

BusinessWeek

# Small Biz

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SUMMER 2006

WAGES ARE  
GOING UP –  
LIKE IT OR NOT  
THROW a  
PARTY... SELL  
LIKE CRAZY

## DO YOU NEED TO BE GREEN?

Karin de Gier  
of Zwanette  
Design

DISPLAY UNTIL SEPTEMBER 19, 2006



THE TRUTH  
ABOUT  
OUTSOURCING  
WOMEN  
ANGELS BACK  
THEIR OWN



BusinessWeek

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Summer  
2006

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New software applications help phones track everything from sales to expenses to inventory. Be warned, though: It's a platform jungle out there

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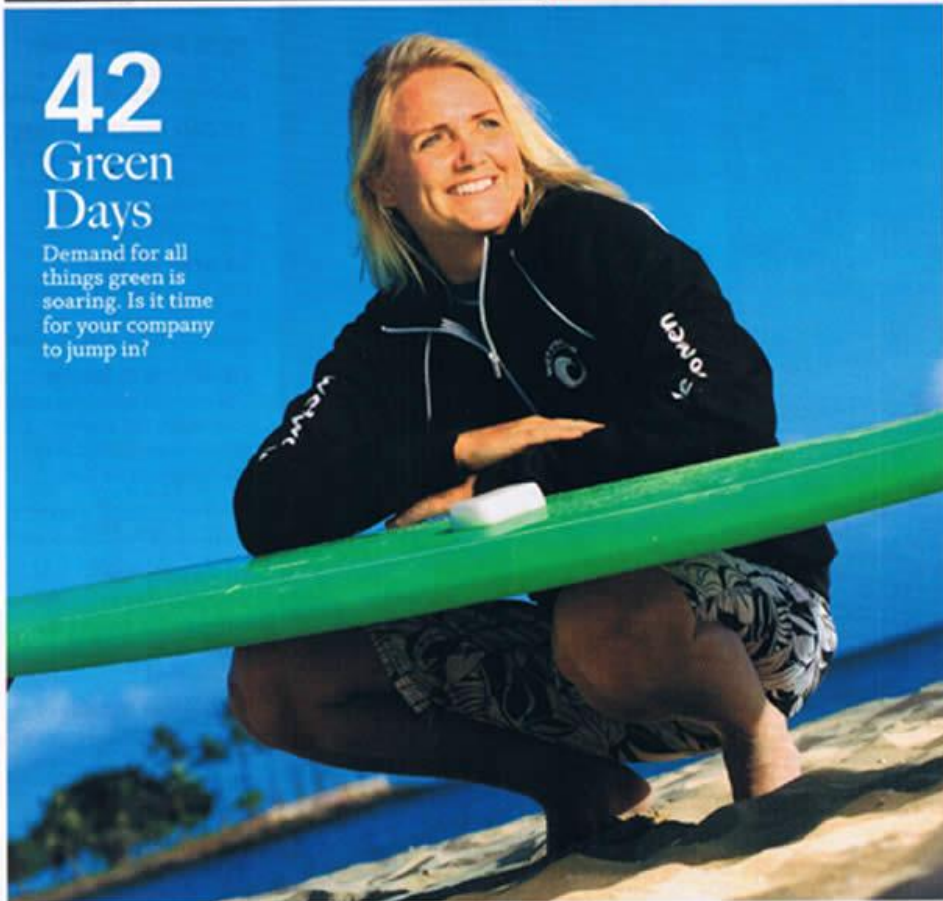
We asked entrepreneurs which titles aided and influenced them the most. The result: Our summer reading list

PHOTOGRAPH BY DIANA EDMUNDS



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Demand for all things green is soaring. Is it time for your company to jump in?



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You want your kids to join the family business. They want to do their own thing. A business extension, or lab, could be the answer

Cover photograph by Thomas Broening

chased Tom's of Maine in March of this year. Also in March, mega-retailer Wal-Mart Stores said it plans to double the number of organic foods it carries, to 400, and to "democratize" organic food by selling it at lower prices than are now readily available. "Larger producers will aim for volume, pushing organic to the mainstream. That means pricing pressure and prices coming down," says John Stayton, co-founder and director of the Green MBA program at San Francisco's New College of California. "There will be winners and losers, the losers being those smaller companies that can't compete with larger producers."

