an excerpt from

Getting to Scale
Growing Your Business Without Selling Out

by Jill Bamburg

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CHAPTER ONE

Mission Comes First

Working Assets, best known as a telecommunications company supporting progressive nonprofits, was 20 years old and generating $100 million in annual revenues when I popped the killer question to CEO and cofounder Laura Scher.

"So what about values conflicts?" I wanted to know. Were there times when she wanted to do business with people who shared her values but found that she couldn't because another company was a better fit from a business perspective? Were there conflicts between the need to grow and the desire to maintain the feeling of a smaller firm? Conflicts between competing values? Had there been issues like that during her history with Working Assets?

Amazingly enough, her answer was no.

> Nothing comes to mind where we've had tradeoffs like that. . . . Maybe it's that we never even entertained it. . . . I think it's possible that we don't even look at things that wouldn't be true to our mission.[1]

Sean Penrith, a South African entrepreneur now living in the United States, had a similar answer. The cofounder of Green Glass, a successful international firm that turns recycled bottles into elegant glassware, said,

> I think there are occasions where one can do certain things to accelerate either growth or revenue which are not purely

> . . . it's not that they're not ethical, it's just that they're not ethical to us. So we don't do that.
>
> For the most part, we all agree, but there are a couple of us that say, "Well, hey, we're here to drive a business and this is called marketing." I'd rather stick with what I think is correct.[2]

A similar answer came from George Siemon, founder and CEO of Organic Valley Family of Farms, an agricultural co-op with 18 years in business and $245 million in sales. On the values-conflict question:

> They're not necessarily conflicts; they're just decisions we've had to make. Maybe we'd have been better for this or that, but they've been guiding principles that we have that have defined our business.[3]

It is no accident that these businesses—and the others included in this book—are called "mission *driven*." They truly are. Just as a relentless focus on the bottom line helps to align and rationalize the decisions in a financially driven firm, so the focus on mission serves as an organizational plumb line in these firms. Here, profit is not the purpose of business—or even a byproduct or measure of success. Rather, it is a means to an end: the furtherance of mission—support for family farms, progressive nonprofits, community development, the elimination of poverty, or other good causes.

When the company's consumer value proposition is directly tied to the firm's social value proposition, it becomes a lot easier to make day-to-day business decisions, to avoid values conflicts, and to address the "legacy" issues to ensure that the social values of the firm will outlive the founder's direct involvement. The pieces fit together and reinforce each other in a way that is almost magical.

Small Potatoes Urban Delivery Inc. (SPUD)

David Van Seters's Small Potatoes Urban Delivery Inc. (SPUD), a home delivery business for organic food in Vancouver, British Columbia, is a case in point. Van Seters, an environmentalist with an MBA, started SPUD after making a systematic search for a business idea that could be implemented on a relatively small scale and would allow him to integrate his environmental and social values with his business practices. Through a consulting contract, he said,

> I became much more aware of the rapid decline of the family farm and small-scale food processors, how little money farmers actually get of the retail food dollar. After they've worked at growing the crop and nurturing it and have that finished product in their hands, they only get 10 to 20 cents on the dollar for it. I also realized how much power in the food industry is controlled at the retail level, and that alternative distribution channels have the potential to create a better return for the farmer while not increasing costs for the consumer.
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> At that point I thought, wow, this business really would integrate environmental, economic, and social values, because we could deliver groceries at no extra cost to the consumer and at the same time protect the environment by delivering organic and locally sourced natural foods and enabling customers to avoid the pollution and traffic congestion of driving to their local store. And in terms of social values, we're helping boost the local economy and helping to support small local family farms and small-scale food processors that were rapidly going out of business.[4]

Small Potatoes Urban Delivery Inc.

Years in Business:	8 (founded in 1998)
Start-up Capital:	$200,000
Annual Sales (2005):	$10 million (Canadian)
Corporate Form:	Private for-profit
Business:	Organic home delivery service

Webvan and HomeGrocer.com, the two big online grocery-delivery services, together burned through $1 billion in cash before going into bankruptcy. Where they focused on money, Van Seters focused on mission. In the end, he thinks that focus was a large part of why he succeeded and they did not.

> I think the biggest reason we succeeded is that we didn't come from a grocery background. We relied instead on our general business knowledge and a sustainability focus.
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> Our competitors were trying to duplicate the in-store shopping experience, which is that the customer can shop almost whenever they want, and can get almost any product that they want. It turns out that the costs of doing that are too high and the customer is not willing to pay those costs. Delivering to people whenever they want within a two-hour window is very inefficient from a fossil-fuel perspective because the drivers might have to go all across town to deliver to one customer, and then have to come all the way back to deliver to the next customer and then have to return to the location of the first customer to complete the third delivery.
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> So what we've said is we deliver to each neighborhood only once per week, and the customer doesn't have to be home for their delivery. As a result, instead of spending $9 to do an average delivery, which is what it costs the Internet grocery companies, we can do it for less than $3. And in fact, the savings are so great that we don't actually charge a

delivery fee so long as the customer orders at least $35 worth of groceries. The big Internet grocery companies told their customers, "Your groceries will cost you exactly the same as shopping in-store, but you have to pay a $7 to $10 delivery fee on each delivery." It turns out that very few customers are willing to pay this delivery fee.

The other thing they did was offer a huge range of products, which made the logistics of receiving and shipping and packing untenable, because they couldn't pack an average order in less than 24 minutes. It just took too much time. You just don't have enough efficiencies in the system to accommodate taking 24 minutes to pack an average order. In contrast, by offering a good but narrower product selection, we can pack an order in under 7 minutes.

