

The Social Venture Network Series

marketing that matters

10 practices to profit your
business and change the world

Chip Conley
Eric Friedenwald-Fishman



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10 PRACTICES TO
PROFIT YOUR BUSINESS
AND SAVE THE WORLD

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Contents

Letter from the Editor of the Social Venture Network Series	ix
Acknowledgments	xv
Introduction: Why Marketing Matters	1
1 Don't Fear Marketing	13
Practice 1: Use Marketing as a Core Business Strategy	
2 Know Yourself	27
Practice 2: Build Upon Your Mission	
3 What's Your Definition of Success?	41
Practice 3: Define Your Goals	
4 Know Your Audience	59
Practice 4: Be Aggressively Customer Centered	
5 Question Conventional Wisdom	77
Practice 5: Don't Limit Your Market	
6 What's Driving the Customer Decision?	93
Practice 6: Communicate Value and Values	
7 Emotion Trumps Data	111
Practice 7: Connect with the Heart First, Mind Second	
8 Build a Community	129
Practice 8: Empower People as Messengers	
9 Walk the Talk	147
Practice 9: Be Authentic & Transparent	
10 Use Your Platform to Change the World	165
Practice 10: Leverage Marketing for Social Impact	

Epilogue	181
Notes	185
Index	195
About Social Venture Network	169
About the Authors	171

Question conventional wisdom

PRACTICE 5: DON'T LIMIT YOUR MARKET

Are you satisfied with the status quo? Has your business maxed out with respect to growth? We doubt it. Imagine your business ten years from now and four times larger than it is today. Where will all those new customers come from? If you're concerned that growth means you'll have to turn your back on being socially responsible—don't worry. The two are not mutually exclusive. In this chapter we'll show you why.

The reality is that most businesses underestimate the size of the market for their product or service. If you do this, you're in good company. John Mackey, founder and CEO of Whole Foods Market, estimated that just one hundred appropriate store locations existed in the United States for Whole Foods when the company went public in 1992 (at the time, it had twelve stores). Now, it's closing in on two hundred stores.¹ Clearly, he underestimated the market for organic and natural foods. And, thus far, Whole Foods's track record proves that such growth can be achieved while remaining true to one's core values and socially responsible roots.

It isn't just well-known socially responsible companies that underestimate their markets. In this book we at times refer to

large, profitable, and sometimes controversial companies that provide relevant examples, if not a clear socially responsible mission. The truth is, whether traditional or progressive, profitable organizations have some common ground. We suggest that you can learn from both.

In 1960, Sam Walton was quoted in a magazine article as saying that his young company, Wal-Mart, had grown about as big as it could get with its nine stores. The assumption that limited his perceived growth was his ability to visit all of his stores within a day. You know the rest of the story, as that behemoth now reports the highest sales of any company in the world (\$285 billion in 2004).²

A natural tendency is to focus your business plan and marketing on who and what you know. In many ways, businesses have a tendency to market to themselves—a market of one. And if you're entering an established market with competitors who've been operating for quite some time, you may assume that they've done their homework and maximized their market reach. Question those assumptions.

It may be that the market leader is focusing only on the primary market—the customers who most obviously would buy the product or service. Yet the secondary market may be untapped and, who knows, it might be even bigger than the primary market.

Think of Southwest Airlines, a Texas-based air carrier that also underestimated its potential market back in the late 1970s. At that time, when most other airlines were rushing to grow due to airline deregulation, CEO Herb Kelleher proclaimed that Southwest Airlines was going to be just an intrastate airline within Texas. Yet, Southwest's compelling value proposition of giving middle and lower income Americans the "freedom" (the company's mantra and tagline) to experience air travel inexpensively opened up a secondary market. And this secondary mar-

ket of travelers who previously would have taken a bus, driven, or not traveled at all, has helped to dramatically grow the American airline industry.³ Southwest questioned the conventional wisdom that air travel has to be expensive and bland (not a particularly compelling combination).