Of course, the reach of the green movement may well be determined by just how far prices fall, something that is still uncertain. "Consumers are driven by time and money," says Harry Balzer, vice-president of the NPD Group, a consumer research firm based in Port Washington, N.Y. "The wheels of permanent change are ease and convenience, which organic doesn't seem to offer over nonorganic products, and low cost. If the prices don't come down, it will remain a niche."

All of which makes the decision of whether to go green

more difficult than ever. First, you've got to figure out what being green actually means in your industry. Since the movement began in the 1970s with a handful of farmers eschewing chemical pesticides, green has been commonly understood as products made with organic ingredients. But the term refers to processes, too: using fewer natural resources and less energy. Increasingly, green companies have a socially responsible agenda as well, paying living wages, supporting minority groups or workers in less developed countries, and becoming active in their own communities.

Then decide what green means to your business. If you have a services company, being green will most likely mean reexamining the way you do business rather than changing the service you provide. If you decide to make a green product, you'll need to address not only costs—they'll likely go up—and marketing, but also credibility.

## BABY STEPS

Going green doesn't have to involve an all-out change in philosophy. There's a lot to be said for taking baby steps and

## Now That's Green

A stamp of approval to ensure a product's eco-boast is real

**Plenty of products** call themselves environmentally friendly, but no widely used standard exists to explain what being green really means. That hurts entrepreneurs trying to distinguish themselves as environmentally friendly, as well as consumers who can't be sure what they're buying. Cradle to Cradle, a certification program launched last year, attempts to change that.

During the past decade a few government and nonprofit initiatives have developed standards for certain types of products (chart), but Cradle to Cradle is the first that covers a broad swath of goods, from food to surfing wax. The system is based on the sustainable design theories of William McDonough, an architect and co-founder of McDonough Braungart Design Chemistry (MBDC), a sustainable product and process design consultancy in Charlottesville, Va. "There was too much confusion in the market as to what green is and isn't," says Jay Bolus, vice-president for benchmarking and certification. "Our clients said: 'We need some concrete proof that our products are better than our competitors.'"

To earn certification, products must meet rigor-

ous guidelines that vary by the level of approval sought. The first level covers materials and materials reutilization. After that are the premium silver, gold, and platinum levels that take into account water and energy use, as well as social and workplace policies. A CEO, for instance, might be required to sign a statement saying that the company adheres to certain criteria concerning child labor, collective bargaining, and workers' compensation. If those criteria are internally developed, the company would be eligible for silver

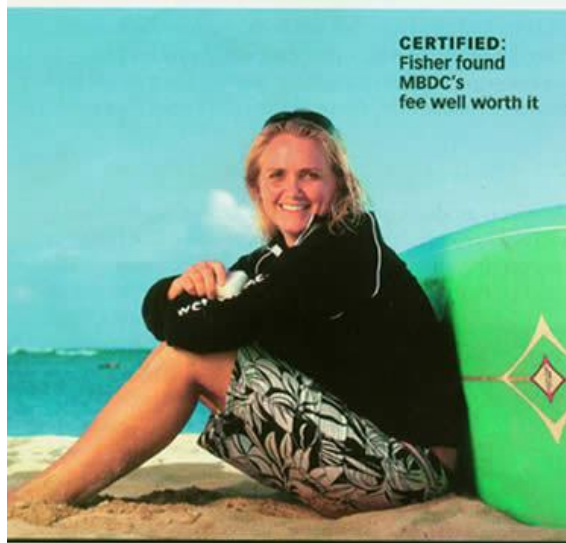
## The GREEN Guide

PROGRAMS THAT RATE GREEN PRODUCTS

PROGRAM	ENERGYSTAR <a href="http://www.energystar.gov">www.energystar.gov</a>	RAINFOREST ALLIANCE <a href="http://www.rainforest-alliance.org">www.rainforest-alliance.org</a>
<b>WHAT IT DOES</b>	EPA-backed voluntary labeling program promotes energy-efficient products to reduce greenhouse gas.	Nonprofit group awards seal of approval (a green frog) that tells consumers product has been grown sustainably.
<b>PLUS</b>	Around 50 product categories, from furnaces to dishwashers.	Rigid standards backed by a respected organization.
<b>MINUS</b>	Critics say testing procedures outdated; manufacturers test their own products.	Limited to coffee, bananas, cocoa, citrus fruits, ferns, and cut flowers.



