unfortunately, when most social entrepreneurs begin thinking about marketing, they immediately focus on tactics: Creating a brochure, writing a press release, offering a discount.

Strategic and tactical marketing are certainly related, but strategic marketing is the parent and tactical marketing the child.

The key *strategic* marketing questions are these:

- What business are we in?
- Who are our customers?
- What do they want/need/value?
- Can *we* provide it?
- *Should* we provide it?
- How should we position ourselves?
- Can we win?

The key *tactical* marketing weapons are these:

- Packaging (product or service design)
- Pricing
- Distribution channels
- Marketing communications (advertising, publicity, sales promotion, personal selling)

As you begin or expand your entrepreneurial marketing efforts, it would be helpful to remember some basic principles:

1) Marketing is *not* sales

Too many nonprofits, commercial enterprises and public sector agencies start with their existing products and services, then try to find customers. They are using a technique known as *market push*, trying to force themselves into the marketplace. It may work for a while, but not for long. Savvy social entrepreneurs start with their customers, find out what they want, then build it. They are benefiting from *market pull***,** and they learn quickly that there is no more cold-hearted animal in the world than the market. Social enterprises either provide value to their customers or they die.

2) Less is more

The most common mistake made by social entrepreneurs and others is attempting to be all things to all people rather than focusing on a specific market niche. Practice the art of sacrifice: You become stronger if you reduce your scope. And be a player or don't play at all: If you are not number one or number two in a particular market segment, get out.

3) The mind is the battleground

Perceptions matter -- reality does not. You need to be first in a potential customer's *mind*, not in the marketplace. Marketing is fundamentally a battle of ideas, and your goal should be to pre-empt your competitors by making sure you "own" a single word or phrase in the minds of your customers. Think for a moment about the following products: Copier, chocolate bar, ketchup. The odds are they immediately reminded you of the following companies: Xerox, Hershey's, Heinz. If they did, it means those companies "own" you . . . they have successfully attached their company name to a generic product and made the generic word or phrase unavailable to their competitors.

4) Don't try to be better – be *different*

Most small businesses trailing in the marketing wars try to emulate the leader. That's almost always a mistake. If you are second or third in the market, position yourself <u>against</u> number one. The classic example is Avis. Recognizing the slim possibility of overtaking Hertz as the number one car rental company, Avis began to trumpet something different: "We're number two!" It was candid, striking and memorable -- and it worked.

5) Your entire organization should be driven by marketing

Who is the single most important marketing person in your social enterprise? It's probably the person who answers your phone, the first (and sometimes only) voice a customer will ever hear. A customer's definition of who you are will be formed in the first few minutes of interaction with your company, and first impressions will frequently be lasting.

How do you turn prospects into customers? When do you approach them -- and how do you shape your marketing messages?

Unfortunately, getting people's attention isn't always easy. For example, the environmental clutter surrounding your message might bury it: The average person is bombarded each day by thousands of "messages" from televisions, radios, newspapers, magazines, web pages, billboards and other people -- it's a wonder *any* of them get through.

Even when one of them does, it can go awry. Who can forget the mistake General Motors made when it decided to sell the Chevy Nova in Mexico: Nobody at headquarters seemed to realize that the Spanish phrase "no va" means "doesn't go"! Or the slogan a Scandinavian vacuum cleaner manufacturer used to introduce its product to America: "Nothing sucks like an Electrolux!"

Your marketing resources are finite and you need to be careful how you spend them. Generally speaking, there are five types of prospects for any product or service, but only three are worth pursuing, and only at certain times:

- It's generally wasteful to concentrate any of your marketing efforts on **"innovators,"** who make up roughly three per cent of the population. They'll try just about anything once, whether you chase them or not.

- If you're introducing a new product or service, your primary target should be the **"early adopters,"** about 15 per cent of the population. These are the trendsetters. Others look to them for cues, and they can be good sources of testimonials and referrals.

- Once your product or service is in play, your primary group of prospects should be the **"early majority,"** which represents about a third of the population. They wait for the early adopters to give their verdict, then try to "keep up with the Joneses."

- Further down the line, you'll want to focus on the **"late majority,"** another third of the population. These people are considerably more cautious in their spending habits and typically wait for prices to come down.

- Then there are the **"laggards,"** usually the last to buy and the first to stop. Your marketing efforts in this category should be minimal, and only if you are harvesting.

As you pursue the early adopters, the early majority and the late majority, you should capitalize on every communications vehicle available: Advertisements, speeches, web postings, sales brochures, news releases, interviews and many others. And you should be constantly calibrating your messages to build awareness, understanding and credibility. The vehicles may differ, but the same ground rules always apply:

- **Never try to make more than three points in a single message**. If you do, it will blur the focus.

- **Keep your messages simple**. And use language that's easy to understand.

- **Give them time to take root**. Sometimes it takes only ten seconds for people to fully grasp your message, but more often it takes weeks or months and constant repetition.
- **Make sure they are meaningful**. Does anybody care about them except you?

- **Make sure they are believable**. Don't bloviate or exaggerate. To be credible, messages must be candid, balanced and accurate.

- And **make sure they are memorable**, unique in some way, without distracting your prospects from the core of the message itself (don't fall in love with your own cleverness).

Finally, when you begin crafting your messages, ask yourself two key questions:

- What must people *believe* about our product or service before they will buy it?

- What do they believe *now*?

The answers will give you a roadmap for your marketing plan. You can close the gap between what prospects believe now and what they need to believe before they'll become customers by reaching out to them at the right moment -- and by sending them messages that are memorable, meaningful and, above all, believable.

"NEW ANSWERS TO OLD QUESTIONS: OVERCOMING RESISTANCE TO CHANGE"

(February 2005)

His friends often chided Albert Einstein for using the same final exam every year in his physics class at Princeton. "Never fear," he would say. "The questions may be the same -- but the answers are different!"