Whether you're in a start-up or a large company, you are well served by questioning your assumptions. Here's a series of questions you and your senior leadership should consider as you imagine your company's growth:

- What market segments are currently underserved in your marketplace, and why are they underserved? Is it based upon some faulty assumptions?
- What core assumptions are you using to define your markets? Have you unconsciously limited your market based upon those assumptions?
- What is your biggest fear in going after new market segments? Do you fear that it will conflict with your existing base of customers? While it's wise to consider potential risks, perhaps you just need a better sense of the buying patterns and attitudes of that secondary market.
- Without intention, are you excluding customers based upon ethnicity, race, gender, sexual orientation, class, age, education level, or location? Are changing demographics making this an even more serious long-term problem if you don't open up to a broader market?
- Are there social, environmental, and/or business benefits (known as the triple bottom-line) in serving markets others ignore? By reaching out to these new customer segments, are you increasing the market for your business and for your competitors? (A win-win approach to success—prosperity for all.)

We're going to go out on a limb here and say this: most socially responsible businesses limit their marketing scope just to the "true believers." These already faithful patrons are the "low hanging fruit"—the most obvious market for your product or service. Yet by limiting your scope, you are potentially placing a glass ceiling on your expansion. Or by tailoring your marketing just to the true believers, you may be missing out on other audiences. For example, with the growth of socially responsible companies in the mainstream, socially responsible investment companies are realizing that they need to broaden their advertising to a larger audience beyond just those who may read politically progressive magazines like the *Utne Reader*.

Core Applications

We recommend four steps that you should follow in evaluating whether you and your team have been expansive enough in your thinking:

1. Evaluate your assumptions about your market.
2. Reposition your product so that it reaches a larger market.
3. Develop your marketing materials so that they speak to untapped markets.
4. Hire staff and create strategic partnerships that reflect your commitment to serving a larger marketplace.

Evaluate Your Assumptions about Your Market

Whether you're part of a big company that has neglected poorer parts of the world, or you're a small local company that has unconsciously imagined that your market was limited to your neighborhood, question every assumption that drives your busi-

ness. Reconsider your price point, your packaging size, or your delivery model. A market may be right under your nose that you haven't considered.

Professors C. K. Prahalad and Stuart L. Hart have studied how multinational corporations tend to misjudge the potential market size in developing countries. They believe the six core mistaken assumptions that are relevant, both to big and small companies, when it comes to evaluating the large lower-income segment of the market include

1. The poor are not our target customers because with our current cost structures, we cannot profitably compete for that market.
2. The poor cannot afford and have no use for the products and services sold in developed markets.
3. Only developed markets appreciate and will pay for new technology. The poor can use the previous generation of technology.
4. The bottom of the pyramid (economically) is not important to the long-term viability of our business—we can leave that to governments and nonprofits.
5. Managers are not excited by business challenges that have a humanitarian dimension.
6. Intellectual excitement is in the developed markets.

Each of these assumptions obscures the value of a huge percentage of the population. Four billion of the world's six billion people live in developing countries. If the incomes of the world's poor (defined as less than \$2 per day) were increased by \$1 per day, this would account for over \$1 trillion in world economic growth per year. Sometimes it just requires a few role models to debunk faulty assumptions.⁴

In India, for instance, Arvind Mills, the world's fifth largest denim manufacturer, has introduced an entirely new delivery system for blue jeans. Of course, the vast majority of Indians couldn't afford jeans at \$40 to \$60 per pair. So Arvind questioned the assumption about how jeans were to be delivered to the customer and introduced Ruf & Tuf jeans, a ready-to-make kit of jeans components (denim, zipper, rivets, and a patch) priced at \$6. Kits were distributed through thousands of local tailors in small villages whose self-interest motivated them to market the kits to the community. Ruf & Tuf jeans are now the largest selling jeans in India.⁵

Hewlett-Packard has a history of questioning assumptions and making a difference, which is summed up in its HP for the World slogan. Hewlett-Packard chose to challenge the mistaken assumptions that Prahalad and Hart cited when it created its "world e-inclusion" campaign, dedicated to providing technology, products, and services that meet the needs of the world's poor while enhancing HP's business opportunities in emerging markets that its competition hadn't seriously considered.

For example, in Costa Rica, Hewlett-Packard questioned the assumption that rural villages were not a market for technology because the villagers couldn't individually afford the equipment. In partnership with MIT Media Lab and the Costa Rica Foundation for Sustainable Development, HP developed digital "telecenters" for the town center of villages with high-speed Internet connections and a number of other technology products that villagers could use communally for a price. And, of course, HP now has a leg up on the competition in terms of building a relationship with these villagers as their incomes grow and they can afford technology in their homes.⁶

Evaluating your assumptions about your market is just as relevant to small companies as it is to multinationals. You might

operate a small chain of regional electronics stores and have never thought of advertising to the Spanish-language market. While Hispanic individuals tend to make less than Caucasians in America, statistics show that Hispanic families are more likely to live in multigenerational households.⁷ This can mean a high household income due to multiple wage earners under one roof, which means that your advertising may even be more fruitful to this market.