The third biggest reason for our success is our social mission. For example, our customers could see how we were benefiting the farmer because we would write articles about them: how they were started and why they chose to produce certain crops. Our customers really responded to that. They believed that they were getting different products with a different ethic behind them.

Even in the early years when our Web site didn't work that well and we made mistakes on packing because we really didn't know what we were doing, they stuck with us. As one customer described the SPUD difference, "It's like getting free karma with every delivery."

So while the big Internet companies enjoyed initial excitement from consumers, those customers dropped off really quickly because as soon as the delivery didn't fit their needs perfectly, they didn't have any loyalty. With us, they actually made a commitment and stayed with us and grew with us so that we actually survived when most of the big players failed.[5]

In the case of SPUD, even the difficult challenge of finding appropriate financing—one of the major issues for all mission-driven firms—worked in favor of the company's focus on values. SPUD was founded with an initial investment from Renewal Partners Venture Fund, which focuses on businesses with a social or environmental mission. Since then, it has taken on an additional 22 socially minded individual investors. Traditional investors and lenders wouldn't touch the deal because it wasn't exciting enough during the dot-com boom and was considered too risky after the dot-com bust.

As a result, the company was significantly undercapitalized, which also contributed to its success—particularly in contrast to its dot-com counterparts. Van Seters observed,

> Their whole model was to get to volume first and then get to profitability. That was a very risky approach. And, in fact, everyone looking back at the dot-com era can't believe how so many investors were duped with a strategy that never worked in history. You always get to profitability first and then grow.
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> One of the founders of HomeGrocer said that their preference would have been to get to profitability first, but they had generated all this money through their IPO and the investors were clamoring for rapid returns, so they had to grow quickly and were forced to expand to multiple cities before they got to profitability. Of course, when the dot-com era crashed and there was no more investment money around, none of the locations were near profitability. So they ran out of cash within six months and had no choice but to close their doors.
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> In contrast, we had always said, "Let's get to profitability first and then grow from that point." So we only raised a small amount of money, and therefore had to use every bit of it as best we could. We got to profitability in about three years, and we've been profitable ever since.[6]

So far, so good. But now Van Seters is beginning to tackle the next challenge of scale. The single biggest capital investment behind SPUD is the sophisticated computer system that makes the whole business work. The initial investments in the system cost roughly $1.5 million, and Van Seters estimates that he spends another $250,000 per year in maintenance and improvements—the costs of which must be amortized over a business that operates on a 1 percent margin. Already, SPUD has acquired 12 of its smaller competitors—all at their request, largely because they simply couldn't afford the information technology (IT) investments required to offer a competitive service.

Van Seters has set his sights on expansion into the U.S. market, beginning with Seattle. The arguments for going to scale come from the perspective of both money and mission. On the one hand, there's a need to amortize the fixed costs of the IT investments; on the other, there's a desire to expand a workable model of community-based organic agriculture to other markets. But implicit in the latter is an inherent conflict with another important value: local ownership.

This is an issue near and dear to Van Seters's heart, and one to which he's given a lot of thought. He believes that what he is exporting is a business model that may eventually work as a locally owned franchise and that in the meantime extracts only 1 percent of its revenues from the local community.

> Generally, to make a franchise work, you have to have a pretty cookie-cutter business, something where you can give someone a manual that provides details about the size of the warehouse, the size of the coolers, the number of racks, the computer system, the packing procedures, and so on.
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> We're still in a rapid learning phase, where we haven't got the model finalized enough. We're still customizing our information systems and our procedures on a weekly basis. Once that settles down, if it settles down, and we actually say, "OK, we've got a model that would work under different settings, different demographics, different locations," then we would be more confident about franchising. Certainly, we're not against franchising.

> Because we only make about a 1 percent profit, 99 percent of that money stays in that local market. In addition, we offer profit sharing and weekly bonuses in all our markets. Further, some staff have become equity shareholders in the company. So, even the meager profits that we get, those are distributed back out to the local offices.
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> In terms of the overarching philosophy of buying local and supporting small companies, we have the view that we are primarily transporting a business model to different locations. We are hiring locally, we're buying locally, and we're sourcing our products locally. Our goal is to try to buy at least 50 percent of our product from the local area, wherever that is.[7]

LESSONS LEARNED

The SPUD story is one of my favorites because it embodies so many practical lessons in a single inspiring tale. SPUD directly aligns the interests of producers and consumers, and does good things for the planet while serving both. It manages a complex home delivery system in a way that conserves fossil fuels while saving customers money. It offers a more narrowly defined service than its dot-com predecessors but produces greater customer satisfaction.

There is a kind of magic at work in the SPUD story and in many of the stories included in this book. It is a magic that happens when mission is placed at the center of the business, and the triple-bottom-line objectives of people, planet, and profit become mutually reinforcing. In more traditional business thinking, people and planet are seen as nice-to-haves, but profit comes first. There is a tension among the three objectives, and the challenge of managing to a triple bottom line of people, planet, and profit is the challenge of managing the trade-offs among them.

Not so with SPUD and other mission-driven firms that have found—or, more precisely, created—a sweet spot in the market where the values of the triple bottom line intersect and reinforce each other.[8] The mission of SPUD is "to be the most socially responsible, environmentally sound, *and* financially profitable internet home delivery company in North America *while* simplifying and enriching the lives of our customers, staff, suppliers, and community partners [emphases mine]."[9] There are no trade-offs here: the people of SPUD want to have it all. And it is this commitment to a complex and multifaceted mission that is the source of the organization's creativity and success.

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