Social entrepreneurs are in the business of constantly finding new answers to age-old challenges: How do we care for the sick and dying? How do we create jobs for people who are developmentally disabled?

But people have a built-in resistance to change. The progenitors of the hospice movement ran into all sorts of flak from doctors and nurses who were horrified by their willingness to actually talk about death and dying with people in extremis. John DuRand was excoriated for placing people who were developmentally disabled into a normalized work environment (but eventually created a $68 million nonprofit business with more than 1,000 employees).

So how can social entrepreneurs reduce resistance to their innovations? How can they turn traditionalists into buyers?

During the past 30 years, Prof. Everett Rogers, later joined by Prof. James Bright and corporate trainer Joel Barker, have spent a great deal of time teasing out the sources of resistance. Here, based on their work, are ten objections social entrepreneurs need to overcome:

- **"I've already got one":** Will traditionalists be able to *immediately* see the advantages of your new product or service? If they can't, they'll be gone, and the other nine objections won't even arise.

- **"It's going to screw things up":** Change the pillow case, change the bedding. Change the bedding, change the curtains. Change the curtains, re-paint the walls. Forget it. Traditionalists need to be convinced that buying your product or service will cause minimum disruption. What will they have to do differently? "Not much."
- **"It's too complicated":** Nope, it's easy. No matter how complex things might be behind the scenes, no matter how many people must be involved in delivering and supporting the product or service, your potential buyer must be convinced that, for him or her, it's easy to use. "Just dial 4-1-1." "Just one click on our web site." "Just flip the switch."

- **"It's too big a commitment":** Traditionalists not only resist change, they are positively allergic to *big* changes. The more you can let prospects try things one piece at a time, the fewer risks they'll be taking and the less money they'll have to spend. It's a classic strategy for people selling services: Let people purchase an hour or two of time; then, if they like what they get, they'll buy more. It's called a loss leader.

- **"*What* did you say?":** One of the worst mistakes you can make is using language that makes traditionalists feel stupid. Or excluded. Jargon may make you feel special, but it makes your prospects itchy. Use familiar words. And try to describe your innovation in ten words or less.

- **"It costs too much":** Traditionalists aren't just thinking about dollars. They're worried about their time, their emotional investment, their opportunity costs. Your new product or service should be less expensive -- in *every* category -- than the product or service it's replacing.

- **"Can I get my money back if I change my mind?":** Yep.

- **"Never heard of you":** Traditionalists are more apt to buy something new from you if they already trust you. Do you have any credibility? Do you have allies and endorsers who can speak for you? Do you have a track record of successfully introducing innovations?

- **"It probably won't work":** No prototypes, please. There was a time when the buying public expected products or services to arrive in the market unfinished. People were willing to let the seller work out the kinks as time went by. Not so much any more.

- **"And if it doesn't . . . ":** This one's easy: You fix it. No charge.

"DECIDING HOW TO REACH CUSTOMERS: PERSONAL SELLING VS. ADVERTISING VS. PUBLICITY VS. PROMOTION"

(March 2005)

"Do you have a story to tell? *Everybody* has a good cause, but that's not enough any more." Rick Walker operates seven social enterprises in Marshfield, Massachusetts, that employ people who have developmental disabilities. To him, story-telling is an art - and the heart and soul of marketing.

But what is the best way to reach your prospective customers? How do you capture their attention? And how do you keep them riveted on your message?

There are four traditional ways to pave the way for sales: Advertising, publicity, promotional materials and personal selling. Let's take a look at their relative strengths and weaknesses.

- ***Credibility:*** Of the four, the credibility of publicity is much higher than the others. Consumers have been jaded by the blizzard of advertising messages assaulting them every day and are smart enough to be skeptical. The same is true with promotional materials. But publicity (assuming it is *positive*!) carries with it a gold standard: Endorsement by a third party, whether in print or electronically (radio, television, online). Personal selling has a moderate degree of credibility but is still crippled because listeners are aware of your bias.

- ***Cost:*** The expense per person receiving your sales message varies considerably depending on the technique you choose. Personal selling, on balance the most powerful marketing strategy because it enables you to have a conversation with your prospect, has a very high per person cost. Advertising and sales promotion have lower but still substantial costs and publicity is by far the least expensive.

- ***Targeting:*** However, if your marketing goal is to reach a clearly defined audience, then publicity becomes less valuable: You have little or no control over where and when it appears or who sees it. Advertising is more effective because you can pick the vehicle your research tells you has the best chance of reaching your target (a trade publication, a professional journal, a local radio station). Sales promotion is an even better choice because you can distribute your materials by direct mail to a specific audience or through kiosks at trade shows and conferences. And of course personal selling is the most valuable targeting tool because you can be very selective about how you spend your time and with whom.

- ***Complexity*:** When you need to deliver a complicated message, the only truly effective way to do so is through personal selling - because it is the only method in which the prospective buyer has an immediate chance to ask follow-up questions. The content of promotional materials and advertisements can be sculpted to anticipate as many questions as possible, but there will always be some that cannot be foreseen - and publicity is even less effective because you have very little control over what the writer or broadcaster chooses to include.

- ***Timing:*** Publicity is the most powerful way to create a brand, advertising the most effective way to maintain it. When you are introducing a new product or service, you need to get people talking, to create buzz. Publicity can do that much more effectively than advertising or sales promotion, and personal selling takes too long.

The trade-offs among the four techniques are evident:

- Personal selling is usually more expensive than any of the other three, but is ultimately more powerful

- Publicity is the least expensive and the most credible - but it's difficult to control the message

- Advertising allows you to target and control your message, but has much less credibility than publicity or personal selling - and costs more than promotional materials or publicity

- Promotional materials enable you to tell your story in greater detail than advertising but are less credible than publicity and personal selling

Ultimately, the market will tell you what to do. Your job is to listen and respond accordingly.