Reposition Your Product So That It Reaches a Larger Market

Vegan restaurants have a reputation (deserved or not) for being spartan, styleless, and only appropriate for righteous people who refuse to eat animal products—usually those who do it more for political or environmental reasons than anything else. Twelve years ago, Chip was involved in starting a restaurant in San Francisco called Millennium, which questioned all these reputational assumptions.

Millennium aspired to make vegan cuisine sexy, abundant, and appealing to the masses. Chip realized that Millennium's potential market size could be much larger if it reached out to a customer base beyond vegans and vegetarians. He and his partners asked the kinds of questions that were listed earlier in the chapter, but they also realized that they needed to consult with a wider audience.

Chip invited a diverse group of thirty friends and business associates (only one of whom was a vegetarian) to have a complimentary dinner at Millennium soon after it opened. At the dinner, the chef and Chip's partner talked about the value of a vegan diet and invited the group to try a number of unique dishes. But, most importantly, Chip welcomed the group to talk about what kind of people might be interested in this “good for yourself, good for the planet” diet. Then the group was provided with

education, tips, and recipes that could help them “go vegan” for one month until they came back thirty days later to have a follow-up dinner and discussion.

While only half of the group made it back for the dinner, they were very engaged. Their brainstorming led to a number of insightful ideas for new markets that Millennium could tap: cardiologists and other doctors who advise their cigar-chomping business execs to modify their diet, fitness trainers who advise their clients to seek out a low-fat diet, religious or ethnic groups who follow a meatless diet. More than a dozen market segments were identified with action plans of how to reach out to each. Based upon the high volume and diversity of diners at Millennium compared to the normal vegan restaurant, it’s pretty clear that this outreach was successful.

The best idea that arose was to create a monthly event to emphasize how vegan cuisine can help you feel sexier and more clever. Since many aphrodisiacs are herbal, the group came up with the idea of having a Full Moon Aphrodisiac Night once per month. On the night of a full moon, couples could enjoy a fixed price three-course vegan feast that intended to arouse an amorous mood, and then—because Millennium was located in a boutique hotel—those couples choosing this package would receive a free night upstairs (which cost the restaurant very little since the hotel and restaurant were managed by the same company, Joie de Vivre Hospitality).

You can imagine that the Full Moon Aphrodisiac Night had lots of press potential. More than one hundred articles have been written about this package, and it regularly sells out at Millennium. Most importantly, it helped position this vegan restaurant as something other than a funky, humorless place to grab a healthy meal. And, Millennium now has one of the most diverse customer bases of any restaurant in San Francisco with

its tattooed animal activists with shaved heads sitting next to starched investment bankers in suspenders.

Millennium actively sought out new markets of customers, but sometimes companies just stumble upon these opportunities. Dole started producing organic bananas for fast-growing Whole Foods Markets only to find out that half the demand for its organic bananas comes from conventional supermarkets. Organic Valley cooperative, a large national supplier of organic milk, similarly grew fast to help support Whole Food's demand but now find that its largest customer is Publix, an upscale regional supermarket chain in the Southeast that is significantly larger than Whole Foods.⁸

Start your process by reviewing any data you have on who your existing core market might be and whether that provides you enough room to grow your business. Use the questions on page 000 to establish a ritual of how you question your assumptions. Consider bringing in outsiders to help you open your mind to larger markets you hadn't even considered.

Develop Your Marketing Materials So That They Speak to Untapped Markets

Fortunately, in the past ten years we've seen a dramatic shift in the marketing materials of most companies, such that there's much more diversity in the casting of their ads. It's only logical for companies to cast their ads and target their media to the diverse markets that they serve. Yet many organizations are reluctant to go much beyond the gratuitous small photo in a marketing brochure.

Kimpton Hotels and Restaurants is the largest boutique hotelier in America, with more than forty hotels in over twenty metropolitan markets. While it owns a large percentage of its hotels, it also acts as a third-party manager for hotel owners who

are looking for a competent hotel management company and brand. Because Kimpton has so many interested constituencies—from its investors to the owners who hire it to a mainstream clientele of customers—it would be understandable if it were to be slightly conservative in its approach to addressing the gay, lesbian, bisexual, and transgender (GLBT) market. The truth is all of the other major national chains have been very reluctant to publicly engage this market for conventional reasons—the perceived notion that they would risk alienating their core market.