observing how they affect your business, your customers, and your employees. Carol Cone, chairman of Boston-based Cone Inc., which links companies with appropriate causes, recommends that entrepreneurs look at greening their operations before they think about changing any product, especially those that are successful. "Try lessening the impact of your packaging," she says. Are you shipping your product in a box within a box, as Wal-Mart recently asked its suppliers to stop doing? That's easy enough to fix. "Lessen your energy use," she suggests. Maybe you could switch at least partly to wind or solar power or a greener manufacturing process. A volunteer program that meshes with your company's goals might be another tack, says Jacquelyn Ottman, founder of J. Ottman Consulting in New York, which specializes in green product marketing. And make sure to promote your achievements on your Web site and to your staff. "Your employees, especially if they're young, want to know about it," says Cone. That goes double for potential recruits.



**CERTIFIED:**  
Fisher found  
MBDC's  
fee well worth it

**GREEN SEAL**  
[www.greenseal.org](http://www.greenseal.org)

Independent organization identifies and promotes products that cause less pollution, conserve energy, and minimize global warming.

Lengthy track record; more than 300 products certified based on international standards.

Does not consider ethical criteria.

**GREEN HOME GUIDE**  
[www.greenhomeguide.com](http://www.greenhomeguide.com)

Design Web site offers "unbiased reviews and advice from professionals and homeowners like you."

Practical help and tips from architects and do-it-yourselfers, such as how to outfit a green nursery.

Lacks standardized benchmarks.

Another way to green your operations is to reconsider your wage structure and benefits. Joshua Scott Onysko, founder of Pangea Organics, a Boulder (Colo.) company that manufactured and sold \$3 million of "ecocentric body care" products in 2005, pays each of his 15 workers at least \$12.75 an hour. That's more than \$6 above the minimum wage, but it's what Onysko considers to be a living wage in his area. Mark Inman's \$3.5 million, Sebastopol (Calif.) organic coffee company, Taylor Maid Farms, works with coffee farmers to help them maintain organic methods, and also invests in schools and clinics for the workers, all of which adds about 10¢ to each pound of coffee it sells. Health insurance for Inman's 15 employees is fully paid by the company—workers don't shell out for co-payments or contribute to premiums. "If you claim to be a green company, you have to act like one," says Inman.

Next is the tougher part: figuring out if you need a green product. Here, the circumstances of your individual business and industry loom even larger. Beyond food, industries that are seeing a lot of green players include body care, building, clothing, home furnishings, and, of course,

status; if they're internationally recognized, the company might qualify for gold or platinum.

Still, because products, not companies, are certified, it is possible that a company that manufactures something that isn't ecologically friendly can earn certification on another product. "One product could be certified and another could be nasty," Bolus acknowledges.

**Companies pay MBDC** a fee of \$10,000 to \$70,000, depending on the product's complexity, for an evaluation, plus an annual recertification charge of \$2,000. Most products pass muster, in part because MBDC works with manufacturers to overcome problems. Awardees get to display the Cradle to Cradle logo on their packaging. About 30 products have been certified so far, including those of smaller companies such as gDiapers and Wet Women, which makes a natural surfboard wax.

Morgan Fisher, founder and president of Wet Women in Paia, Hawaii, says the process was relatively easy. "They helped us get through it," says Fisher, adding that MBDC advised her to eliminate 2 of the 15 ingredients in the wax because they wouldn't be approved. With several other waxes claiming to be eco-friendly on the market, Fisher says the fee was money well spent. "This certification will put us on top of the others," says Fisher. "Nobody will question what we are doing."

DANA EDMUNDS



energy. Start with a market analysis, suggests Ottman. "Are your customers interested in buying green? Are your competitors already offering green products, and if so, what can you offer that is distinct from theirs?" It's also worth asking if a greener product will make your customers more loyal.

## COST ANALYSIS

One way to hedge your bets is to think about applying green principles to new products, even if your core brand doesn't change. "If you are not in the green business, it is still a rapidly growing marketplace and you should get into it," says Gifford Pinchot, president of the Bainbridge Graduate Institute in Bainbridge Island, Wash., which offers an MBA in sustainable business. (He shares his name with his grandfather, an early conservationist.) "It would be foolish not to have organic items in your product line. You will want to be ready and in position with a brand that has green as one of its features."