"FINDING THE RIGHT PRICE POINT: AN ARGUMENT FOR RAISING PRICES"

(April 2005)

Several years ago, Sears conducted a nationwide survey to test its pricing strategies. One finding seemed inexplicable yet undeniable: Prices ending in a "7" ($11.97) sold better than prices ending in a "9" ($11.99).

Of such nuances are profits made.

Few tasks are more vexing for a small business person -- social entrepreneur or otherwise -- than trying to find the right price point for a given product or service.

So, let's set a few ground rules . . .

First, and most importantly, let's stop setting our prices on the basis of *unit* costs. Successful service companies in the commercial sector typically have a *gross* profit margin of 40 to 60 percent on everything they sell -- in order to finish the year with an over-all *net* margin (after overhead, payroll and other internal and external sales costs have been deducted) of three to five per cent. In other words, if it costs $1.00 to design, deliver and support a product or service, you need to be charging $1.40 to $1.60 to cover your *annualized* costs.

Of course, abruptly introducing price hikes of that magnitude could come as a shock to most of your current payers. Nevertheless, any social enterprise hoping to become increasingly sustainable or self-sufficient will have to consider this approach and, at the very least, begin raising prices incrementally. In fact, Rich Gilmartin, President and CEO of Gulf Coast Enterprises, a $30 million social enterprise in Pensacola, Florida, that employs people who are disabled or disadvantaged, frequently wins contracts despite having a *higher* price than his competitors. "Often," he says, "the customers have already been there -- and realize they may have shot themselves in the foot by going with the lower price. Now they're looking around because they feel like they're not getting what they expected -- or maybe they're just asking for a higher level of service."

Needless to say, one of the major pressures on pricing is competition, which often changes the landscape dramatically. "There used to be more companies competing with us," says Kathleen Buescher, President and CEO of a social enterprise in St. Louis that provides Employee Assistance Programs (EAP) to corporations. "Now there are fewer, they're a lot bigger, and they've turned employee counseling into a commodity business. And that means pricing has become a very big deal. We used to be able to charge our corporate customers $30 or $35 per year per employee -- now it's down to $12 to $18."

Here are five common pricing strategies:

- "Penetration" (low) pricing (typically used when introducing a new product or service or to build market share)

- "Prestige" (high) pricing (to establish a reputation for quality)

- "Value" pricing, which rises or falls according to market demand (for example, some soft drink vending machines are now calibrated to the climate outside the building -- the price goes up as the temperature climbs, because customers value a cold drink more on hot days)

- "Cost-oriented" pricing (typically used to achieve a specific profit margin or return on investment; slavishly pegging prices to cost, however, can be counter-productive because it fails to take into account demand intensity or customer psychology)

- "Psychological" pricing (discounts, flexible payment plans, bundling or unbundling, using a "7" instead of a "9")

Regardless of which strategies you choose, however, be sure to re-visit them on a regular basis. In the entrepreneurial world, nothing is more deadly than inflexibility.

"POSITIONING FOR SUCCESS"

(May 2005)

The first rule of marketing can be expressed in a single word -- "listen" -- and it is never more important than during the process of new business development.

Sifting through dozens of ideas for products and services can be frustrating and time-consuming, and we are all impatient. But trying to *guess* what customers want is a certain recipe for disaster. Here are some of the questions you might want to ask when you are testing the feasibility of a product or service:

- **"Do you *understand* what we are selling -- and what we are *not* selling?"** It's amazing how frequently we fool ourselves: We're so close to the product or service we're often blind to the fact we haven't made it simple and accessible enough for the everyday customer.

- **"Does our product or service meet a *genuine* need?"** Too often we find ourselves building something customers might *want* but do not really *need*. When that happens, and their pocketbooks are pinched, sales disappear. You need to provide something customers can't do without.

- **"What are your expectations in terms of quality?"** Most people in the nonprofit sector assume their clients (or customers) need and desire the highest level of quality in everything they provide. Wrong. Clients (and customers) desire the level of quality they actually *need*. We spend too much time and money building Cadillacs, when many of our customers would gladly settle for a Yugo. So, don't tell people what level of quality you plan to provide: Ask them what they need.

- **"Who is involved in making your 'buy' decision?"** Why is the answer important? Because unless you know who needs to say "yes," you can't create an effective marketing plan. And, in today's world, there are always more than one or two people involved. Even when somebody walks alone into a retail store to buy a pair of jeans, there are at least two or three other voices reverberating through his or her brain (peers, parents, siblings, celebrities) -- and if you are selling to an institution, it will often take three or four internal yes votes before you can make a sale.

- **"What would you be willing to pay?"** Here, again, it is important not to give away the farm. Don't tell your prospects how much you intend to charge. If you do, their responses will usually fall within a relatively small range on either side of the amount you've chosen. But, if you *don't* tell them, you might learn something useful. For example, if you know it will cost you $10 to provide a particular product and everybody in your focus group says they'd be willing to pay $40, you know you have a winner (if they say $4, you probably don't!) -- but if you'd started by *telling* them the price would be $10, they'd *never* have said they'd be willing to pay $40.

- **"What competitors come to mind?"** What you are looking for here is not a list or even a ranking. What you are trying to discover are the most appealing characteristics of each competitor's product or service. Why? Because those are the critical success factors: When you design and develop your product or service, you must either match or better your competitors in these key areas or you will lose.

- Finally, **"would you buy our product or service?"** Once you have finished the focus group or the individual interview and the participant(s) fully understand what you are trying to sell, it's time to discover whether they would actually become customers. Have them answer in one of the following four ways: "Definitely," "probably," "probably not" or "definitely not." If the responses all cluster at either end of that continuum, you have your answer. If they are somewhere in the middle, you will either have to improve the product or kill it.