Kimpton was built upon its core values of diversity and fairness. Based in San Francisco, the company has long been at the forefront of progressive hiring practices within the GLBT community. And for years, Kimpton had targeted some of its marketing to this community. Yet it was mostly undercover, attending gay travel trade shows, marketing to gay travel agents—nothing that was promoted to the community at large. But around the time San Francisco Mayor Gavin Newsom made the controversial decree that GLBT marriages would be performed in San Francisco (Valentine’s Day 2004), Kimpton decided to finally “out” itself as a gay-friendly company.

Andrew Freeman, former vice president of public relations and strategic partnerships, explains that Kimpton has always been a gay-friendly company. In terms of marketing, he says, “We were clear that the GLBT market appreciated our hotels given our lifestyle-driven product that is both stylish and fun. We also knew that the GLBT market has high-disposable income and spends a larger percentage of its money on travel than the average American. Yet, as a national company, we knew there were some substantial risks in publicly promoting ourselves as ‘gay-friendly’ beyond locations like San Francisco, New York and L.A.”⁹

Freeman continues, “Initially once the Mayor made his decree, we launched a San Francisco ‘Honeymoon Package’ which

was only promoted by press release. The response from the media was huge and we booked an enormous amount of business. That gave us confidence to take it to the next step.”¹⁰

The next step was hiring a company that was an expert in GLBT marketing in order to produce a comprehensive national campaign. This company—Witick Combs Communications—helped create a June Pride Package that Kimpton rolled out nationally but still in a very targeted way.

It wasn’t until the fall of 2004 that the risks of this campaign became evident. Kimpton launched an ad campaign with the tagline “Our Properties Are as Unique as You Are” with the image of an attractive African-American gay man holding a puppy in his lap. It followed this with a re-launch of its Web site that included a new section exclusively devoted to GLBT travelers that was both sexy and welcoming.

A “family values” group took notice and decided to target Kimpton with a shame campaign. The group sent out anti-Kimpton press releases and spent two days jamming Kimpton’s phone lines and e-mail with dissent. Freeman says those two days were pretty scary, but senior leadership at Kimpton (which is heterosexual) never wavered from its commitment to this marketing campaign to the GLBT community. After a couple of days, things got back to normal and Kimpton now cites the fact that 20-30 percent of its recent growth in year-over-year revenues as coming from the GLBT market.¹¹ Its Web site is truly a model for how a company can reach out to an untapped market. You’ll find a specific section for rave reviews from GLBT travelers about why they love Kimpton Hotels, along with Kimpton’s unique approach to working with its GLBT employees, the GLBT community, and its Red Ribbon campaign that raises money for the National AIDS Fund.¹²

The GLBT market has \$500 billion of buying power in America.¹³ It’s one of many niche segments that most companies

overlook. Just featuring an ethnic, senior, or GLBT face in your brochure isn't enough these days; you've got to understand your target market and appeal to its needs in an authentic way.

While inherent risks are associated with taking a stand, running a socially responsible enterprise requires that leadership stay true to its organization's mission and values. This may at times include marketing that might be perceived as risky.

Having faced their own share of controversy, ice cream entrepreneurs Ben and Jerry viewed taking risks in a very pragmatic way when they were running their company, "It's controversial for a business to take stands that aren't in its own self-interest, because that's not the norm. We've learned that some people are going to be tremendously impressed by our positions and buy more ice cream. A very small number of people are going to be tremendously impressed and buy less. Some people will be completely unaffected. Anything that's not pabulum is going to alienate some people. And that goes for traditional marketing as well."¹⁴

In Kimpton's case, marketing to the GLBT community served its self-interests and made a difference.

Hire Staff and Create Strategic Partnerships That Reflect Your Commitment to Serving a Larger Marketplace

ShoreBank was established with the primary focus of providing access to credit for minority entrepreneurs. It has been a model organization in many ways including diversity at all levels of management. From senior corporate leadership to the management of branches, ShoreBank built a team that reflects the community.

Since the church is such an important crossroads for the African American community, ShoreBank created its Faith-Based BankingSM program with customized financial services to churches and their congregations.