Any such effort has to start with a close look at expenses, because launching a green business or product generally costs more than taking the road more traveled. The main reason: higher materials costs. An 8-ft.-by-4-ft. sheet of the bamboo used by Zwanette Designs costs \$179, vs. \$120 for a sheet of maple. The coffee and teas Taylor Maid buys have been certified organic by the USDA from small farms and cooperatives in El Salvador, Nicaragua, and other countries, and cost about \$1.95 a pound, says President and CEO Inman. That compares with 35¢ from big suppliers that sell to Maxwell House and the like. Pangea

makes a soap that is 38% Tunisian olive oil, packed in recycled egg cartons that cost 18¢ each. Plain old paper packaging or a box costs about 5¢ a pop.

For the time being, consumers seem willing to cover those higher costs. Taylor Maid coffee retails online for \$9.75 for 10 oz., vs. \$6.50 a pound for Maxwell House. And Pangea's soap sells—quite well—for \$6.99 a bar.

As the novelty of green products wears off, it's going to get tougher to cover those costs. Using green strategies to keep costs down will reinforce your eco-cred. Inman found it was cheaper to pack his organic coffee in refillable steel cans than in the paper bags that are the industry norm. And he worked with a partner to design a coffee roaster that uses 85% less fuel than traditional ones.

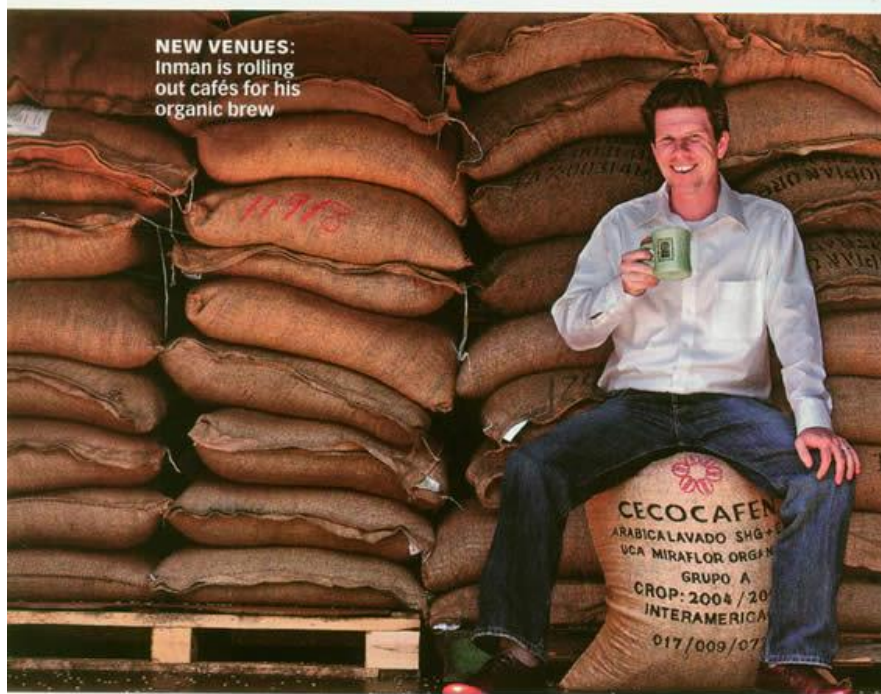
Pangea's Onysko limits advertising to a single ad in a local magazine. Instead, he relies on word of mouth, helped by some Web-savvy marketing, and posts on a variety of blogs of interest to his likely buyers. When a blogger on treehugger.com recently complained that it was impossible to find products that are both green and affordable, Onysko answered with a post explaining why his products cost more than many drugstore brands. Then he offered readers a chance to try his products at half price for a week.

## CLEVER MARKETING

As green products proliferate, such innovative marketing will be key to attracting consumers' attention. One hurdle is overcoming the long-held perception that green means shoddy. Early organic products were often considered of lesser quality, says Ottman, and among a wide swath of consumers "that stigma still exists." Further, consumers have had enough gloom-and-doom messages. "Consumers want upbeat messages," says Ottman. "They don't want to hear about how the planet is going to hell in a handbasket."