"FORGING STRATEGIC PARTNERSHIPS WITH FOR-PROFITS"

(June-July 2005)

Few social enterprises today can survive without creating strategic partnerships.

Four of the most powerful types they can forge with for-profit companies include "operational philanthropy" (a phrase coined by Gary Mulhair of Pioneer Human Services in the mid-1990s), supplier relationships, distributor relationships, and cause-related marketing:

- ***Operational philanthropy*** occurs when a for-profit company creates a business relationship with a social enterprise instead of giving it a grant -- *and therefore becomes dependent on the nonprofit's performance for its own success*. For example, Pioneer Human Services, based in Seattle, employs ex-offenders and former substance abusers to manufacture aerospace and sheet metal products for the aircraft, telecommunications, electronic and other industries (including cargo liners and more than 8,000 other parts for Boeing aircraft). Pioneer's businesses also include warehousing, assembly, contract packaging and food purchasing services, plus a central kitchen facility and a number of retail cafes. Annual revenues are $55 million, most of it coming from earned income. *Fast Company* magazine recognized the organization for "pioneering a new model for social change and setting an agenda for nonprofits nationwide."

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- A ***supplier relationship*** takes place when either the social enterprise or the for-profit company supplies personnel, raw materials and/or finished components to the other. Greyston Bakery (Yonkers, New York) is a prime example: It supplies more than 10,000 pounds of brownies and blondies a day -- nearly three million pounds a year -- that are used in five Ben and Jerry's ice cream products in the United States, Europe and the Mideast. Annual sales for the bakery are $3.5 million -- and it provides 55 jobs for people who have been chronically unemployed.

- *A* ***distributor relationship*** occurs when either a for-profit company or a social enterprise channels its products or services to customers through the other organization's network. A common example in the United States takes place when for-profit companies partner with social enterprises to access federal and state "set-aside" programs (in which government contracts are offered first to nonprofits). Another is the relationship Bobbie Lenz has with the post office in Duluth, Minnesota. Her company, UDAC, is a full service direct mail provider employing people who are developmentally disabled. "The post office has given us a lot of technical assistance and taught us everything we've learned about the business," she says, "and, for them, having somebody like us is helpful, because it reduces the number of organizations showing up with bulk mailings that aren't sorted or otherwise ready for mailing. When people like that come to them, the post office sends them to us."

- ***Cause-related marketing*** occurs when an organization licenses the use of its name, product or service to the other. The combination can be powerful: It can enhance the reputation and boost the sales of a for-profit company and simultaneously increase the credibility and generate earned income for a social enterprise. For example, during 90-day periods in four consecutive years from 1993 through 1996, each person who used an American Express card knew three per cent of his or her purchase went directly to Share Our Strength, one of the nation's leading anti-hunger organizations. The partnership raised $21 million and funded more than 1,000 local, state, national and international organizations. But the goals do not have to be so ambitious: When Clif Bar, Inc., a leading energy bar manufacturer, decided to help the Breast Cancer Foundation by creating the LunaBar and donating a percentage of sales to the Foundation, the first year's proceeds were only $5,000 -- but they have now grown to more than $300,000 per year, about 10 per cent of the Foundation's annual operating budget.

Despite the attractiveness of strategic partnerships, many Board members and senior executives are leery of entering into a relationship with a for-profit company, especially large corporations -- and often with good reason. Next month we'll review some of the issues you'll need to think about as you explore the possibilities.

"FORGING STRATEGIC PARTNERSHIPS WITH FOR-PROFITS (PART TWO)"

(August 2005)

Last month we looked at four of the most powerful types of strategic partnerships social enterprises can forge with for-profit companies: Operational philanthropy, supplier relationships, distributor relationships, and cause-related marketing.

But many Board members and senior executives are wary of entering into a relationship with a commercial enterprise, especially large corporations: It's like wandering into a foreign landscape. Those folks speak a different *language* -- and they just don't *think* the way we do!

When it works, though, a partnership with a major corporation can provide significant leverage:

- The social enterprise has deep knowledge of a specific sector and the corporation has marketplace savvy (it knows how to build and grow an organization to scale, how to compete, how to adapt to changing conditions)

- The social enterprise is close to the customer and the corporation has a network of high-capacity contacts

- The social enterprise can build a team internally and the corporation can build a support base externally

- And -- if you've chosen the right partner -- both of you have a passion for your mission

Here are a few things to think about as you contemplate creating a strategic alliance with a for-profit company, regardless of its size:

- **Why are you doing this?** To make money? To enhance your image? To further your mission? To increase employee morale? Any or all of the above? Having clarity of purpose will make your subsequent decisions simpler.

- **Is this something you *really* want to do?** Do you have the necessary passion, the full commitment you will need to make it work -- or are you seeking a partnership because somebody told you it was the right thing to do?

- **How will you measure success?** What are your specific goals for the partnership in terms of social impact, financial gains, organizational capacity-building or any other factors? You need to set realistic expectations -- and that also means recognizing all your direct *and* indirect costs, financial and otherwise.

- **How far are you willing to go?** How much time are you willing to devote to a partnership? What resources are you willing to provide? What responsibilities are you willing to assume? Are you looking for a short-term or long-term relationship?

- **Is the timing right, for both you and your partner?** For example, trying to create a major strategic partnership at the same time you are mounting a capital campaign is probably not a good idea.

- **Is there a *genuine* fit?** Do you and your partner share the same core values? What are your mutual needs and capabilities? Are there any potential controversies that could scuttle or damage the partnership? Finding the *right* partner is critical. Does the for-profit company have a logical relationship to your product or cause? Is it credible in its own field? Is it financially and operationally sound? Does it share your target market and geographic focus? Of course, the for-profit company will be asking the same questions about you.