ShoreBank realized that providing financial services to churches could assure strong vital institutions, help spark community development and job creation through housing and development programs, and encourage savings, home ownership, and business development among their parishioners. Dr. Clyde White, a banker at ShoreBank and a minister, recognized the potential in this market in the mid-1990s. To build the Faith-Based Bankings program, he hired bankers who understand the culture and needs of churches. As he has grown the program, Dr. White has continued to hire bankers who hold divinity degrees and serve as ministers. The Faith-Based Bankings program now banks over six hundred churches and is seen as a national model.¹⁵

One cautionary note to sum up this chapter: be careful not to lose your commitment to social responsibility as you expand to a larger market. Automaker Toyota has a hit on its hands with the hybrid Prius that initially wowed the environmental community and then became more of a crossover hit with the mainstream as gas prices climbed. Still, Toyota decided that to attract a larger market, it needed to create a more stylish alternative. Thus, its Lexus SUV was repositioned into a hybrid model, offering fuel efficiency and luxury at the same time.

However, early test results reveal that the SUV hybrid could be a wolf in sheep's clothing as the real product offering is a larger engine with no additional fuel economy. The *New York Times* reported on the Lexus hybrid's poor fuel consumption lamenting, "Toyota's motivation in pushing hybrid technology may turn out to be a different shade of green than we've been led to believe, one much closer to the color of money."¹⁶ This may be an example of marketing that maddens (your core customer), not marketing that matters.

—NEW SEASONS MARKET—
QUESTION CONVENTIONAL WISDOM

For years, an increasing number of grocery stores have been closing in urban neighborhoods. Most grocery chains and mid-to high-end retailers do not open locations in inner cities, therefore many neighborhoods are left underserved and without easy access to healthy food. As New Seasons began adding additional stores in Portland, conventional wisdom would have identified numerous affluent areas of the city and its suburbs for store locations. But New Seasons noticed that the mixed income Concordia neighborhood lacked a major grocery store and that residents of the area had few options to find organic, local, and specialty foods. Rather than relying on exclusionary formulas like the percentage of high-income households, New Seasons relied on the core premise of its business that everyone wants access to healthy and delicious food. It recognized an opportunity in a neighborhood where community leaders had protested the closing of stores and where the neighborhood association had advocated to the city about the need for stores and services.

New Seasons engaged the area's neighborhood associations, community-based organizations, schools, churches, and existing area businesses to determine the community's needs. As the store was built, New Seasons partnered with the same organizations to recruit managers and staff that would reflect the rich ethnic and cultural diversity of the community. The day the Concordia store opened felt more like a community festival than a retail opening. The store has exceeded its sales projections, is one of the busiest in the New Season's family, and is seen as a community hub by neighbors.

In 2005, New Seasons opened another store in urban North Portland. The Arbor Lodge store was built on the site

where a national chain supermarket had been closed for over two decades, with the building being used as a warehouse for armored cars. During the years that these stores were being developed, New Seasons's leadership served on the regional government's food policy committee and helped develop recommendations that would encourage other grocers to locate in low-income areas.

New Seasons's CEO Brian Rohter is clear about his reasons for questioning conventional wisdom. "I think there is a certain latent racism that drives a lot of decision-makers in this country. I don't understand why the desire to eat healthy, good food and to be treated in a respectful way would be limited to upper-middle-class white people. And we have proven that all kinds of people, regardless of race or where they are on the economic spectrum, share the same desire to feed their families fresh, healthy food and to get service with a smile."¹⁷

Questioning conventional wisdom has built two of the company's most successful stores and has created over three hundred jobs in an economically challenged area. It has also helped bust the myth that perpetuates a lack of many services in inner city neighborhoods. It has demonstrated that the disparity of services may not be based on a rational economic or business model but is perhaps due to not testing assumptions that limit a business's customer base—ultimately redlining entire communities from access to services and the economic base that business investment brings.¹⁸

Don't Limit Your Market

We've shown how questioning conventional wisdom and expanding your vision can open up opportunities you hadn't imagined. Remember that questioning assumptions about who is the customer, designing your product or service to respond to

broader needs, creating marketing that reflects and resonates with your larger audience, and building connections to your broader customer base through your hiring, supply, and partnership decisions can all enhance the economic and social performance of your company.

Now let's take a look at the power of communication when you share both your value and your values with your customer.