The challenge is to create a brand consumers will buy whether or not it is good for the environment. "If you have an idea for an alternative to cotton shirts, make sure it is fashionable first and the green aspect is second or third down the list," says Sonora Beam, co-founder and creative director of Digital Hive Ecological Design, a green consulting firm in San Francisco. Many people are buying green products not because it's the right thing to do, says Beam, "but because they look or taste good."

So in 2003, when Jason, 36, and



**NEW VENUES:**  
Inman is rolling  
out cafés for his  
organic brew



Kimberly Graham-Nye, 35, introduced to the U.S. a biodegradable, flushable diaper that had been sold in Australia, they were careful not to call it an eco-diaper, which they thought sounded preachy and boring. Instead, they called it gDiapers. Yes, the gDiapers box is made of recyclable cardboard and features the words "for a healthy planet," but the "g" in the name is intentionally ambiguous. "It could mean anything, like groovy," says Jason Graham-Nye. "It has a fashion element to it."



**WORD OF MOUTH:** Onysko keeps ads to a minimum

## A FOOT IN THE DOOR

Getting an organic product into stores isn't necessarily any easier than getting placement for a traditional product. As with any new item, finding slots in mass-market grocery chains can be difficult as well as costly, and many super-market chains are producing their own green labels. Whole Foods Market, the nation's largest organic retailer, is, not surprisingly, a tough sell (sidebar). So Onysko's strategy is to target specialty stores and consumers for whom Pangea is already an established organic brand. Last year about 20% of Pangea's sales came through spas.

Taylor Maid sells largely in independent specialty food stores such as New York's Dean & DeLuca. But hotels, restaurants, and cafés, says Inman, "are the more direct, fresher channel to expose consumers to the brand." His coffee is available in upscale hotels such as Shutters in Los Angeles and in trendy wine-country restaurants in northern California. Nongrocery retail sales made up 35% of last year's revenues. And Inman recently landed \$1 million in financing from private investors to roll out a chain of Taylor Maid cafés. "The goal is to be the green version of Peet's coffee," says Inman. He plans to use green building materials and solar and wind power and to sell a variety of organic food.

Onysko also envisions increasing his sales efforts in Australia, Europe, and the Middle East. The next step could be to launch his own stores, possibly day spas where his products will be available, he says. "We are trying to build ourselves into a multinational without selling out to one." One green customer at a time.

**@SB** To learn more about the green entrepreneurs in this story, go to [businessweek.com/smallbiz](http://businessweek.com/smallbiz)

## Greenest Grocer

### How two companies stormed the walls of Whole Foods

**For many green entrepreneurs**, the holy grail of retailing is Whole Foods Market. But the Austin (Tex.) chain is known for being picky. So how to get into its 183 stores? Persistence, says Joshua Scott Onysko, founder of Pangea Organics: "It took us two years."

Starting in 2003, Onysko pitched each of Whole Food's eight regional buyers. Eventually, he got a handful of soaps and body washes into stores in Texas, New Mexico, and Colorado. Sales of those products were strong enough to attract interest from the chain's other buyers, and Pangea's 58-product line is now available in most stores. "You have to prove your sales there, and one region talks to the others," says Onysko.

Jason and Kimberly Graham-Nye, founders of gDiapers, tried a different tack, first pitching their environmentally friendly diapers to a small chain of natural product stores near their Portland (Ore.) office. The

product's track record in the smaller stores strengthened Jason's pitch to Whole Foods four months later. By the end of this year, gDiapers will be available in Whole Foods stores across the country.

**Jim Speirs**, Whole Foods' national vice-president of procurement, nonperishables, says that while shelf space is limited, the company is eager for new products. The store's guidelines stipulate that its products contain no artificial colors, sweeteners, or hydrogenated fats. They also take into consideration green packaging, recyclable elements, and animal testing. While the ingredients' component is nonnegotiable, failing the other green tests won't necessarily knock you out of the running.

Speirs says the company works with entrepreneurs, particularly small business owners, to make their products acceptable. "If your product is packaged in nonrecyclable plastic, we would encourage you to find another container," he says. What's on the buy list now? Nonfood items, says Speirs, as the stores aim to become more of a one-stop shopping experience for customers—and potentially a route to success for green entrepreneurs.