- **Will partnering with this particular company jeopardize your other relationships?** Will staff members, funders or the people you serve object? Will other stakeholders become restless?

If you're wary about partnerships with for-profit companies, start small, and remember the concept of market pull: Listen first, then decide whether you have something to offer.

And once the partnership is underway, *manage* it: The best way to build trust among partners is to concentrate on personal relationships, so work hard to cement them, up and down the line, from the senior executives to the lowest level employees of both organizations. Always respond to your partner's needs before your own (that's how you create value), keep the lines of communication open -- and always respond quickly (a good rule of thumb is to make sure you call back the same day).

"THE CUSTOMER IS *ALWAYS* THE CUSTOMER"

(September 2005)

The customer may not always be right, but the customer is *always* the customer. Once a social enterprise makes a sale, customer service is critical for ongoing success, as four successful social entrepreneurs have discovered.

Kathleen Buescher's St. Louis company provides Employee Assistance Programs to corporations, and one of her biggest surprises has been discovering that "when you're working with the corporate sector, *everything* is negotiable, unlike government contracts where it's 'thou shalt and thou shalt not.' So it's very important to stay in tune with your corporate customers, stay very attentive and sensitive to their needs. We don't want to be just a short-term contractor. We want to be an ongoing resource to supervisors and to management."

"We will never forget our customers are the ones who keep us in business," says **Kevin McDonald**, who operates a hugely successful nonprofit trucking business out of Durham, North Carolina, "so you have to treat 'em right. They are *always* right. If we do something wrong, we respond immediately and take care of the problem. That's just *so* important . . .but people forget that. When customers appreciate what you've done it's the best form of advertising you can get. It's like buying cars: You go back to somebody you're comfortable with."

Almost by accident, **Bobbie Lenz** discovered customer focus gave her Duluth, Minnesota, bulk mailing business a unique selling proposition. "Right from the beginning," she says, "as a nonprofit, we were always mission driven, always centered on what was best for our clients. But very early in our existence as a business we realized running it successfully meant we had to use the *same* approach with customers. 'Here we are,' we said. 'What do you need? We'll do *everything* to meet your needs.'"

That determination to do what is best for its clients *and* for its customers emerged from what Lenz calls one of her organization's core values: The importance of choice for people who are developmentally disabled. "That's what our business venture has been all about," she says. "These days, customer service is hard to find, but we've bent over *backwards* to provide *extraordinary* customer service. We're definitely people-oriented, and that's part of our heritage as a nonprofit."

She also discovered a practical reason to emphasize customer service. "Initially," she says, "here we were, this human service agency with severely disabled people doing mailings, and a lot of people had a problem with that. So we never used the heart on the sleeve, 'Oh, please put these poor people to work,' approach. Right from the beginning we said, 'Use us. You need to. It's good business.' That's why referrals and word of mouth have worked so well for us. You need to act like a business, not a human service agency."

Finally, **Rich Gilmartin** predicts that if his Pensacola social enterprise "is not accessible to the customer, we probably won't be their vendor very long." Gilmartin's $30 million company offers custodial, shelf-stocking and other services delivered by people who are developmentally disabled. "Customers often tell us that the management for previous vendors stayed at a great distance, never came to talk with them -- and if decisions had to be made, the local person was not empowered to make them. So we mount a concerted effort to empower the person on the site to make the greatest scope of decisions possible -- and we also have people from our headquarters office traveling to each site on a regular basis, in part to spot problems before the customer sees them and they become big problems."

One of the obstacles Gilmartin and his staff have managed to overcome has been "not hearing a message early enough." As an example, he cites the company's custodial contract on a naval air base. "They'd been telling us for months we were missing the mark," he remembers. "They weren't ringing any fire alarms or loud bells, but they were saying improvements were needed here and there. We were listening -- we thought -- but then we discounted the information and came up with reasons why things were the way they were and why we were doing everything we could be doing. Then they set off the fire alarm. 'We've been telling you for six months that things need to be fixed,' they said, 'and we've seen no noticeable attempt to fix them. So now your contract's at risk.' It took us 18 months to eradicate that situation and turn it around. It didn't take that long to fix the problems, but it did take that long for the base to believe our fix would stick."

Gilmartin also believes his company takes customer service a lot farther than most. "If you just do what people expect, and that's it," he says, "they almost don't know you're there -- and when it comes time for contract renewal or adding contracts there's no substantial advantage. On the other hand, it makes a difference if you do something a little out of the ordinary -- like leave behind your business card with a handwritten note, or leave a Hershey's Kiss on someone's desk, or if you find a $2 bill on the floor and call it to the attention of the ownership instead of shoving it into your pocket and walking away. It can be any number of things." In many situations, for example, the previous vendor's employees didn't wear uniforms. Gilmartin's employees not only wear them, "but we put our name on them and we let customers pick the color. It all sets a tone immediately that is different than what the customers expect."

"THE STRATEGIC MARKETING MATRIX®: HOW TO MAKE TOUGH PRODUCT AND SERVICE DECISIONS"

(October 2005)

Maintaining an appropriate balance between social impact and financial viability is the *sine qua non* of social entrepreneurship. **Dr. David Rendall** calls social entrepreneurs "tightrope walkers" because they are constantly hovering in mid-air between their social purpose and marketplace realities.

The definition of "appropriate" varies from organization to organization, but the existence of a double bottom line that emphasizes both social and financial returns forces social entrepreneurs to continually make difficult decisions about which products and services to offer and which market segments to pursue.

The process is never more important than when a social enterprise is developing its strategic marketing plan -- and it can be agonizing because it demands that Board members and senior managers practice triage.

