

JULY 2006

MAKING SOCIAL ENTREPRENEURSHIP WORK

The idea of social entrepreneurship is intriguing to many. A social entrepreneur helps solve large societal problems by figuring out new business approaches to change the system. Social entrepreneurship can take many forms. Some are traditional not-for-profits, existing solely to donate their profits to support social causes. Others have evolved as for-profits, created to achieve financial prosperity for the company and social wealth for society. This evolution into a true business model has opened the doors for more traditional entrepreneurs to consider starting social ventures.

Naturally, starting a for-profit social venture comes with its own share of unique challenges, which has been true for Flexcar, a private for-profit company founded in 1999 as a public/private partnership supported by King County, Washington and the City of Seattle. Flexcar is one of several companies invested in by Steve Case's Revolution LLC, an investment company focusing on giving consumers new choices to promote healthier, simpler lives and a healthier planet. Flexcar launched its Seattle operations in 2000 and has since expanded to Portland, San Francisco, Los Angeles, San Diego, Washington D.C., and Atlanta.

At a recent Northwest Entrepreneur Network (NWN) breakfast meeting, Lance Ayrault, former chief executive of Seattle-based Flexcar who recently assumed the role of vice chairman of the board, carefully spelled out the issues and opportunities. According to Ayrault, "Companies that promote social wealth do have access to financial and logistical resources not available to other for-profit ventures." However, they also face some very unique marketing issues.

The Flexcar vision is to establish a nationwide network of thousands of Flexcar vehicles, conveniently distributed throughout every major metropolitan area, so that members,

Executive Insights



Cheryl Isen

primarily urban dwellers and businesses, can avoid the cost of car ownership but still have access to a car whenever they need one. At the same time Flexcar aims to improve traffic-related issues in cities across the country.

However, as Flexcar has discovered, selling green isn't as easy as one might think.

Ayrault says, "It's hard to market green because people think they're going to pay too much". That's why every business, and especially a social-driven venture, needs to be based on solid value proposition. Ayrault confirms, "When we talk to city officials and businesses about Flexcar, we always have to sell the economic benefit first and the 'save the planet' story comes second."

The Flexcar value proposition is simple. For the same amount of car usage, Flexcar saves members upwards of \$5,000.00 per car in annual savings. These figures are based on AAA numbers of a moderately priced vehicle used about one hour per day. The marketing challenge of course is getting consumers to change, which can't be underestimated.

Although economics are the prime change motivator, the social implications follow a close second. Consider these facts: The cost of car ownership is rising. According to the bureau of labor and statistics, transportation is the second biggest piece of most household budgets, averaging 18%. Gas prices alone have risen 45% in the last year. Yet we all know that increased car use also negatively impacts the environment with CO2 and other emissions. Plus congestion is worsening. The average speed on Los Angeles Freeways during the workday is 17 mph today and is projected to fall to less than 14 mph by 2008.

The Flexcar value proposition boils these issues down to simple dollars and cents.

- Consumers can save upwards of \$5,000.00 per car per year; lower income families that couldn't afford a car and can't use mass transit to reach certain areas have increased mobility options.
- City government benefits with fewer cars on the road, which decreases the need for expensive new highways; Delaying or avoiding highway expansion projects can save taxpayers millions of dollars, or those funds can be diverted to parks, public plazas, fountains, public art or community gathering spaces.
- The environment wins too. Besides CO2 emissions, there are real estate considerations. By some estimates, over 50% of America's urban land is devoted to accommodating cars and most of America's 2.1 billion cars are parked over 90% of the time. According to European

studies where car sharing has been working for 20 years, every car sharing vehicle placed into service results in 6-20 fewer cars on the road.

However, even with a solid value proposition, “the toughest sell we face,” explains Lance Ayrault, “boils down to getting people to think different and change behavior”. Creating change and getting someone to give up a car is no small hurdle. Ayrault offers these hard earned lessons for other entrepreneurs trying to create change through a social venture:

- Manage reliance on early adopters wisely. *“Although early adopters are your best evangelists, in the long run, they won't likely be the bulk of your customers. You need to cultivate new customers by not being too preachy, and by continuing to make it easy for them to experiment with a new way of doing something.”*
- Fewer people will do something just because it's the right thing to do. *“This means your value proposition has to fulfill a basic need, and it can't involve a dramatic change from the status quo. You have to make it easy for people to change their lifestyle by removing obstacles.”*

- If you take on a social venture, be authentic. *“Early adopters can smell a fake a mile away. For example, Flexcar staked out a position as an environmentally-friendly service, and those values run throughout the company. Make sure your product brand extends throughout the organization.”*
- Even though you have a social venture, be comfortable being a capitalist. *“For example, some may expect you to make bad business decisions in the spirit of “doing good” (like reducing price). You need to help those customers understand that if you don't stay in business, the social impact goes away.”*
- Profit vs. non-profit status. *“These are basically two valid funding options and there's a lot to consider. For example, if you're a for-profit you may be competing against non-profits which can be tricky because oftentimes for-profits are considered “bad”. Likewise, while Government funds can provide a vast source of funding, there are usually strings attached.” Ayrault advises looking for ways to cut those strings “or be brave*

enough to turn the money down”.

- Don't undervalue your offering; people will pay more for a premium service that is socially responsible. *“However, it has to work. For example, if your Flexcar is not there at your reservation or does not start, it does not matter what your social mission is. So make sure your product works.”*

The bottom line—although running social venture has its rewards, for profit or not, it's still a business. And as with any entrepreneurial venture, Ayrault says success boils down to one thing, “Believe in what you're doing or go home”.

These “Executive Insights” are based on monthly presentations provided by leading entrepreneurs at the Northwest Entrepreneur Network (NWEN.org), a non-profit organization dedicated to helping entrepreneurs succeed. The column is written by Cheryl Isen, founder of Isen & Company, a strategic marketing and public relations firm that helps emerging companies increase corporate visibility and brand awareness. Contact Cheryl at (425) 222-0779, Cheryl@IsenandCo.com or on the web at www.IsenandCo.com.