Management guru **Peter Drucker** has long advocated killing products and services if they are not number one or number two in the market. Rather than trying to be all things to all people, he says, you should concentrate on doing the best job possible in a few, carefully chosen areas. If you do not, he warns, you will be unable to give customers the attention they deserve because you will no longer have the necessary time or resources.

Drucker's advice runs against the grain of the traditional nonprofit mentality, but most nonprofit managers eventually do admit they are trying to serve too many masters. And, as they morph into social entrepreneurs, they realize that the first rule of entrepreneurship is contraction.

Of course, triage requires a social enterprise to be honest with itself -- exceedingly difficult for any organization, nonprofit or otherwise. But the results have been worth it, and the ultimate winners have been clients and customers. Social entrepreneurs have discovered that reducing the number of products, services and target markets has actually enabled them to serve more people and to serve them better, because they've had the time and resources to expand their most effective and needed lines of business and to carefully introduce new products and services.

Making strategic marketing decisions, however, is more difficult for a social entrepreneur than it is for either a traditional nonprofit or a commercial business, both of which are primarily concerned with a single bottom line. A traditional nonprofit will continue offering products and services that have a significant social impact even if they lose money; commercial enterprises will not. Social entrepreneurs, on the other hand, are equally concerned with both bottom lines, and that means they must *simultaneously* analyze the social impact and financial viability of each product and service -- and only then make decisions about which ones to expand, nurture, harvest or kill.

"The Strategic Marketing Matrix for Social Entrepreneurs"® consists of two levels. Level One is a quick-and-dirty way for Board members and senior managers to think about the intersection of social impact and financial returns:

THE STRATEGIC MARKETING MATRIX
FOR SOCIAL ENTREPRENEURS®: LEVEL ONE

	Positive financial returns	***Negative financial returns***
Significant social impact	**EXPAND**	**NURTURE**
Minimal social impact	**HARVEST**	**KILL**

Level Two is an expansion of Level One that requires more rigorous analysis. It measures the relationship between the degree of social need being addressed and the anticipated financial results:

THE STRATEGIC MARKETING MATRIX
FOR SOCIAL ENTREPRENEURS®: LEVEL TWO

	Significant potential profits	***Modest potential profits***	***Modest potential losses***	***Significant potential losses***
Critical social need	**EXPAND**	**EXPAND**	**NURTURE**	**KILL**
Sizable social need	**EXPAND**	**EXPAND**	**NURTURE**	**KILL**
Minimal social need	**HARVEST**	**HARVEST**	**KILL**	**KILL**
No social need	**KILL**	**KILL**	**KILL**	**KILL**

How can a social entrepreneur discover where a specific product or service falls in the Level Two matrix?

The first step is to *segment the market* for the product or service, and that will be the subject of next month's column. The next steps are to answer a series of questions about each segment, and those questions will be addressed in subsequent months:

- How many people in this market segment actually need the product or service, regardless of their ability to pay? And how critical is their need?

- What are the critical success factors associated with designing, developing and delivering the product or service for this particular segment?

- What environmental forces will play a role? Will they be positive or negative? How helpful or damaging will they be? Do we have the capability to capitalize on the opportunities and mitigate the threats?

- Who are the primary competitors? How do we rank against them in terms of critical success factors and environmental forces? Can we win?

- What is the potential size of the market segment in terms of dollars? And what is the opportunity within the segment? Is it growing, remaining flat or declining? How much has been exploited? How much of the competition's share is vulnerable?

- What are the fixed and variable costs? Will we make a profit or lose money? How much?

“MARKET SEGMENTATION: THE FIRST STEP IN STRATEGIC MARKETING”

(November 2005)

As we learned last month, nonprofits are frequently stunned to discover that the first rule of entrepreneurship is contraction. Strategic marketing requires them to make difficult decisions about which programs to expand, nurture, harvest or kill.

Many nonprofits resist the need to practice triage. The process is taxing, and emotions run high. But even social entrepreneurs who understand its importance and summon the courage often start from a false premise.

During my coaching sessions with nonprofits around the world, I frequently ask Board members and senior managers what they believe is a simple question: “How many programs do you offer?”

None has ever gotten the answer right.

Here’s the list provided by a Texas nonprofit helping people with developmental disabilities live independently:

- Home care services
- Adult day care centers
- Independent living skills
- Social skills training
- Education programs
- Residential programs
- Transportation services
- Respite care

In other words, eight programs. Or so they thought. Actually, they had 31.

Why were they so far off the mark?

Because every program has both a “subject” *and* a “predicate” – a product or service *and* a target market. It is not enough to say a nonprofit offers home care services for “people who are developmentally disabled.” To effectively allocate resources, the nonprofit must reduce that mass market to more manageable proportions.

Doing so is called “market segmentation,” and the criteria for dividing a consumer market includes such things as:

- ***Geography*** (*e.g.,* nations, states, regions, counties, cities, neighborhoods, climates)

- ***Demographics*** (*e.g.,* age, income, gender, marital status, family size, occupation, education, income, nationality)

- ***Psychographics*** (*e.g.,* customer lifestyles, activities, interests, social class, personality characteristics, comfort with technology, political leanings)

- Or ***customer behavior*** (*e.g.,* frequency of purchase, sensitivity toward price, levels of desired quality, and so on)

Once the people in Texas decided “age” was their best segmentation strategy, it became evident they were operating many more programs than they thought, because each of the 31 market segments in the chart below requires a different marketing plan, operations plan, price points, personnel, and so on:

	Infants	***Pre-teens***	***Teens***	***Adults***	***Elderly***
Home care services	**x**	**x**	**x**	**x**	**x**
Adult day care centers				**x**	**x**
Independent living skills		**x**	**x**	**x**	**x**
Social skills training		**x**	**x**	**x**	**x**
Education programs	**x**	**x**	**x**	**x**	**x**
Residential programs			**x**	**x**	**x**
Transportation services			**x**	**x**	**x**
Respite care services	**x**	**x**	**x**	**x**	**x**

Triage, then, required them to move from the macro level (eight programs) to the micro (31) before making any decisions about resource allocation. And, as we saw last month, The Strategic Marketing Matrix for Social Entrepreneurs® contains four possible allocation strategies:

- Programs high on both the social impact and financial viability scales should be ***expanded*** and deserve the bulk of an organization's resources

- Those that are high in social impact but haven't yet achieved financial viability need to be ***nurtured***

- Those that deliver positive financial returns but have minimal social impact should be ***harvested*** to generate resources for the programs being expanded or nurtured

- And, of course, those that are low on both the social impact and financial viability scales should be ***killed***

As a rule of thumb, programs to be expanded should collectively receive about 50 to 70 per cent of a nonprofit's resources. "Nurture" programs should receive about 20 to 40 per cent, and "harvest" programs whatever remains.

Beginning next month, we'll examine some of the key questions social entrepreneurs must ask about a target market to determine which allocation strategy is appropriate. Ultimately, my Texas friends completed their research and made the following decisions, killing 14 of their 31 programs:

	Infants	***Pre-teens***	***Teens***	***Adults***	***Elderly***
Home care services	**EXPAND**	**EXPAND**	**HARVEST**	**EXPAND**	**EXPAND**
Adult day care centers				**EXPAND**	**EXPAND**
Independent living skills		**KILL**	**NURTURE**	**NURTURE**	**KILL**
Social skills training		**KILL**	**KILL**	**KILL**	**KILL**
Education programs	**NURTURE**	**NURTURE**	**KILL**	**KILL**	**KILL**
Residential programs			**KILL**	**EXPAND**	**KILL**
Transportation services			**KILL**	**NURTURE**	**NURTURE**
Respite care services	**HARVEST**	**NURTURE**	**HARVEST**	**KILL**	**KILL**

“COMPETITIVE ANALYSIS MATRIX FOR SOCIAL ENTREPRENEURS”®

(January 2006)

Practicing triage is one of the most daunting and emotional challenges for nonprofit entrepreneurs. But, as we learned in part one of this four-part series, “The Strategic Marketing Matrix for Social Entrepreneurs”® can help them make informed and less painful decisions about how to allocate resources.

Last month, in part two, we learned that the first step in the triage process is market segmentation, because every program has both a “subject” *and* a “predicate” – a product or service *and* a target market. It is not enough to say a nonprofit offers “career training services” for “people who are physically challenged.” To effectively allocate resources, the nonprofit must reduce that mass market to more manageable proportions, using segmentation strategies such as geography, demographics, psychographics or customer behavior.

This month, in the third part of our series, we’ll examine some of the key questions social entrepreneurs must ask about a target market to determine which allocation strategy is appropriate. Which market segments should they expand, nurture, harvest or kill?

The questions fall generally into two categories:

- Can we win?
- Is it worth it?

Deciding whether you can win means analyzing the competition, the subject of this month’s column (next month we’ll talk about deciding whether it’s worth it).

To determine your competitive strength (or weakness), you should answer the following three questions:

- What are the ***critical success factors*** associated with operating the business successfully? Obviously, the business must be profitable, and you must have a strong management team with a carefully chosen market niche. But the “critical success factors” we’re talking about here are more specific and differ from one *type* of business to another. Nonprofit entrepreneurs need to ask themselves: “What are the factors most important for success with *this* type of business?” Possibilities include price, volume, convenience, speed, dependability, reputation, intermediaries – and any number of others. There are typically four or five that apply to each type of business, and if you don’t identify them correctly and compete effectively, your business will fail.

- What ***environmental forces*** are having or will have a positive or negative impact on your ability to operate the business successfully? What we are seeking here are the large-scale, fundamental forces that pose threats and shape opportunities, and they are generally demographic, economic, technological, political, regulatory or sociological. Most of the time, you can’t control them, but you’ll need to be prepared to either capitalize on the opportunities or mitigate the threats. You’ll need to identify the forces, decide if they’re positive or negative, determine when they’re likely to occur, estimate how sizeable their impact will be – and, most importantly, decide what to do about them.

- Who are your ***primary competitors*** and how do you rank against them in terms of the critical success factors and environmental forces? It’s not necessary to identify *all* possible competitors, just the three or four that pose the greatest threat. The “Competitive Analysis Matrix for Social Entrepreneurs”® *(see chart)* is a quick and dirty way for social entrepreneurs to decide how their businesses rank against their chief competitors.

Here’s how to use the matrix:

- Decide which critical success factors and environmental forces to measure
- Determine how much weight to give each of them – the total must equal 100 per cent
- For each of them, rank yourself and your four leading competitors one through five, with “five” representing the business in the strongest position (if you only have three leading competitors, use a one to four scale)
- Do the math – multiply the percentage for that line item by the scores you’ve assigned to yourself and to each competitor
- Add up the columns – the results will give you a rough idea of how you rank against your toughest competition

The key word in that last sentence, of course, is “rough” – this is simply a first cut to help you assess your competitive strengths and weaknesses. The next step would be a more detailed analysis that might take a few weeks or longer.

Here’s what a typical matrix might look like (the number of critical success factors and environmental forces will differ from one type of business to another, and the weights and rankings will naturally vary depending on the type of business and the strengths and weaknesses of your competitors):

“The Competitive Analysis Matrix for Social Entrepreneurs”®

“CSF” = “Critical success factor” *“EF” = “Environmental force”*

To compute a score, multiply the rank times the percentage for that line item

	Weight assigned	Competitor A		Competitor B		Competitor C		Competitor D		Your business	
		RANK	**SCORE**	**RANK**	**SCORE**	**RANK**	**SCORE**	**RANK**	**SCORE**	**RANK**	**SCORE**
CSF #1	20%	5	1.00	2	.40	1	.20	4	.80	3	.60
CSF #2	10%	3	.30	2	.20	5	.50	1	.10	4	.40
CSF #3	10%	1	.10	3	.30	5	.50	4	.40	2	.20
CSF #4	15%	3	.45	1	.15	2	.30	5	.75	4	.60
EF #1	15%	5	.75	2	.30	3	.45	1	.15	4	.60
EF #2	15%	1	.15	2	.30	3	.45	5	.75	4	.60
EF #3	15%	1	.15	5	.75	2	.30	3	.45	4	.60
TOTALS	100%	2.90		2.40		2.70		3.40		3.60	

“THE MARKET SIZE CALCULATOR FOR SOCIAL ENTREPRENEURS”®

(February 2006)

The Plains Indians knew the truth of it: If you’re riding a dead horse, your best bet is to get off.

Unfortunately, in the nonprofit world, we resist the idea of abandoning a moribund product, service or program.

Instead . . .

- We lower standards (so dead horses can be included)

- We change riders
- We appoint a committee to study the dead horse
- We visit other nonprofits to see how *they* ride dead horses
- We provide more funding to boost the dead horse's performance

During the first three columns in this four-part series, we've been laying the groundwork to help senior executives and Board members make difficult strategic decisions about which products, services and programs to expand, nurture, harvest or kill. In other words, to help them decide which horses still have life in them – and which ones don't.

In the first column, we underscored the importance of practicing triage and introduced "The Strategic Marketing Matrix for Social Entrepreneurs"®. The second column dealt with market segmentation and "The Core Competency Matrix for Social Entrepreneurs"®. The third examined one of the two key questions that must be asked about each target market: "Can we win?" To answer that question, we emphasized the need to identify whatever critical success factors are associated with the specific *type* of business being analyzed, the positive and negative environmental forces that will have an impact, and the organization's competitive strengths and weaknesses (using "The Competitive Analysis Matrix for Social Entrepreneurs"®).

This month we'll conclude the series by delving into the second key question that must be asked before a nonprofit can decide whether to pursue a specific target market (even if it *is* possible to "win"): "Is it worth it?"

To answer that question, you will need to *quantify* three specific factors:

- What is ***the size of the market***? How many dollars are available to pay for your product or service?
- What is ***the opportunity within the market***? Is it growing, remaining flat or declining?
- What are ***the potential profit margins***? What are the fixed costs and the variable costs? And how long will it take to reach the break-even point?

"The Market Size Calculator for Social Entrepreneurs"® can be used to begin the quantification process. The sample on page 21 was created a few years ago by one of my clients, a nonprofit that provided personal care services (*e.g.,* cooking, cleaning, bathing) for elderly people confined to their homes.

Here's how you can create a calculator for each of *your* target markets:

- In column one, identify every possible type of payment source (the people running the personal care service had seven)
- In column two, calculate as accurately as possible the number of potential users in your service area (some customers will be able to draw on more than one payment source)
- In column three, describe the financial assumptions and restrictions associated with each payment source (the personal care people ran up against a number of government mandated limits – for example, at the time they did the analysis, Medicaid would pay for only ten hours of service per week per person at a maximum rate of $10 per hour)

- In column four, do the math – multiply the number of potential buyers by the financial realities (in the sample, there are 800 people eligible for Medicaid reimbursement at a maximum of $100 per week – or a one-year total of $4.16 million)

The total size of your current market will appear in the bottom right-hand corner of the grid. But remember: Only a fraction of the dollars are currently being spent. The rest are up for grabs – and even some of the dollars currently flowing to competitors could be re-directed your way through effective marketing and sales strategies.

Now create a second chart for the same target market – but set this one three to five years in the future. By doing so, you can get a preliminary idea of whether the market will become increasingly attractive or stagnant.

Once you've created both charts, you can make a preliminary decision: Is it worth it? Is the target market large enough to dedicate time, personnel and resources -- and is it heading in the right direction?

However, there's one more step to be taken before reaching a final decision. Determining potential profit margins and break-even points are subjects beyond the scope of this current series (and are best left to the bean counters). But there is one important point to be kept in mind: Many social entrepreneurs will legitimately decide to continue offering a product or service even if it does not seem to be worth it financially – because there will be compelling social reasons to do so. When they make that decision, of course, they will be depending on other sources of revenue to keep things propped up: Charitable contributions, government subsidies or profits from another product or service.

Ultimately, every social enterprise has two fundamental challenges: To do the right things (strategic marketing) . . . and to do them right (operations). This series has been focused on the first of those challenges, daunting as it may be to think about practicing triage. Strategic marketing is indeed an attempt to shake up the organization – but not to shake it apart. In fact, strategic marketing may be the only thing that holds a nonprofit together in an increasingly competitive world.

"The Market Size Calculator for Social Entrepreneurs"®
(sample)

PAYMENT SOURCES	**POTENTIAL USERS**	**FINANCIAL ASSUMPTIONS, RESTRICTIONS**	**ANNUAL DOLLARS AVAILABLE**
Medicaid	800	Maximum allowed: 10 hours per week at $10 per hour	$4,160,000
Personal insurance	400	Average annual maximum: $5,200 per person	$2,080,000
Adult children	300	Average per customer: 10 hours per week at $12 per hour	$1,872,000
Personal savings	300	Average annual amount: $2,000	$600,000
Corporate benefit	100	Average annual benefit: $5,200	$520,000
Other government sources	200	Maximum permitted: 10 hours per week at $10 per hour	$1,040,000
Miscellaneous	50	Average: $100 per week	$260,000
TOTAL	*n/a*	*n/a*	**$10,532,000**